California Leading Employment Indicator Shows A Modest Decline

ORANGE, CA — California’s Index of Leading Employment Indicator decreased slightly from 126.8 in the second quarter to 124.7 in the third quarter of this year. Based on the historical relationship between the Leading Employment Indicator Index and payroll employment growth, an index value over 100 generally points to positive payroll job growth. The indicator series has been above 100 now for 12 consecutive quarters. A slight decline in the leading indicator suggests that the pace of California’s job creation in the third quarter should remain at or slightly below the 1.5 percent growth rate reported in the second quarter of this year.
The Index of Leading Employment Indicator is comprised of variables found to have a significant influence on California’s payroll employment growth. These variables include movements in the lagged values of real GDP, real exports, the S&P 500 and the state’s total construction spending. A weighted average of changes in these variables, based on their relative importance in explaining state employment growth, is used in constructing the Index. As shown in the following figure, the Index of Leading Employment Indicator is strongly correlated to state payroll employment growth.

Three of the four components of the Index while still positive have decreased from their previous quarter levels. Year-over-year percentage change in real GDP is at 3.5 percent, compared to a 3.7 percent increase in the previous quarter. Year-over-year percentage change in real exports is 7.4 percent, decreasing from a growth rate of 9.0 percent in the last quarter, and the S&P 500 increased at an annual rate of 6.6 percent in the second quarter, a decline from the 9.7 percent annual rate of increase reported in the first quarter of 2006.

California’s construction spending, which is derived from six-quarter lagged real values of total building permit valuation, shows a growth rate of 9.4 percent in the second quarter of 2006 compared to 8.9 percent growth rate in the first quarter of 2006. Although three of the four components point to slower growth rate, the Indicator Series is showing only a modest decline from the previous quarter.
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