

THE PUGET SOUND LEADING INDEX

The Puget Sound Economic Forecaster
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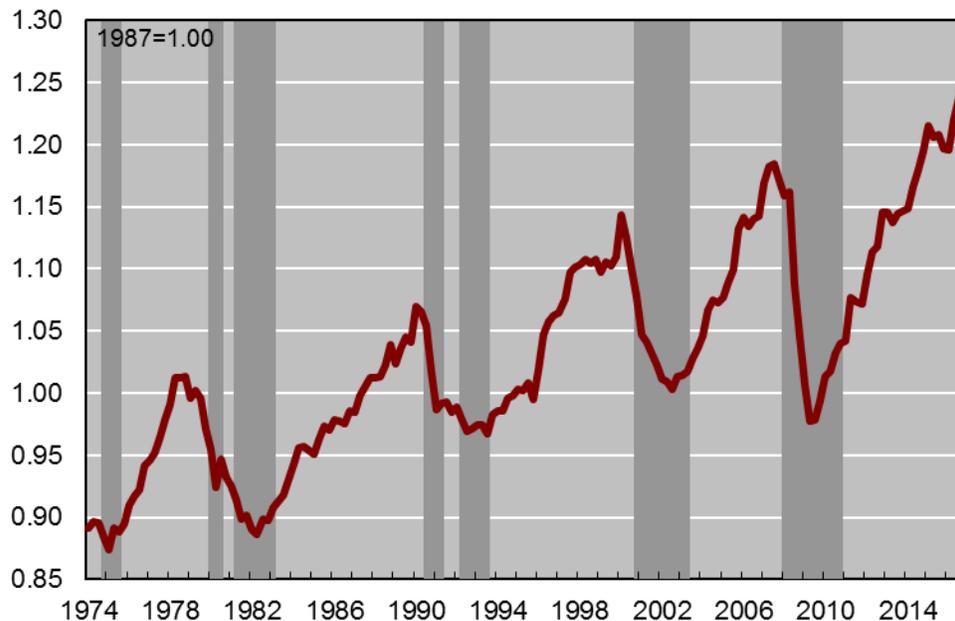
Another impressive move.

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.

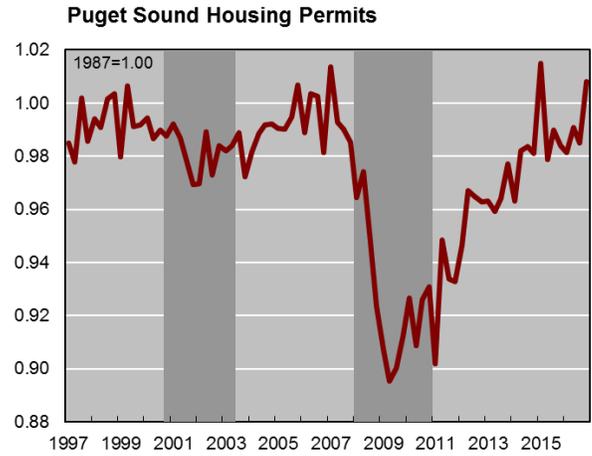
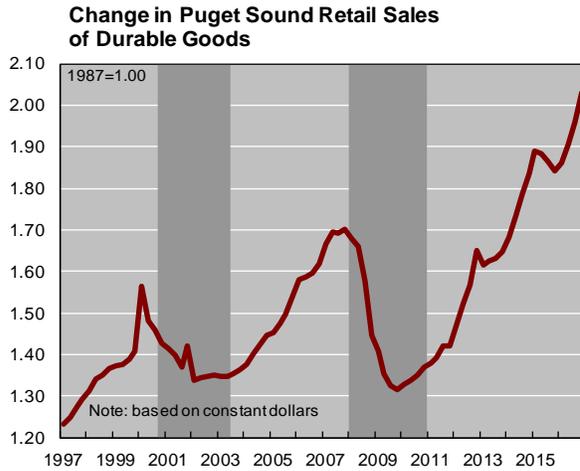
The leading index shot up 2.5 percent in the final quarter of 2016, extending a sharp rally that began in the second quarter. In the latest reading, none of the seven components faltered. Five components (manufacturing hours, housing permits, the interest rate spread, first-time claims for unemployment compensation, and real durable goods spending) improved, while two components (online help-wanted listings and the Boeing backlog-delivery ratio) were unchanged. The clear message is that the Puget Sound economy is destined for further expansion, at least over the next six to nine months.

Housing permits provided much of the lift to the leading index in the fourth quarter. Total residential building permits, led by a surge in multi-family activity, climbed 36 percent to an annual rate of 32,000 units in the quarter. This is about one-third higher than the long-run average. Though we predict that the volatile multi-family sector will fade to about 15,000 units in 2017, it will still account for more than one-half of the total permits. If single-family construction holds around 9,000 units, total permits will number 24,000, which is on trend.

Puget Sound Index of Leading Economic Indicators



Shaded areas show recessions or periods of economic stagnation.



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Real durable goods spending also made an out-sized contribution to the leading index last quarter, rising 3.1 percent. It was supported by strong growth in real personal income, a significant reduction in the unemployment rate, low interest rates, and the robust housing sector.

Are you interested in a short-hand approximation for the Puget Sound leading index? Three of the data series that we use in the leading index are easily obtainable and highly correlated with the change in the leading index: the four-quarter change in housing permits (U.S. Census Bureau), online help-wanted ads (Conference Board), and initial claims for unemployment insurance (Washington Employment Security). Tracking one of these series or the average of the three series in index form does a reasonably good job of anticipating turning points in the regional economy. Give it a try!