California Metropolitan Areas - Leading Economic Indicators Index

Meaningful statistics on the outlook for the economy are shown by market indexes and the information they convey on where the economy is headed. Macroeconomic indicators are typically grouped under one of three headings: leading, lagging or coincident. In order for an economic indicator to have leading or predictive value, it must be current, forward-looking and project values according to future expectations.

Economic indicators can give a sense of where the economy is going to pave the way for investment strategies to fit future market conditions. Leading indicators are designed to predict changes that will occur six to nine months in the future. While individual components may not always be predictive, considered in aggregate with variations and shortcomings altogether may provide reasonable outlook for future activity.

Charting the history of indexes over time also puts them in context and provides meaning. Generally, a single month of leading economic indicators will not necessarily signal market directional change until the index moves in the same direction, up or down, for three consecutive months.

Only some nationally recognized leading economic indicator series are available at local or metropolitan levels and are available monthly. Leading metropolitan area indexes include building permits, unemployment claims, and stock prices of locally headquartered companies. Regional and national indexes are incorporated to reflect conditions beyond the local area but will affecting local economic conditions.

1) Building permits - The number of building permits issued for housing within a metro area are an important leading indicator of economic activity. Construction tends to pick up early in the expansion phase of a business cycle, and conversely starts to diminish preceding an economic downturn.

The *U.S. Census Bureau* provides monthly estimates for metro, county, and places across the nation. The count of housing units authorized for construction are mostly gathered from permit-issuing municipal jurisdictions; the remainder are county offices, townships or unincorporated towns.

2) Initial claims for unemployment insurance (UI) - This measures the initial number of claims filed by individuals seeking to receive state jobless benefits. This number is closely watched by financial analysts as it provides insight into the direction of the economy. Higher initial claims correlate with a weakening economy.

Because increases in UI claims signifies a weakening economy, the number is inverted to show increases as a negative factor to the economy, while decreases of UI claims are positive. The number of new UI claims are reported by the *California Employment Development Department* each month for every county within the state.

3) Stock index – An index of locally headquartered companies provides a statistical measurement of change within an area’s economy or securities market. The index is a composite of the selling price or portfolio of securities representing the region’s market of publicly traded headquartered companies located within the region. The index is expressed in terms of change from base value, thus the percentage change is more important than actual numeric index value.

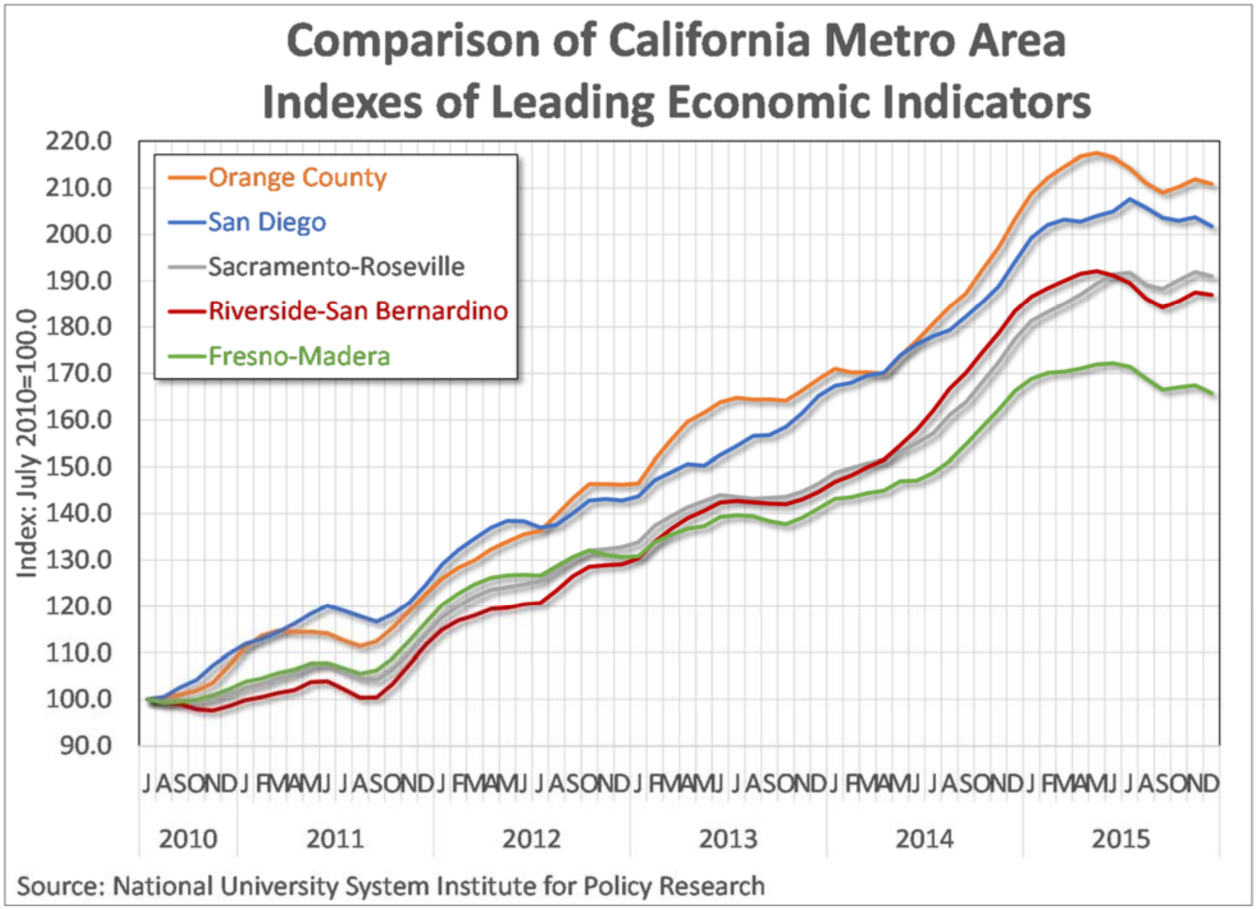
Bloomberg Business provides an index of locally headquartered companies for Orange County and San Diego County. The Los Angeles regional index is used for Riverside-San Bernardino, while the California index is used for both Sacramento and Fresno metros. The indexes report changes each day the stock market is open to transactions. We aggregate the weekly index data into an average for the month and calculate the monthly percentage change.

4) California Leading Economic Indicators – A component of the metro area LEI indexes is a measure for the state of California's leading indicators. The *Federal Reserve Bank of Philadelphia* calculates LEIs for each state including California. The leading index predicts a six-month growth rate for each state's coincident index. In addition to the coincident index, the models include other variables leading the economy, including state-level housing permits, state initial unemployment insurance claims, delivery times from the Institute for Supply Management (ISM) manufacturing survey, and the interest rate spread between the 10-year Treasury bond and the 3-month Treasury bill.

5) Job Openings and Labor Turnover Survey (JOLTS) – The U.S. Department of Labor's *Bureau of Labor Statistics* conducts a monthly survey of job openings and labor turnovers across the nation. The data are collected from establishments sampled on a voluntary basis. The number of unfilled jobs, used to calculate job openings, is an important measure of unmet labor demand. This paints a more complete picture of the U.S. labor market than solely looking at unemployment rates, a measure for the excess supply of labor. A relatively larger number of positions needing to be filled indicates a growing economy. This can also be interpreted as a shortage of workers needed and employers may raise wages to attract workers. The number of nonfarm job openings in Western states, a subset of the JOLTS survey, is used as a component indicator for the California metropolitan area indexes.

6) Consumer Sentiments - The *University of Michigan* index of consumer sentiments reflects national prospects for how the general economy is viewed in the near term. The "index of consumer expectations", a component of UofM's consumer sentiments survey, is used as a national component in the metropolitan area indexes.

After seasonal adjustment, a 3-month moving average is used to smooth month-to-month changes in the metropolitan area's overall index. The six indicators are equally weighted, therefore each measure contributes 16.7 percent to overall changes in the metropolitan area LEI index.


Comparison of California Metro Area
Indexes of Leading Economic Indicators
Orange County
San Diego
Sacramento-Roseville
Riverside-San Bernardino
Fresno-Madera
Index: July 2010=100.0
220.0
210.0
200.0
190.0
180.0
170.0
160.0
150.0
140.0
130.0
120.0
110.0
100.0
90.0
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2010
2011
2012
2013
2014
2015
Source: National University System Institute for Policy Research