

# Southern California Leading Economic Indicator

February 2008

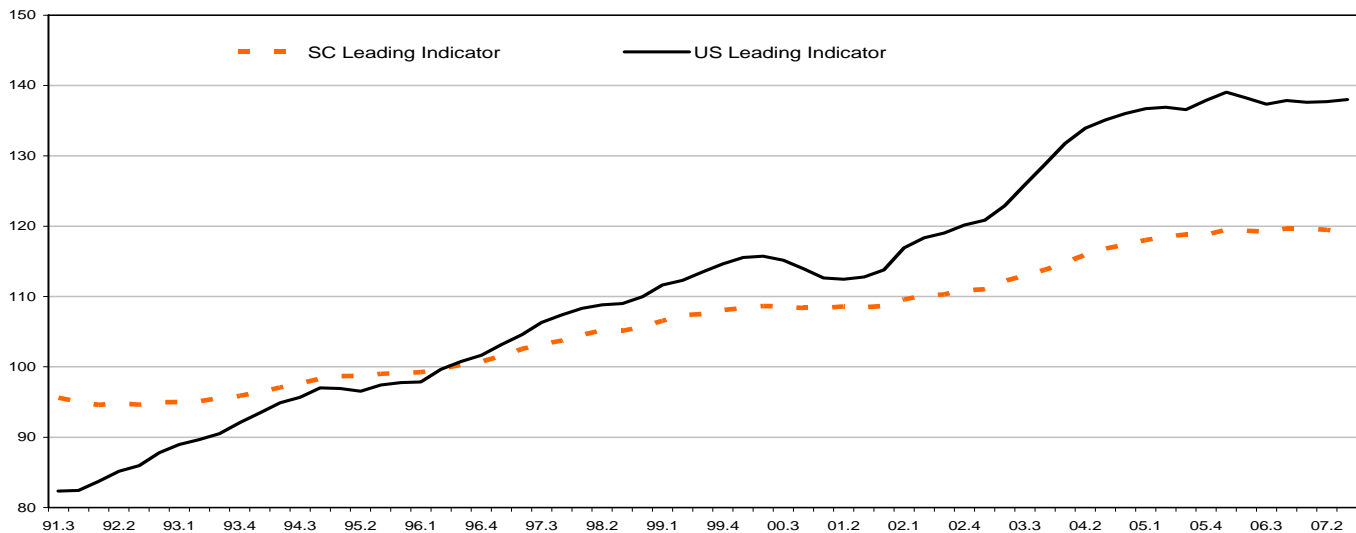
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## Summary

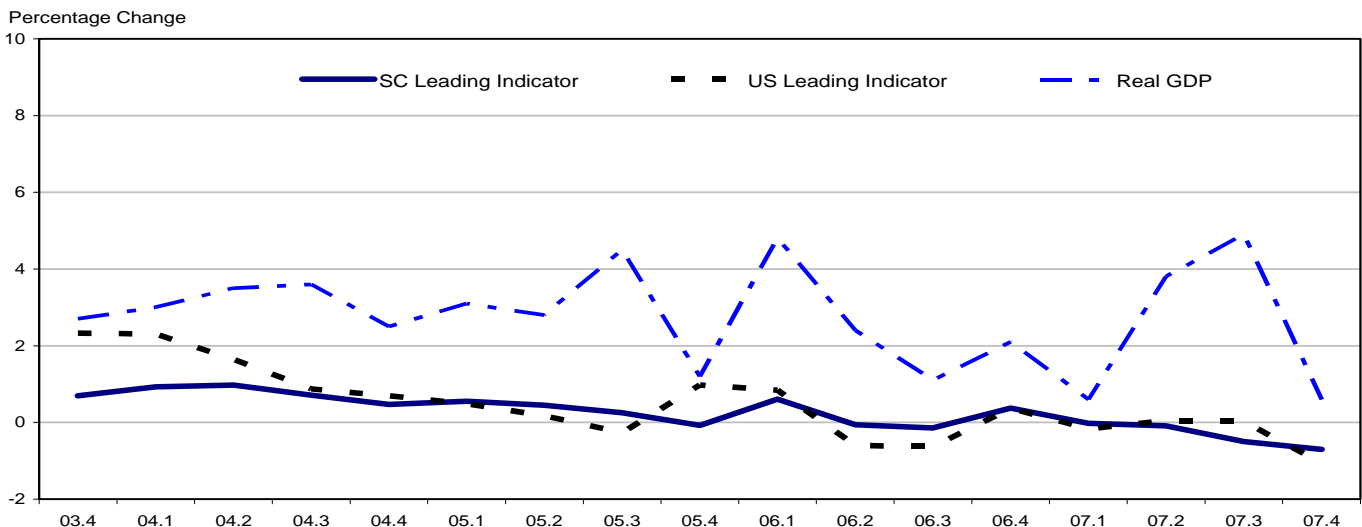
The Southern California Leading Economic Indicator decreased by 0.7% in the fourth quarter of 2007 compared to the third quarter of 2007. This fall suggests a decrease in economic activity in the Southern California region in the next three to six months. This is the largest decrease in the S.C. Leading Indicator since the first release in May 2000. An economic slowdown in the Southern California region is now apparent given that the S.C. Leading Indicator declined in all four quarters of 2007. The U.S. leading economic indicator fell in the fourth quarter of 2007 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).

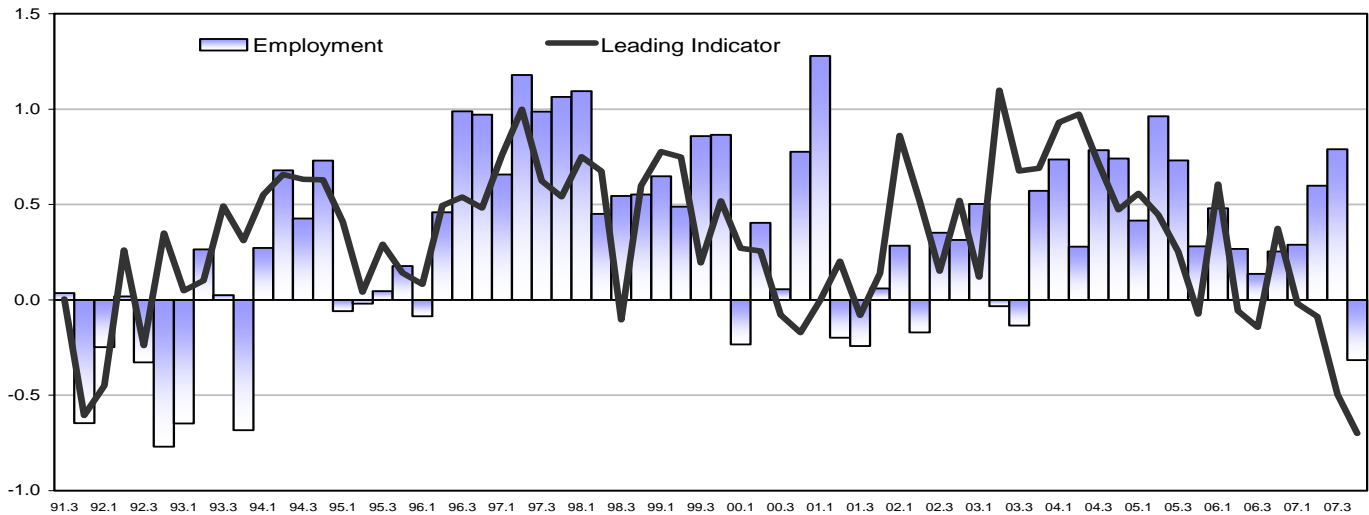
**Figure 2**  
**Leading Indicators and Real GDP**



## Southern California Indicator and Economic Activity

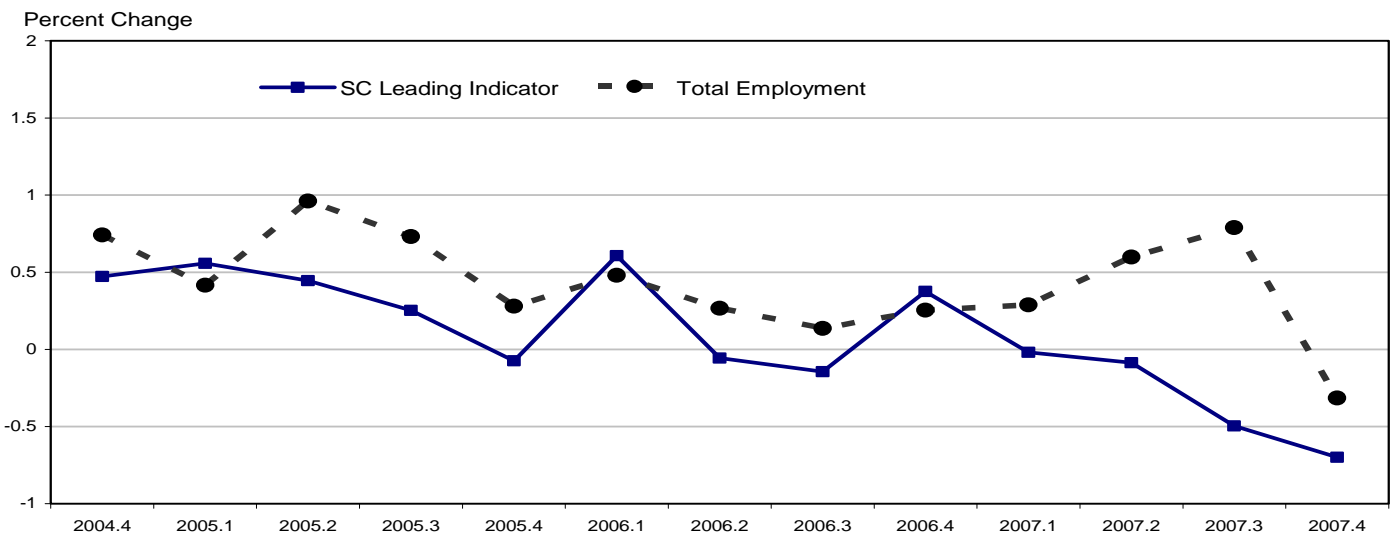
In the absence of up-to-date gross state product data for Southern California, our index is used to analyze trends in total civilian employment. The indicator has been found to be a good predictor of regional economic trends. In general, changes in the index take place prior to the change in total civilian employment. For example, during the recession of the early 1990s, the Southern California leading indicator showed a slowdown (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 118.98 in the third quarter of 2007 to 118.15 in the fourth quarter of 2007. The decrease of 0.7% in the fourth quarter of 2007 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 2007 of 0.32%.

For the quarterly data, only two out of the seven components had a positive impact on the Southern California leading indicator. The positive impacts are from the increase in the Standard & Poor's 500 stock index and real money supply. There were relatively large negative effects on the SC Leading Indicator from the declines in the regional nonfarm employment, regional building

permits and Pacific region consumer confidence index. The increase in regional unemployment and change in interest rate spread also had negative impacts on the SC Leading Indicator.

### Leading Economic Indicators and Total Civilian Employment

	2006.4	2007.1	2007.2	2007.3	2007.4
<b>SC Indicator</b>	119.7	119.68	119.57	118.98	118.15
<b>% Change</b>	0.37	-0.02	-0.09	-0.50	-0.70
<b>US Indicator</b>	137.87	137.63	137.7	137.73	136.27
<b>% Change</b>	0.36	-0.17	0.05	0.02	-1.06
<b>Civilian Employment</b>	8,372,982	8,397,113	8,447,323	8,513,980	8,487,064
<b>% Change</b>	0.25	0.29	0.6	0.79	-0.32

## Economic Conditions

For the U.S. economy, real gross domestic product increased at an annualized growth rate of 0.6% during the fourth quarter of 2007, following the 4.9% increase in the third quarter of 2007. U.S. inflation, measured by the consumer price index, increased by 0.4% in January 2008 and follows the 0.4% increase in the index from December 2007. For California, the seasonally adjusted unemployment rate for December 2007 was 6.1% which is higher than the 5.6% unemployment rate in November 2007 and is higher than the U.S. unemployment rate of 4.9% in January 2008. Payroll employment in California increased in December 2007. There were gains in employment from the nine categories of natural resources and mining; manufacturing; trade, transportation and utilities; information; professional and business services; educational and health services; leisure and hospitality; other services; and government. There were fewer jobs in construction and financial activities.

## 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.



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**Leading Economic Indicator report number: 31** (First release, May 2000)

**Next Release of the Leading Indicator: March 2008**

Dr. Anil Puri (Director of IEES) collaborated in the preparation of this report. Additional copies of the report are available at <http://business.fullerton.edu/centers/iees/> or from the IEES by calling (714) 278-3816.