Summary

The Southern California Leading Economic Indicator decreased by -0.50% in the second quarter of 2023 compared to the first quarter of 2023. The Southern California Leading Economic Indicator has now decreased for the fifth time in a row which last happened before the 2008 recession. 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 second quarter of 2023 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). The six consecutive decreases last occurred in 2008 and now suggests a slowdown in economic activity in Southern California.

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.

Changes in the WCEAF Leading Indicator and its Components

The Southern California Leading Indicator decreased from a value of 116.04 in the first quarter of 2023 to a value of 115.46 in the second quarter of 2023. The -0.50% decrease in the second quarter of 2023 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 an increase in the second quarter of 2023 of 0.03%.

For the quarterly data, three of the seven components had a positive impact on the Southern California leading indicator. The positive impacts were from an increase in Standard & Poor’s 500 stock index, increase in regional building permits, decrease in regional unemployment, and rise in regional nonfarm employment. The negative impacts on the Southern California leading indicator were from a fall in the Divisia money supply adjusted for inflation, change in the interest rate spread, and decrease in the Pacific region consumer confidence index.
Table 1  
Leading Economic Indicators and Total SC Civilian Employment

<table>
<thead>
<tr>
<th>Variable</th>
<th>2022.2</th>
<th>2022.3</th>
<th>2022.4</th>
<th>2023.1</th>
<th>2023.2</th>
</tr>
</thead>
<tbody>
<tr>
<td>SC Indicator</td>
<td>117.63</td>
<td>117.44</td>
<td>116.97</td>
<td>116.04</td>
<td>115.46</td>
</tr>
<tr>
<td>% Change</td>
<td>-0.02</td>
<td>-0.17</td>
<td>-0.40</td>
<td>-0.79</td>
<td>-0.50</td>
</tr>
<tr>
<td>US Indicator</td>
<td>115.97</td>
<td>114.00</td>
<td>111.57</td>
<td>109.37</td>
<td>106.90</td>
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<tr>
<td>% Change</td>
<td>-1.28</td>
<td>-1.70</td>
<td>-2.13</td>
<td>-1.97</td>
<td>-2.26</td>
</tr>
<tr>
<td>Civilian Employment</td>
<td>8,829,630</td>
<td>8,820,307</td>
<td>8,804,091</td>
<td>8,822,392</td>
<td>8,824,923</td>
</tr>
<tr>
<td>% Change</td>
<td>0.50</td>
<td>-0.11</td>
<td>-0.18</td>
<td>0.21</td>
<td>0.03</td>
</tr>
</tbody>
</table>

**Economic Conditions**

For the U.S. economy, real gross domestic product increased at an annualized growth rate of 2.4% during the second quarter of 2023, following the 2.0% increase in the first quarter of 2023. U.S. inflation, measured by the consumer price index, increased in July 2023 by 0.2% unchanged from the June 2022 increase of 0.2%. For California the seasonally adjusted unemployment rate for July 2023 of 4.6% which is unchanged from June 2023, but is higher than the U.S. unemployment rate of 3.5% in July 2022. Payroll employment in California registered a net gain in July 2023 compared to the previous month. There were gains in seven of the eleven categories educational and health services; other services; manufacturing; construction; leisure and hospitality; government; trade transportation, and utilities. There were job losses in mining and logging; financial activities; information; and professional and business services.

**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.