

Southern California Leading Economic Indicator

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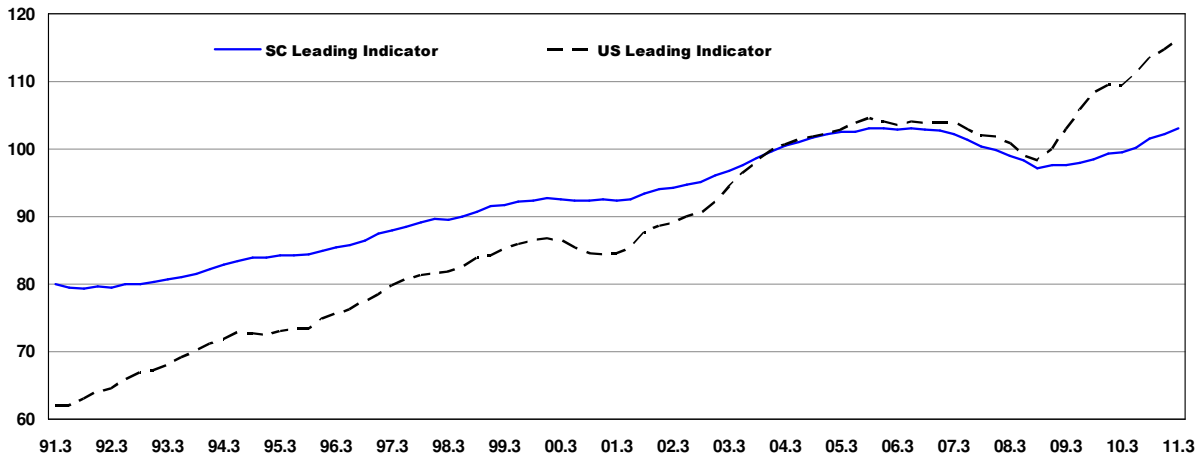
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Summary

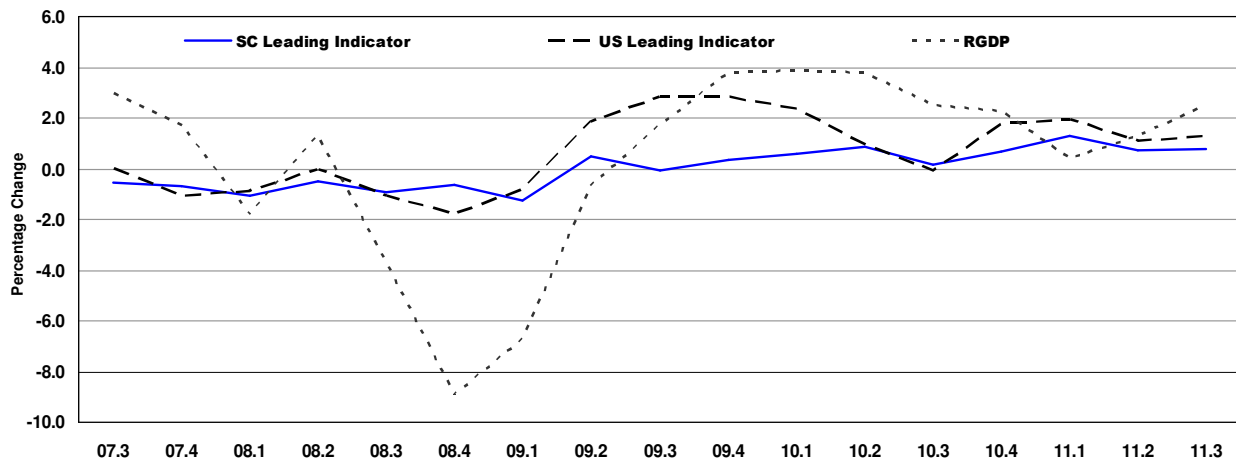
The Southern California Leading Economic Indicator increased by 0.79% in the third quarter of 2011 compared to the second quarter of 2011. This increase suggests an increase in economic activity in the Southern California region in the next three to six months. The SC Leading Indicator has now increased for two years since the last decrease in the third quarter of 2009. The U.S. leading economic indicator increased in the third 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).

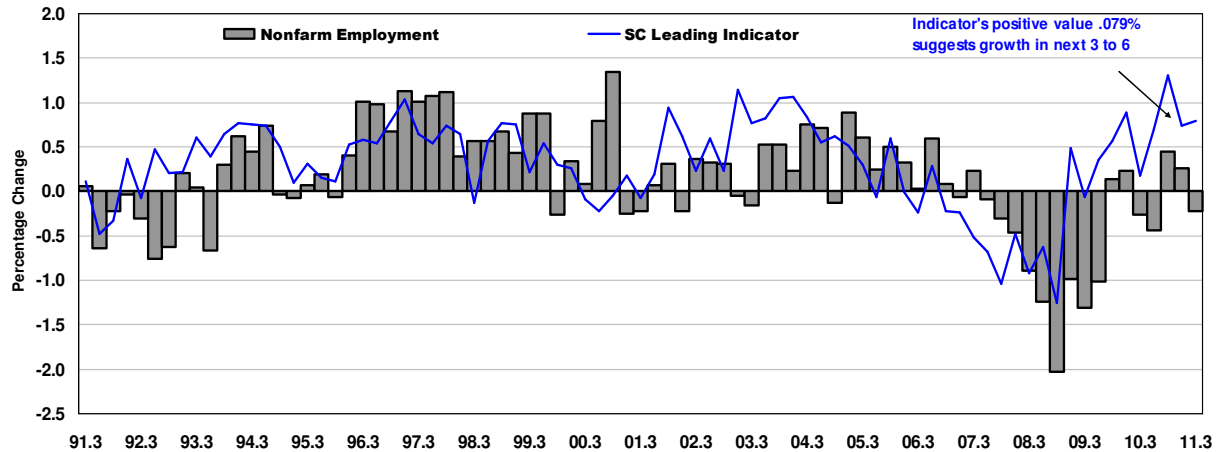
Figure 2
Leading Indicators and Real GDP



Southern California Indicator and Economic Activity

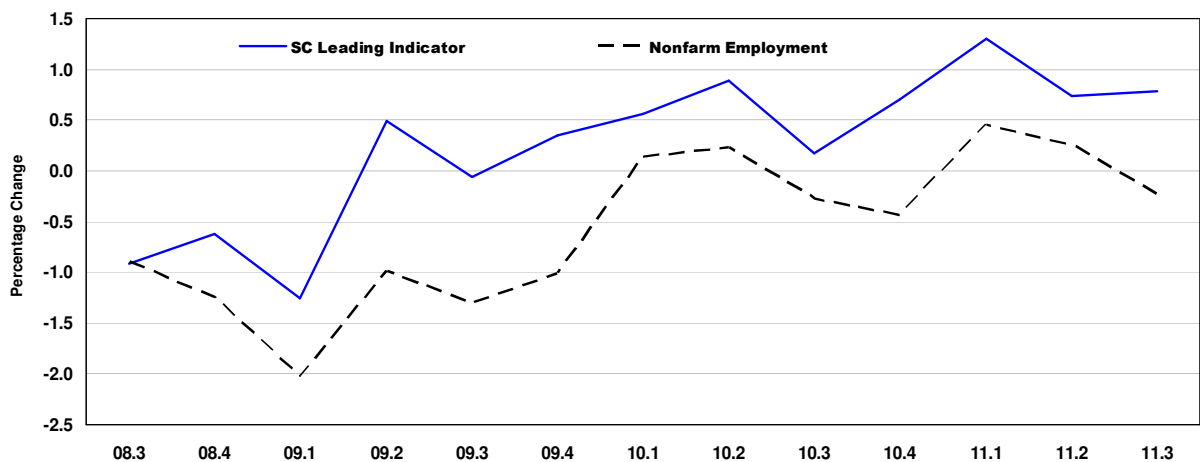
In the absence of up-to-date gross state product data for Southern California, our index is used to analyze trends in total civilian employment. The indicator has been found to be a good predictor of regional economic trends. In general, changes in the index take place prior to the change in regional 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 102.25 in the second quarter of 2011 to a value of 103.06 in the third quarter of 2011. The SC Leading Indicator has now increased for eight successive quarters. The 0.79% increase in the third 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 a decrease in the third quarter of 2011 of -0.23%.

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

Table 1
Leading Economic Indicators and Total Civilian Employment

Variable	2010.3	2010.4	2011.1	2011.2	2011.3
SC Indicator	99.50	100.19	101.50	102.25	103.06
% Change	0.17	0.70	1.30	0.74	0.79
US Indicator	109.33	111.27	113.43	114.67	116.17
% Change	-0.09	1.77	1.95	1.09	1.31
Civilian Employment	7,646,229	7,613,222	7,647,530	7,667,153	7,649,676
% Change	-0.27	-0.43	0.45	0.26	-0.23

Economic Conditions

For the U.S. economy, real gross domestic product increased at an annualized growth rate of 2.5% during the third quarter of 2011, following the 1.3% increase in the second quarter of 2011. U.S. inflation, measured by the consumer price index, increased by 0.3% in September 2011 and follows the 0.4% increase in the index in August 2011. For California, the seasonally adjusted unemployment rate for September 2011 was 11.9%, which is lower than the 12.1% unemployment rate of August 2011, and is higher than the U.S. unemployment rate of 9.1% in September 2011. Payroll employment in California increased in September 2011 compared to the previous month. There were jobs gains in the five categories of construction; trade, transportation and utilities; professional and business services; leisure and hospitality; and other services. There were job losses in the remaining six categories of mining and logging; manufacturing; information; financial activities; educational and health services; 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.



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