Southern California Leading Economic Indicator

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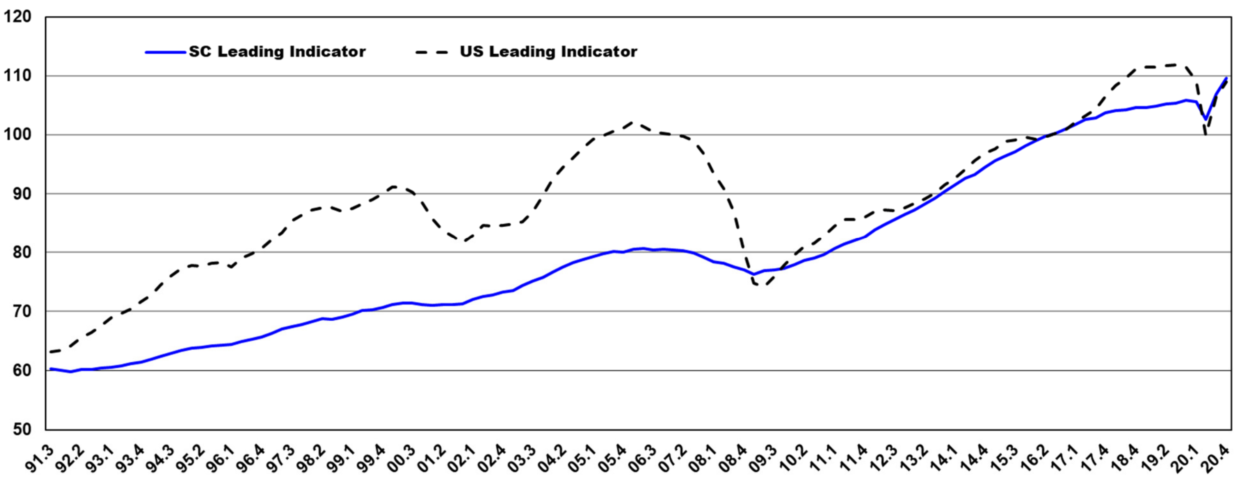
Summary

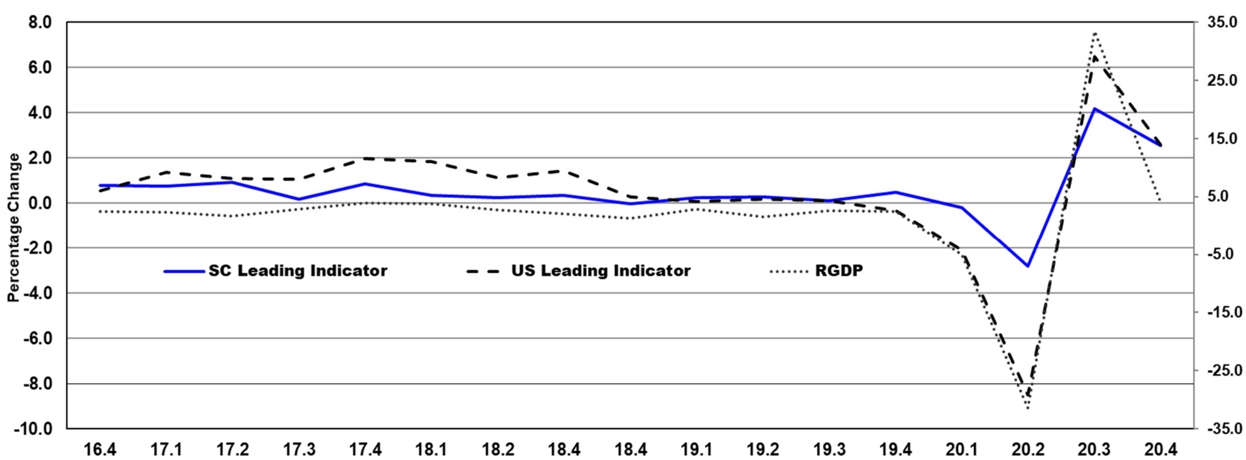
The Southern California Leading Economic Indicator increased by 2.53% in the fourth quarter of 2020 compared to the third quarter of 2020. COVID-19 has negatively impacted the Southern California region but the increase in the Leading Indicator suggests an increase in economic activity in the Southern California region in the next three to six months. The U.S. leading economic indicator increased in the fourth quarter of 2020 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).

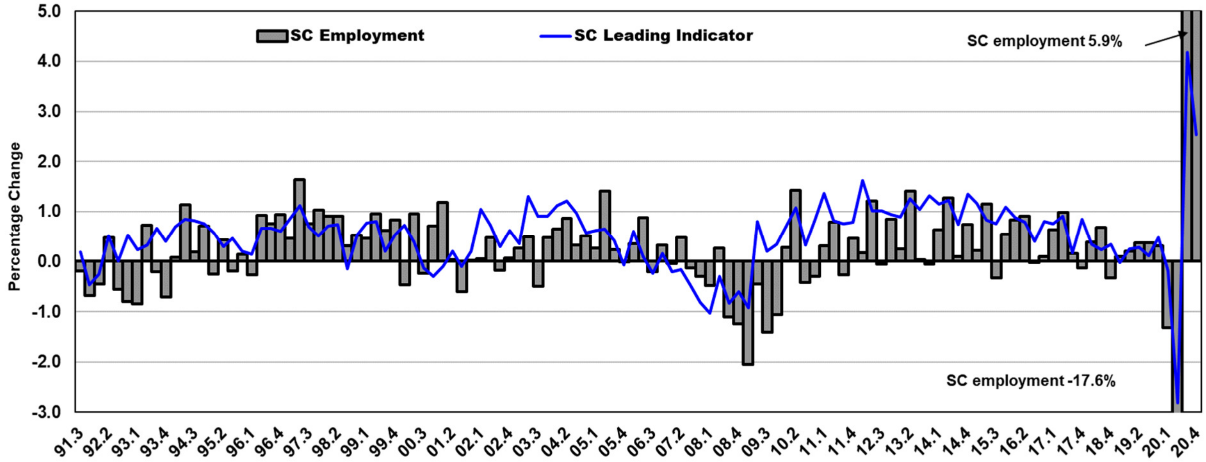
Figure 2
Leading Indicators and Real GDP



Southern California Indicator and Economic Activity

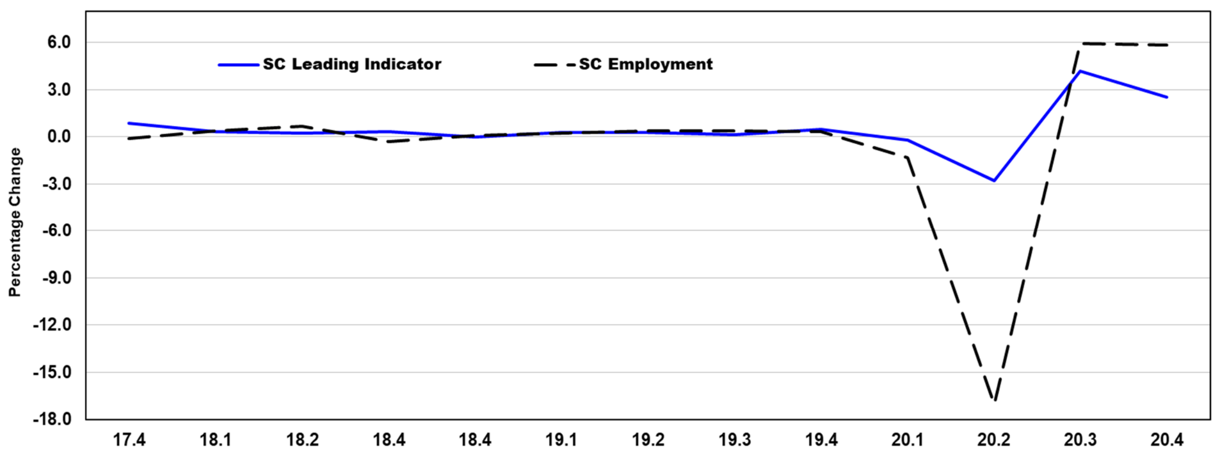
In the absence of up-to-date gross state product data for Southern California, our index is used to analyze trends in total civilian employment. The indicator has been found to be a good predictor of regional economic trends. In general, changes in the index take place prior to changes in regional economic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

The Southern California Leading Indicator increased from a value of 106.91 in the third quarter of 2020 to a value of 109.61 in the fourth quarter of 2020. The 2.53% increase in the fourth quarter of 2020 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 fourth quarter of 2020 of 5.85%.

For the quarterly data, all seven components had a positive impact on the Southern California leading indicator. The positive impacts were from an increase the money supply adjusted for inflation, rise in the Standard & Poor's 500 stock index, fall in regional unemployment, increase in regional nonfarm employment, change in the interest rate spread, rise in regional building permits, and increase in the Pacific region consumer confidence index.

Table 1
Leading Economic Indicators and Total SC Civilian Employment

Variable	2019.4	2020.1	2020.2	2020.3	2020.4
SC Indicator	105.79	105.59	102.62	106.91	109.61
% Change	0.47	-0.20	-2.81	4.18	2.53
US Indicator	111.43	109.10	99.83	106.30	109.03
% Change	-0.33	-2.09	-8.49	6.48	2.57
Civilian Employment	8,972,785	8,853,990	7,343,766	7,780,059	8,235,223
% Change	0.30	-1.32	-17.06	5.94	5.85

Economic Conditions

For the U.S. economy, real gross domestic product increased at an annualized growth rate of 4.0% during the fourth quarter of 2020, following the 33.4% increase in the third quarter of 2020. U.S. inflation, measured by the consumer price index, increased in January 2021 by 0.3% compared to December 2020. For California, the seasonally adjusted unemployment rate for December remains elevated at 9.0%, which is higher than the 8.1% in November 2020 and is also higher than the U.S. unemployment rate of 6.3% in January 2021. Payroll employment in California registered a net loss in December 2020 compared to the previous month. There were jobs gains in the 6 categories of construction; professional and business services; trade, transportation, and utilities; educational and health services; information; and government. There were job losses in the 5 categories of mining and logging; manufacturing; financial activities; leisure and hospitality; and other 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 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.

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