

Leading Index

The leading index slipped 0.3 percent in the second quarter, interrupting a run of five-quarters where we saw advances in the index. Three components (the length of the manufacturing work-week, online help-wanted postings, and the Boeing backlog-delivery ratio) improved, three components (housing permits, the interest rate spread, and real durable goods spending) worsened, and one component (initial filings for unemployment compensation) was unchanged. We've seen this 3-3-1 pattern before and typically found that it means we should not put a lot of weight into the change. In particular, we do not see the slight decrease as a sign of an impending

downturn in the economy. We'd need to see a downward move for more than just one quarter and a larger move before reaching that conclusion.

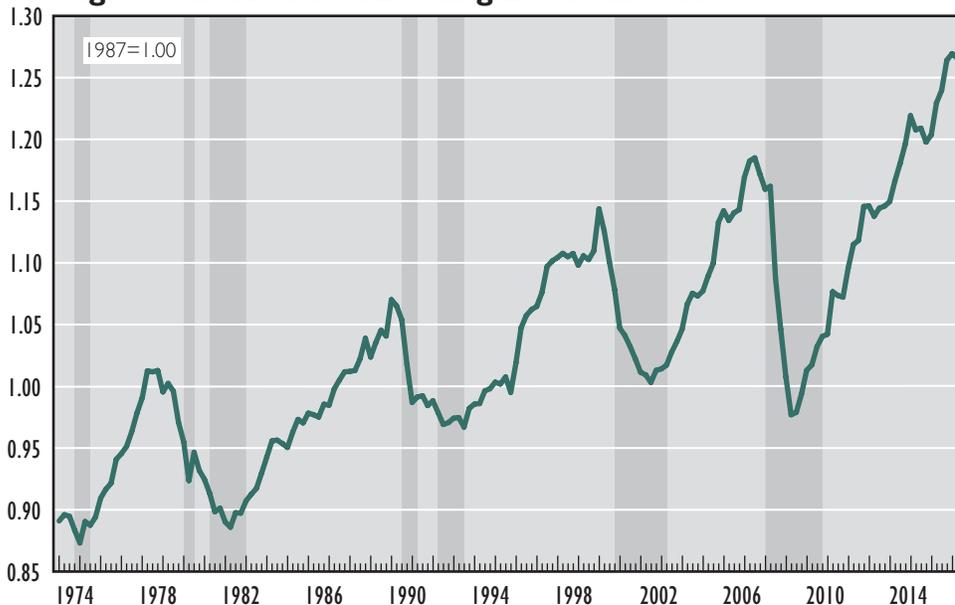
The decline in housing permits was due to a large pull-back in plans for multi-family building, the second consecutive out-sized slide. Multi-family permits, which tend to be quite volatile, were down 42% in the second quarter, compared to the peak in the fourth quarter of last year.

The labor market indicators are interesting. Notwithstanding steady unemployment insurance claims in the second quarter, overall filings are at their lowest level since the late 1970s – amounting in

the second quarter to just one-third of the peak level reached in the second quarter of 2009, the trough of the recession. Manufacturing hours have zig-zagged higher over the last two years as manufacturing employment has waned. Help-wanted ads appear to have hit a plateau – not unexpected given the strong job growth in recent years.

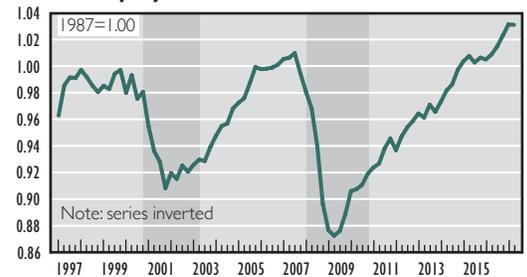
The drop in the interest rate spread was due in part to growing doubts during the quarter about whether various GOP policies would be enacted, though perhaps due more to a variety of global factors. In the end, we hold a “lower for longer” view of interest rates and anticipate volatility in this component of the index for a while.

Puget Sound Index of Leading Economic Indicators

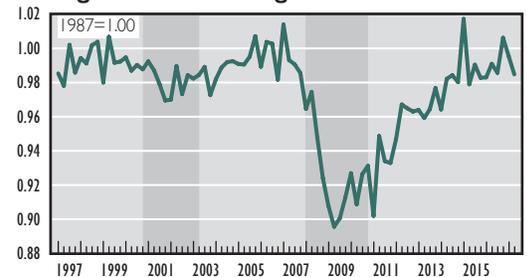


Shaded areas show recessions or periods of economic stagnation.

Puget Sound Initial Claims for Unemployment Insurance



Puget Sound Housing Permits



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