

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

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Author

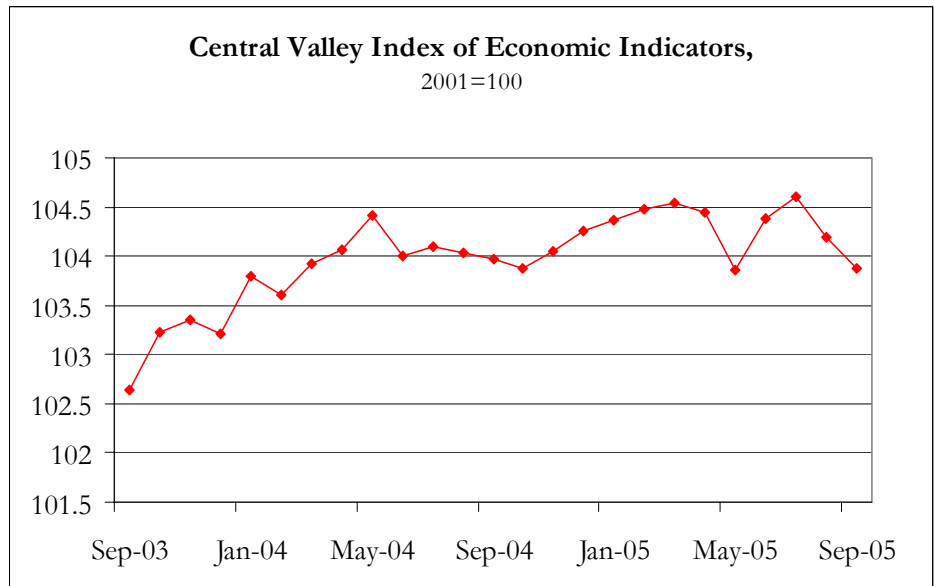
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Analysis

The Central Valley Index of Economic Indicators fell to 103.86 in September, a 0.31 percent drop driven largely by a sharp decline in consumer confidence.

While most of the declining components fell only slightly, the 14.7 percent drop in consumer confidence is more dramatic. This likely reflects public anxiety caused by Hurricane Katrina, combined with relatively small gains in real wages and the war in Iraq.

Three of the seven components that comprise the Central Valley Index—non-farm payrolls, initial claims for unemployment insurance, and California average weekly hours worked—showed improvement in September. The remaining components—the interest rate spread, consumer confidence, U.S. real orders of capital goods, and Central Valley building permits—all declined.



All of the components measuring employment showed improvement in September. New claims for unemployment insurance fell by 7.65 percent, non-farm payrolls increased by 0.07 percent, and the average work week for California manufacturers increased by 0.02 percent.

The remaining components fell by a modest amount. The interest rate spread, declined by 0.18 percent to 0.58, continuing its downward trend since it reached 3.72 in May of 2004. U.S. real orders of non-defense, non-aircraft capital goods fell by 2.06 percent, but this decline is modest compared with its typical fluctuations. Similarly, Central Valley building permits declined by 3.33 percent,

but this is small relative to its normal month-to-month change.

Overall the index dropped by 0.31 percent in September, and fell by 1.27 percent compared to its value six months ago. Both the September and six-month diffusion indices posted values of 42.9, indicating that three of the seven components have declined over these time periods.

While this cannot be interpreted as good news, it does not meet the two percent rule for predicting recessions. Specifically, the two percent rule suggests that a recession is imminent when the index declines by more than two percent over a six month period and over half of the components are in decline. Since the index fell by only 1.27 percent, it does not appear that a recession is imminent.

Table 1: Summary Measures

	2005					
	Apr.	May	Jun.	Jul.	Aug.	Sep.
Central Valley Index of Economic Indicators, 2001 = 100	104.45	103.86	104.39	104.60	104.19	103.87
Percentage Change	-0.08	-0.56	0.51	0.20	-0.39	-0.31
Diffusion Index	57.1	0.0	57.1	78.6	14.3	42.9
6-month Percentage Change, Annualized	1.09	-0.35	0.25	0.43	-0.54	-1.27
6-month Diffusion Index	71.4	50.0	57.1	57.1	57.1	42.9

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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.

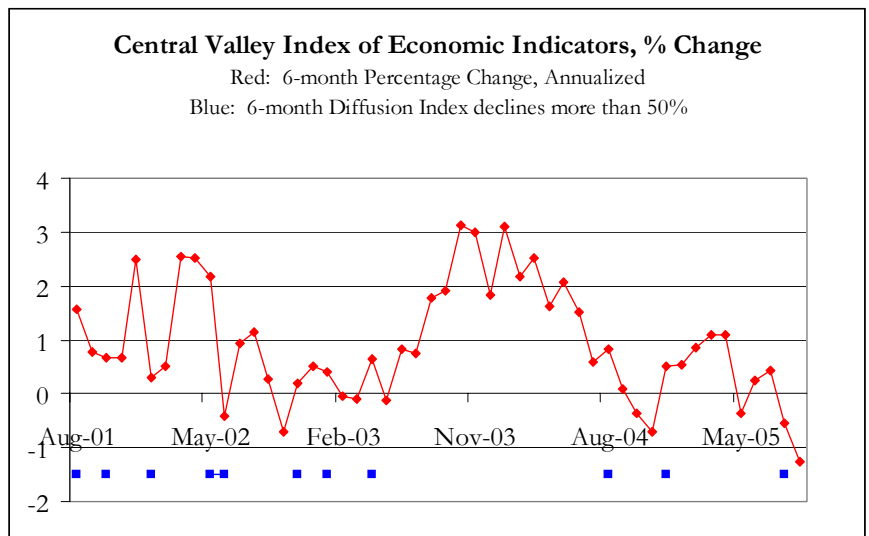
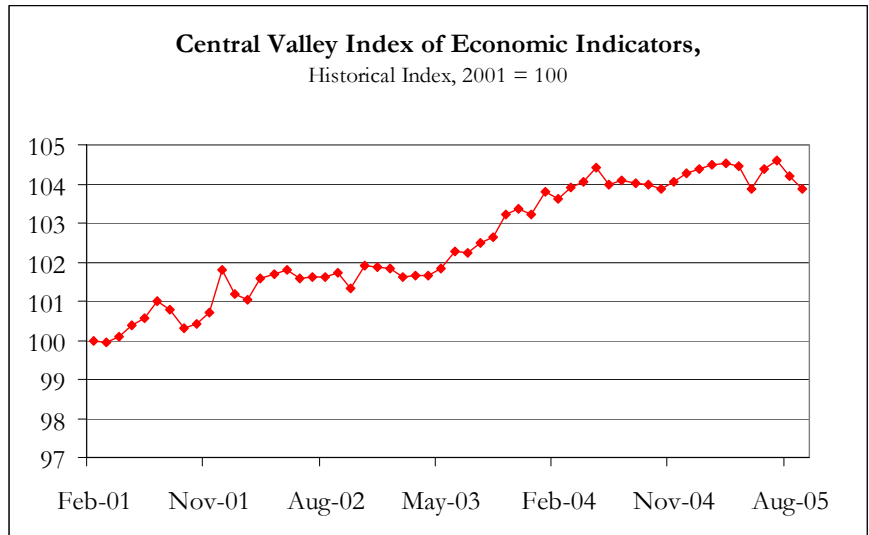


Table 2: Index Components

	2005					
	Apr.	May	Jun.	Jul.	Aug.	Sep.
Central Valley Non-Farm Payrolls, SA*	462,754.2	461,110.0	462,444.4	463,007.2	461,745.3	462,097.2
Central Valley Building Permits, SA	1,207	963	1,434	1,453	1,286	1,244
California Average Weekly Hours, SA	40.0	39.9	39.5	40.0	39.9	40.2
U.S. Real Manufacturers' New Orders for Non-Defense, Non-Aircraft Capital Goods, Millions \$, SA	42,539.8	42,298.8	44,456.7	42,537.2	44,205.7	43,303.3
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	1.55	1.14	0.96	0.92	0.76	0.58
Central Valley Initial Unemployment Claims, SA	8,368	8,852	8,993	8,316	8,726	8,084

*SA—Seasonally Adjusted