

The Iowa Leading Indicators Index (ILII) increased to 108.4 in August 2018 from 108.3 (100=1999) in July. The ILII had experienced four consecutive months of no change before August's increase. Despite the increase in the level of the index, the monthly percentage change rounded to zero for the fifth consecutive month. The Iowa non-farm employment coincident index recorded a 0.11 percent rise in August.

During the six-month span through August, the ILII decreased 0.2 percent (an annualized rate of -0.4 percent). The six-month diffusion index decreased to 37.5 in August from a revised 43.8 in July after revisions to the average manufacturing hours. Three of the eight indicators (average weekly unemployment claims (inverted), diesel fuel consumption, and residential building permits) experienced an increase of greater than 0.05 percent over the last half-year. Average manufacturing hours was revised to experiencing an increase of less than 0.05 percent in July and then a decrease in August 2018 and thus dropping out of the above group.

Five of the eight components were positive contributors to the ILII in August. These include, in the order from largest contributor to smallest, diesel fuel consumption, the new orders index, the Iowa stock market index, average weekly unemployment claims (inverted), and the agricultural futures profits index. Residential building permits, average manufacturing hours, and the national yield spread were the three components that contributed negatively to the index.

Figure 1. Iowa Leading Indicators Index and Iowa Non-Farm Employment Coincident Index: January 1999-August 2018

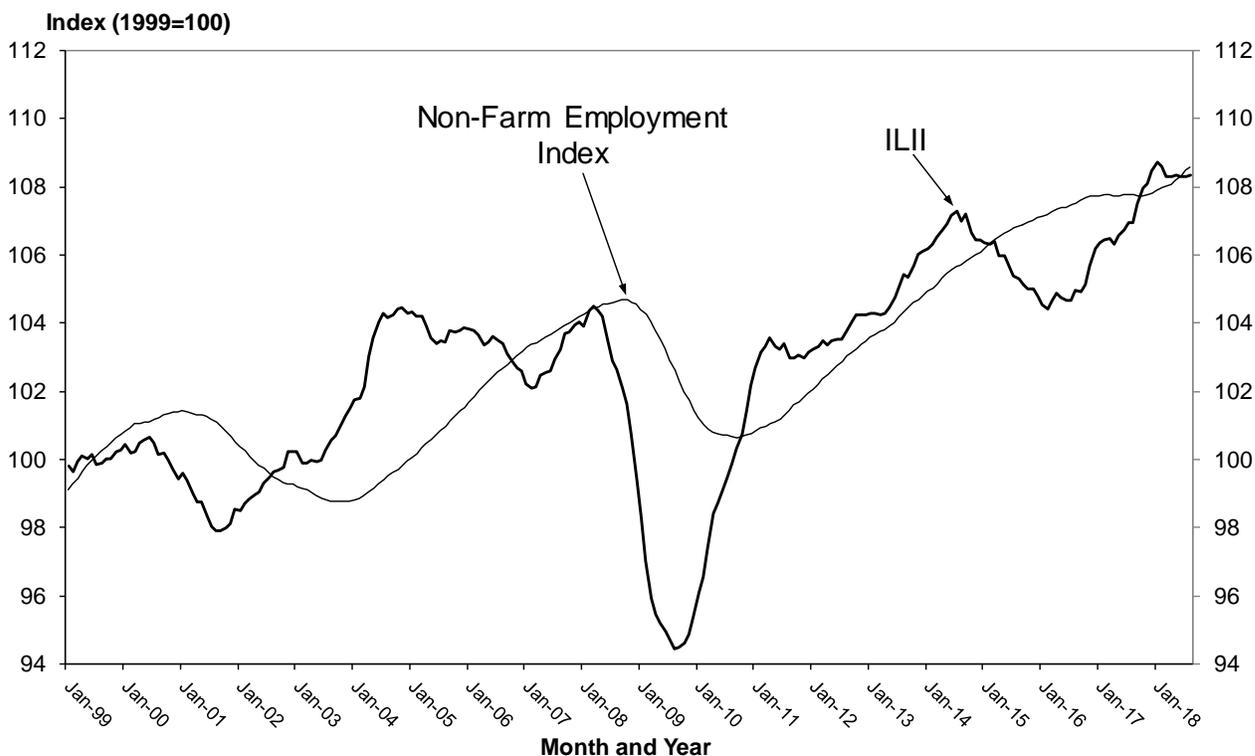


Table 1. Iowa Leading Indicators Index: Six Month Overview

Monthly Values	2018					
	Mar	Apr	May	Jun	Jul	Aug
ILII	108.3	108.3	108.3	108.3	108.3	108.4
Percentage Change ^a	-0.3%	0.0%	0.0%	0.0%	0.0%	0.0%
Diffusion Index ^b	31.3	56.3	62.5	50.0	50.0	62.5
Six-Month Values	Sep to Mar	Oct to Apr	Nov to May	Dec to Jun	Jan to Jul	Feb to Aug
ILII						
Percentage Change	0.7%	0.3%	0.2%	-0.1%	-0.4%	-0.2%
Annualized Percentage Change	1.5%	0.6%	0.4%	-0.3%	-0.7%	-0.4%
Diffusion Index	68.8	50.0	56.3	50.0	43.8	37.5

Source: Tax Research and Program Analysis Section, Iowa Department of Revenue, produced September 27, 2018.

a. Percentage changes in the ILII do not always equal changes in the level of the ILII due to rounding.

b. A diffusion index measures the proportion of components that are rising based on the actual changes (not the standardized contributions to the ILII). Components experiencing increases greater than 0.05 percent are assigned a value of 1.0, components that experience changes less than an absolute value of 0.05 percent are assigned a value of 0.5, and components experiencing decreases greater than 0.05 percent are assigned a value of 0.0.

Table 2. Iowa Leading Indicators Index Components: Six Month Overview

Component Series Monthly Values ^a		2018					
		Mar	Apr	May	Jun	Jul	Aug
AFPI ^b	↑ ^c						
Corn Profits (cents per bushel)		91.7	95.3	99.6	96.0	90.5	87.7
Soybean Profits (cents per bushel)		191.3	196.0	200.0	192.8	172.7	158.3
Hog Profits (cents per pound)		16.3	14.8	13.3	15.7	13.8	14.9
Cattle Profits (cents per pound)		8.1	7.3	6.3	7.1	7.2	7.8
Iowa Stock Market Index (10=1984-86)	↑	119.67	113.78	116.12	117.89	118.45	121.47
Yield Spread (10-year less 3-month)	↓	1.11	1.08	1.08	0.97	0.90	0.82
Residential Building Permits	↓	1,045	1,064	1,075	1,074	1,112	1,065
Average Weekly Unemployment Claims ^d	↑	2,608	2,571	2,559	2,594	2,582	2,578
Average Weekly Manufacturing Hours	↓	42.01	42.08	42.07	42.05	42.01	41.94
New Orders Index (percent)	↑	62.2	62.5	62.9	62.5	62.0	63.1
Diesel Fuel Consumption (mil gallons)	↑	60.42	60.21	60.05	60.18	60.38	60.80

Source: Tax Research and Program Analysis Section, Iowa Department of Revenue, produced September 27, 2018.

a. For all component series except for the yield spread and the Iowa stock market index, the values represent 12-month backward moving averages.

b. The agricultural futures profits index is computed as the sum of the standardized symmetric percent changes in the four series, each weighted by the commodity's annual share of Iowa cash farm income (updated August 30, 2018).

c. Arrows indicate the direction of the series' contribution to the ILII for the latest month.

d. Changes in average weekly initial unemployment insurance claims are inverted when added to the ILII, thus a negative change in the series contributes positively to the index.

ILII Components

- **Diesel fuel consumption:** Number of taxable gallons of diesel fuel sold in Iowa. Changes are calculated based on a 12-month moving average. Diesel fuel consumption increased 8.6 percent between August 2017 and 2018. The 12-month moving average increased to 60.80 million gallons from 60.38 in July, contributing 0.12 to the ILII value.
- **New orders index:** Diffusion index measuring the share of purchasing managers in Iowa reporting increases in orders received for manufacturing output. Changes are calculated based on a 12-month moving average. The monthly value of the index was 67.2 compared to 53.6 seen one year ago. The index remained above 50.0 for the twenty-first month, suggesting continued growth in manufacturing. The 12-month moving average of the new orders index decreased to 63.1 from 62.0 in July, contributing 0.07 to the ILII.
- **Iowa stock market index:** Capitalization-weighted index of 34 Iowa-based or Iowa-concentrated publicly-traded companies. During August 2018, 19 of the 34 companies gained value, including 8 of the 12 financial-sector companies. With more than half of the stocks experiencing gains, the index increased to 121.47 in August from 118.45 in July, contributing 0.04 to the ILII value.
- **Average weekly unemployment claims:** Weekly average of initial claims for unemployment insurance in Iowa. Changes are calculated based on a 12-month moving average and are inverted when added to the ILII. This component contributed 0.01 to the ILII value with the 12-month moving average of claims decreasing from 2,582 to 2,578. Unemployment claims for the month were 3.5 percent below August 2017 claims and 35.1 percent below average historical claims for August (1987-2017).
- **Agricultural futures profits index:** Composite measure of corn and soybean expected profits, measured as the 12-month moving average of the futures price less estimated breakeven costs, and cattle and hog expected profits, measured as the average of the crush margin for the next 12 months, weighted by the respective share of Iowa annual cash receipts averaged over the prior ten calendar years. During August, this component contributed 0.00 to the index with a decrease in expected profits experienced by the two crop commodities yet an increase in expected profits for the two livestock commodities. Compared to last year, new crop corn prices were 1.1 percent lower and soybean prices were 7.6 percent lower. August crush margins for hogs and crush margins for cattle were both up 8.2 percent from July.
- **Yield spread:** Difference between the yield on 10-year Treasury bonds and 3-month Treasury bills. During August, the yield spread decreased to 0.82 percent as the long-term rate remained unchanged and the short-term rate increased eight basis points. For the month, the yield spread contributed -0.03 to the ILII.
- **Average weekly manufacturing hours:** Weekly average of hours worked in the manufacturing sector in Iowa. Changes are calculated based on a 12-month moving average. For August, this component contributed -0.05 to the ILII with the 12-month moving average decreasing to 41.94 from a revised 42.01 in July. August 2018 average hours were 41.2, below the 42.0 hours in August 2017 and one-tenth below the historical monthly average of 41.3 (1996-2017).
- **Residential building permits:** Number of total permits issued in Iowa for the construction of residential housing units. Changes are calculated based on a 12-month moving average. For August, this component contributed -0.14 to the ILII with the 12-month moving average decreasing to 1,065 from 1,112 in July. August 2018 permits were 4.2 percent below 2017 and 10.7 percent below the historical average for August (1998-2017).

Table 3. ILII Components and Standardization Factors for FY 2019

Iowa Leading Indicator Index Components	Standardization Factor
Agricultural Futures Profits Index	0.034
Iowa Stock Market Index	0.017
Yield Spread	0.341
Residential Building Permits	0.032
Average Weekly Unemployment Claims	0.036
Average Weekly Manufacturing Hours	0.299
New Orders Index	0.064
Diesel Fuel Consumption	0.177

Source: Tax Research and Program Analysis Section, Iowa Department of Revenue, produced August 30, 2018
The standardization factors are the inverse of the standard deviation of the month-to-month changes in each component over the January 1999 to June 2018 period. These factors equalize the volatility of the contribution from each component and are normalized to one. The month-to-month changes are based on 12-month backward moving averages for all components except the agricultural futures profits index, the Iowa stock market index, and yield spread. The yield spread and new orders index changes are simple arithmetic changes; month-to-month changes for the rest of the components are computed as symmetric percentage changes.

The factors are updated annually during August.

Comments

The Iowa Leading Indicators Index (ILII) is designed to forecast the future direction of economic activity in the state of Iowa. The techniques used to build the ILII follow those used by The Conference Board to construct the national Leading Economics Index (LEI) prior to the 2001 revisions. A one-month movement in such an index does not produce a clear signal, rather it is necessary to consider the direction of the index over several consecutive months. A contraction signal in the ILII is considered reliable when two conditions are met: 1. The index declines by at least two percent over a six-month period (using an annualized rate); and, 2. A majority of the individual components decline over those six months (the six-month diffusion index less than 50.0).

The Iowa non-farm employment coincident index measures the change in non-seasonally adjusted, total non-farm employment in the state of Iowa. Changes are based on a 12-month moving average of employment and are computed as symmetric percentage changes. The index is a representation of overall economic activity in Iowa.

The employment index and the ILII are constructed to have a value of 100 in the year 1999.

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