



The Iowa Leading Indicators Index (ILII) increased to 106.1 (100=1999) in November 2016, up from 105.6 in October, a second consecutive monthly increase. The Iowa non-farm employment coincident index recorded a 0.05 percent rise in November, which extends the streak of employment gains into the sixth consecutive year, but was only half of the average gain during that 74 month period.

During the six-month span through November, the ILII increased 0.9 percent (an annualized rate of 1.8 percent). The six-month diffusion index increased to 75.0, caused by the Iowa stock market index and national yield spread also experiencing increases of greater than 0.05 percent over the last half a year beginning this month.

In November, seven of the eight Iowa Leading Indicators Index components contributed positively. The positive contributors were residential building permits, average weekly unemployment claims (inverted), the Iowa stock market index, the national yield spread, the agriculture futures profit index, the new orders index, and average manufacturing hours. Diesel fuel consumption was the only component that contributed to the index negatively.

Figure 1. Iowa Leading Indicators Index and Iowa Non-Farm Employment Coincident Index: January 1999–November 2016

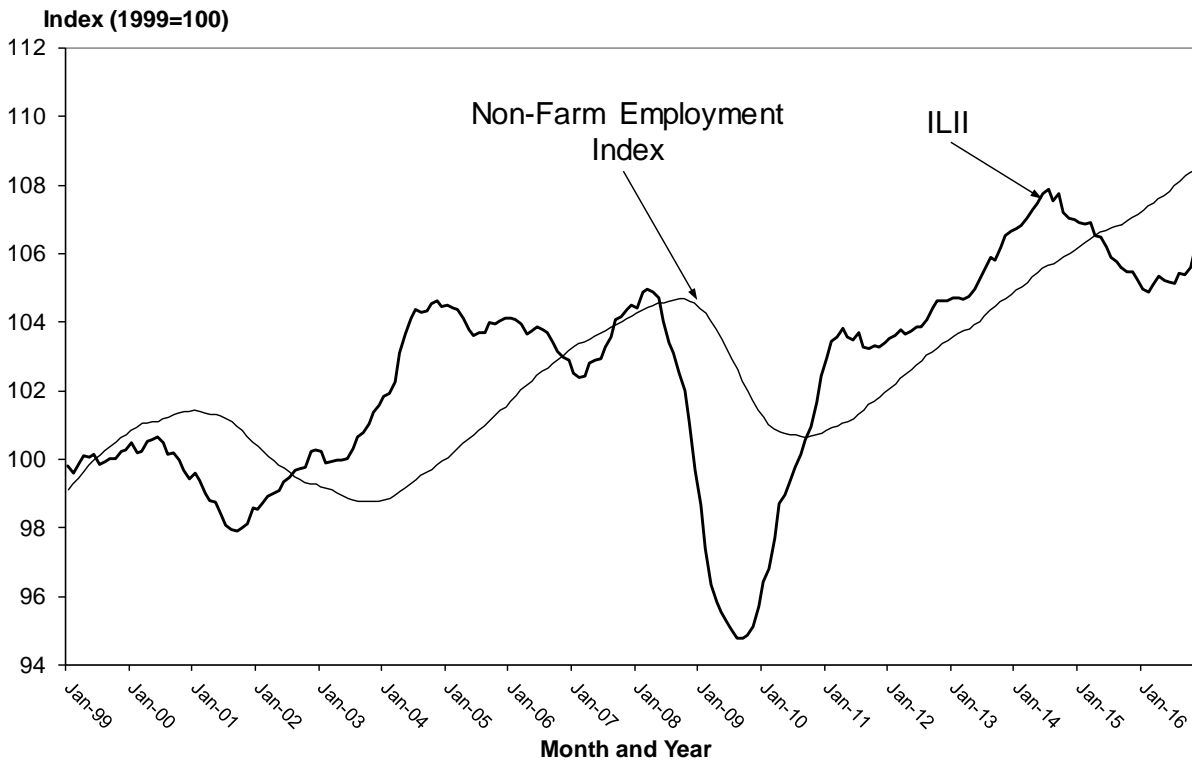


Table 1. Iowa Leading Indicators Index: Six Month Overview

Monthly Values	2016					
	Jun	Jul	Aug	Sep	Oct	Nov
ILII	105.2	105.1	105.4	105.4	105.6	106.1
Percentage Change ^a	0.0%	0.0%	0.3%	0.0%	0.2%	0.5%
Diffusion Index ^b	50.0	37.5	62.5	56.3	62.5	87.5
Six-Month Values	Dec to Jun	Jan to Jul	Feb to Aug	Mar to Sep	Apr to Oct	May to Nov
ILII						
Percentage Change	-0.1%	0.2%	0.5%	0.3%	0.2%	0.9%
Annualized Percentage Change	-0.2%	0.3%	1.0%	0.5%	0.5%	1.8%
Diffusion Index	43.8	50.0	62.5	37.5	50.0	75.0

Source: Tax Research and Program Analysis Section, Iowa Department of Revenue, produced December 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		2016					
		Jun	Jul	Aug	Sep	Oct	Nov
AFPI ^b	↑ ^c						
Corn Profits (cents per bushel)		58.6	54.9	53.1	51.3	50.4	50.7
Soybean Profits (cents per bushel)		104.9	112.4	121.7	132.5	143.3	158.1
Hog Profits (cents per pound)		16.6	17.6	19.3	16.2	15.9	17.7
Cattle Profits (cents per pound)		11.2	12.0	11.0	9.7	10.2	11.2
Iowa Stock Market Index (10=1984-86)	↑	83.82	84.17	85.02	83.01	82.17	86.70
Yield Spread (10-year less 3-month)	↑	1.37	1.20	1.26	1.34	1.43	1.69
Residential Building Permits	↑	935	926	1,028	1,034	1,047	1,102
Average Weekly Unemployment Claims ^d	↑	3,091	3,093	3,053	3,020	3,009	2,924
Average Weekly Manufacturing Hours	↑	41.88	41.85	41.78	41.77	41.69	41.73
New Orders Index (percent)	↑	46.9	46.2	45.3	44.7	44.7	45.5
Diesel Fuel Consumption (mil gallons)	↓	58.49	58.82	58.53	58.68	59.28	58.94

Source: Tax Research and Program Analysis Section, Iowa Department of Revenue, produced December 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 30, 2016).

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 November, this component contributed 0.17 to the ILII with the 12-month moving average increasing from 1,047 in October to 1,102. November 2016 permits were 82.4 percent above November 2015, and 52.2 percent above the historical average for November (1998-2015).
- **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 0.10 to the ILII value. The 12-month moving average of claims decreased to 2,924 with unemployment claims for the month 21.3 percent below November 2015 claims and 5.6 percent below average historical claims for November (1987-2015).
- **Iowa stock market index:** Capitalization-weighted index of 35 Iowa-based or Iowa-concentrated publicly-traded companies. During November 2016, 25 of the 35 companies gained value, including all of the 12 financial-sector companies. With over two-thirds of the stocks experiencing gains, the index increased to 86.70 in November from 82.17 in October and contributed 0.10 to the ILII value.
- **Yield spread:** Difference between the yield on 10-year Treasury bonds and 3-month Treasury bills. During November, the yield spread expanded to 1.69 percent as the long-term rate increased 38 basis points while the short-term rate increased 12 basis points. For the month, the yield spread contributed 0.09 to the ILII.
- **Agricultural futures profits index:** Composite measure of corn and soybean expected profits, measured as the 12-month moving average of the futures price less estimated breakeven costs, and cattle and hog expected profits, measured as the average of the crush margin for the next 12 months, weighted by the respective share of Iowa annual cash receipts averaged over the prior ten calendar years. During November this component contributed 0.07 to the index with expected profit increases for all four commodities. Compared to last year, new crop soybean prices are 13.4 percent higher, while corn prices are down 5.8 percent; however, lower breakeven costs pushed up profits slightly. November crush margins for hogs are up 11.3 percent from October, and cattle crush margins are 10.5 percent above October.
- **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 46.1 from 35.5 seen one year ago. Despite the gain, the index remained below 50.0, suggesting contraction in manufacturing. The 12-month moving average of the new orders index increased to 45.5 in November 2016 from 44.7 in October 2016, contributing 0.06 to the ILII.
- **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 November 2016, this component contributed 0.02 to the ILII value with its increase to 41.73 from a revised 41.69. November 2016 hours were 42.7, above the 42.3 hours in November 2015 and 0.9 hours above the historical monthly average (1996-2015).
- **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 0.6 percent between November 2015 and 2016, causing the 12-month moving average to decrease to 58.94 million gallons from 59.28 in October, and contributing -0.10 to the ILII value.

Table 3. ILII Components and Standardization Factors for FY 2017

Iowa Leading Indicator Index Components	Standardization Factor
Agricultural Futures Profits Index	0.034
Iowa Stock Market Index	0.019
Yield Spread	0.338
Residential Building Permits	0.033
Average Weekly Unemployment Claims	0.035
Average Weekly Manufacturing Hours	0.294
New Orders Index	0.064
Diesel Fuel Consumption	0.183

Source: Tax Research and Program Analysis Section, Iowa Department of Revenue, produced August 30, 2016
 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 2016 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 agricultural futures profits index, the Iowa stock market index, and yield spread. 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.

Contact: Questions can be addressed to Victoria Daniels of the Iowa Department of Revenue at (515) 281-8450 or Victoria.Daniels@iowa.gov.