

Southern California Leading Economic Indicator

August 2009

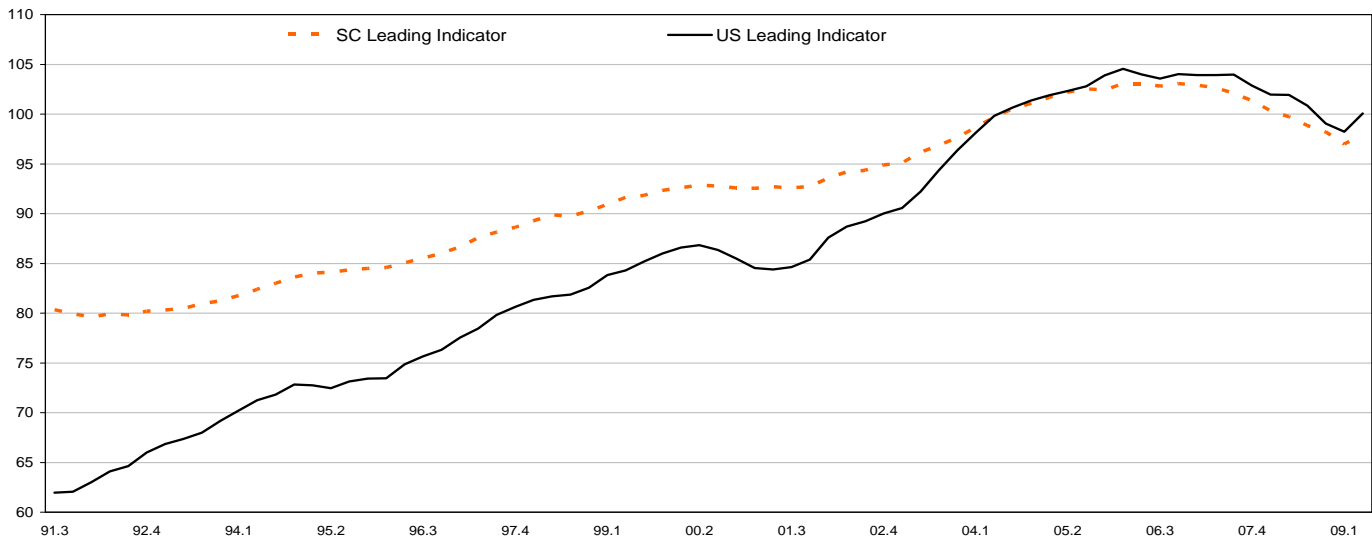
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Summary

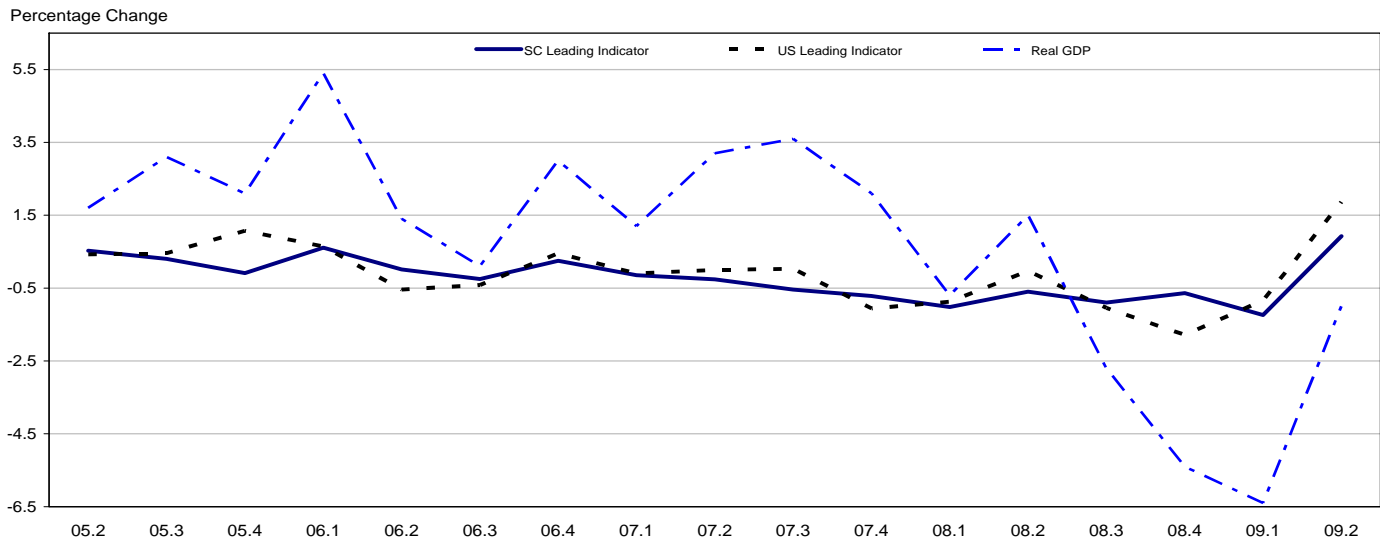
The Southern California Leading Economic Indicator increased by 0.92% in the second quarter of 2009 compared to the first quarter of 2008. This increase suggests an increase in economic activity in the Southern California region in the next three to six months. This is the first increase in the quarterly S.C. Leading Indicator in nine quarters. The last increase in the indicator was in the fourth quarter of 2006. The U.S. leading economic indicator increased significantly in the second quarter of 2009 and implies an increase in economic growth for the U.S. economy in the next three to six months (Figure 1).

Figure 1
Southern California and US Leading Indicators



U.S. 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).

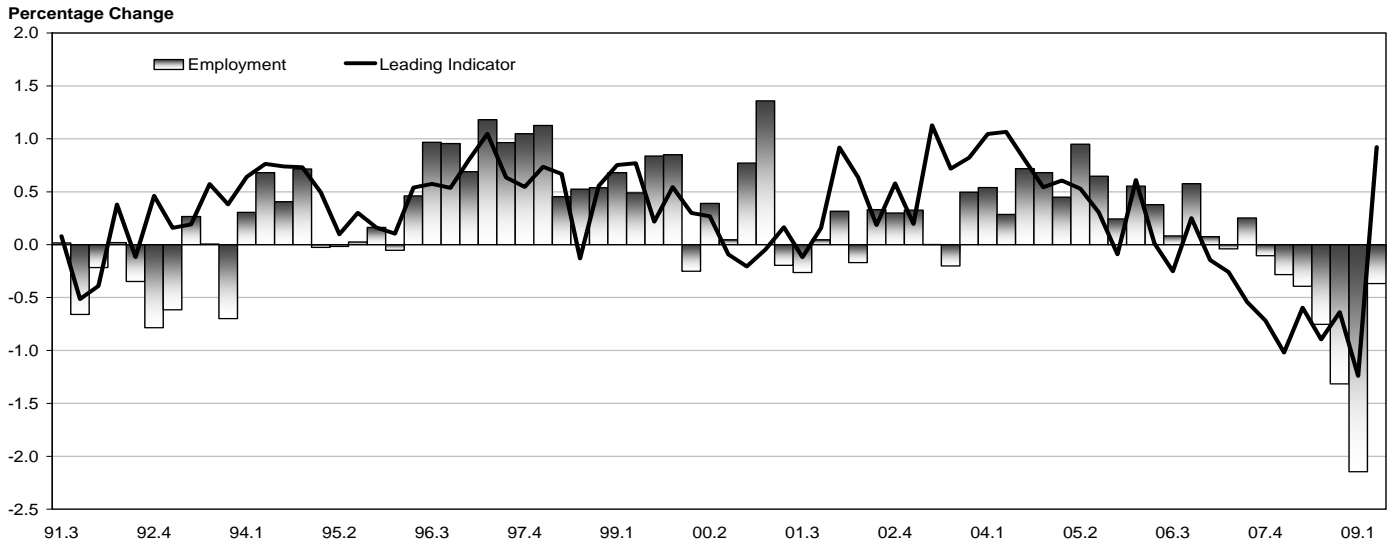
Figure 2
Leading Indicators and Real GDP



Southern California Indicator and Economic Activity

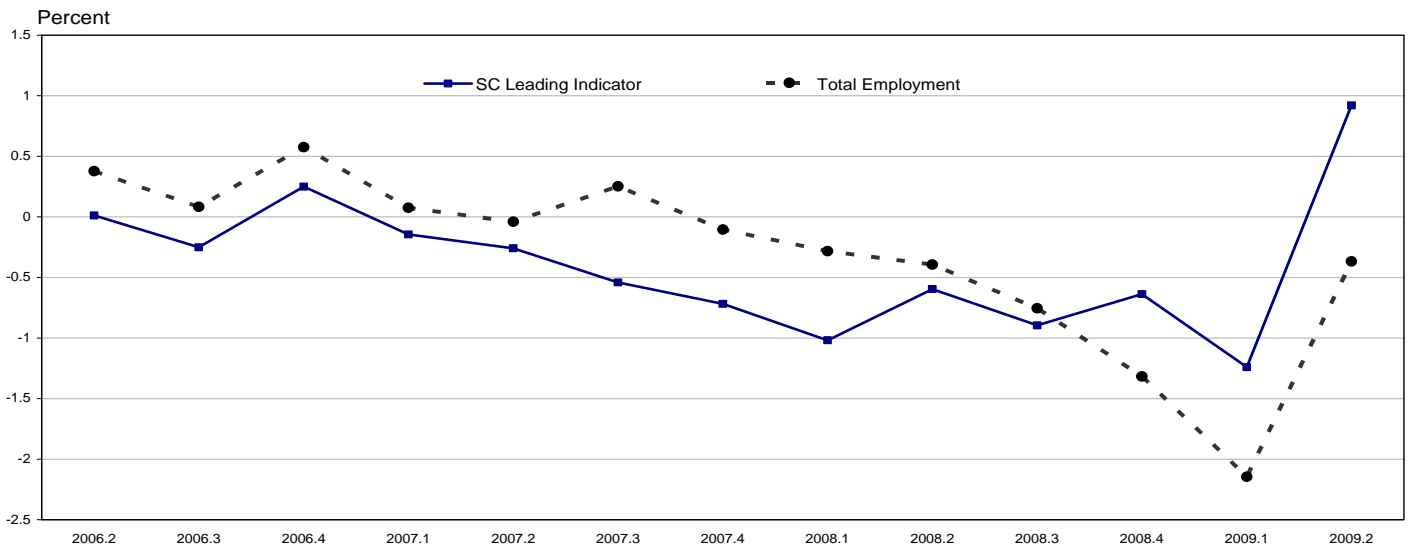
In the absence of up-to-date gross state product data for Southern California, our index is used to analyze trends in total civilian employment. The indicator has been found to be a good predictor of regional economic trends. In general, changes in the index take place prior to the change in total civilian employment. For example, during both recessions of the early 1990s and late 2007, 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 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 increased from a value of 97.00 in the first quarter of 2009 to 97.89 in the second quarter of 2009. The 0.92% increase in the second quarter of 2009 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 second quarter of 2009 of 0.37%.

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

Leading Economic Indicators and Total Civilian Employment

| Variable | 2008.2 | 2008.3 | 2008.4 | 2009.1 | 2009.2 |
|---------------------|-----------|-----------|-----------|-----------|-----------|
| SC Indicator | 99.74 | 98.85 | 98.22 | 97.00 | 97.89 |
| % Change | -0.60 | -0.90 | -0.64 | -1.24 | 0.92 |
| US Indicator | 101.93 | 100.87 | 99.07 | 98.23 | 100.07 |
| % Change | -0.03 | -1.05 | -1.78 | -0.84 | 1.87 |
| Civilian Employment | 8,309,395 | 8,246,730 | 8,138,136 | 7,963,494 | 7,934,199 |
| % Change | -0.39 | -0.75 | -1.32 | -2.15 | -0.37 |

Economic Conditions

For the U.S. economy, real gross domestic product decreased at an annualized growth rate of 1.0% during the second quarter of 2009, following the 6.4% decrease in the first quarter of 2009. U.S. inflation, measured by the consumer price index, was unchanged in July 2009 and follows the 0.7% increase in the index in June 2009. For California, the seasonally adjusted unemployment rate for July 2009 was 11.9%, which is higher than the 11.6% unemployment rate in June 2009, and is higher than the U.S. unemployment rate of 9.4% in July 2009. Payroll employment in California decreased in July 2009. The only two sectors registering gains in employment were professional and business services; and leisure and hospitality. There were job losses in the remaining nine categories of construction; manufacturing; trade, transportation and utilities; information; financial activities; educational and health services; 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.



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Next Release of the Leading Indicator: November 2009

Additional copies of the report are available at <http://business.fullerton.edu/centers/iees/> or from the IEES by calling (657) 278-3816.