

Southern California Leading Economic Indicator

August 2011

© Institute for Economic and Environmental Studies (IEES), California State University Fullerton

Adrian R. Fleissig, Ph.D.

Department of Economics, California State University Fullerton

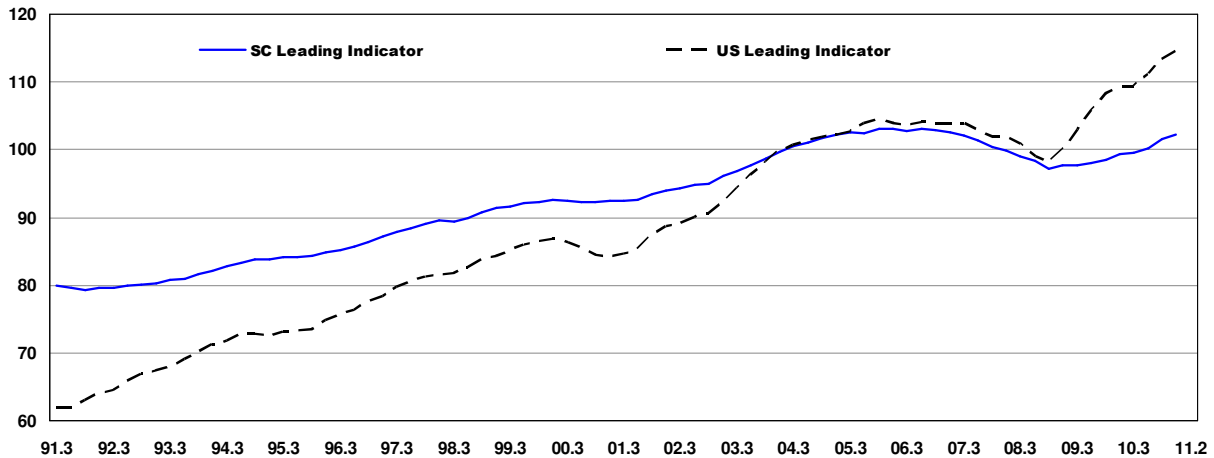
Institute for Economic and Environmental Studies (IEES)

Phone: (657) 278-3816 • E-mail: afleissig@fullerton.edu

Summary

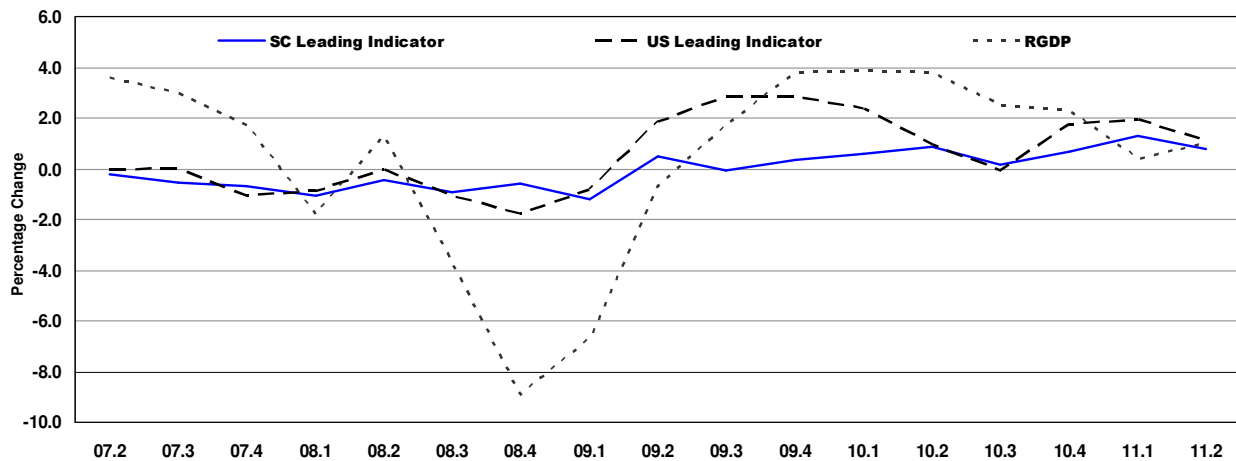
The Southern California Leading Economic Indicator increased by 0.76% in the second quarter of 2011 compared to the first quarter of 2011. This increase suggests an increase in economic activity in the Southern California region in the next three to six months. The SC Leading Indicator has increased for seven quarters since the last decrease in the third quarter of 2009. The U.S. leading economic indicator increased in the second quarter of 2011 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 increase in the SC Leading Indicator suggests an increase in economic activity in Southern California (Figure 2).

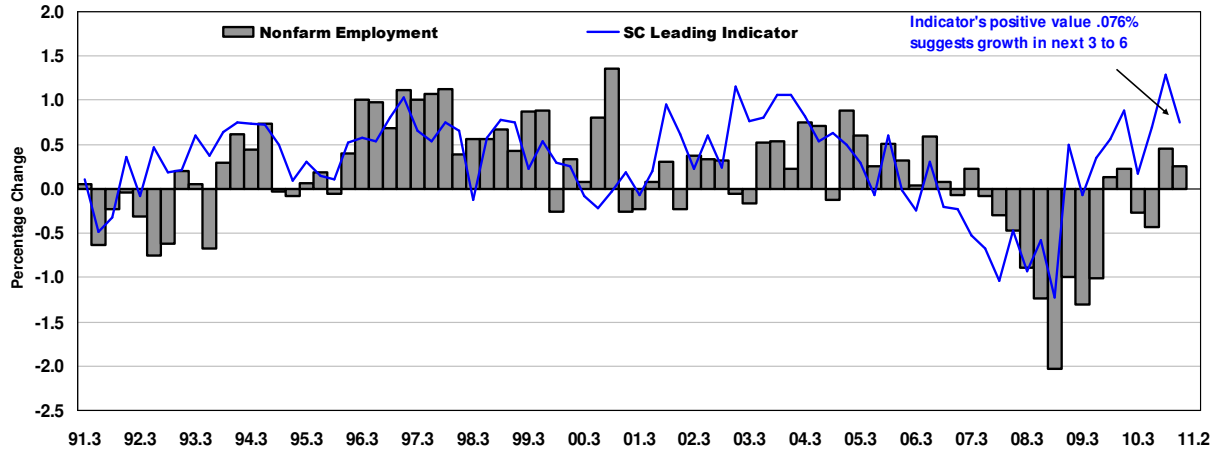
Figure 2
Leading Indicators and Real GDP



Southern California Indicator and Economic Activity

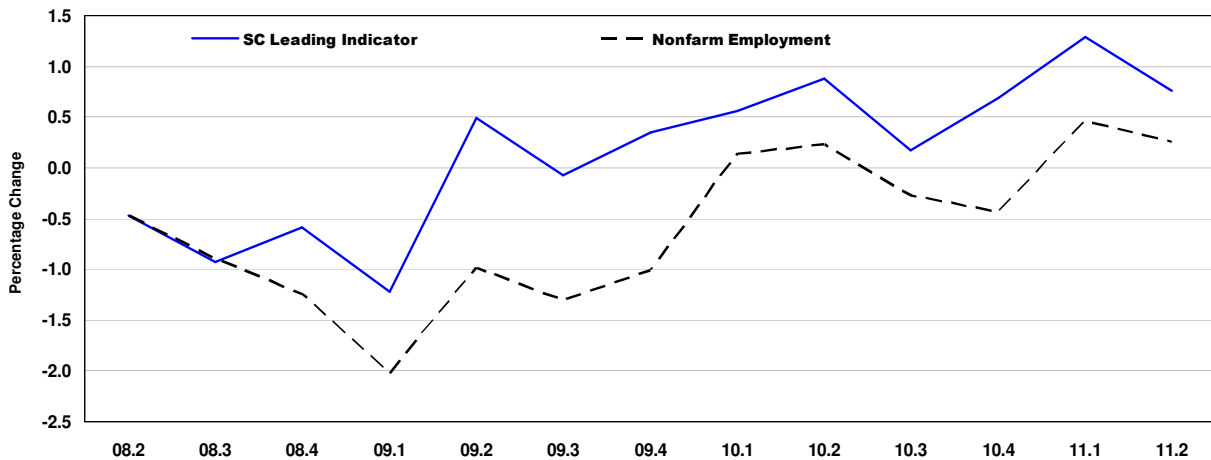
In the absence of up-to-date gross state product data for Southern California, our index is used to analyze trends in total civilian employment. The indicator has been found to be a good predictor of regional economic trends. In general, changes in the index take place prior to the change in regional 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 IEES Leading Indicator and its Components

The Southern California Leading Indicator increased from a value of 101.55 in the first quarter of 2011 to a value of 102.32 in the second quarter of 2011. The SC Leading Indicator has now increased for seven successive quarters. The 0.76% increase in the second quarter of 2011 suggests an increase 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 second quarter of 2011 of 0.25%.

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

Table 1
Leading Economic Indicators and Total Civilian Employment

Variable	2010.2	2010.3	2010.4	2011.1	2011.2
SC Indicator	99.39	99.56	100.25	101.55	102.32
% Change	0.88	0.17	0.69	1.29	0.76
US Indicator	109.43	109.33	111.27	113.43	114.67
% Change	0.98	-0.09	1.77	1.95	1.09
Civilian Employment	7,666,715	7,646,151	7,613,143	7,647,781	7,667,072
% Change	0.23	-0.27	-0.43	0.45	0.25

Economic Conditions

For the U.S. economy, real gross domestic product increased at an annualized growth rate of 1.3% during the second quarter of 2011, following the 0.4% increase in the first quarter of 2011. U.S. inflation, measured by the consumer price index, increased by 0.5% in July 2011 and follows the -0.2% decrease in the index in June 2011. For California, the seasonally adjusted unemployment rate for July 2011 was 12.0%, which is higher than the 11.8% unemployment rate of June 2011, and is higher than the U.S. unemployment rate of 9.1% in July 2011. Payroll employment in California increased in July 2011 compared to the previous month. There were jobs gains in the eight categories mining and logging; construction; manufacturing; information; professional and business services; educational and health services; leisure and hospitality; and other services. There were job losses in the remaining three categories of trade, transportation and utilities; financial activities; and government.

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 the Standard & Poor 500 stock index. 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 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 the year 2004.



CALIFORNIA STATE UNIVERSITY
FULLERTON

Institute for Economic and Environmental Studies

Leading Economic Indicator report number: 45 (First release May 2000)

Next Release: November 2011

The report is available at <http://business.fullerton.edu/centers/iees/> or from the IEES by calling (657) 278-3816.