Employment Indicator Shows Weakening Job Growth

ORANGE, CA — California’s Index of Leading Employment Indicator decreased from 113.9 in the third quarter of 2007 to 112.2 in the fourth quarter of this year. The primary factor causing this decline is a sharp decline in California’s construction spending. This trend in the indicator series suggests that the pace of job creation will continue to decline over the next six months.

It should be noted, however, that 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 17 consecutive quarters.
The California 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 indicator series show positive growth. Year-over-year percentage change in real GDP increased from 1.9 percent in the second quarter to 2.6 percent in the third quarter. Likewise, real exports grew at 9.6 percent, an improvement from the growth rate of 7.1 percent in the second quarter of 2007. The S&P 500 showed a slower pace of increase in the third quarter at 14.3 percent as compared to 18.4 percent increase in the second quarter.

The fourth component of the indicator series, California construction spending, which is derived from six-quarter lagged real values of total building permit valuation, showed a year-over-year decline of 11.3 percent in the third quarter of 2007, compared to a 6.8 percent decline posted in the second quarter of this year. In fact, the weakness in construction spending more than offset the positive influence of the other three components of the indicator series when the weighted average of changes in all four components is used to compute the indicator series. This explains the overall decline of the indicator series in the fourth quarter of 2007.
ABOUT THE ANDERSON CENTER FOR ECONOMIC RESEARCH

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- Economic Forecast Conferences for Los Angeles County and the Inland Empire
- California Purchasing Managers Survey

FEBRUARY
- California Leading Employment Indicator

MARCH
- California Consumer Sentiment Survey

APRIL
- California Purchasing Managers Survey

MAY
- California Leading Employment Indicator

JUNE
- Economic Forecast Update Conference for the U.S., California, Orange and Los Angeles counties, and the Inland Empire
- California Consumer Sentiment Survey

JULY
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AUGUST
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SEPTEMBER
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OCTOBER
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NOVEMBER
- California Leading Employment Indicator

DECEMBER
- Economic Forecast Conference for the U.S., California and Orange County
- California Consumer Sentiment Survey