

Iowa Leading Indicators Index August 2007

Iowa Department of Revenue
Tax Research and Program Analysis Section

The Iowa Leading Indicators Index (ILII) increased 0.3 percent in August 2007. The Iowa non-farm employment coincident index increased by 0.1 percent in August, the 45th consecutive month.

The ILII's value in August rose to 107.3 (100=1999). The August increase, the seventh consecutive rise in the index, returned to the high levels seen in the spring after weaker growth in June and July. During the six-month span through August, the ILII increased 1.7 percent (a 3.4 percent annual rate). The six-month diffusion index (value of 87.5) reflects seven of eight components experiencing a 0.5 percent or greater increase and one component (building permits) experiencing a 0.5 percent or greater decrease over the last half year.

In August, six of the eight Iowa Leading Indicators components increased. The positive contributors were diesel fuel consumption, the agricultural futures price index, the yield spread, the new orders index, the Iowa stock market index, and unemployment insurance claims (inverted). The negative contributors were residential building permits and average weekly manufacturing hours.

Figure 1. Iowa Leading Indicators Index and Iowa Non-Farm Employment Coincident Index: Jan. 1999-August 2007

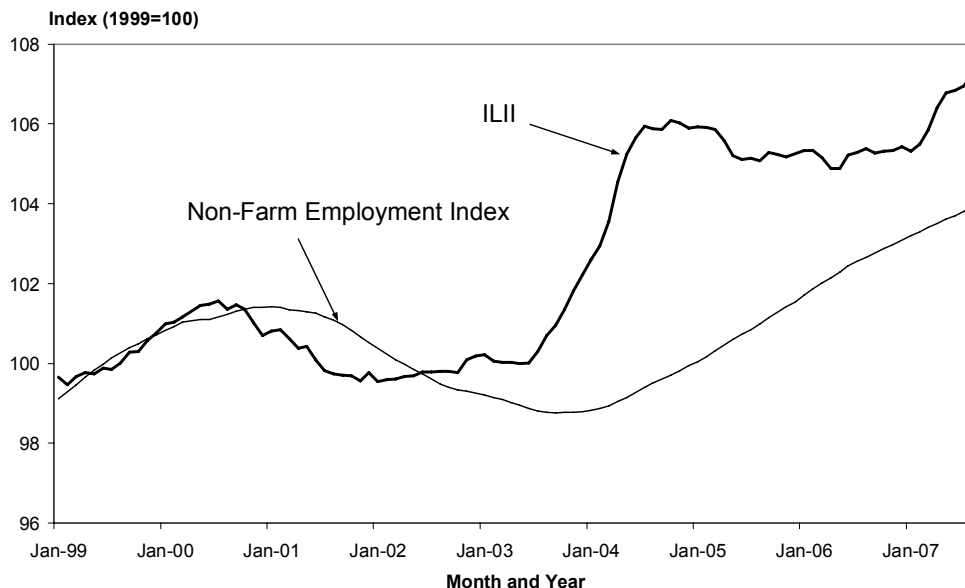


Table 1. Iowa Leading Indicators Index: Six Month Overview

Monthly Values	2007					
	March	April	May	June	July	August
ILII	105.8	106.4	106.8	106.8	106.9	107.3
Percentage Change ^a	0.3%	0.5%	0.3%	0.0%	0.1%	0.3%
Diffusion Index ^b	81.3	93.8	81.3	50.0	56.3	81.3
Six-Month Values	Sept to March	Oct to April	Nov to May	Dec to June	Jan to July	Feb to August
ILII						
Percentage Change	0.5%	1.0%	1.4%	1.3%	1.5%	1.7%
Diffusion Index	50.0	56.3	62.5	62.5	87.5	87.5

Source: Tax Research and Program Analysis Section, Iowa Department of Revenue, produced September 27, 2007.

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		2007					
		March	April	May	June	July	August
AFPI ^b	↑ ^c						
Corn (cents per bushel)		317.8	328.2	338.5	349.2	355.7	364.2
Hog Profits (cents per pound)		14.1	15.2	15.8	15.6	15.5	15.5
Soybeans (cents per bushel)		648.2	662.4	677.3	697.4	719.7	743.7
Cattle Profits (cents per pound)		-1.1	-0.4	0.1	0.0	0.1	0.0
Iowa Stock Market Index (10=1984-86)	↑	57.99	58.70	59.46	60.35	61.18	61.79
Yield Spread (10-year less 3-month)	↑	-0.52	-0.32	-0.12	0.36	0.04	0.35
Building Permits	↓	1,009	1,015	1,003	976	976	963
Average Weekly Unemployment Claims ^d	↑	3,449	3,416	3,402	3,461	3,385	3,376
Average Weekly Manufacturing Hours	↓	42.1	42.4	42.5	42.3	42.3	42.2
New Orders Index (percent)	↑	55.1	55.8	55.9	55.7	56.5	57.8
Diesel Fuel Consumption (mil gallons)	↑	55.68	55.71	55.80	55.91	55.83	56.12

Source: Tax Research and Program Analysis Section, Iowa Department of Revenue, produced September 27, 2007.

a. For all component series except for the yield spread (the only national series) the values represent 12-month backward moving averages.

b. The agricultural futures price index is computed as the sum of the standardized symmetric percent changes in the four series, each weighted by the annual share of the commodity to Iowa cash farm income.

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

d. Changes in unemployment 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. During August 2007 this component contributed 0.08 percent to the ILII value as diesel fuel consumption for the month jumped 6.4 percent relative to the prior year.
- Agricultural futures price index: Composite measure of cattle, hogs, corn and soybeans futures prices weighted by the respective share of annual Iowa cash farm income. New information on 2006 income shares increased the weight on corn and decreased the weight on hogs. Changes are calculated based on a 12-month moving average of the futures price series, where cattle and hogs series also incorporate estimates of break-even costs. During August 2007 this component contributed 0.08 percent to the ILII value with continued strong markets for corn and soybean prices while profits for hogs and cattle remained flat. Cattle break-evens were revised for June and July which slightly raised profitability for July.
- Yield spread: Difference between the yield on 10-year Treasury bonds and 3-month Treasury notes. During August, the yield spread expanded into positive territory as the short-term rate dropped sharply while the long-term rate slipped moderately. This component contributed 0.08 percent 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. During August 2007 this component contributed 0.07 percent to the ILII value as the monthly new orders index value for August fell slightly from the July value but remained at a level much higher than reported during August 2006.
- Iowa stock market index: Capitalization-weighted index of 37 Iowa-based or Iowa-concentrated publicly-traded companies. Changes are calculated based on a 12-month moving average. During August 2007 this component contributed 0.06 percent to the ILII value as 5 of the 37 companies and 3 of the 15 financial-sector companies gained value during the month. The monthly value for the index was down reflecting the recent downward movement in the volatile market, but strength from earlier in the year continues to hold up the index's 12-month moving average 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. During August 2007 this component contributed 0.01 percent to the ILII value as unemployment claims came in five percent below August 2006.
- 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. During August 2007 this component contributed -0.01 percent to the ILII value even though August hours exceeded July hours, the monthly value did not match the strength in the prior year.
- 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. During August 2007 this component, with an unchanged 12-month moving average due to rounding, contributed -0.04 percent to the ILII value. August monthly numbers came in 15.6 percent below those reported in August 2006 and 39.1 percent below housing-boom levels seen during August 2003 through 2005.

Table 3. ILII Components and Standardization Factors for FY 2008

Iowa Leading Indicator Components	Standardization Factor
Agricultural Futures Price Index	0.124
Iowa Stock Market Index	0.058
Yield Spread	0.247
Building Permits	0.029
Unemployment Claims	0.034
Average Weekly Hours	0.289
New Orders Index	0.055
Diesel Fuel Consumption	0.164

Source: Tax Research and Program Analysis Section, Iowa Department of Revenue, produced August 28, 2007. 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 2007 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 moving averages for all components except the yield spread, which is the only national series. 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 the summer.

Comments

The Iowa Leading Indicators Index is designed to forecast the likely 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 indicators index. A movement in the ILII for only one month does not produce a clear signal, rather it is necessary to consider the direction of the index over several consecutive months. The Conference Board considers a contraction signal in the national leading indicators index reliable when two conditions are met: 1. the index declines by at least two percent over a six month period (using an annual rate); and, 2. a majority of the individual components also decline over those six months (six-month diffusion index less than 50.0).

The Iowa Non-Farm Employment Coincident Index measures the change in non-farm employment of all workers 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 designed to represent the current state of economic activity in Iowa.

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