

The Iowa Leading Indicators Index (ILII) decreased to 107.1 in June 2019 from 107.2 (100=1999) in May, a decrease of 0.1 percent. This is the third consecutive month of negative change. The Iowa non-farm employment coincident index recorded a 0.05 percent rise in June.

During the six-month span through June, the ILII decreased 0.4 percent (an annualized rate of -0.7 percent), an improvement from -0.8 percent in May. The six-month diffusion index improved to 37.5 in June after five months at 25.0. Only three of the eight indicators (the agricultural futures profits index, diesel fuel consumption, and the Iowa stock market index) experienced an increase of greater than 0.05 percent over the last half-year.

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

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

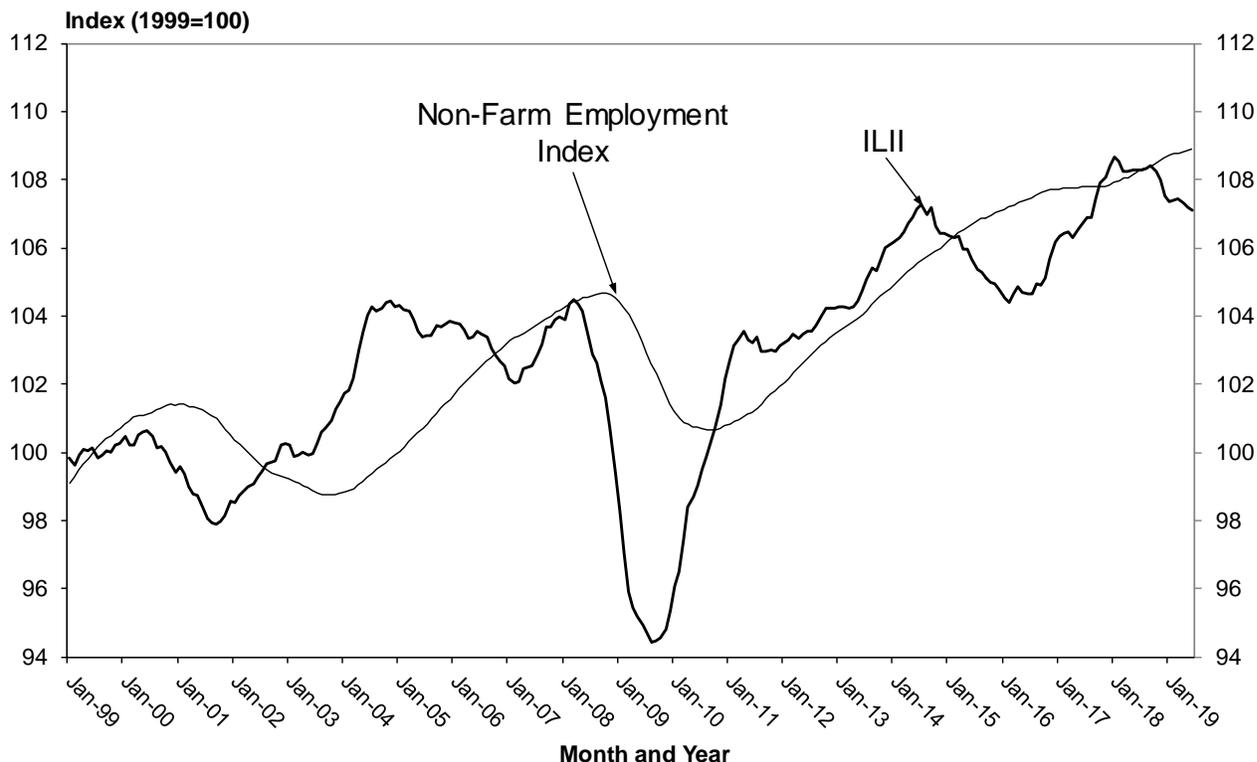


Table 1. Iowa Leading Indicators Index: Six Month Overview

Monthly Values	2019					
	Jan	Feb	Mar	Apr	May	Jun
ILII	107.4	107.4	107.5	107.3	107.2	107.1
Percentage Change ^a	-0.1%	0.0%	0.1%	-0.1%	-0.1%	-0.1%
Diffusion Index ^b	37.5	43.8	43.8	25.0	31.3	50.0
Six-Month Values	Jul to Jan	Aug to Feb	Sep to Mar	Oct to Apr	Nov to May	Dec to Jun
ILII						
Percentage Change	-0.8%	-0.8%	-0.9%	-0.9%	-0.8%	-0.4%
Annualized Percentage Change	-1.7%	-1.7%	-1.7%	-1.7%	-1.5%	-0.7%
Diffusion Index	25.0	25.0	25.0	25.0	25.0	37.5

Source: Tax Research and Program Analysis Section, Iowa Department of Revenue, produced July 29, 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	2019					
	Jan	Feb	Mar	Apr	May	Jun
AFPI ^b						
↓ ^c						
Corn Profits (cents per bushel)	95.0	94.2	92.3	89.0	86.2	89.9
Soybean Profits (cents per bushel)	150.2	143.4	133.4	121.0	104.3	95.6
Hog Profits (cents per pound)	18.9	22.8	28.5	35.7	33.9	27.6
Cattle Profits (cents per pound)	10.2	12.2	12.7	12.0	10.1	11.1
Iowa Stock Market Index (10=1984-86)	↑ 104.18	104.67	105.10	104.57	108.01	113.30
Yield Spread (10-year less 3-month)	↓ 0.29	0.24	0.12	0.10	0.00	-0.15
Residential Building Permits	↑ 949	935	901	877	863	881
Average Weekly Unemployment Claims ^d	↑ 2,591	2,606	2,608	2,644	2,653	2,641
Average Weekly Manufacturing Hours	↑ 41.68	41.64	41.63	41.58	41.57	41.59
New Orders Index (percent)	↓ 61.0	60.5	59.8	58.7	57.7	56.9
Diesel Fuel Consumption (mil gallons)	↓ 61.55	61.78	62.26	62.28	62.60	62.54

Source: Tax Research and Program Analysis Section, Iowa Department of Revenue, produced July 29, 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.

ILII Components

- **Iowa stock market index:** Capitalization-weighted index of 33 Iowa-based or Iowa-concentrated publicly-traded companies. During June 2019, 15 of the 33 companies gained value, including 5 of the 12 financial-sector companies. Despite over half of the stocks experiencing losses, the index increased to 113.30 in June from a revised 108.01 in May, contributing 0.08 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 June, permits were 1,427, higher than the 1,209 seen in the prior year. This component contributed 0.07 to the June ILII with the 12-month moving average increasing to 881 from 863 in May. June 2019 permits were 18.0 percent above 2018 and 23.2 percent above the monthly historical average (1998-2018).
- **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 June, this component contributed 0.02 to the ILII with the 12-month moving average increasing to 41.59 from a revised 41.57 in May. June 2019 average hours were 41.8, above the 41.5 hours in June 2018, and above the historical monthly average of 41.5 (1996-2018).
- **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 0.02 to the ILII value with the 12-month moving average of claims decreasing from 2,653 to 2,641. Unemployment claims for the month were 6.0 percent below June 2018 claims, and 20.0 percent below average historical claims for June (1987-2018).
- **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 6.6 percent between June 2018 and 2019. The 12-month moving average decreased to 62.54 million gallons from 62.60 million in May, contributing -0.02 to the ILII value.
- **Yield spread:** Difference between the yield on 10-year Treasury bonds and 3-month Treasury bills. During June, the yield spread inverted to -0.15 percent as the long-term rate decreased 33 basis points and the short-term rate decreased 18 basis points. For the month, the yield spread contributed -0.05 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 53.5 compared to 63.3 seen one year ago. The index returned to above 50.0 after one month registering below 50.0. The 12-month moving average of the new orders index decreased to 56.9 from 57.7 in May, contributing -0.05 to the ILII.
- **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 June, this component contributed -0.14 to the ILII with losses in expected profits for soybeans and hogs offsetting the gains in expected profits for corn and cattle. Compared to last year, new crop soybean prices were 3.3 percent lower while corn prices were 16.5 percent higher. The June crush margin for hogs was down 18.6 percent from May while the crush margin for cattle was up 9.4 percent.

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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