Southern California Leading Economic Indicator

November 2017

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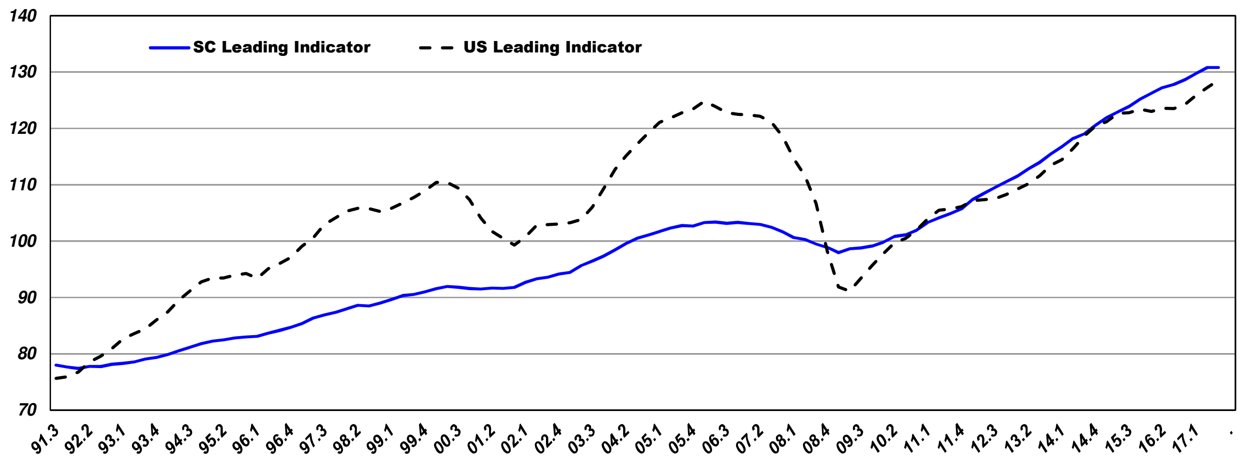
Summary

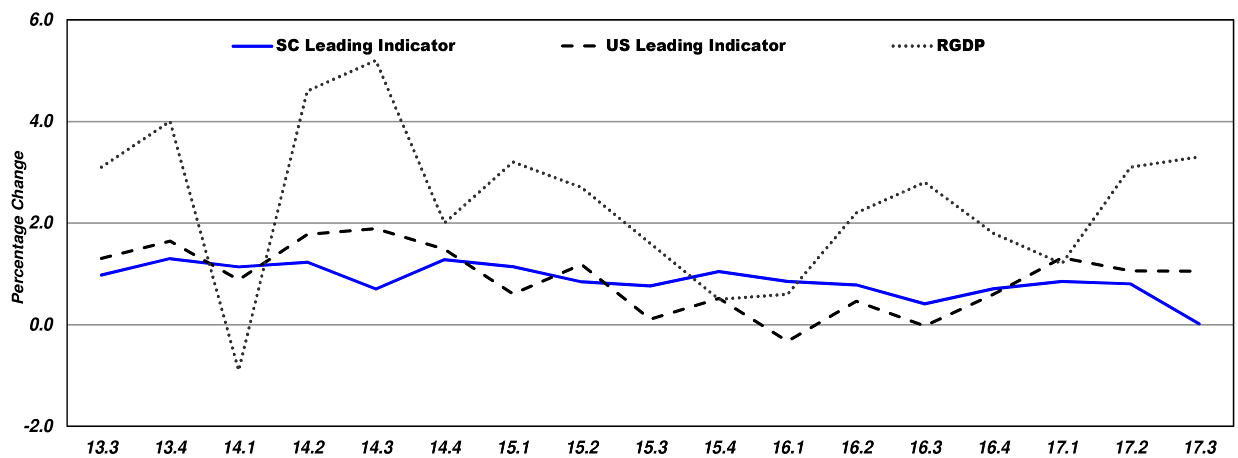
The Southern California Leading Economic Indicator barely increased by 0.01% in the third quarter of 2017 compared to the second quarter of 2017. This increase suggests a pickup in economic activity in the Southern California region in the next three to six months. The SC Leading Indicator continues on its upward trend and has now increased for eight years since the last decrease in the third quarter of 2009. The U.S. leading economic indicator increased in the second quarter of 2017 and implies an increase in economic activity for the U.S. economy in the next three to six months (Figure 1).

Figure 1
Southern California and US Leading Indicators



U.S. economic activity, often measured by real GDP growth, is expected to increase in the next three to six months, given the increase in the U.S. leading indicator. The rise in the SC Leading Indicator suggests a rise in economic activity in Southern California (Figure 2).

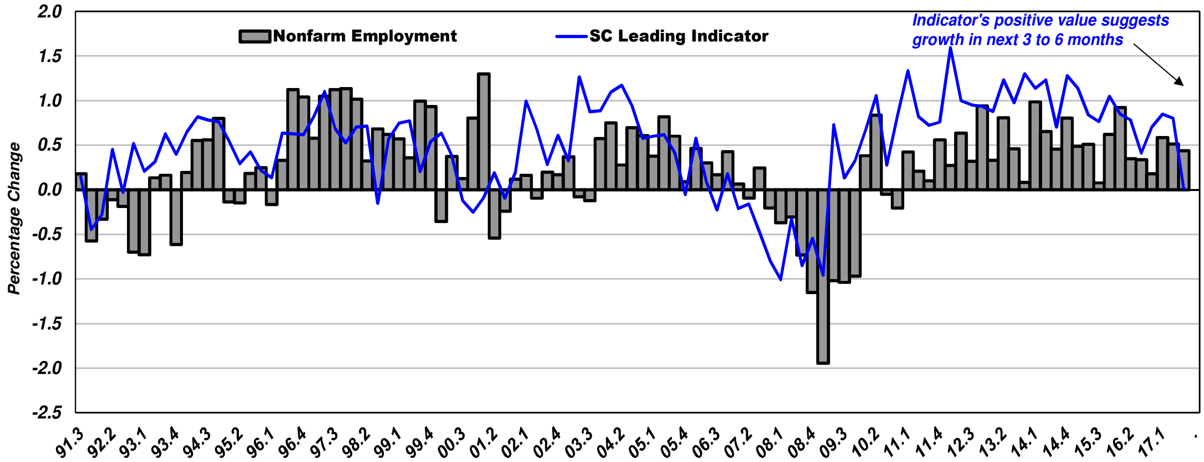
Figure 2
Leading Indicators and Real GDP



Southern California Indicator and Economic Activity

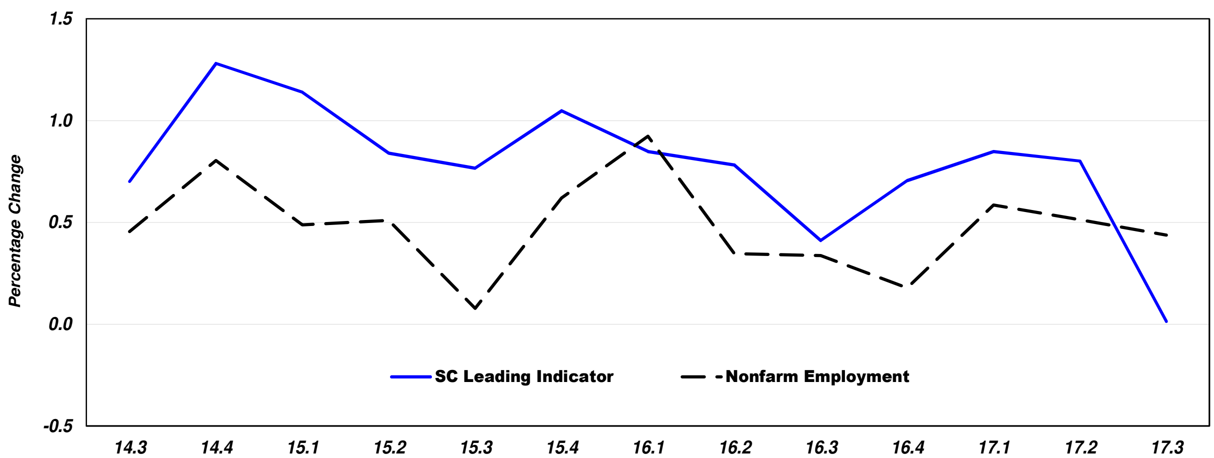
In the absence of up-to-date gross state product data for Southern California, our index is used to analyze trends in total civilian employment. The indicator has been found to be a good predictor of regional economic trends. In general, changes in the index take place prior to changes in regional economic activity. For example, during the recessions of the early 1990s, 2001 and late 2007-2008, the Southern California leading indicator decreased significantly (Figure 3).

Figure 3
Southern California Leading Indicator and Employment



For the last two years the Southern California Leading indicator usually changed one to two quarters before SC employment changes (Figure 4). The SC indicator currently projects an increase in Southern California economic activity in the next three to six months.

Figure 4
Southern California Leading Indicator and Total Civilian Employment



Changes in the WCEAF Leading Indicator and its Components

The Southern California Leading Indicator increased from a value of 130.81 in the second quarter of 2017 to a value of 130.83 in the third quarter of 2017. The SC Leading Indicator has now increased for eight years since the decline in the third quarter of 2009. The 0.01% slight increase in the third quarter of 2017 suggests continued growth in economic activity in the Southern California region in the next 3 to 6 months. Civilian employment in Southern California, which is notoriously erratic, subject to measurement errors and continually revised, showed an increase in the third quarter of 2017 of 0.44%.

For the quarterly data, four of the seven components had a positive impact on the Southern California leading indicator. The positive impacts were from a gain in the Standard & Poor's 500 stock index, increase regional nonfarm employment, increase the money supply adjusted for inflation, and change in the interest rate spread. The negative impacts were from a fall in the Pacific region consumer confidence index, fall in regional building permits, and decrease in regional unemployment.

Table 1
Leading Economic Indicators and Total Civilian Employment

Variable	2016.3	2016.4	2017.1	2017.2	2017.3
SC Indicator	127.78	128.68	129.77	130.81	130.83
% Change	0.41	0.70	0.85	0.80	0.01
US Indicator	123.53	124.27	125.90	127.23	128.57
% Change	-0.03	0.59	1.31	1.06	1.05
Civilian Employment	8,669,611	8,685,051	8,735,972	8,780,853	8,819,244
% Change	0.34	0.18	0.59	0.51	0.44

Economic Conditions

For the U.S. economy, real gross domestic product increased at an annualized growth rate of 3.3% during the third quarter of 2017, following the 3.1% increase in the second quarter of 2017. U.S. inflation, measured by the consumer price index, increased by 0.1% in October 2017 and follows a 0.5% increase in September 2017. For California, the seasonally adjusted unemployment rate for October 2017 was 4.9%, and is higher than 4.2% in September 2017 and also higher than the U.S. unemployment rate of 4.1% in October 2017. Payroll employment in California increased in October 2017 compared to the previous month. There were jobs gains in the six categories of Leisure and hospitality; educational and health services; government; trade, transportation and utilities; financial activities; construction and mining and logging. There were job losses in the four categories other services; information; professional and business services; and manufacturing.

Technical Notes

The WCEAF Southern California Leading Economic Indicator includes Los Angeles County, Orange County, San Bernardino County, Riverside County, Ventura County, and Imperial County. The index consists of both national and regional data. The national variables used are interest rates, Standard & Poor 500 stock index and real money supply. Nonfarm employment, the unemployment rate, building permits, and the Pacific region consumer confidence index make up the regional data. The employment and unemployment data are from the new North American Industry Classification System (NAICS).

The CEAF Southern California Leading Indicator provides information about future economic activity in Southern California and is not a prediction of the level of employment. Interpreting changes in a leading economic indicator requires analyzing the size and duration of changes in the direction of the index. As stated by the Conference Board, three consecutive downward movements in the leading index do not necessarily signal a recession. The Southern California leading economic indicator was initially constructed in May 2000 and is revised each quarter using the most recent and often revised data available. Historical labor data include the recent updates. The Conference Board data includes the 2000 benchmark revisions and 2012 methodology changes. The SC Leading Indicator (2010=100), following the procedure of the U.S. indicator, has been revised and equals 100 in the year 2010.

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Leading Economic Indicator report number: **70 (First release May 2000)**

Next Release: **February 2017**

The report is available at http://business.fullerton.edu/centers/ceaf/