

Leading Index

As we noted in the Regional Outlook, it is tempting to modify the leading index, somehow, to try to say something about the head tax in Seattle. Surely the new tax will matter, and an index that suggests something about future economic activity should take such changes into consideration. Alas, the index is based upon specific components. We do not have a policy variable to alter any of the data used to show what we think could, possibly, maybe happen.

Overall, four of the components increased this quarter and three declined. The components that fell include the Boeing backlog, housing permits, and initial claims for unemployment insurance. The drop in housing permits reflects weakness in the apartment market with some developers starting to wonder about saturation (and softer rents). The increase in initial claims is a bit puzzling given the strength of the job market but

is likely due to normal dynamics in the job market. Some people reenter the workforce, taking jobs that someone else had hoped to get and causing them to seek unemployment insurance – hopefully for only a brief period until they find suitable employment.

Overall the index was up slightly... again. (No, we do not want to see worrisome data. But it would be nice to write about something other than a slight increase in the leading index.)

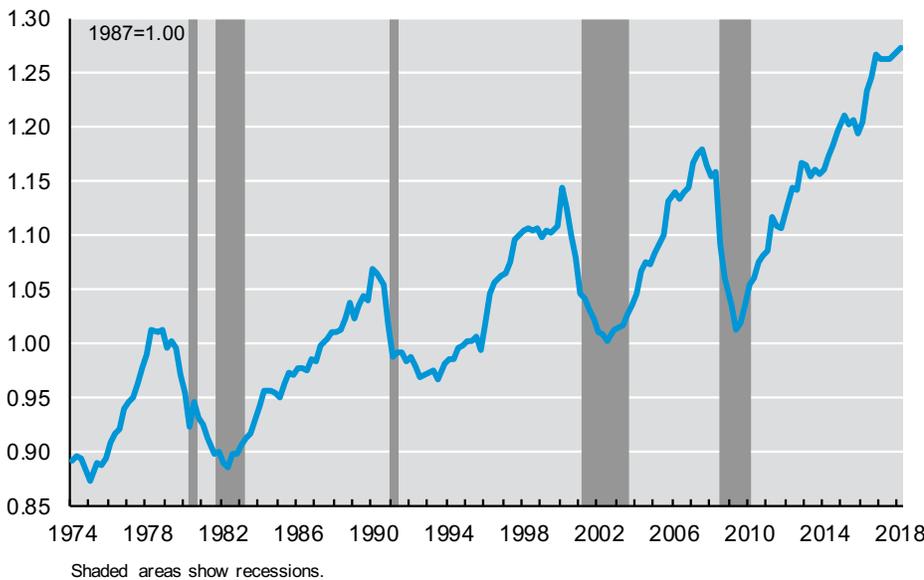
As an aside, we recently had a few students looking at the leading index data and graphs. One thing they discussed was whether it mattered that the index value was getting so high. The answer is no, but the graph of the leading index does invite the question. The value seems a bit lofty compared to historical values.

It may be important to note that the index is not normalized or centered around a particular level. It is the change in the index that matters, not the level. Given that we've been in a very long

expansion with the region doing so well, the high value makes sense.

Indeed, we're in the midst of one of the longest expansions ever. It's been roughly 10 years since the last recession. If we make it one more year, this will be the longest expansion on record. And the leading index will reach new heights as well (though presumably starting to fall months before the next downturn).

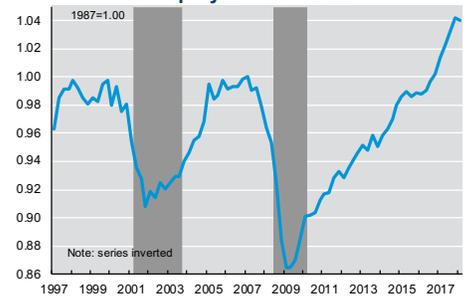
Puget Sound Index of Leading Economic Indicators



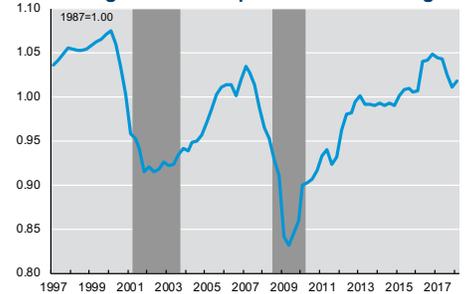
Boeing Backlog-Delivery Ratio



Puget Sound Initial Claims for Unemployment Insurance



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