

Southern California Leading Economic Indicator

September 2006

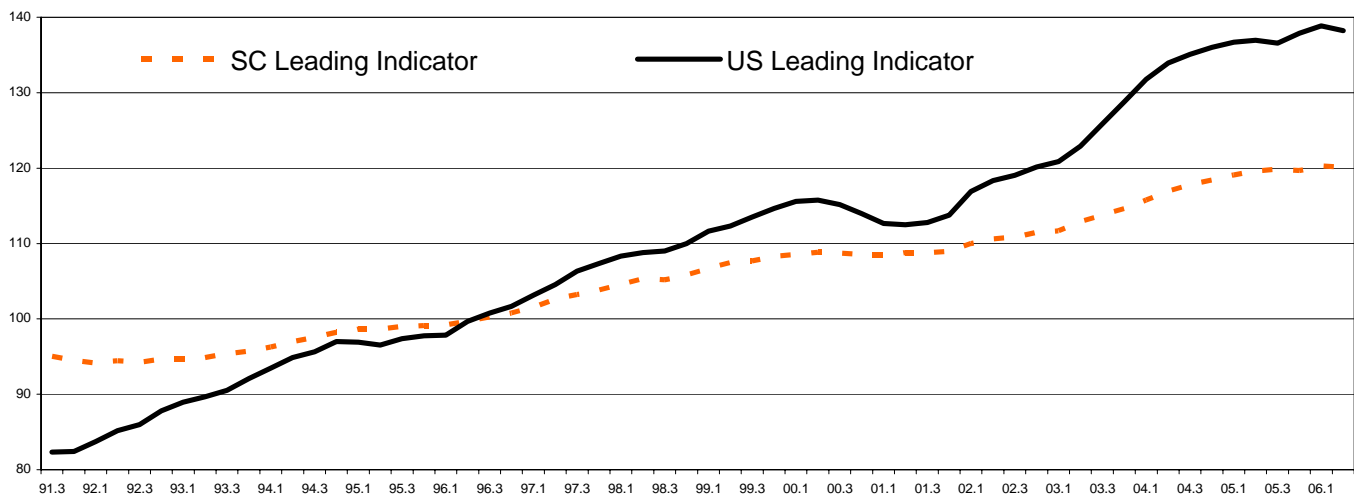
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Summary

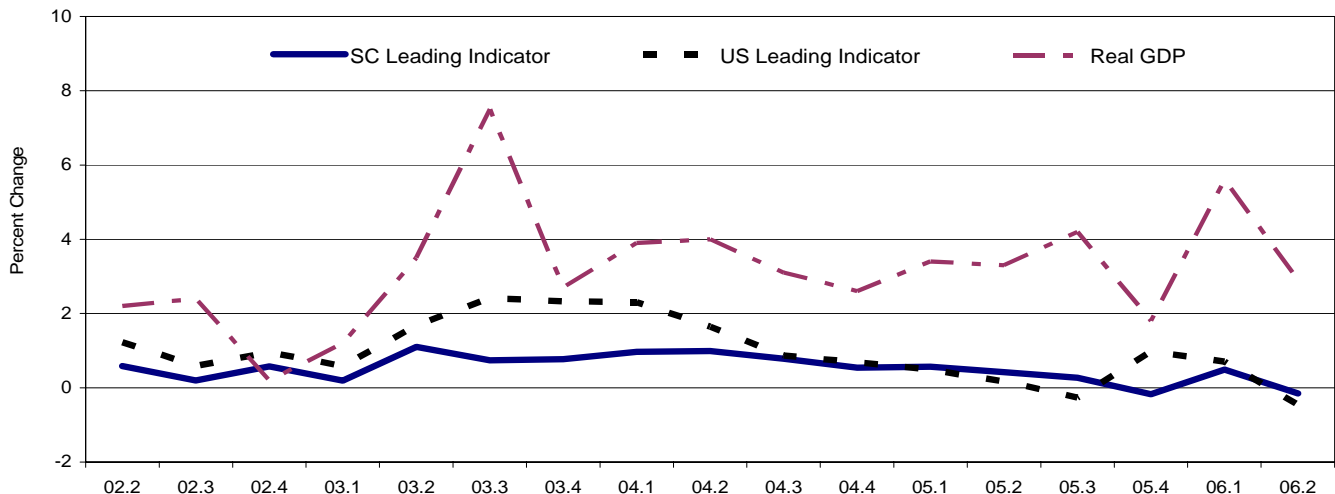
The Southern California Leading Economic Indicator decreased by -0.15% in the second quarter of 2006 compared to the first quarter of 2006. This is the second time that the indicator has decreased in the last three quarters and suggests a decrease in economic activity in the Southern California region in the next three to six months. The U.S. leading economic indicator also decreased in the second quarter and implies a slowdown in economic growth for the U.S. economy (Figure 1).

Figure 1
Southern California and US Leading Indicators



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

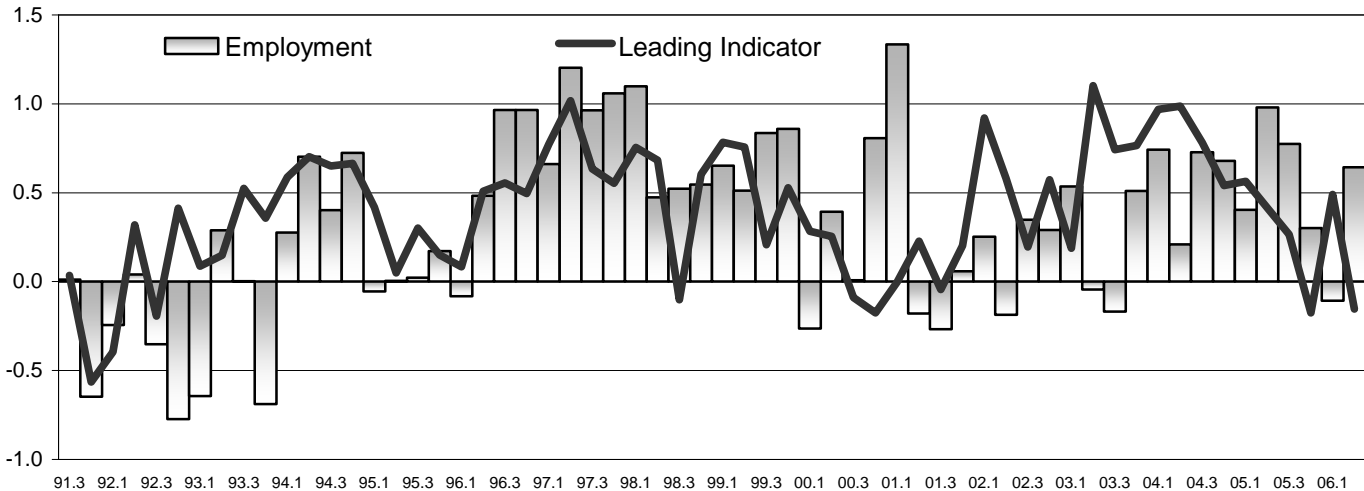
Figure 2
Leading Indicators and Real GDP



Southern California Indicator and Economic Activity

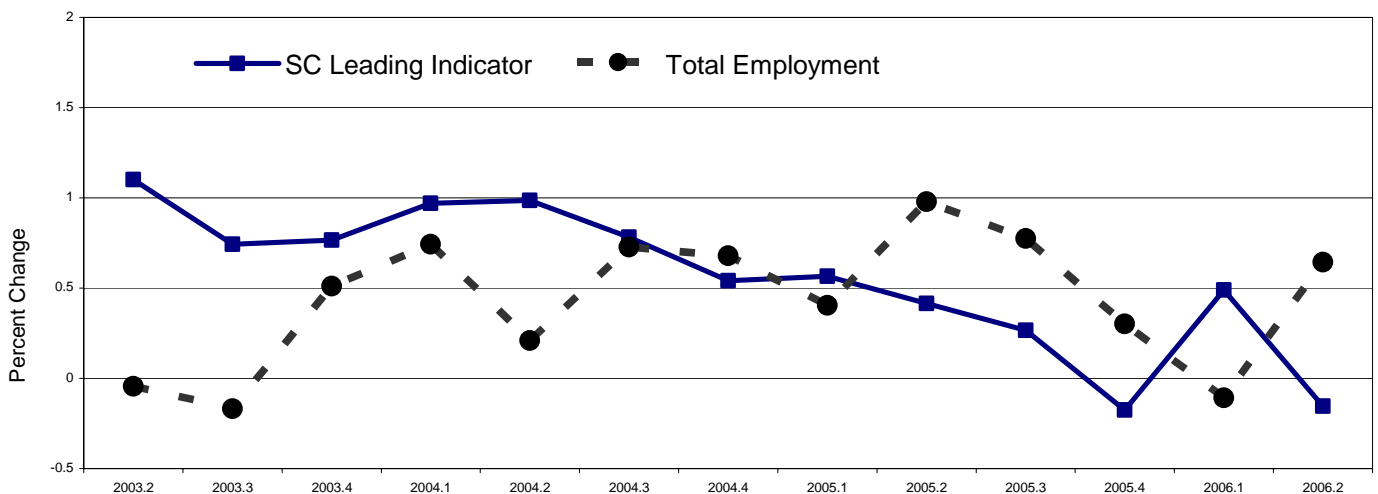
In the absence of up-to-date gross state product data for Southern California, our index is used to analyze trends in total civilian employment. The indicator has been found to be a good predictor of regional economic trends. In general, changes in the index take place prior to the change in total civilian employment. For example, during the recession of the early 1990s, the Southern California leading indicator showed a slowdown (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 expects a decrease in Southern California economic activity in the next three to six months.

Figure 4
SC Leading Indicator and Total Civilian Employment



Changes in the IEES Leading Indicator and its Components

The Southern California Leading Indicator decreased from a value of 120.28 in the first quarter of 2006 to 120.09 in the second quarter of 2006. The decrease of -0.15% in the second quarter of 2006 suggests a decrease in economic growth 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 second quarter of 2006 of 0.64%.

For the quarterly data, four out of the seven components had a positive impact on the Southern California leading indicator. The largest positive impacts are from regional building permits and a fall in regional unemployment. The interest rate spread and regional nonfarm employment also had a positive impact on the SC Leading Indicator. The real money supply, Pacific region consumer confidence index and Standard & Poor's 500 stock index all had negative impacts on the SC Leading Indicator.

Leading Economic Indicators and Total Civilian Employment

	2005.2	2005.3	2005.4	2006.1	2006.2
SC Indicator	119.58	119.9	119.69	120.28	120.09
% Change	0.42	0.27	-0.18	0.49	-0.15
US Indicator	136.93	136.57	137.9	138.87	138.23
% Change	0.17	-0.27	0.98	0.7	-0.46
Civilian Employment	8,167,476	8,230,762	8,255,626	8,246,757	8,299,794
% Change	0.98	0.77	0.3	-0.11	0.64

Economic Conditions

For the U.S. economy, real gross domestic product increased at an annualized growth rate of 2.9% during the second quarter of 2006, following the 5.6% increase in the first quarter of 2006. U.S. inflation, measured by the consumer price index, increased by 0.4% in July 2006 and follows the 0.2% increase in the index from June 2006. For California, the seasonally adjusted unemployment rate for July 2006 was 4.8% which is lower than the 4.9% in June 2006 and is the same as the U.S. unemployment rate of 4.8% in July 2006. Payroll employment in California increased in July 2006. There were gains in employment from natural resources and mining; trade, transportation and utilities; financial activities; leisure and hospitality; and other services and government. There were fewer jobs in construction; manufacturing; information; professional and business services; and educational and health services.

Technical Notes

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

The value of the IEES 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 February 11, 2004 updates. The Conference Board data includes the 2000 benchmark revisions and 2005 methodology changes.



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Next Release of our Leading Indicator: December 2006

Dr. Anil Puri (Director of IEES) collaborated in the preparation of this report. Additional copies of the report are available at <http://business.fullerton.edu/centers/iees/> or from the IEES by calling (714) 278-3816.