

## THE PUGET SOUND LEADING INDEX

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March 2012

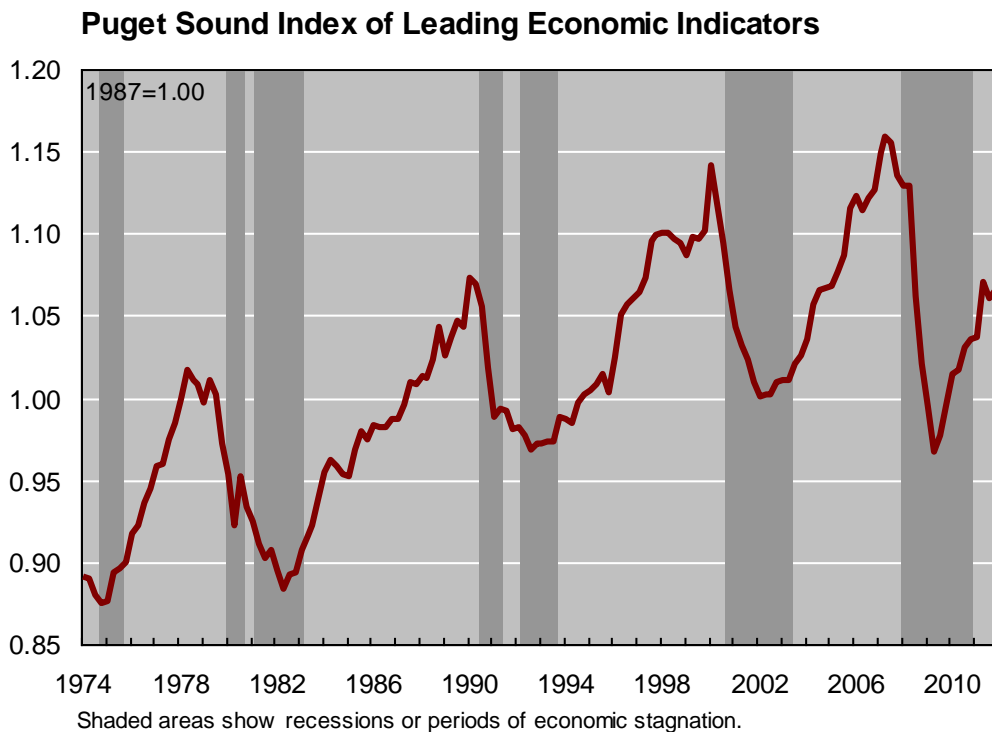
## A Clearer Reading

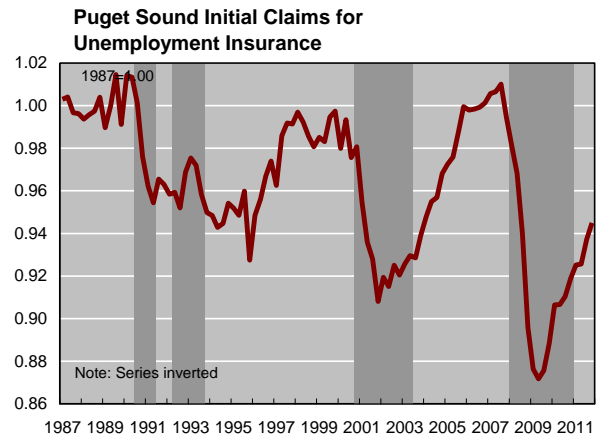
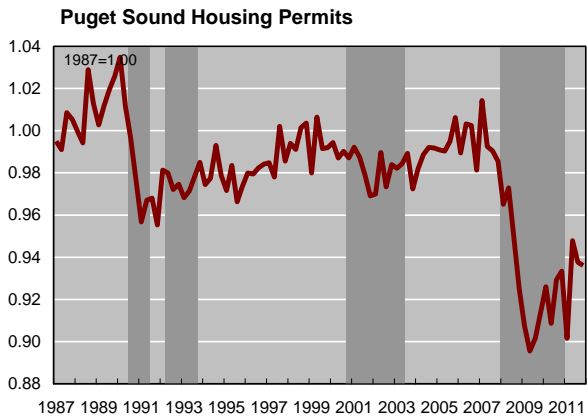
The Puget Sound Index of Leading Economic Indicators is a composite index of seven leading regional economic indicators that acts as an independent forecasting gauge for the economy. It tends to lead the regional business cycle, as measured by employment growth, by several quarters, falling prior to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

The monthly version of the leading index, which is posted in the Subscriber Area on our web site, provides timely information about the future course of the regional economy. But the volatility of the monthly components, particularly housing permits, can occasionally set off false alarms. Recently, the up-and-down movement of the monthly index raised concerns that our anemic economic recovery might give way to a second recession.

Though not as timely, the quarterly leading index shown below tends to give a clearer reading of where the Puget Sound economy is headed, since it effectively smoothes out the erratic fluctuations in the monthly index. Think of the quarterly index as the average of three monthly indexes.

The news from the quarterly leading index continues to be encouraging. In the fourth quarter of 2011, the index rose 0.5 percent. This was the ninth time in the last ten quarters that the index registered a gain. Since bottoming out in the second quarter of 2009, the leading index has advanced 10.1 percent.





Shaded areas show recessions or periods of economic stagnation.

Only three of the seven leading index components (help-wanted ads, initial claims for unemployment insurance, and real durable goods spending) improved. The two labor market indicators have made impressive contributions to the leading index—help-wanted ads up 54 percent and initial claims down 40 percent—over the past ten quarters. In light of this, last month's upward revision to the regional employment estimate for 2011 should be no surprise.

While four components (manufacturing hours, housing permits, the interest rate spread, and the Boeing backlog-delivery ratio) worsened, the changes were largely inconsequential. The manufacturing workweek declined only 0.2 hours to 42.4; there were just 69 fewer housing permits in the fourth quarter than in the previous one; and both the Boeing backlog (expected deliveries over the next 24 months) and deliveries (deliveries over the past nine months) rose, though the latter increased relatively more.