

The Iowa Leading Indicators Index (ILII) fell to 105.6 (100=1999) in December 2015 from 106.1 in November. The Iowa non-farm employment coincident index recorded a 0.13 percent rise in December, which extends the streak of employment gains to 63 months.

During the six-month span through December, the ILII decreased 2.2 percent (an annualized rate of -4.4 percent). The six-month diffusion index remained unchanged at 12.5 with seven of the eight components experiencing a decrease of greater than 0.05 percent over the last half a year. Average manufacturing hours remains as the only component to show any positive growth in the past 6 months.

In December, two of eight Iowa Leading Indicators Index components contributed positively. The positive contributors were residential building permits and average weekly manufacturing hours. The agricultural futures profits index, diesel fuel consumption, the new orders index, the national yield spread, the Iowa stock market index, and average weekly unemployment claims (inverted) were the six components that contributed to the index negatively.

Figure 1. Iowa Leading Indicators Index and Iowa Non-Farm Employment Coincident Index: January 1999-December 2015

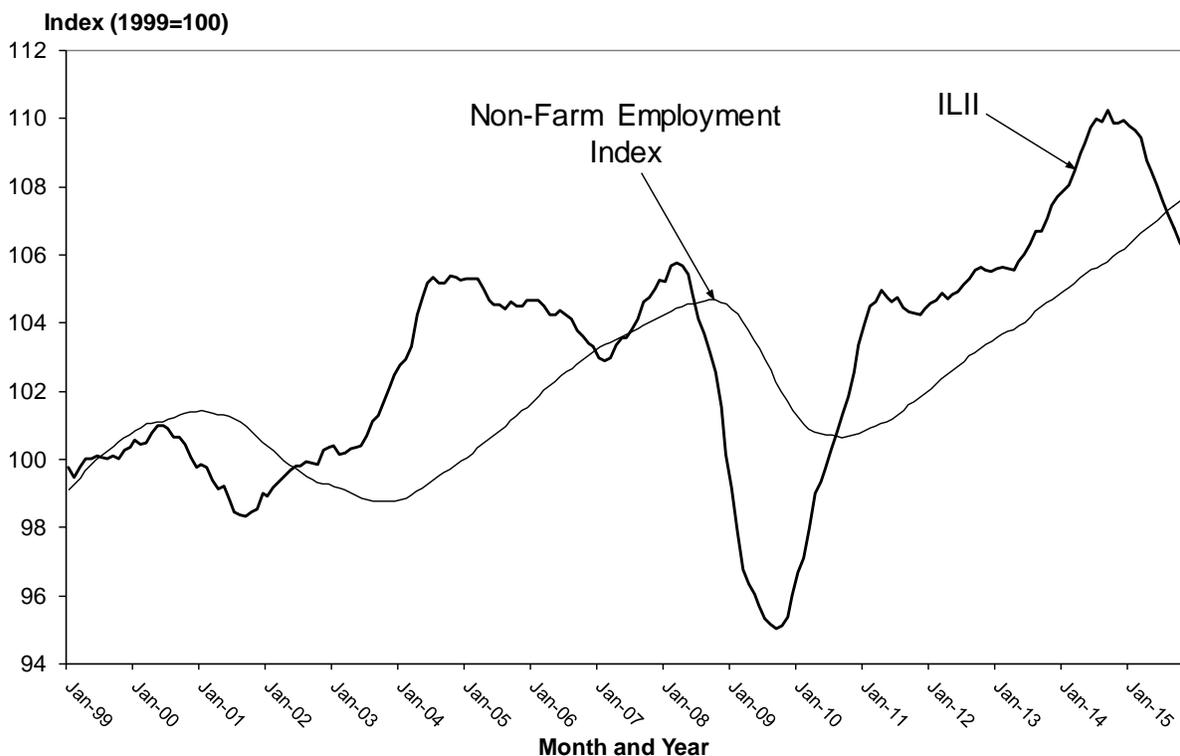


Table 1. Iowa Leading Indicators Index: Six Month Overview

Monthly Values	2015					
	July	Aug	Sept	Oct	Nov	Dec
ILII	107.6	107.2	106.8	106.4	106.1	105.6
Percentage Change ^a	-0.4%	-0.4%	-0.4%	-0.4%	-0.2%	-0.5%
Diffusion Index ^b	25.0	25.0	37.5	25.0	56.3	25.0
Six-Month Values	Jan to Jul	Feb to Aug	Mar to Sept	Apr to Oct	May to Nov	Jun to Dec
ILII						
Percentage Change	-2.0%	-2.2%	-2.5%	-2.2%	-2.1%	-2.2%
Annualized Percentage Change	-4.0%	-4.5%	-4.9%	-4.4%	-4.3%	-4.4%
Diffusion Index	25.0	31.3	12.5	18.8	12.5	12.5

Source: Tax Research and Program Analysis Section, Iowa Department of Revenue, produced January 28, 2016.

a. Percentage changes in the ILII do not always equal changes in the level of the ILII due to rounding.

b. A diffusion index measures the proportion of components that are rising based on the actual changes (not the standardized contributions to the ILII). Components experiencing increases greater than 0.05 percent are assigned a value of 1.0, components that experience changes less than an absolute value of 0.05 percent are assigned a value of 0.5, and components experiencing decreases greater than 0.05 percent are assigned a value of 0.0.

Table 2. Iowa Leading Indicators Index Components: Six Month Overview

Component Series Monthly Values ^a	2015					
	July	Aug	Sept	Oct	Nov	Dec
AFP ^b						
Corn Profits (cents per bushel)	↓ ^c 26.1	28.7	33.7	38.2	39.4	38.0
Soybean Profits (cents per bushel)	138.3	126.8	118.8	112.5	97.6	84.4
Hog Profits (cents per pound)	21.7	20.0	18.1	16.8	14.7	13.6
Cattle Profits (cents per pound)	2.5	-0.4	-3.8	-8.5	-13.5	-18.2
Iowa Stock Market Index (10=1984-86)	↓ 95.89	92.30	85.45	87.66	91.57	90.98
Yield Spread (10-year less 3-month)	↓ 2.29	2.10	2.15	2.05	2.13	2.01
Residential Building Permits	↑ 868	862	842	832	833	841
Average Weekly Unemployment Claims ^d	↓ 3,048	3,047	3,044	3,047	3,087	3,092
Average Weekly Manufacturing Hours	↑ 41.99	42.02	41.96	42.06	42.08	42.11
New Orders Index (percent)	↓ 51.9	51.6	51.6	51.2	50.3	49.1
Diesel Fuel Consumption (mil gallons)	↓ 58.98	58.81	58.93	58.39	58.38	57.89

Source: Tax Research and Program Analysis Section, Iowa Department of Revenue, produced January 28, 2016.

a. For all component series except for the yield spread and the Iowa stock market index, the values represent 12-month backward moving averages.

b. The agricultural futures profits index is computed as the sum of the standardized symmetric percent changes in the four series, each weighted by the commodity's annual share of Iowa cash farm income (updated August 25, 2015).

c. Arrows indicate the direction of the series' contribution to the ILII for the latest month.

d. Changes in average weekly initial unemployment insurance claims are inverted when added to the ILII, thus a negative change in the series contributes positively to the index.

ILII Components

- **Residential building permits:** Number of total permits issued in Iowa for the construction of residential housing units. Changes are calculated based on a 12-month moving average. For December, this component contributed 0.03 to the ILII with the 12-month moving average growing from 833 in November to 841. December 2015 permits were 17.3 percent above December 2014 yet 6.3 percent below the historical average for December (1998-2014).
- **Average weekly manufacturing hours:** Weekly average of hours worked in the manufacturing sector in Iowa. Changes are calculated based on a 12-month moving average. For December 2015, this component contributed 0.02 to the ILII value with its increase to 42.11 from 42.08. December 2015 hours were 42.9, above the 42.6 hours in December 2014, and the historical monthly average of 41.6 (1996-2014).
- **Average weekly unemployment claims:** Weekly average of initial claims for unemployment insurance in Iowa. Changes are calculated based on a 12-month moving average and are inverted when added to the ILII. This component contributed -0.01 to the ILII value. The 12-month moving average of weekly unemployment insurance claims increased to 3,092 in December from 3,087 in November. Average monthly claims were up 0.85 percent from last December yet 0.94 percent below the monthly historical average (1987-2014).
- **Iowa stock market index:** Capitalization-weighted index of 35 Iowa-based or Iowa-concentrated publicly-traded companies. During December 2015, 15 of the 35 companies gained value, including only 2 of the 12 financial-sector companies. With less than half of the stocks recording gains the index fell to 90.98 in December from 91.57 in November and contributed -0.01 to the ILII value.
- **Yield spread:** Difference between the yield on 10-year Treasury bonds and 3-month Treasury bills. During December, the yield spread contracted to 2.01 percent as the long-term rate decreased 2 basis points to 2.24 while the short-term rate increased 10 basis points to 0.23. For the month, the yield spread contributed -0.04 to the ILII.
- **New orders index:** Diffusion index measuring the share of purchasing managers in Iowa reporting increases in orders received for manufacturing output. Changes are calculated based on a 12-month moving average. The monthly value of the index increased to 36.5 in December from 35.5 in November, yet it was down from 51.6 one year ago. The 12-month moving average of the new orders index decreased to 49.1, contributing -0.08 to the ILII.
- **Diesel fuel consumption:** Number of taxable gallons of diesel fuel sold in Iowa. Changes are calculated based on a 12-month moving average. Diesel fuel consumption decreased 9.5 percent between December 2014 and 2015, causing the 12-month moving average to drop to 57.89 million gallons, from 58.38 in November, and contributing -0.16 to the ILII value.
- **Agricultural futures profits index:** Composite measure of corn, soybean, hog, and cattle expected profits, measured as the futures price less estimated breakeven costs, weighted by the respective share of Iowa annual cash receipts in the prior calendar year. Changes are calculated based on a 12-month moving average. During December this component contributed -0.23 to the index with expected profit decreases for each of the commodities. Corn prices are down 9.0 percent, soybean prices are 15.0 percent lower, hogs prices are down 31.7 percent, and cattle prices are 23.4 percent below December 2014.

Table 3. ILII Components and Standardization Factors for FY 2016

Iowa Leading Indicator Index Components	Standardization Factor
Agricultural Futures Profits Index	0.037
Iowa Stock Market Index	0.019
Yield Spread	0.335
Residential Building Permits	0.034
Average Weekly Unemployment Claims	0.035
Average Weekly Manufacturing Hours	0.290
New Orders Index	0.064
Diesel Fuel Consumption	0.187

Source: Tax Research and Program Analysis Section, Iowa Department of Revenue, produced August 27, 2015
The standardization factors are the inverse of the standard deviation of the month-to-month changes in each component over the January 1999 to June 2015 period. These factors equalize the volatility of the contribution from each component and are normalized to one. The month-to-month changes are based on 12-month backward moving averages for all components except the yield spread and the Iowa stock market index. The yield spread and new orders index changes are simple arithmetic changes; month-to-month changes for the rest of the components are computed as symmetric percentage changes. The factors are updated annually during August.

Comments

The Iowa Leading Indicators Index (ILII) is designed to forecast the future direction of economic activity in the state of Iowa. The techniques used to build the ILII follow those used by The Conference Board to construct the national Leading Economics Index (LEI) prior to the 2001 revisions. A one-month movement in such an index does not produce a clear signal, rather it is necessary to consider the direction of the index over several consecutive months. A contraction signal in the ILII is considered reliable when two conditions are met: 1. The index declines by at least two percent over a six month period (using an annualized rate); and, 2. A majority of the individual components decline over those six months (the six-month diffusion index less than 50.0).

The Iowa non-farm employment coincident index measures the change in non-seasonally adjusted, total non-farm employment in the state of Iowa. Changes are based on a 12-month moving average of employment and are computed as symmetric percentage changes. The index is a representation of overall economic activity in Iowa.

The employment index and the ILII are constructed to have a value of 100 in the year 1999.

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