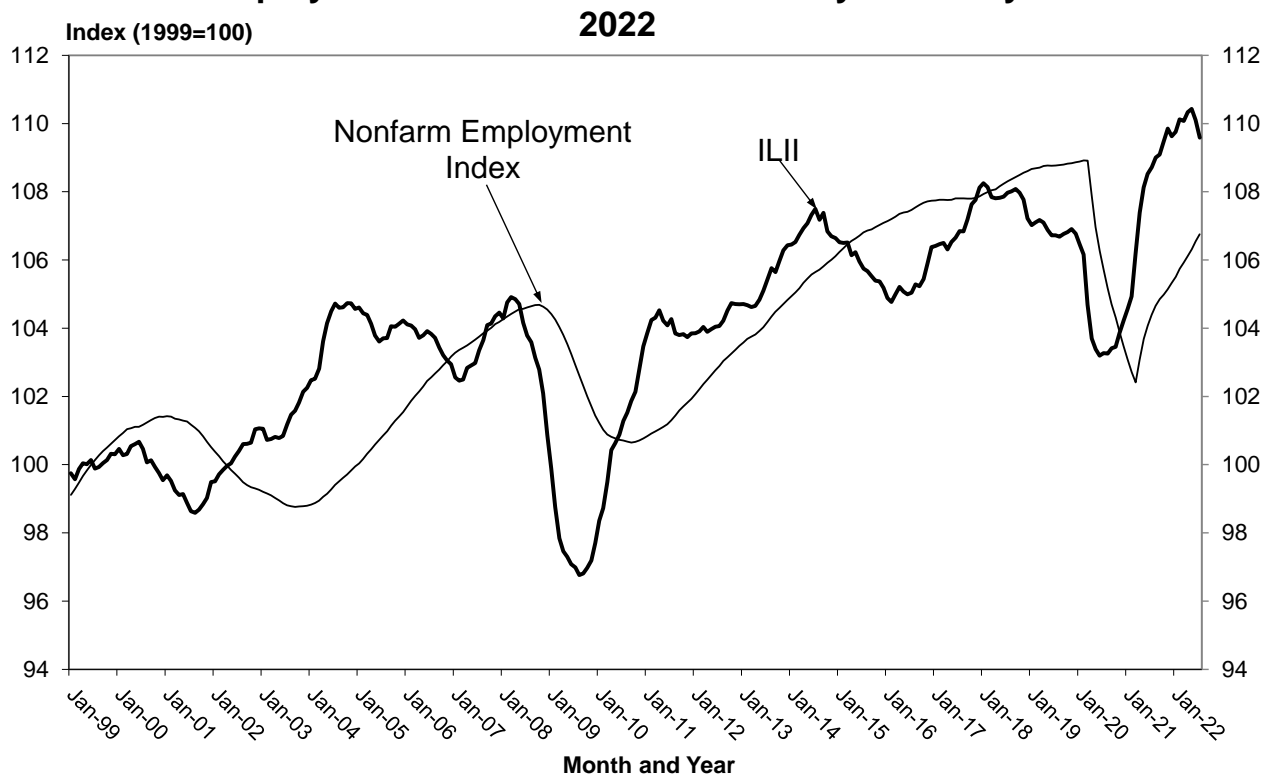


The Iowa Leading Indicators Index (ILII) decreased to 109.6 (100=1999) in July 2022 (0.5 percent) from a revised 110.1 in June 2022. The monthly diffusion index decreased to 25.0 in July from 43.8 in June. This is the second consecutive month since December 2021 that the monthly diffusion index recorded below 50.0. The Iowa nonfarm employment coincident index recorded a 0.19 percent increase in July, the sixteenth month of growth. Long term trends in the ILII suggests that the nonfarm employment will continue to improve over the next three to six months though at a slower pace.

During the six-month span through July, the ILII decreased 0.2 percent (an annualized rate of -0.3 percent). The six-month diffusion index decreased to 37.5 in July from 50.0 in June. The six-month diffusion index has reached a contractionary signal whereas the six-month annualized change has not.¹ Only three of the eight component indicators increased more than 0.05 percent over the last half-year: agricultural futures profits index (AFPI), average weekly unemployment claims, and diesel fuel consumption. The national yield spread experienced a decrease of more than 0.05 percent, causing the diffusion index to decrease.

Only two of the eight components increased month over month in July: the AFPI and average weekly unemployment claims (inverted). The national yield spread, the new orders index, residential building permits, the Iowa Stock Market Index, average manufacturing hours, and diesel fuel consumption detracted from the index.

Figure 1. Iowa Leading Indicators Index and Iowa Nonfarm Employment Coincident Index: January 1999-July 2022



¹ The ILII was constructed to signal economic turning points with two key metrics that when seen together are considered a signal of a coming contraction: a six-month annualized change in the index below -2.0 percent and a six-month diffusion index below 50.0.

Table 1. Iowa Leading Indicators Index: Six Month Overview

Monthly Values	2022					
	Feb	Mar	Apr	May	Jun	Jul
ILII	110.1	110.1	110.3	110.4	110.1	109.6
Percentage Change ^a	0.3%	0.0%	0.2%	0.1%	-0.3%	-0.5%
Diffusion Index ^b	56.3	50.0	50.0	50.0	43.8	25.0
Six-Month Values	Aug to Feb	Sep to Mar	Oct to Apr	Nov to May	Dec to Jun	Jan to Jul
ILII						
Percentage Change	1.0%	0.9%	0.8%	0.5%	0.4%	-0.2%
Annualized Percentage Change	2.1%	1.8%	1.6%	1.1%	0.9%	-0.3%
Diffusion Index	75.0	62.5	62.5	62.5	50.0	37.5

Source: Tax Research Bureau, Iowa Department of Revenue, produced September 8, 2022.

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	2022					
	Feb	Mar	Apr	May	Jun	Jul
AFPI ^b						
Corn Profits (cents per bushel)	215.5	231.5	250.1	265.5	275.2	278.6
Soybean Profits (cents per bushel)	473.8	499.6	521.8	536.9	545.6	543.0
Hog Profits (cents per pound)	21.3	19.0	16.2	15.8	18.5	22.0
Cattle Profits (cents per pound)	13.9	13.8	15.2	14.9	14.9	15.2
Iowa Stock Market Index (10=1984-86)	144.81	141.47	139.12	141.88	122.18	118.01
Yield Spread (10-year less 3-month)	1.62	1.68	1.99	1.91	1.60	0.60
Residential Building Permits	1,181	1,119	1,092	1,118	1,128	1,106
Average Weekly Unemployment Claims ^d	2,797	2,472	2,180	2,021	1,963	1,933
Average Weekly Manufacturing Hours	39.29	39.26	39.19	39.15	39.15	39.12
New Orders Index (percent)	69.1	69.1	68.4	67.0	65.3	63.8
Diesel Fuel Consumption (mil gallons)	67.82	67.68	68.09	67.95	67.78	67.73

Source: Tax Research Bureau, Iowa Department of Revenue, produced September 8, 2022.

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 September 2, 2021).

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 0.11 to the ILII with expected increases in corn profits and both livestock commodities, with a slight decrease in soybean profits. Compared to last year, new crop corn prices were 8.7 percent higher while soybean prices were 0.3 percent higher. The July crush margin for hogs increased 18.6 percent from June while the crush margin for cattle increased 2.5 percent.
- **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 0.02 to the ILII value with the 12-month moving average of claims decreasing from 1,963 to 1,933. Unemployment claims were 19.0 percent below July 2021 claims and 55.4 percent below average historical claims for July (1988-2021).
- **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 0.8 percent between July 2021 and July 2022. The 12-month moving average decreased to 67.73 million gallons in July from 67.78 million in June, contributing -0.01 to the ILII value.
- **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 -0.03 to the ILII with the 12-month moving average decreased to 39.12 in July from 39.15 in June. In July 2022, average hours were 39.0, below the 39.4 hours in July 2021, and just over two hours below the historical monthly average (1996-2021).
- **Iowa stock market index:** Capitalization-weighted index of 28 Iowa-based or Iowa-concentrated publicly-traded companies. During July 2022, only nine of the 28 companies gained value, and three of the 10 financial-sector companies increased. With two-thirds of the stocks experiencing losses, the index decreased to 118.01 in July from a revised 122.18 in June, contributing -0.05 of the ILII value.
- **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 842, down from 1,116 last year. This component added -0.06 to the July ILII with the 12-month moving average decreasing to 1,106 in July from 1,128 in June. July 2022 permits were 24.6 percent below July 2021, and 21.2 percent below the monthly historical average (1998-2021).
- **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 new orders index in July 2022 increased to 54.8 compared to 52.8 in June. The 12-month moving average of the new orders index has decreased to 63.78 from 75.98 in July 2021, and contributed -0.09 to the ILII.
- **Yield spread:** Difference between the yield on 10-year Treasury bonds and 3-month Treasury bills. During July, the yield spread decreased to 0.60 percent from 1.60 percent in June. July is the first month since December 2020 that the yield spread has been below 1.0 percent. The long-term rate decreased 24 basis points while the short-term rate increased 76 basis points. For the month, the yield spread contributed -0.36 to the ILII value.

Table 3. ILII Components and Standardization Factors for FY 2022

Iowa Leading Indicator Index Components	Standardization Factor
Agricultural Futures Profits Index	0.034
Iowa Stock Market Index	0.015
Yield Spread	0.356
Residential Building Permits	0.031
Average Weekly Unemployment Claims	0.013
Average Weekly Manufacturing Hours	0.312
New Orders Index	0.061
Diesel Fuel Consumption	0.177

Source: Tax Research Bureau, Iowa Department of Revenue, produced September 8, 2022

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 2022 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 nonfarm employment coincident index measures the change in non-seasonally adjusted, total nonfarm 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.