

Southern California Leading Economic Indicator

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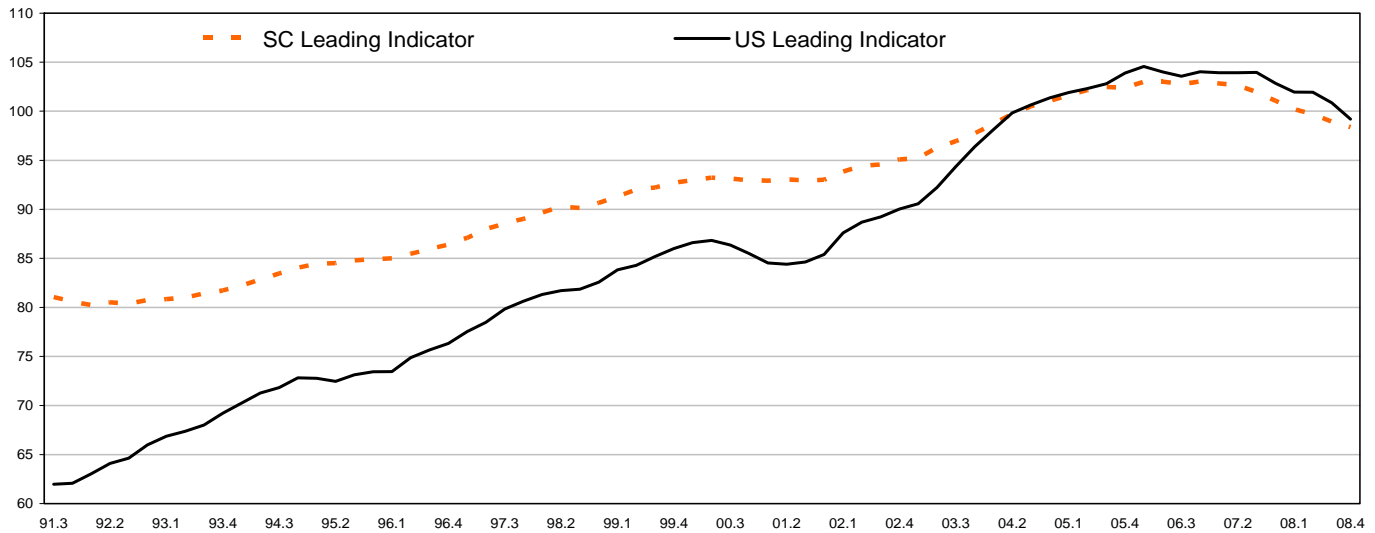
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Summary

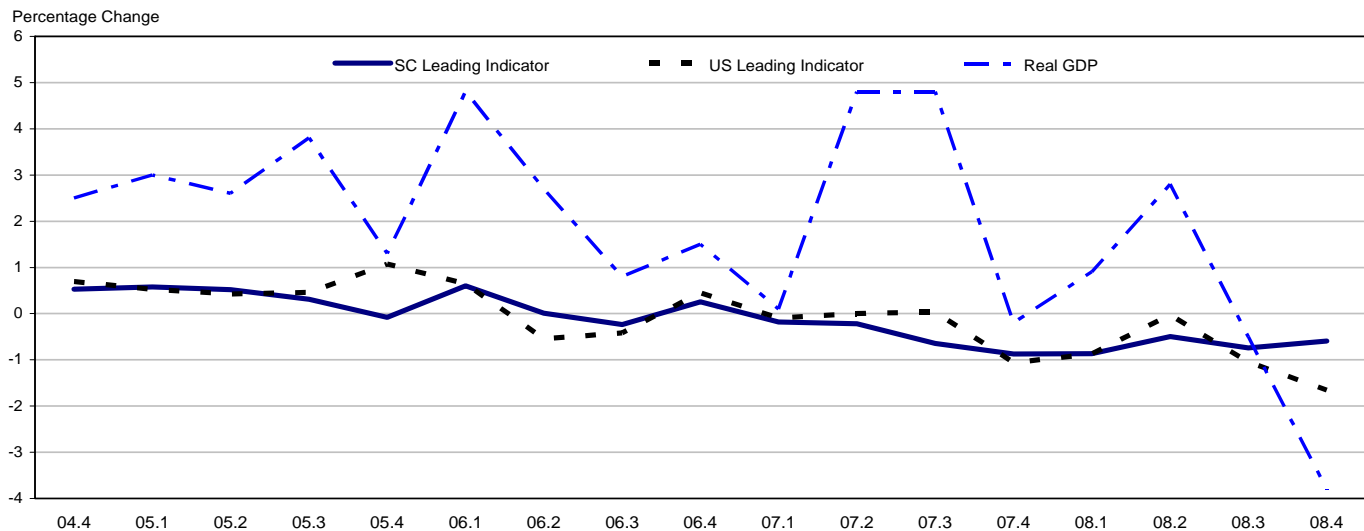
The Southern California Leading Economic Indicator decreased by 0.59% in the fourth quarter of 2008 compared to the third quarter of 2008. This fall suggests a decrease in economic activity in the Southern California region in the next three to six months. The S.C. Leading Indicator continues on a downward spiral and has now declined for eight consecutive quarters. These recent sharp declines imply a continual economic slowdown in the Southern California region. The U.S. leading economic indicator fell significantly in the fourth 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).

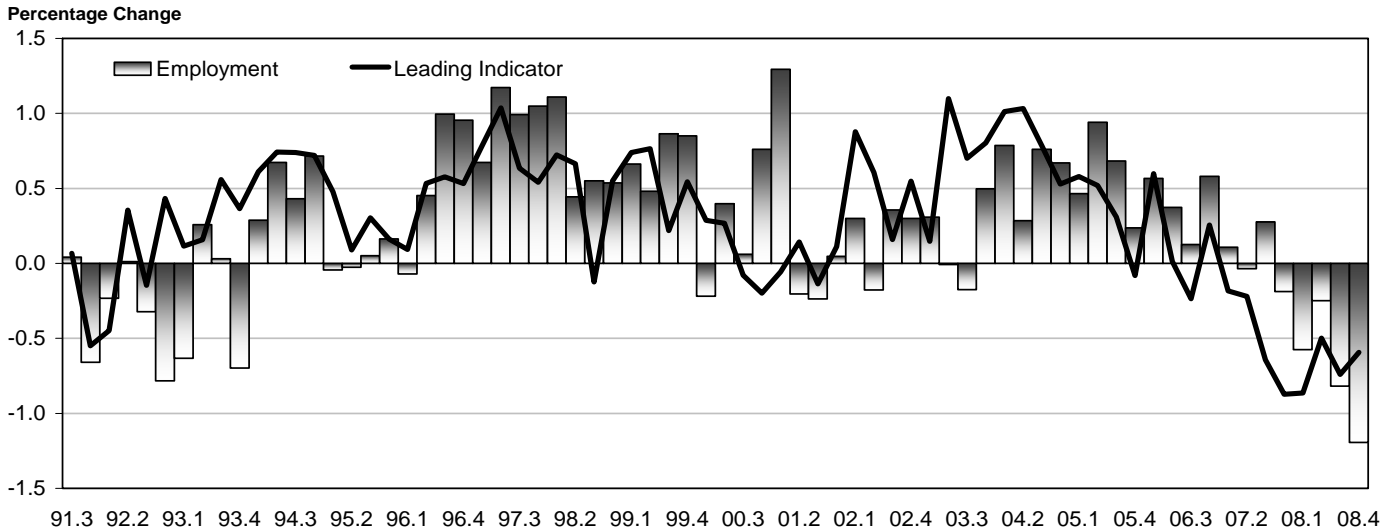
Figure 2
Leading Indicators and Real GDP



Southern California Indicator and Economic Activity

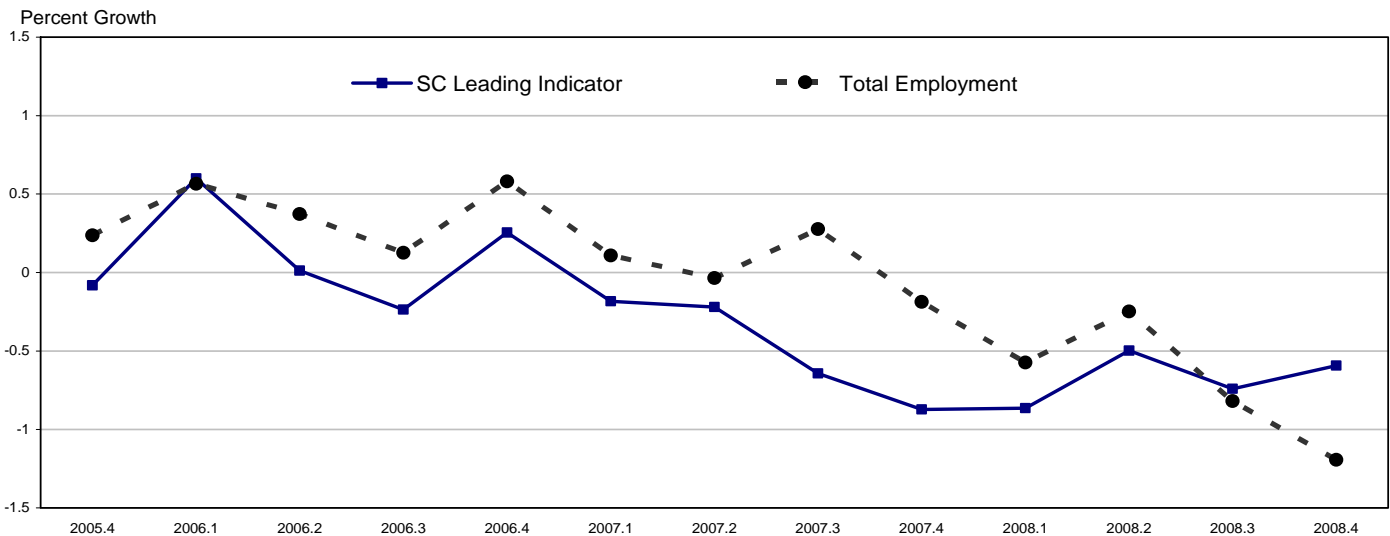
In the absence of up-to-date gross state product data for Southern California, our index is used to analyze trends in total civilian employment. The indicator has been found to be a good predictor of regional economic trends. In general, changes in the index take place prior to the change in total civilian employment. For example, during the both recessions of the early 1990s and 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 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 98.96 (2004=100) in the third quarter of 2008 to 98.38 in the fourth quarter of 2008. The decrease of 0.59% in the fourth 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 fourth quarter of 2008 of 1.19%.

For the quarterly data, two 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 and the change in the interest rate spread. There were relatively large negative effects on the SC Leading Indicator from the decline in the Standard & Poor's 500 stock index, Pacific region consumer confidence index and regional building permits. 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

	2007.4	2008.1	2008.2	2008.3	2008.4
SC Indicator	101.07	100.2	99.7	98.96	98.38
% Change	-0.87	-0.86	-0.5	-0.74	-0.59
US Indicator	102.87	101.97	101.93	100.87	99.2
% Change	-1.06	-0.87	-0.03	-1.05	-1.65
Civilian Employment	8396085	8347882	8327189	8259005	8160446
% Change	-0.19	-0.57	-0.25	-0.82	-1.19

Economic Conditions

For the U.S. economy, real gross domestic product decreased at an annualized growth rate of -3.8% during the fourth quarter of 2008, following the 0.5% decrease in the third quarter of 2008. U.S. inflation, measured by the consumer price index, increased by 0.3% in January 2009 and follows the 0.8% decrease in the index in December 2008. For California, the seasonally adjusted unemployment rate for December 2008 was 9.3%, which is higher than the 8.4% unemployment rate in November 2008, and is higher than the U.S. unemployment rate of 7.2% in December 2008. Payroll employment in California decreased in December 2008. The only sector registering gains in employment was educational and health services. There were job losses in the remaining ten categories of natural resources and mining; construction; manufacturing; trade, transportation and utilities; 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.



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Next Release of the Leading Indicator: May 2008

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