Summary

The Southern California Leading Economic Indicator decreased again by -0.17% in the third quarter of 2022 compared to the second quarter of 2022. The decrease in the Southern California Leading Indicator suggests a decrease in economic activity in the Southern California region in the next three to six months. The U.S. leading economic indicator decreased in the third quarter of 2022 and implies a decrease 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 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 changes in regional economic activity. For example, during the recessions of the early 1990s, 2001, and late 2007-2008, as well as the pandemic, the Southern California leading indicator decreased significantly (see Figure 3).

![Figure 3: Southern California Leading Indicator and Employment](image)

For the last two years, the Southern California Leading indicator often changes one to two quarters before SC employment changes (Figure 4). The SC indicator currently projects a decrease in Southern California economic activity in the next three to six months.

![Figure 4: Southern California Leading Indicator and Total Civilian Employment](image)

Changes in the WCEAF Leading Indicator and its Components

The Southern California Leading Indicator decreased from a value of 117.63 in the second quarter of 2022 to a value of 117.44 in the third quarter of 2022. The -0.17% decrease in the third quarter of 2022 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 third quarter of 2022 of -0.09%.

For the quarterly data, one of the seven components had a positive impact on the Southern California leading indicator. The positive impact was from a fall in regional unemployment. The negative impacts on the Southern California leading indicator were from a decrease in the Standard & Poor’s 500 stock index, fall in regional building permits, decline in regional nonfarm employment, fall in the Divisia money supply adjusted for inflation, change in the interest rate spread, and decrease in the Pacific region consumer confidence index.
Economic Conditions

For the U.S. economy, real gross domestic product decreased at an annualized growth rate of 2.6% during the third quarter of 2022, following the -0.6% decrease in the second quarter of 2022. U.S. inflation, measured by the consumer price index, increased in October 2022 by 0.4% compared to September 2022. For California the seasonally adjusted unemployment rate for September 2022 of 3.9% is lower than the 4.1% of August 2022, but is higher than the U.S. unemployment rate of 3.5% in September 2022. Payroll employment in California registered a net gain in October compared to the previous month. There were jobs gains in five of the eleven categories educational and health services; leisure and hospitality; construction; professional and business services; and other services. There were job losses in manufacturing; mining and logging; trade transportation, and utilities; financial activities; government; and information.

Technical Notes

The WCEAF 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 interest rates, Standard & Poor 500 stock index and real Divisia money supply. 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 CEAF 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 2016 benchmark revisions. The SC Leading Indicator (2016=100), following the procedure of the U.S. indicator, has been revised and equals 100 in the year 2016.

<table>
<thead>
<tr>
<th>Variable</th>
<th>2021.3</th>
<th>2021.4</th>
<th>2022.1</th>
<th>2022.2</th>
<th>2022.3</th>
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<tr>
<td>SC Indicator</td>
<td>115.18</td>
<td>116.59</td>
<td>117.65</td>
<td>117.63</td>
<td>117.44</td>
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<td>% Change</td>
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<td>0.91</td>
<td>-0.02</td>
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<td>US Indicator</td>
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<td>119.17</td>
<td>119.07</td>
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<td>% Change</td>
<td>2.25</td>
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<td>-0.95</td>
<td>-1.44</td>
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<td>Civilian Employment</td>
<td>8,491,827</td>
<td>8,624,136</td>
<td>8,819,629</td>
<td>8,865,215</td>
<td>8,856,940</td>
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<tr>
<td>% Change</td>
<td>1.81</td>
<td>1.56</td>
<td>2.27</td>
<td>0.52</td>
<td>-0.09</td>
</tr>
</tbody>
</table>

Table 1
Leading Economic Indicators and Total SC Civilian Employment

Woods Center for Economic Analysis and Forecasting (WCEAF)
Leading Economic Indicator report number: 90 (First release May 2000)
Next Release: February 2023
The report is available at [http://business.fullerton.edu/centers/ceaf/](http://business.fullerton.edu/centers/ceaf/)