

The Iowa Leading Indicators Index (ILII) decreased 0.2 percent to 107.3 in January 2019 from a revised 107.4 (100=1999) in December. The late release of the January ILII report reflects the annual benchmarking of manufacturing hours delaying release of the January data until March 11 and housing permits that were delayed by the partial federal government shutdown earlier this year. Revisions to the December ILII are a result of a downward revision in December average manufacturing hours. This is the fourth consecutive monthly decline in the ILII. The Iowa non-farm employment coincident index recorded a 0.08 percent rise in January.

During the six-month span through January, the ILII decreased 0.9 percent (an annualized rate of -1.9 percent). The six-month diffusion index decreased to 12.5 in January from 25.0 in December. Only one of the eight indicators (diesel fuel consumption) experienced an increase of greater than 0.05 percent over the last half-year. The decrease in the six-month diffusion index reflects average weekly unemployment claims moving from experiencing an increase to experiencing a decrease greater than 0.05 percent over the last six months.

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

Figure 1. Iowa Leading Indicators Index and Iowa Non-Farm Employment Coincident Index: January 1999-January 2019

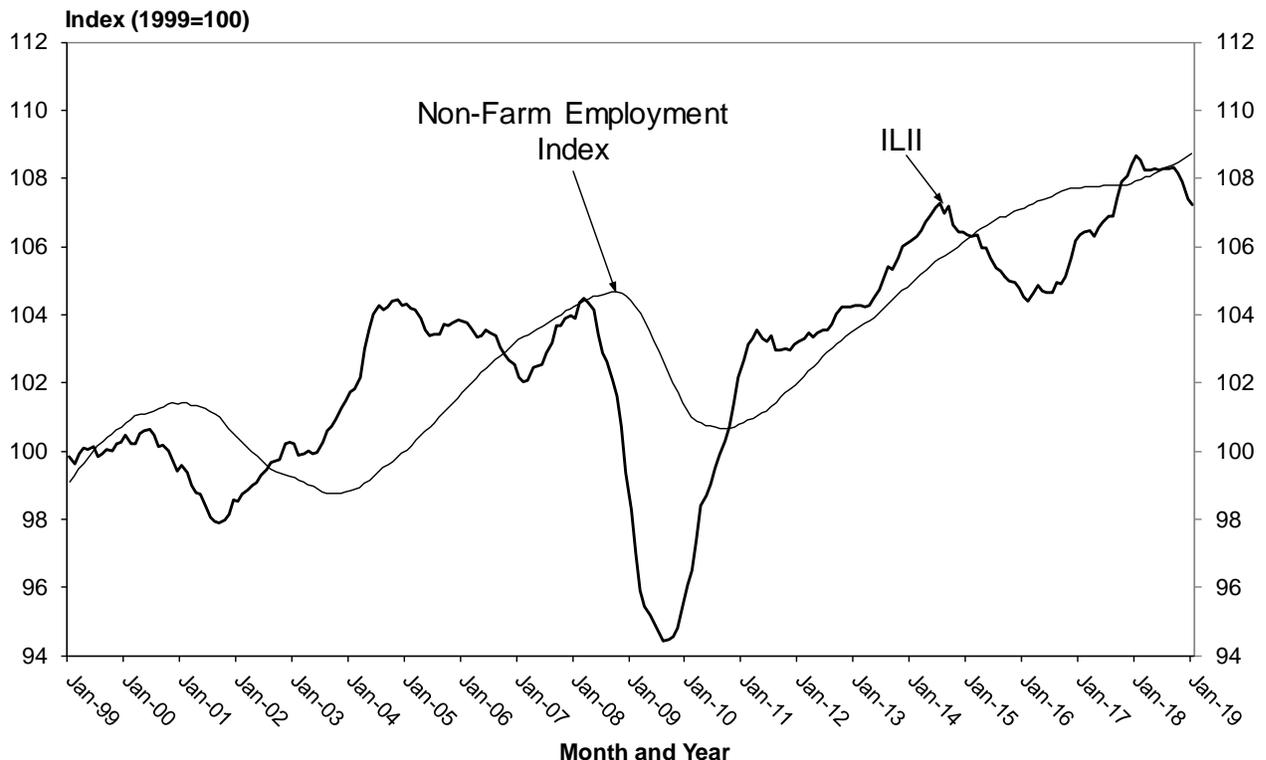


Table 1. Iowa Leading Indicators Index: Six Month Overview

Monthly Values	2018					2019
	Aug	Sep	Oct	Nov	Dec	Jan
ILII	108.3	108.3	108.2	107.9	107.4	107.3
Percentage Change ^a	0.0%	0.1%	-0.2%	-0.2%	-0.5%	-0.2%
Diffusion Index ^b	62.5	56.3	50.0	25.0	12.5	37.5

Six-Month Values	Feb to Aug	Mar to Sep	Apr to Oct	May to Nov	Jun to Dec	Jul to Jan
ILII						
Percentage Change	-0.2%	0.1%	-0.1%	-0.3%	-0.8%	-0.9%
Annualized Percentage Change	-0.5%	0.2%	-0.1%	-0.7%	-1.6%	-1.9%
Diffusion Index	37.5	50.0	37.5	12.5	25.0	12.5

Source: Tax Research and Program Analysis Section, Iowa Department of Revenue, produced March 14, 2019.

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					2019
	Aug	Sep	Oct	Nov	Dec	Jan
AFPI ^b						
Corn Profits (cents per bushel)	87.7	84.9	83.3	82.1	80.5	78.4
Soybean Profits (cents per bushel)	158.3	139.3	121.2	106.8	98.9	85.8
Hog Profits (cents per pound)	14.9	20.2	19.3	19.9	19.6	18.9
Cattle Profits (cents per pound)	7.8	8.2	8.1	9.4	10.3	10.2
Iowa Stock Market Index (10=1984-86)	127.82	125.91	115.71	114.96	104.58	106.51
Yield Spread (10-year less 3-month)	0.82	0.83	0.86	0.75	0.42	0.29
Residential Building Permits	1,065	1,039	1,041	1,000	951	949
Average Weekly Unemployment Claims ^d	2,578	2,574	2,566	2,601	2,530	2,591
Average Weekly Manufacturing Hours	41.92	41.85	41.81	41.71	41.65	41.69
New Orders Index (percent)	63.1	63.5	63.4	62.7	61.8	61.0
Diesel Fuel Consumption (mil gallons)	60.80	61.07	61.24	61.55	61.48	61.55

Source: Tax Research and Program Analysis Section, Iowa Department of Revenue, produced March 14, 2019.

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.

* For November and December, this component is unavailable due to the partial federal government shutdown.

ILII Components

- **Iowa stock market index:** Capitalization-weighted index of 33 Iowa-based or Iowa-concentrated publicly-traded companies. During January 2019, 23 of the 33 companies gained value, including eight of the 12 financial-sector companies. With over two-thirds of the stocks experiencing gains, the index increased to 106.51 in January from 104.58 in December, contributing 0.03 to the ILII value.
- **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 January, this component contributed 0.03 to the ILII with the 12-month moving average increasing to 41.69 from a revised 41.65 in December. January 2019 average hours were 42.3, above the 41.8 hours in January 2018, and nearly one and a half hours above the historical monthly average of 41.0 (1996-2018).
- **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 1.3 percent between January 2018 and 2019. The 12-month moving average increased to 61.55 million gallons from 61.48 million in December, contributing 0.02 to the ILII value.
- **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. In January, permits were 425, weaker than 459 seen in the prior year. This component contributed -0.01 to the January ILII with the 12-month moving average decreasing to 949 from 951 in December. January 2019 permits were 7.4 percent below 2018 and 8.7 percent below the monthly historical average.
- **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 January, this component contributed -0.04 to the ILII with losses in expected profits for all four commodities. Compared to last year, new crop soybean prices were 4.0 percent lower while corn prices were 7.4 percent higher; however, corn breakeven prices were 13.6 percent higher, pushing down expected profits. The January crush margin for hogs was down 3.5 percent while the crush margin for cattle was down 0.6 percent from December.
- **Yield spread:** Difference between the yield on 10-year Treasury bonds and 3-month Treasury bills. During January, the yield spread decreased to 0.29 percent as the long-term rate decreased 12 basis points and the short-term rate increased 1 basis point. For the month, the yield spread contributed -0.04 to the ILII.
- **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 57.8 compared to 67.4 seen one year ago. The index remained at or above 50.0 for the twenty-sixth month, suggesting continued growth in manufacturing. The 12-month moving average of the new orders index decreased to 61.0 from 61.8 in December, contributing -0.05 to the ILII.
- **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 -0.09 to the ILII value with the 12-month moving average of claims increasing from 2,530 to 2,591. Unemployment claims for the month were 23.7 percent above January 2018 claims, yet 9.8 percent below average historical claims for January (1987-2018).

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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