THE PUGET SOUND
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THE PUGET SOUND LEADING INDEX

The Puget Sound Economic Forecaster
Conway Pedersen Economics, Inc.
P.O. Box 2241
Seattle, Washington 98111-2241
(206) 329-1707

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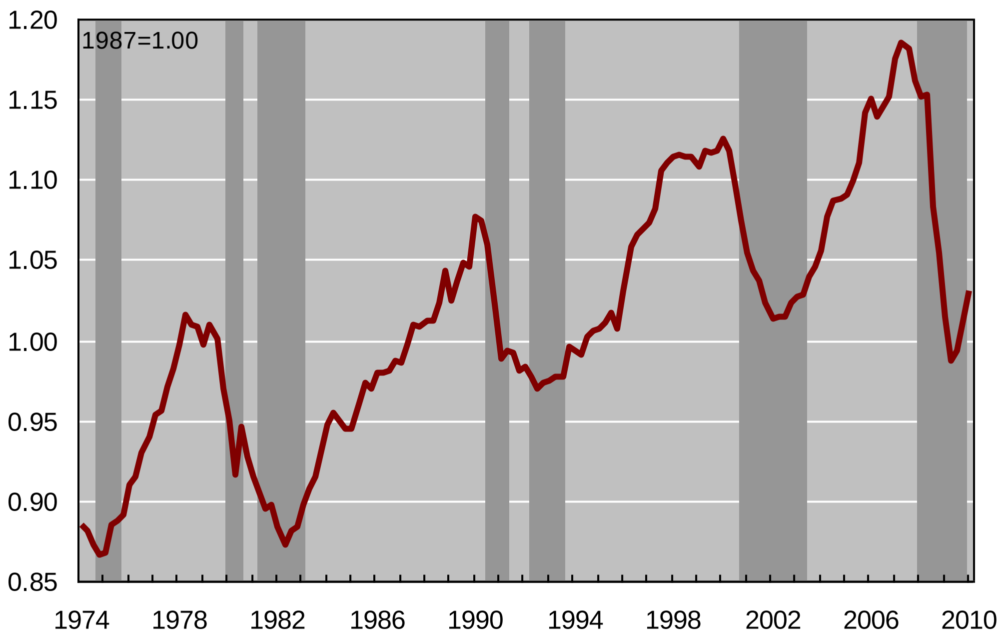
Leading Index: Job Well Done

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.

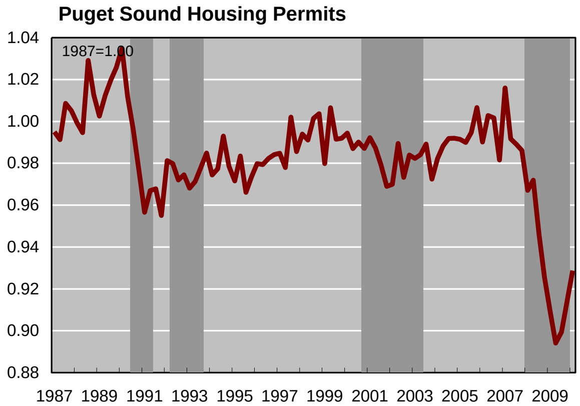
The Puget Sound leading index jumped 1.8 percent in the first quarter of this year following an upwardly revised leap of 1.9 percent in the previous quarter. Since bottoming out in the second quarter of 2009 the leading index has increased 4.4 percent, virtually a sure sign that the budding regional economic recovery is about to blossom. In fact, the latest figures from the Washington Employment Security Department show that employment has indeed turned up, climbing by 3,600 jobs in the first quarter. If this timing holds up, then the leading index will have provided a two-quarter advance notice of the recovery.

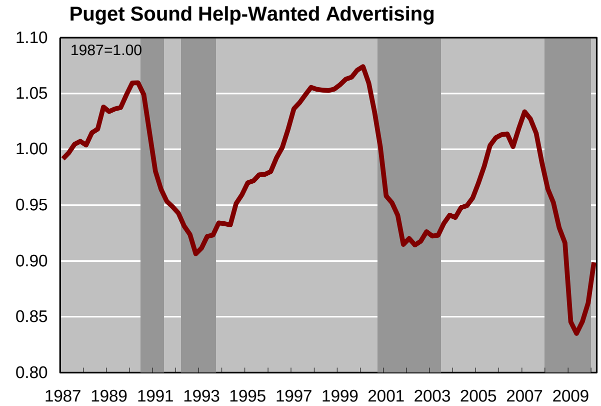
Of the seven components that comprise the leading index, only one faltered last quarter. The length of the manufacturing workweek dropped a full hour to 41.0 hours. In this case, however, the decline may not be a bad omen. Manufacturing hours still exceed the long-run average of 39.9 hours per week, and employers could be cutting overtime hours in anticipation of new hiring.

Puget Sound Index of Leading Economic Indicators



Shaded areas show recessions or periods of economic stagnation.





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At any rate, the dip in hours was more than offset by a rise in help-wanted ads, more housing permits, a wider interest rate spread, fewer first-time claims for unemployment insurance, a higher Boeing backlog-deliver ratio, and an increase in real durable goods spending.

The leading index, now with 40 years of quarterly observations, has proven to be our most useful and trustworthy tool for identifying turning points in the regional business cycle. Including the latest signal, it has predicted the beginning of each of the seven expansion periods since the mid-1970s.