



Iowa Leading Indicators Index

July 2019 Report

Released September 6, 2019

NOTICE: The Iowa Leading Indicators Index (ILII) underwent an annual update between the release of the June and July 2019 reports, slightly revising the level of the ILII for most months.

A revised historical series for the ILII and its components are also available on the Department's website. Please select the link entitled *Historical ILII Series*.

To read more about the changes to the ILII, please refer to the following report *Iowa Leading Indicators Index: 13th Annual Assessment and Update* available on the Department's website September 6, 2019.

The Iowa Leading Indicators Index (ILII) remained unchanged at 107.0 in July 2019 from a revised 107.0 (100=1999) in June. This breaks a streak of three consecutive months of negative change to the index. The Iowa non-farm employment coincident index recorded a 0.08 percent rise in July. The revision of the June index reflects the impact of annual ILII updates and a change in the Iowa stock market index to include Corteva in place of Dow DuPont, an agriculture company created in July 2019 during the split of Dow DuPont after their merger in 2017.

During the six-month span through July, the ILII decreased 0.4 percent (an annualized rate of -0.8 percent). The six-month diffusion index improved to 37.5 in June after a revised six months at 25.0. Only three of the eight indicators (the agricultural futures profits index, diesel fuel consumption, and the Iowa stock market index) experienced an increase of greater than 0.05 percent over the last half-year. The increase in the six-month diffusion index is due to Iowa stock market index experiencing an increase of greater than 0.05 percent over the last half-year.

Four of the eight components were negative contributors to the ILII in July. These include, in order from largest negative contributor to smallest, residential building permits, average manufacturing hours, average weekly unemployment claims (inverted), and the new orders index. The agricultural futures profits index, the Iowa stock market index, the national yield spread, and diesel fuel consumption were the components that contributed positively to the index.

Figure 1. Iowa Leading Indicators Index and Iowa Non-Farm Employment Coincident Index: January 1999-July 2019

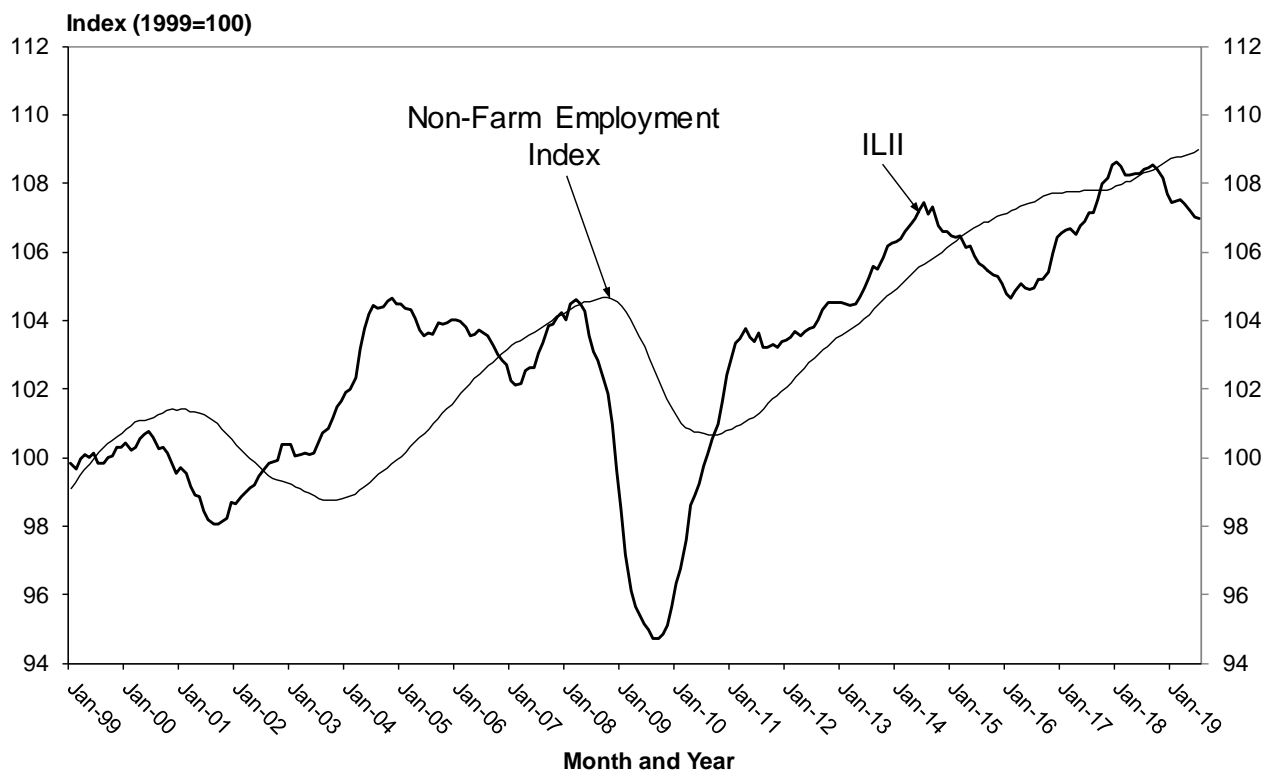


Table 1. Iowa Leading Indicators Index: Six Month Overview

Monthly Values	2019					
	Feb	Mar	Apr	May	Jun	Jul
ILII	107.5	107.5	107.4	107.2	107.0	107.0
Percentage Change ^a	0.1%	0.0%	-0.1%	-0.2%	-0.1%	0.0%
Diffusion Index ^b	43.8	43.8	25.0	18.8	50.0	50.0
Six-Month Values	Aug to Feb	Sep to Mar	Oct to Apr	Nov to May	Dec to Jun	Jan to Jul
ILII						
Percentage Change	-0.9%	-0.9%	-0.9%	-0.9%	-0.6%	-0.4%
Annualized Percentage Change	-1.8%	-1.8%	-1.9%	-1.9%	-1.2%	-0.8%
Diffusion Index	25.0	25.0	25.0	25.0	25.0	37.5

Source: Tax Research and Program Analysis Section, Iowa Department of Revenue, produced September 4, 2019.

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		2019					
		Feb	Mar	Apr	May	Jun	Jul
AFPI ^b	↑ ^c						
Corn Profits (cents per bushel)		94.2	92.3	89.0	86.2	89.9	94.0
Soybean Profits (cents per bushel)		143.4	133.4	121.0	104.3	95.6	93.2
Hog Profits (cents per pound)		22.8	28.5	35.7	33.9	27.6	28.2
Cattle Profits (cents per pound)		12.2	12.7	12.0	10.1	11.1	12.9
Iowa Stock Market Index (10=1984-86)	↑	107.42	107.71	106.35	104.29	105.50	108.33
Yield Spread (10-year less 3-month)	↑	0.24	0.12	0.10	0.00	-0.15	-0.09
Residential Building Permits	↓	935	901	877	863	881	854
Average Weekly Unemployment Claims ^d	↓	2,606	2,608	2,644	2,653	2,641	2,651
Average Weekly Manufacturing Hours	↓	41.64	41.63	41.58	41.57	41.59	41.54
New Orders Index (percent)	↓	60.5	59.8	58.7	57.7	56.9	56.8
Diesel Fuel Consumption (mil gallons)	↑	61.78	62.26	62.28	62.60	62.54	62.58

Source: Tax Research and Program Analysis Section, Iowa Department of Revenue, produced September 4, 2019.

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, 2019).

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

- **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 July, this component contributed 0.05 to the ILII with gains in expected profits for corn, hogs, and cattle offsetting the reductions in expected profits for soybeans. The July crush margin for hogs was up 2.1 percent from June while the crush margin for cattle was up 16.9 percent. Compared to last year, new crop corn prices were 18.5 percent higher, and soybean prices were 4.3 percent higher. However, the increase in soybean breakeven prices was 8.2 percent higher, causing a reduction in expected profits.
- **Iowa stock market index:** Capitalization-weighted index of 32 Iowa-based or Iowa-concentrated publicly-traded companies. During July 2019, 23 of the 32 companies gained value, including 10 of the 12 financial-sector companies. With over two-thirds of the stocks experiencing gains, the index increased to 108.3 in July from a revised 105.5 in June, contributing 0.04 to the ILII value.
- **Yield spread:** Difference between the yield on 10-year Treasury bonds and 3-month Treasury bills. During July, the yield spread improved yet remained inverted at -0.09 percent as the long-term rate only decreased 1 basis point while the short-term rate decreased 7 basis points. For the month, the yield spread contributed 0.02 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 increased 0.7 percent between July 2018 and 2019. The 12-month moving average increased to 62.58 million gallons from 62.54 million in June, contributing 0.01 to the ILII value.
- **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 was 52.6 compared to 53.6 seen one year ago. Despite this decrease, the index remained above 50.0 for the second month in a row. The 12-month moving average of the new orders index decreased to 56.8 from 56.9 in June, contributing -0.01 to the ILII.
- **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 with the 12-month moving average of claims increasing from 2,641 to 2,651. Unemployment claims for the month were 5.9 percent above July 2018 claims, yet 28.4 percent below average historical claims for July (1987-2018).
- **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 July, this component contributed -0.04 to the ILII with the 12-month moving average decreasing to 41.54 from a 41.59 in June. July 2019 average hours were 40.7, below the 41.3 hours in July 2018, and a half hour below the historical monthly average of 41.2 (1996-2018).
- **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. In July, permits were 1,042, lower than the 1,452 seen in the prior year. This component contributed -0.10 to the July ILII with the 12-month moving average decreasing to 854 from 881 in June. July 2019 permits were 23.7 percent below 2018 and 0.5 percent below the monthly historical average (1998-2018).

Table 3. ILII Components and Standardization Factors for FY 2020

Iowa Leading Indicator Index Components	Standardization Factor
Agricultural Futures Profits Index	0.034
Iowa Stock Market Index	0.016
Yield Spread	0.342
Residential Building Permits	0.031
Average Weekly Unemployment Claims	0.036
Average Weekly Manufacturing Hours	0.300
New Orders Index	0.064
Diesel Fuel Consumption	0.177

Source: Tax Research and Program Analysis Section, Iowa Department of Revenue, produced August 30, 2019
 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 2019 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.

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