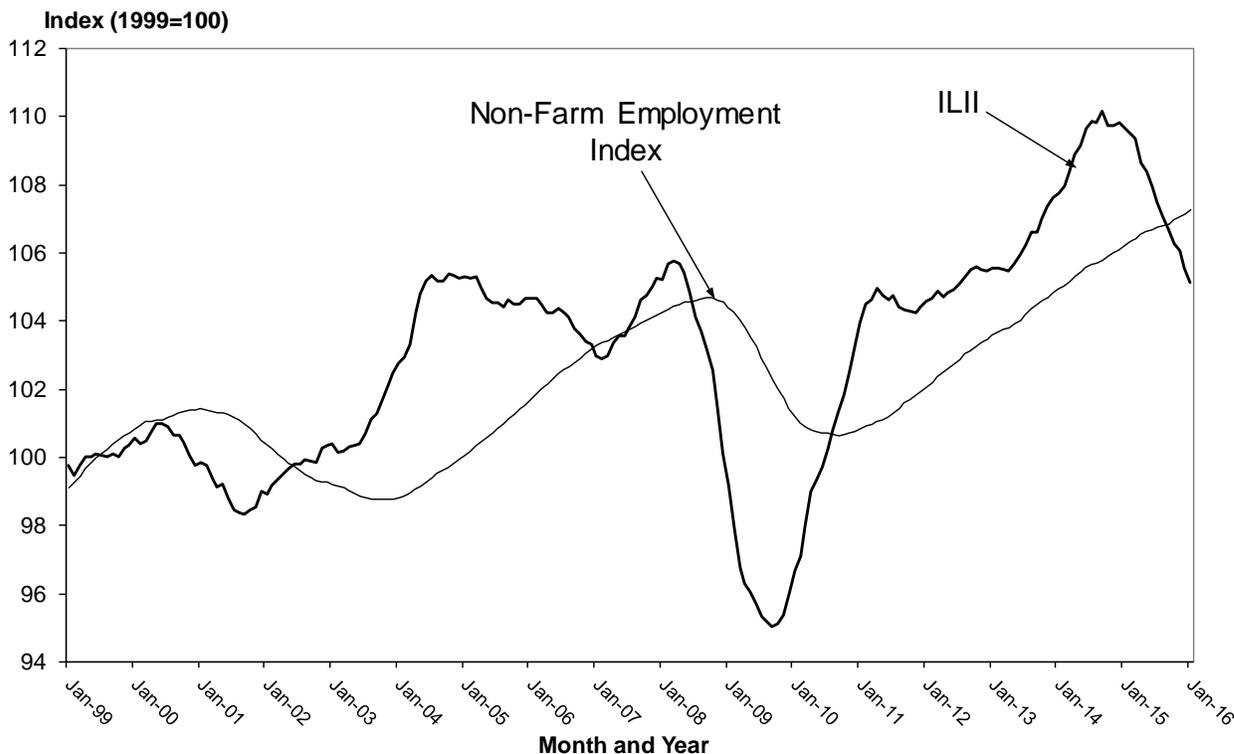


The Iowa Leading Indicators Index (ILII) fell to 105.2 (100=1999) in January 2016 from a revised 105.6 in December. The Iowa non-farm employment coincident index recorded a 0.13 percent rise in January, which extends the streak of employment gains to 64 months. In March, the Bureau of Labor Statistics (BLS) released revised employment numbers, lowering 2015 monthly employment by an average of 0.64 percent. ILII revisions reflect an upward shift in the crop breakevens by Iowa State University and minor changes by BLS to the historical values for manufacturing hours over 2014 and 2015.

During the six-month span through January, the ILII decreased 2.2 percent (an annualized rate of -4.4 percent). The six-month diffusion index improved to 25.0 with six of the eight components experiencing a decrease of greater than 0.05 percent over the last half a year. Residential building permits joined average manufacturing hours as the only components to show positive growth over the past 6 months.

In January, two of eight Iowa Leading Indicators Index components contributed positively. The positive contributors were residential building permits and average weekly unemployment claims (inverted). The Iowa stock market index, the agricultural futures profits index, diesel fuel consumption, the national yield spread, the new orders index, and average weekly manufacturing hours 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-January 2016**



**Table 1. Iowa Leading Indicators Index: Six Month Overview**

Monthly Values	2015					2016
	Aug	Sept	Oct	Nov	Dec	Jan
ILII	107.1	106.7	106.3	106.1	105.6	105.2
Percentage Change <sup>a</sup>	-0.4%	-0.4%	-0.4%	-0.2%	-0.5%	-0.4%
Diffusion Index <sup>b</sup>	25.0	37.5	25.0	56.3	18.8	25.0
Six-Month Values	Feb to Aug	Mar to Sept	Apr to Oct	May to Nov	Jun to Dec	Jul to Jan
ILII						
Percentage Change	-2.2%	-2.4%	-2.2%	-2.1%	-2.2%	-2.2%
Annualized Percentage Change	-4.5%	-4.9%	-4.4%	-4.3%	-4.4%	-4.4%
Diffusion Index	31.3	12.5	18.8	12.5	12.5	25.0

Source: Tax Research and Program Analysis Section, Iowa Department of Revenue, produced March 14, 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 <sup>a</sup>	2015					2016
	Aug	Sept	Oct	Nov	Dec	Jan
AFPJ <sup>b</sup>						
Corn Profits (cents per bushel)	↓ <sup>c</sup> 19.6	24.7	29.2	30.3	28.8	27.9
Soybean Profits (cents per bushel)	95.3	87.1	80.7	65.7	52.4	41.0
Hog Profits (cents per pound)	20.0	18.1	16.8	14.7	13.6	13.9
Cattle Profits (cents per pound)	-0.4	-3.8	-8.5	-13.5	-18.2	-21.2
Iowa Stock Market Index (10=1984-86)	↓ 92.30	85.45	87.66	91.57	90.98	81.46
Yield Spread (10-year less 3-month)	↓ 2.10	2.15	2.05	2.13	2.01	1.83
Residential Building Permits	↑ 862	842	832	833	841	878
Average Weekly Unemployment Claims <sup>d</sup>	↑ 3,047	3,044	3,047	3,087	3,092	3,084
Average Weekly Manufacturing Hours	↓ 42.03	41.97	42.06	42.09	42.11	42.08
New Orders Index (percent)	↓ 51.6	51.6	51.2	50.3	49.1	48.4
Diesel Fuel Consumption (mil gallons)	↓ 58.81	58.93	58.39	58.38	57.89	57.61

Source: Tax Research and Program Analysis Section, Iowa Department of Revenue, produced March 14, 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 January, this component contributed 0.14 to the ILII with the 12-month moving average growing from 841 in December to 878. January 2016 permits were 177.1 percent above January 2015 and 51.3 percent above the historical average for January (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 0.01 to the ILII value. The 12-month moving average of weekly unemployment insurance claims decreased to 3,084 in January from 3,092 in December. Average monthly claims were down 2.2 percent from last January and 7.7 percent below the monthly historical average (1987-2015).
- **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 January 2016, this component contributed -0.02 to the ILII value with its decrease to 42.08 from 42.11. January 2016 hours were 41.9, below the 42.2 hours in January 2015, yet above the historical monthly average of 40.9 (1996-2015).
- **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 45.5 in January from 36.5 in December, yet it was down from 53.3 one year ago. The 12-month moving average of the new orders index decreased to 48.4, contributing -0.04 to the ILII.
- **Yield spread:** Difference between the yield on 10-year Treasury bonds and 3-month Treasury bills. During January, the yield spread contracted to 1.83 percent as the long-term rate decreased 15 basis points to 2.09 while the short-term rate increased 3 basis points to 0.26. For the month, the yield spread contributed -0.06 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 5.6 percent between January 2015 and 2016, causing the 12-month moving average to drop to 57.61 million gallons, from 57.89 in December, and contributing -0.09 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. This component contributed -0.11 to the index with expected profit decreases for three of four commodities, where corn and soybean breakevens underwent a major revision, pushing down the profit series for each. Corn prices are down 7.6 percent, soybean prices are 13.1 percent lower, and cattle prices are 15.7 percent below January 2015. Hogs expected profits are slightly improved.
- **Iowa stock market index:** Capitalization-weighted index of 35 Iowa-based or Iowa-concentrated publicly-traded companies. During January 2016, only one of the 35 companies gained value, including none of the 12 financial-sector companies. With only one of the stocks recording gains the index fell to 81.46 in January from 90.98 in December and contributed -0.21 to the ILII value.

### 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.

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