

THE PUGET SOUND LEADING INDEX

The Puget Sound Economic Forecaster
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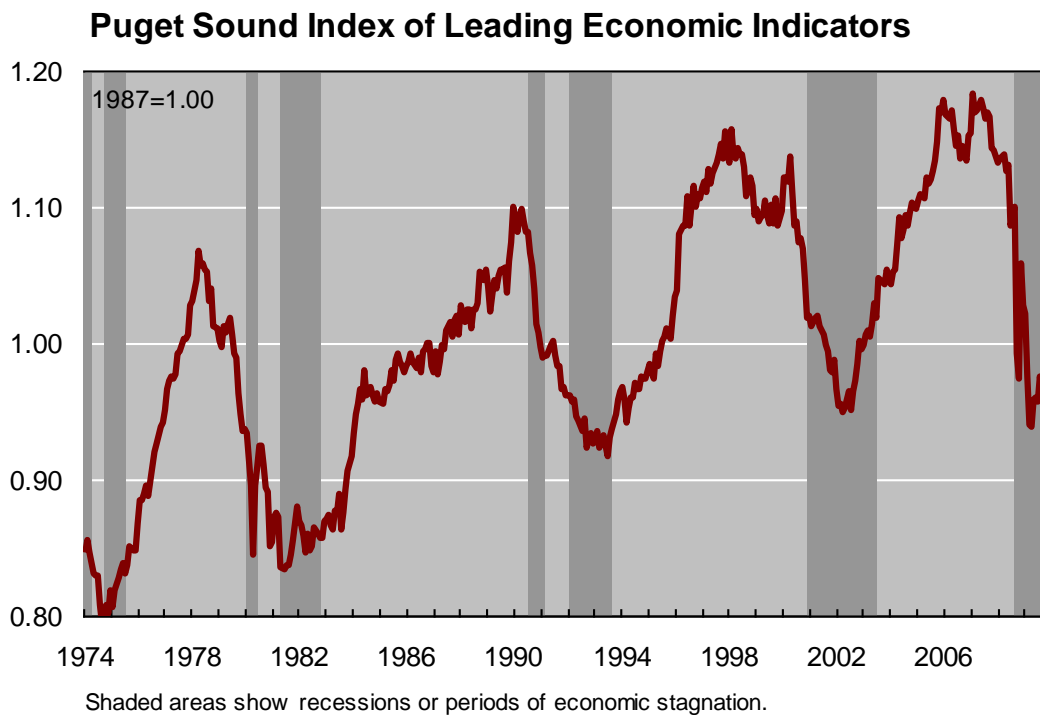
Leading Index: Finally

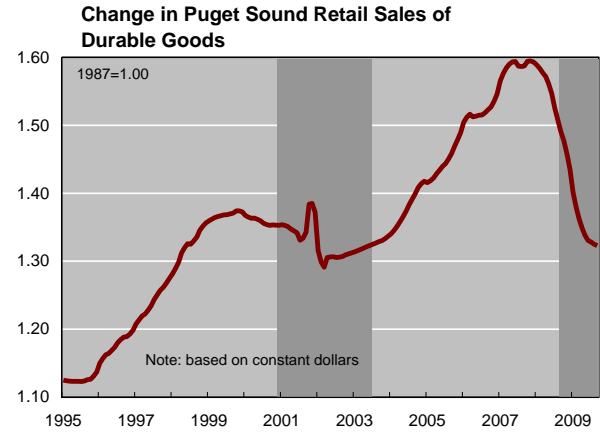
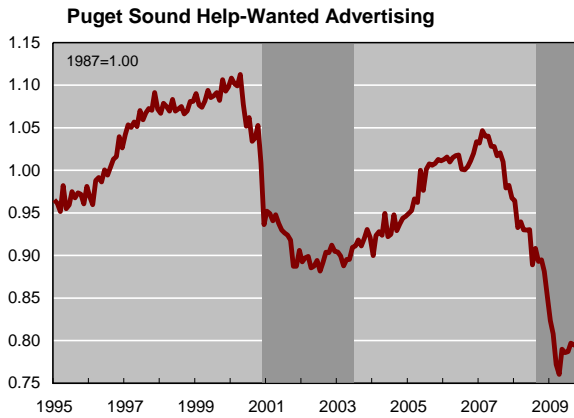
The Puget Sound Index of Leading Economic Indicators is a composite index of seven leading regional economic indicators that acts as an independent forecasting gauge for the economy. It tends to lead the regional business cycle, as measured by employment growth, by several quarters, falling prior to recessions or periods of stagnation and rising prior to recoveries.

The Puget Sound leading index rose 0.3 percent in the third quarter, the first gain in two years. The welcome increase follows a 16.9 percent plunge between the second quarter of 2007 and the second quarter of 2009. Reflecting the severity of the current recession, this was the steepest decline in the leading index on record.

Of the seven components, four (the length of the manufacturing workweek, help-wanted ads, housing permits, and the interest rate spread) improved last quarter, while three (initial claims for unemployment insurance, real durable goods spending, and the Boeing backlog-delivery ratio) worsened.

The leading index typically begins rising two to three quarters in advance of an expansion. Thus, last quarter's pickup suggests that the regional economic recovery will start in the second quarter of 2010, which is consistent with the timing called for by our econometric model.





Shaded areas show recessions or periods of economic stagnation.

Of course, one reading of the leading index is not definitive and we look forward to confirming evidence in the fourth quarter. But the upturn in the index does seem to be significant. Not only was its timing reasonable, but it brought an abrupt halt to an unprecedented fall.

Please note that the Boeing backlog-delivery ratio has been adjusted slightly to remedy distortions caused by the machinist's strike last year. When airplane deliveries declined during the strike, the Boeing backlog-delivery ratio and the leading index rose. Thus, the recent improvement in the leading index has been less than it would have been without the strike. We believe that with the adjusted backlog-delivery series the leading index now more accurately represents the near-term outlook for the regional economy.