

IOWA Department of REVENUE

Iowa Leading Indicators Index May 2010 Report

Tax Research and Program Analysis Section
Released July 1, 2010

The Iowa Leading Indicators Index (ILII) rose to 100.0 (100=1999) in May 2010 from 99.4 in April. The Iowa non-farm employment coincident index fell by 0.03 percent for the month, the nineteenth consecutive monthly decrease.

The ILII's value increased 0.6 percent in May. Although the increase was just half of the 1.2 percent rise experienced in April and the smallest rise since November 2009, May's increase extended the streak of positive changes in the index to eight months. During the six-month span through May, the ILII rose 5.2 percent (an annualized rate of 10.4 percent). The six-month diffusion index (value of 87.5) reflects an increase of 0.05 percent or greater over the last half year in seven of the eight components, with the yield spread experiencing a drop exceeding 0.05 percent over that time.

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

Figure 1. Iowa Leading Indicators Index and Iowa Non-Farm Employment Coincident Index: January 1999-May 2010

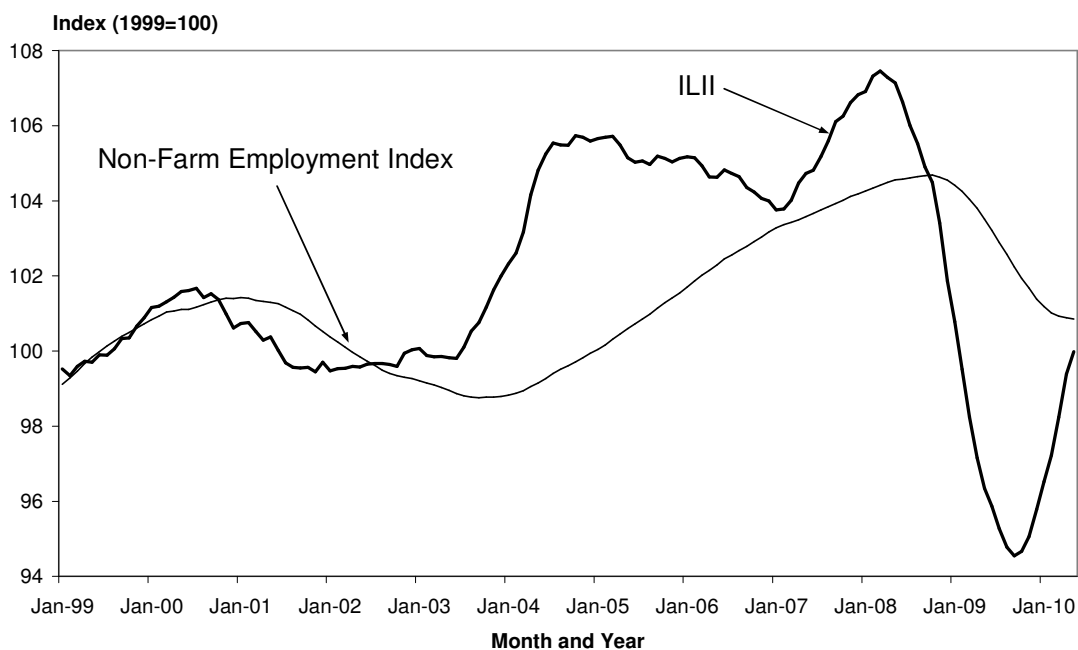


Table 1. Iowa Leading Indicators Index: Six Month Overview

Monthly Values	2009	2010				
	December	January	February	March	April	May
ILII	95.8	96.5	97.2	98.2	99.4	100.0
Percentage Change ^a	0.8%	0.8%	0.7%	1.0%	1.2%	0.6%
Diffusion Index ^b	100.0	81.3	75.0	93.8	100.0	75.0
Six-Month Values	June to December	July to January	Aug to February	Sept to March	Oct to April	Nov to May
ILII						
Percentage Change	-0.1%	1.3%	2.6%	3.9%	5.0%	5.2%
Annualized Percentage Change	-0.2%	2.6%	5.2%	7.8%	10.0%	10.4%
Diffusion Index	56.3	62.5	75.0	87.5	100.0	87.5

Source: Tax Research and Program Analysis Section, Iowa Department of Revenue, produced June 29, 2010.

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	2009	2010					
	December	January	February	March	April	May	
AFPI ^b							
Corn Profits (cents per bushel)	↓ ^c	47.7	42.2	37.5	31.6	23.9	14.4
Soybean Profits (cents per bushel)		206.9	196.6	189.3	185.3	173.8	153.4
Hog Profits (cents per pound)		6.3	7.1	8.3	9.4	11.1	13.1
Cattle Profits (cents per pound)		-7.8	-6.5	-5.2	-3.5	-1.7	-0.3
Iowa Stock Market Index (10=1984-86)	↑	49.88	51.42	53.41	56.03	58.36	59.62
Yield Spread (10-year less 3-month)	↓	3.54	3.67	3.58	3.58	3.69	3.26
Building Permits	↑	586	591	605	641	668	673
Average Weekly Unemployment Claims ^d	↑	7,725	7,564	7,298	6,980	6,675	6,435
Average Weekly Manufacturing Hours	↑	38.8	39.1	39.4	39.6	40.0	40.2
New Orders Index (percent)	↑	47.5	50.9	53.0	55.7	59.1	61.6
Diesel Fuel Consumption (mil gallons)	↑	51.37	51.30	51.10	51.32	51.63	51.97

Source: Tax Research and Program Analysis Section, Iowa Department of Revenue, produced June 29, 2010.

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 commodity's annual share of Iowa cash farm income (updated August 21, 2009).

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

- **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 May 2010, this component contributed 0.18 to the ILII value with the 12-month moving average rising to 40.2. May 2010 hours were 41.0, down from a revised April 2010 hours report of 41.5 and below the historical average for May of 41.4 hours (1996-2008), but well above the 38.1 reported in May 2009.
- **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 12-month moving average of the new orders index rose to 61.6, contributing 0.16 to the ILII. The May 2010 value of 81.1 is the highest reading for the index since April 2004.
- **Iowa stock market index:** Capitalization-weighted index of 34 Iowa-based or Iowa-concentrated publicly-traded companies. Changes are calculated based on a 12-month moving average. During May 2010, 9 of the 34 companies gained value, including 7 of the 12 financial-sector companies. Despite the fact that the majority of stocks experienced losses in May, the 12-month moving average measure of the stock market index was still a positive contributor to the ILII because the current stock market values exceeded the weak values seen in 2009. The stock market index, rising to 59.62, contributed 0.13 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. The 12-month moving average of claims fell to 6,435 with unemployment claims in May 2010 39.8 percent below May 2009 claims. This component contributed 0.12 to the ILII value. However, initial claims for May 2010 were still 91.6 percent above average May claims (1987-2008).
- **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 rose 7.6 percent between May 2009 and 2010, causing the 12-month moving average to rise 0.6 percent to 51.97 million gallons, and contributing 0.11 to the ILII value.
- **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 May, this component contributed 0.03 to the ILII with the 12-month moving average rising to 673. May 2010 permits were 10.4 percent higher than the number of permits issued in May 2009, although May 2010 permits were still 48.8 percent below the historical average for May (1998-2008).
- **Agricultural futures price index:** Composite measure of corn, soybean, hog, and cattle expected profits, measured as the futures price less estimated breakeven costs, weighted by the respective share of annual Iowa cash farm income. Changes are calculated based on a 12-month moving average. During May, this component contributed -0.01 to the ILII value as the 12-month moving average of expected profits for hogs and cattle improved while expected profits for soybeans and corn continued to fall for the nineteenth consecutive month.
- **Yield spread:** Difference between the yield on 10-year Treasury bonds and 3-month Treasury notes. During May, the yield spread fell to 3.26 as the long-term rate dropped 43 basis points while the short-term rate remained unchanged. For the month, the yield spread contributed -0.12 to the ILII.

Table 3. ILII Components and Standardization Factors for FY 2010

Iowa Leading Indicator Index Components	Standardization Factor
Agricultural Futures Price Index	0.052
Iowa Stock Market Index	0.059
Yield Spread	0.289
Building Permits	0.034
Average Weekly Unemployment Claims	0.033
Average Weekly Manufacturing Hours	0.298
New Orders Index	0.064
Diesel Fuel Consumption	0.171

Source: Tax Research and Program Analysis Section, Iowa Department of Revenue, produced August 21, 2009. 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 2009 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 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 (ILII) 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 Economics Index (LEI). 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. The Conference Board considers a contraction signal in the LEI 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.

Contact: Questions can be addressed to Amy Rehder Harris of the Iowa Department of Revenue at (515) 281-0196 or amy.harris@iowa.gov.