

Southern California Leading Economic Indicator

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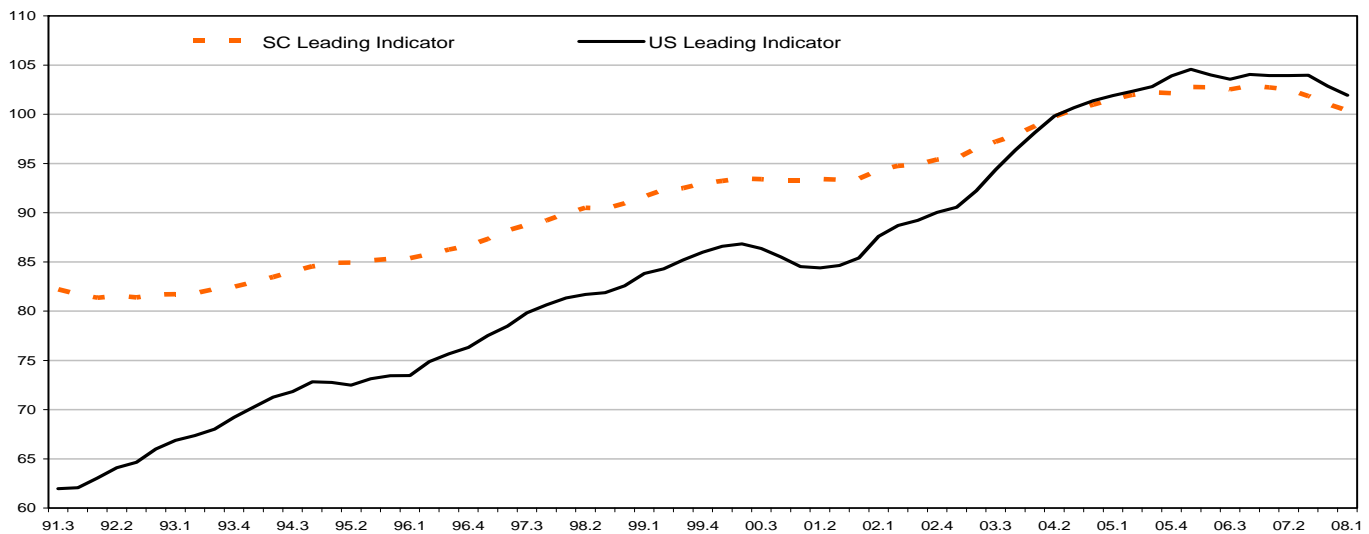
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Summary

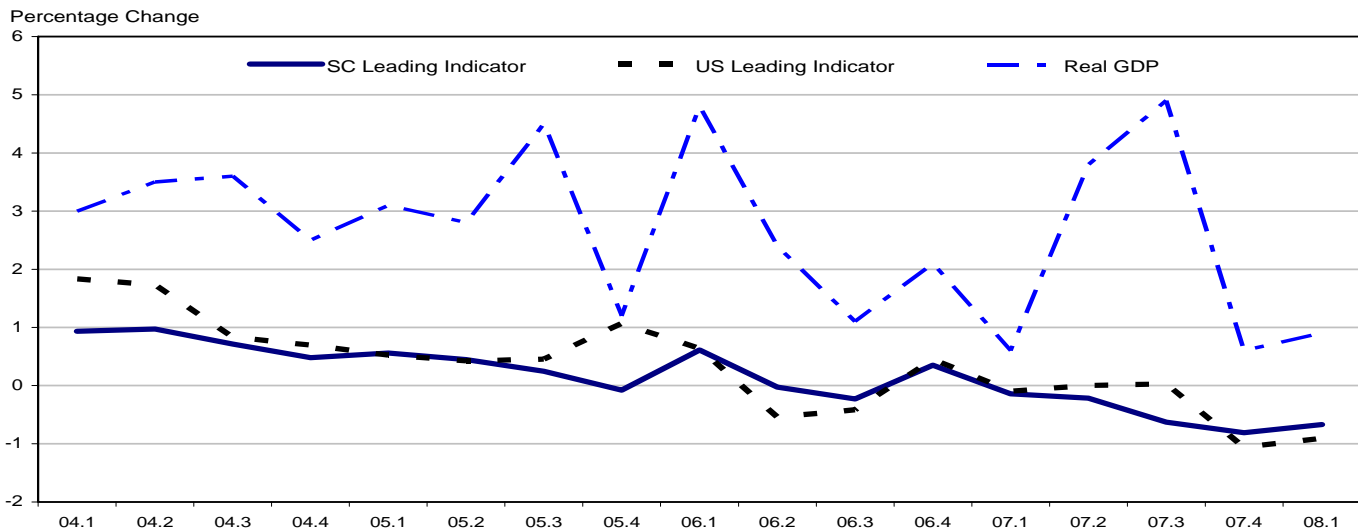
The Southern California Leading Economic Indicator decreased by 0.67% in the first quarter of 2008 compared to the fourth quarter of 2007. This fall suggests a decrease in economic activity in the Southern California region in the next three to six months. The S.C. Leading Indicator continues to decline and strongly implies the continual slowdown in the Southern California region. The SC Leading Indicator, following the procedure of the U.S. indicator, has been revised and equals 100 in year 2004. The U.S. leading economic indicator fell in the first quarter of 2008 and implies a decrease 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 suggests a decrease in economic activity in Southern California (Figure 2).

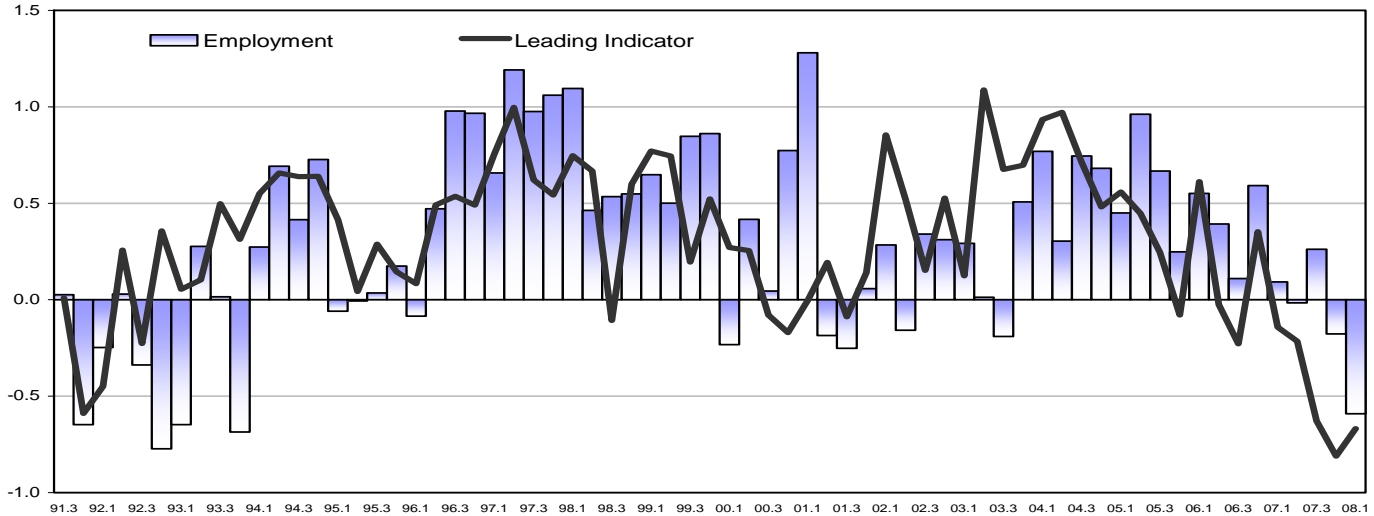
Figure 2
Leading Indicators and Real GDP



Southern California Indicator and Economic Activity

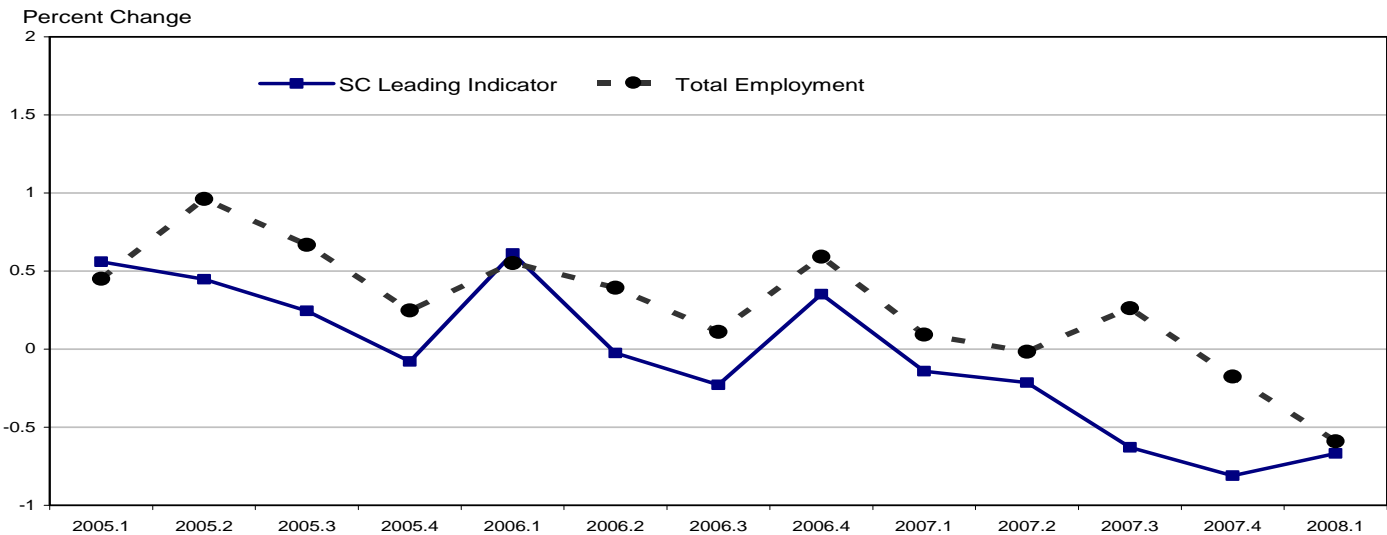
In the absence of up-to-date gross state product data for Southern California, our index is used to analyze trends in total civilian employment. The indicator has been found to be a good predictor of regional economic trends. In general, changes in the index take place prior to the change in total civilian 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 101.04 (2004=100) in the fourth quarter of 2007 to 100.36 in the first quarter of 2008. The decrease of 0.67% in the first quarter of 2008 suggests a decrease 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 a decrease in the first quarter of 2008 of 0.59%.

For the quarterly data, only two out of the seven components had a positive impact on the Southern California leading indicator. The positive impacts are from the increase in and real money supply and the change in the interest rate spread. There were relatively large negative effects on the SC Leading Indicator from the declines the Standard & Poor's 500 stock index, regional building permits and Pacific region consumer confidence index. The decrease in regional nonfarm employment and increase in regional unemployment also had negative impacts on the SC Leading Indicator.

Leading Economic Indicators and Total Civilian Employment

	2007.1	2007.2	2007.3	2007.4	2008.1
SC Indicator	102.73	102.51	101.86	101.04	100.36
% Change	-0.14	-0.21	-0.63	-0.81	-0.67
US Indicator	103.93	103.93	103.97	102.87	101.93
% Change	-0.10	0.00	0.03	-1.06	-0.91
Civilian Employment	8,390,819	8,389,468	8,411,403	8,396,552	8,346,978
% Change	0.09	-0.02	0.26	-0.18	-0.59

Economic Conditions

For the U.S. economy, real gross domestic product increased at an annualized growth rate of 0.6% during the first quarter of 2008, following the 0.6% increase in the fourth quarter of 2007. U.S. inflation, measured by the consumer price index, increased by 0.2% in April 2008 and follows the 0.3% increase in the index from March 2008. For California, the seasonally adjusted unemployment rate for April 2008 was 6.2%, unchanged from the 6.2% unemployment rate in March 2008, and is higher than the U.S. unemployment rate of 5.0% in April 2008. Payroll employment in California decreased in April 2008. There were gains in employment from the categories of natural resources and mining; educational and health services; leisure and hospitality; and government. There were fewer jobs in construction; manufacturing; trade, transportation and utilities; information; financial activities; professional and business services; and other services.

Technical Notes

The IEES 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 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 recent updates. The Conference Board data includes the 2000 benchmark revisions and 2005 methodology changes. The SC Leading Indicator (2004=100), following the procedure of the U.S. indicator, has been revised and equals 100 in year 2004.



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Additional copies of the report are available at <http://business.fullerton.edu/centers/iees/> or from the IEES by calling (714) 278-3816.