

Central Valley Index of Economic Indicators

*Center for Economic Research and Education of Central California
A Project of the Economics Department, College of Social Sciences
California State University, Fresno*

OCTOBER 2005

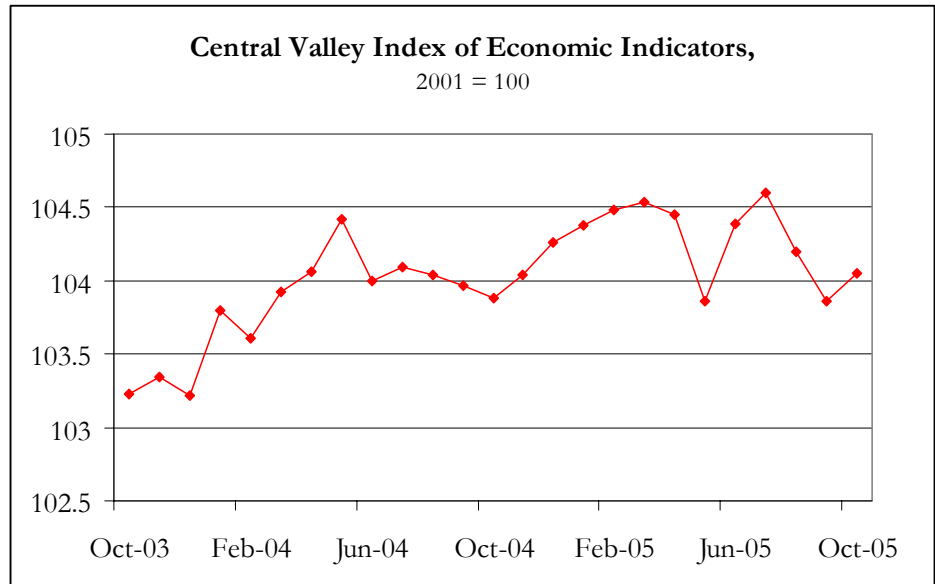
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Analysis

The Central Valley Index of Economic Indicators rose by 0.18% in October to 104.05. Of the seven components that comprise the index, five – Central Valley non-farm payrolls, Central Valley new claims for unemployment insurance, California average weekly hours worked, the U.S. interest rate spread, and U.S. real orders of non-defense, non-aircraft capital goods – showed improvement. The two remaining indicators – Central Valley building permits and U.S. consumer confidence – fell.

All of the labor market components in the Central Valley index showed improvement in October. Non-farm payrolls increased by 0.52%, the California average work week rose by 0.02%, and new claims for unemployment insurance fell by 6.75% after seasonal adjustment. The growth in non-farm payrolls was particularly strong, driven mostly by an additional 1700 jobs in Tulare County. The average work week in California rose



only slightly, but remains over 40 hours per week.

The interest rate spread rose in October – the first increase in six months – from 0.58 to 0.68. The interest rate spread measures the difference between short and long term interest rates. A negative value for the spread, also called an inverted yield curve, is considered a strong indicator of recession and recent data suggest that the curve may be approaching an inversion.

U.S. real orders of non-defense, non-aircraft capital goods rose by 1.56% in October, although this is a moderate increase when compared with its historical fluctuations. U.S. consumer confidence continued to fall in October, possibly showing consumers concerns over the

hurricanes and the Iraq war. However, the 3.58% decline was small by historical standards. Central Valley building permits fell by 19.36% in October, suggesting that there may be some softening in the housing market.

Overall the index rose by 0.18% in October but is still 0.76% lower than its value of six months ago. Both the monthly and 6-month diffusion indices posted values over 50.0 in October, indicating that most of the components showed gains, or no significant change, in October and when compared to six months ago.

These data, as well as more recent data, indicate that the Central Valley has suffered only mild effects from the hurricanes, and should continue along its current growth path. There are no signs of an imminent recession.

Table 1: Summary Measures

	2005					
	May	Jun.	Jun.	Aug.	Sep.	Sep.
Central Valley Index of Economic Indicators, 2001 = 100	103.86	104.39	104.60	104.19	103.87	104.05
Percentage Change	-0.56	0.51	0.20	-0.39	-0.31	0.18
Diffusion Index	0.0	57.1	78.6	14.3	42.9	64.29
6-month Percentage Change, Annualized	-0.35	0.25	0.43	-0.54	-1.27	-0.76
6-month Diffusion Index	50.0	57.1	57.1	57.1	42.9	57.1

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Methodology and Notes

The methodology employed in creating the Central Valley Index of Economic Indicators follows closely the technique used by The Conference Board, an independent, not-for-profit research organization, in the computation of the U.S. Leading Index. For the purposes of this index, the Central Valley is comprised of Fresno, Kings, Madera, and Tulare Counties. For more information, contact the author.

The Central Valley Index is constructed to have the properties of a leading index. As a general rule, a decline in the index of more than 2 percent over six months, coupled with a decline in more than half its components, signals that a recession is likely imminent. Following revisions of the U.S. Leading Index, The Conference Board has changed the 2 percent rule to 3.5 percent. However, the Central Valley Index will continue to employ the 2 percent rule unless further data demonstrate its inadequacy.

Due to a lack of historical data, the index is not capable of predicting the 2001 recession. However, it is worth noting that the index did not predict the “double-dip” of the 2001 recession that some had feared, but never materialized. Thus, for the data available, the index has performed well in its role as a recession indicator. As new data become available, diagnostic tests will be performed and revisions will occur as appropriate.

In order to prepare the report in the timeliest fashion possible, preliminary data are used for certain components. Values of these components are updated as revised data become available.

Sources: The State of California Employment Development Department, The Construction Industry Research Board, The U.S. Bureau of Labor Statistics, The Federal Reserve Bank of St. Louis, The Federal Reserve Statistical Release, and the author’s calculations.

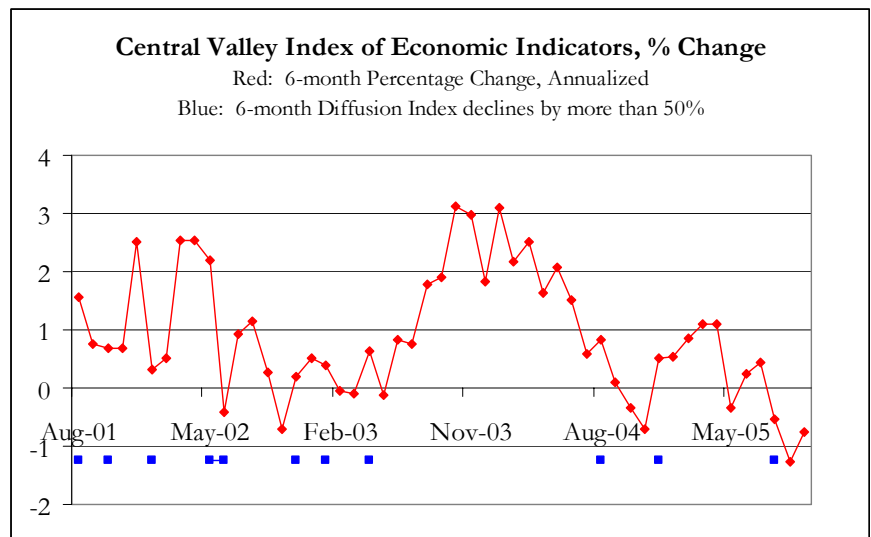
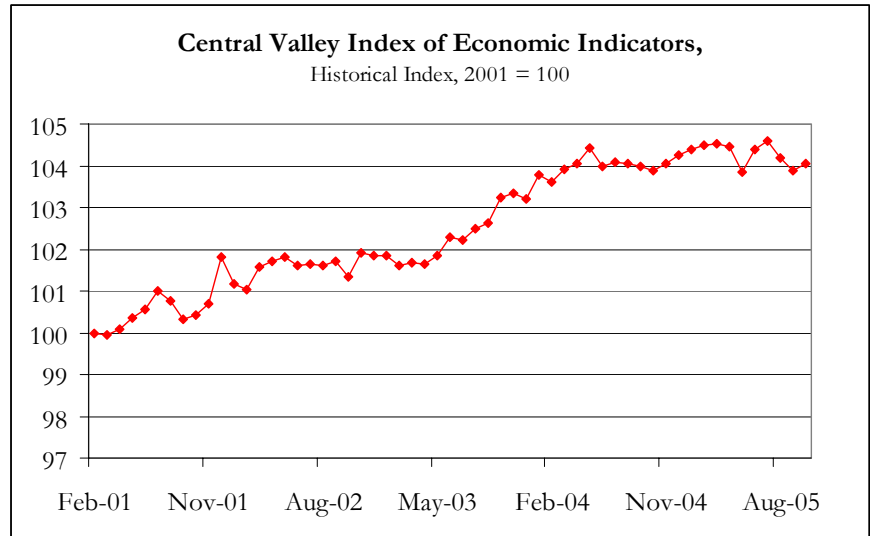


Table 2: Index Components

	2005					
	May	Jun.	Jul.	Aug.	Sep.	Oct.
Central Valley Non-Farm Payrolls, SA*	461,110.0	462,444.4	463,007.2	461,745.3	462,097.2	464,528.1
Central Valley Building Permits, SA	963	1434	1453	1286	1,244	1,024
California Average Weekly Hours, SA	39.9	39.5	40.0	39.9	40.2	40.2
U.S. Real Manufacturers' New Orders for Non-Defense, Non-Aircraft Capital Goods, Millions \$, SA	42,298.8	44,456.7	42,537.2	44,205.7	43,252.41	43,931.1
Univ. of Michigan Consumer Confidence	87.7	86.9	96.0	96.5	89.1	76.9
Interest Rate Spread, 10-Year Treasury Bonds less Federal Funds Rate	1.14	0.96	0.2	0.76	0.58	0.68
Central Valley Initial Unemployment Claims, SA	8,852	8,993	8,316	8,726	8,084	7,555

*SA—Seasonally Adjusted