

THE PUGET SOUND LEADING INDEX

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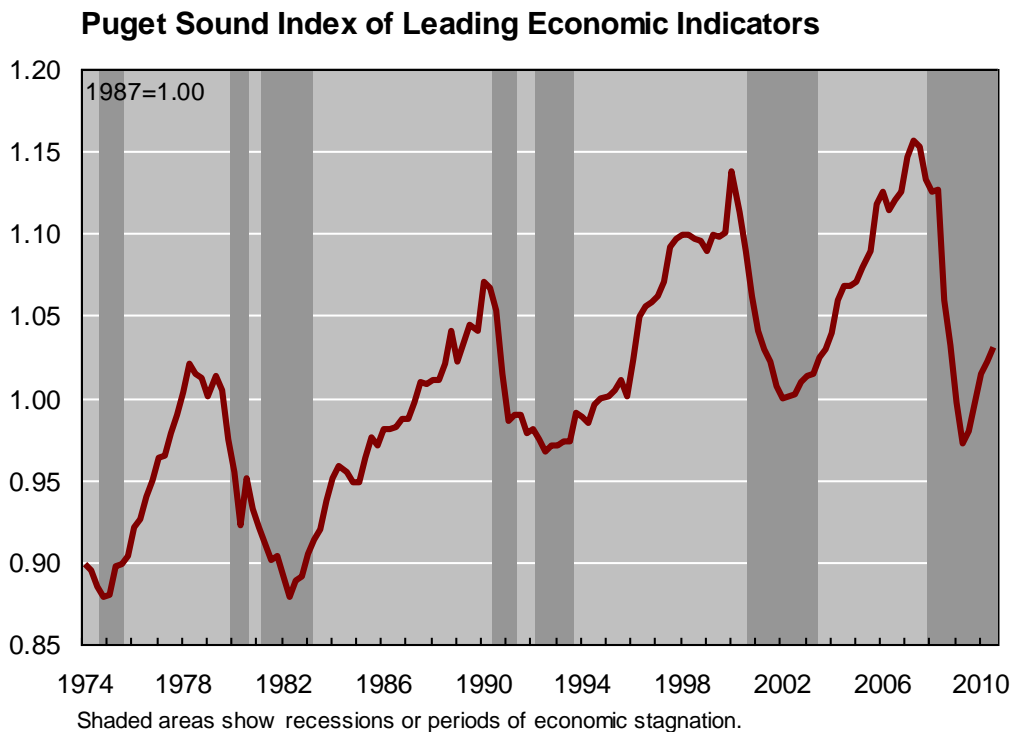
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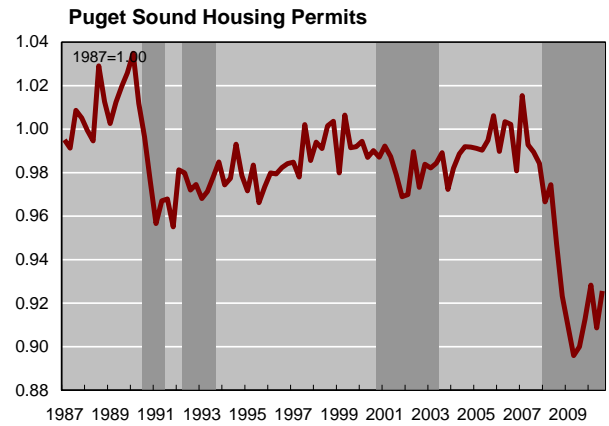
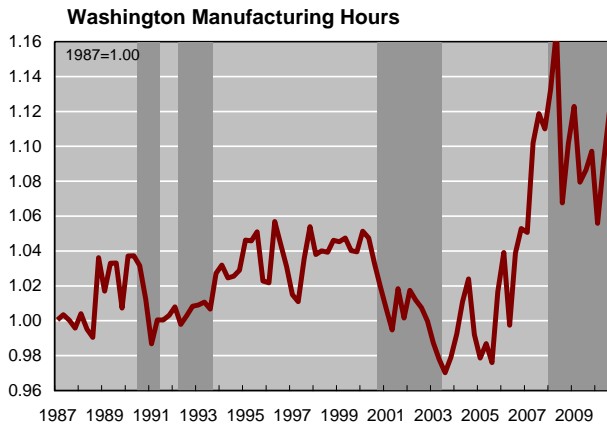
Leading Index: Index Fine but Jobs a Problem

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 leading index continues to promise a recovery, as it rose 0.9 percent in the third quarter, the fifth consecutive quarterly increase. But downward adjustments to employment by Washington Employment Security continue to revise away previously reported job gains. Thus, rather than bottoming-out in the fourth quarter of last year, which looked like a sure bet at one point, employment has sputtered and fallen a bit this year. There were 4,400 fewer payroll jobs reported in the third quarter compared to the fourth quarter of last year, an annualized growth rate of -0.5 percent. As a result, we have extended the last shaded area on our leading index graphs to the right, indicating ongoing recession or economic stagnation.

Five leading index components (manufacturing hours, housing permits, initial applications for unemployment insurance, the Boeing backlog-delivery ratio, and real durable goods spending) improved in the third quarter, while two (help-wanted ads and the interest rate spread) worsened.





Shaded areas show recessions or periods of economic stagnation.

The slack in labor markets notwithstanding, if one were to judge the current condition of the economy with that of a year ago using the leading index components, six of the seven would indicate that the region is now in much better shape. To wit: the manufacturing workweek was 0.7 hours longer last quarter compared to the third quarter of 2009; help-wanted ads are up a substantial 33 percent over the last four quarters; the monthly rate of housing permits has climbed from 600 to 870 units; expected production of Boeing airplanes relative to current production rates is higher now than a year ago; and real durable goods spending has climbed by \$179.2 million (1.1 percent) over the period. Still, the job recovery is badly lagging. By the end of 2012, the region will have recovered about 60 percent of the jobs lost during the recession.