

Southern California Leading Economic Indicator

August 2008

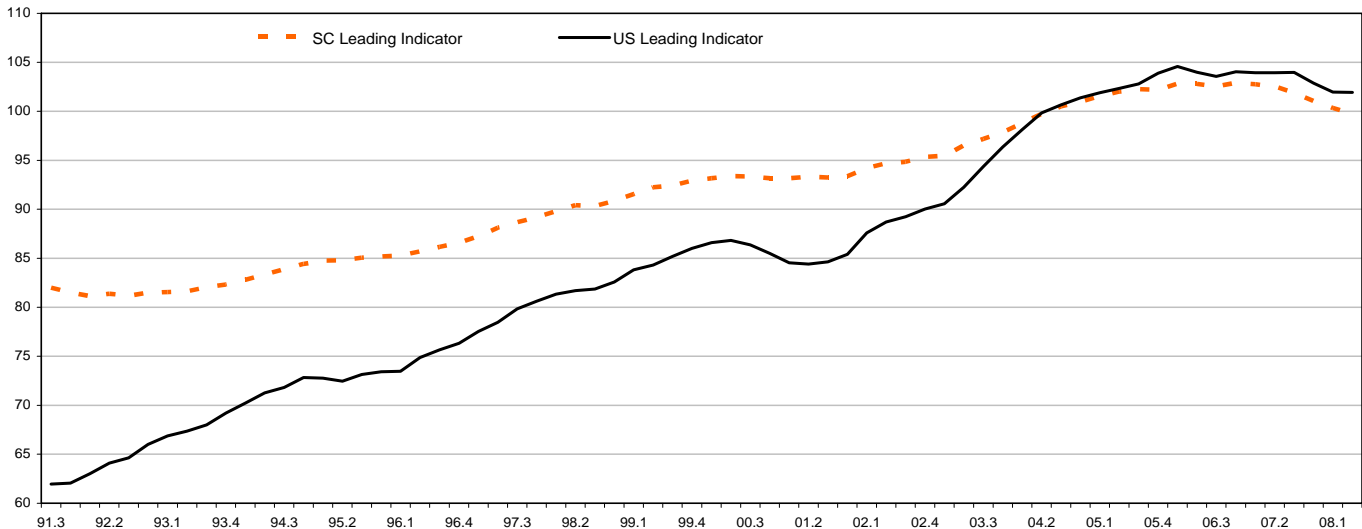
© Institute for Economic and Environmental Studies (IEES), California State University Fullerton

Adrian R. Fleissig, Ph.D.
Department of Economics, California State University Fullerton
Institute for Economic and Environmental Studies (IEES)
phone (714) 278-3816 e-mail afleissig@fullerton.edu

Summary

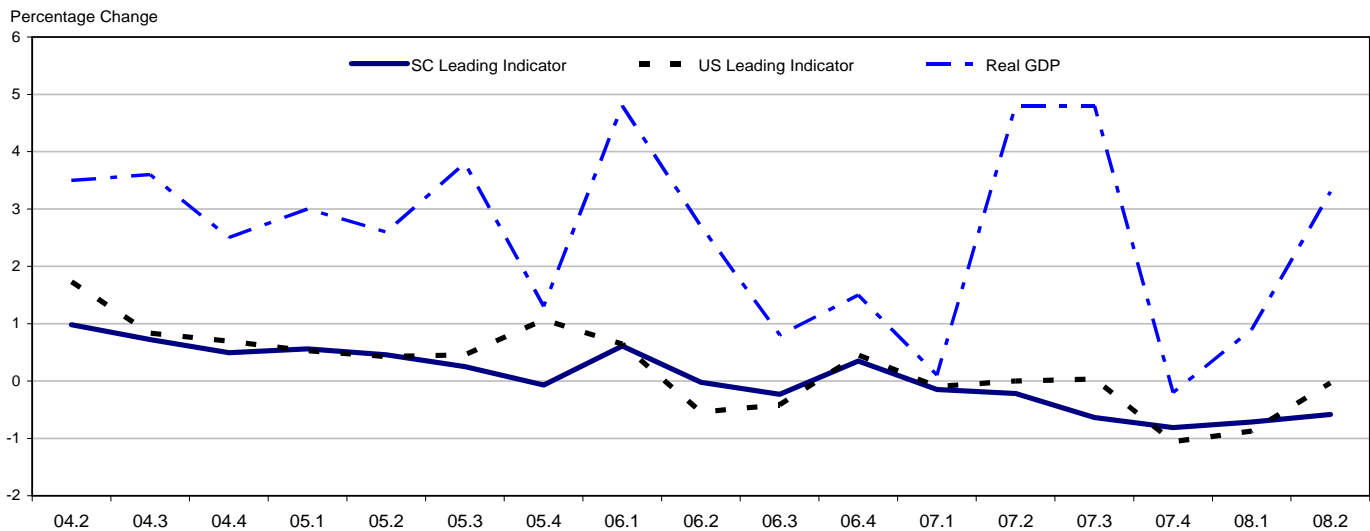
The Southern California Leading Economic Indicator decreased by 0.58% in the second quarter of 2008 compared to the first quarter of 2008. This fall suggests a decrease in economic activity in the Southern California region in the next three to six months. The S.C. Leading Indicator continues to decline sharply and strongly implies a continual slowdown in the Southern California region. The U.S. leading economic indicator fell in the second 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).

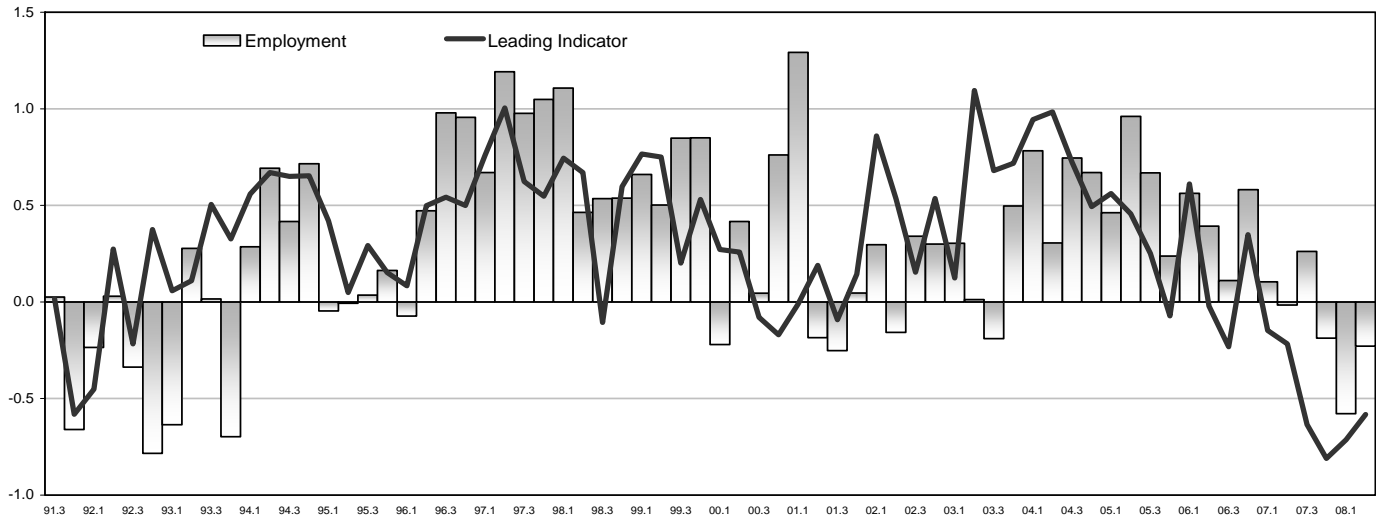
Figure 2
Leading Indicators and Real GDP



Southern California Indicator and Economic Activity

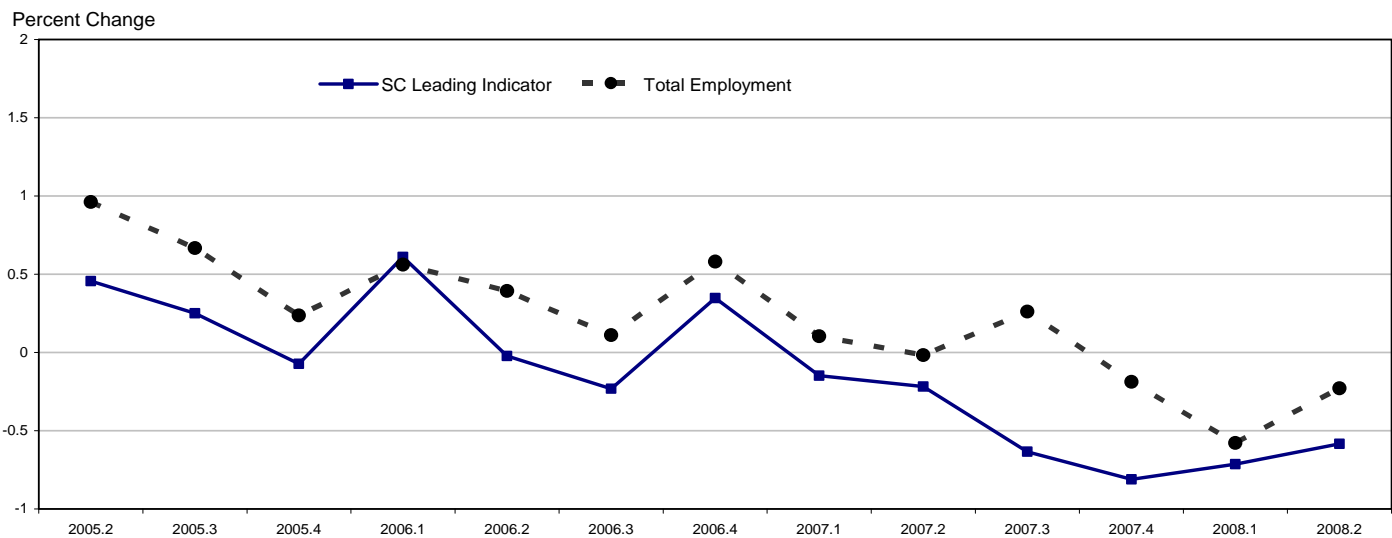
In the absence of up-to-date gross state product data for Southern California, our index is used to analyze trends in total civilian employment. The indicator has been found to be a good predictor of regional economic trends. In general, changes in the index take place prior to the change in total civilian 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 100.33 (2004=100) in the first quarter of 2008 to 99.75 in the second quarter of 2008. The decrease of 0.58% in the second 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 second quarter of 2008 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 are from the increase in Standard & Poor's 500 stock index, real money supply, change in the interest rate spread and regional building permits. There was relatively large negative effect on the SC Leading Indicator from the decline in the 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

	2007.2	2007.3	2007.4	2008.1	2008.2
SC Indicator	102.53	101.88	101.05	100.33	99.75
% Change	-0.22	-0.63	-0.81	-0.71	-0.58
US Indicator	103.93	103.97	102.87	101.97	101.93
% Change	0.00	0.03	-1.06	-0.87	-0.03
Civilian Employment	8,389,702	8,411,639	8,395,844	8,347,312	8,328,259
% Change	-0.02	0.26	-0.19	-0.58	-0.23

Economic Conditions

For the U.S. economy, real gross domestic product increased at an annualized growth rate of 1.9% during the second quarter of 2008, following the 0.9% increase in the first quarter of 2008. U.S. inflation, measured by the consumer price index, increased by 0.8% in July 2008 and follows the 1.1% increase in the index from June 2008. For California, the seasonally adjusted unemployment rate for July 2008 was 7.3%, higher than the 7.0% unemployment rate in June 2008, and is higher than the U.S. unemployment rate of 5.7% in July 2008. Payroll employment in California decreased in July 2008. There were gains in employment from the two categories of trade, transportation and utilities; and educational and health services. There were fewer jobs in natural resources and mining; construction; manufacturing; information; financial activities; professional and business services; leisure and hospitality; other 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 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.



Institute for Economic and Environmental Studies

Leading Economic Indicator report number: 33 (First release, May 2000)

Next Release of the Leading Indicator: November 2008

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