

The Iowa Leading Indicators Index (ILII) decreased to 109.3 (100=1999) in November 2022 (0.2 percent) from 109.6 in October 2022. The monthly diffusion index decreased to 37.5 in November from 62.5 in October. The Iowa nonfarm employment coincident index recorded a 0.23 percent increase in November, the twentieth month of growth. Long term trends in the ILII suggests that the contraction thresholds are on the verge of being crossed suggesting that nonfarm employment will decrease over the next three to six months.

During the six-month span through November, the ILII decreased 1.0 percent (an annualized rate of -1.99 percent). The six-month diffusion index remained unchanged at 37.5 in November from October, September, August, and July. 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. The six-month diffusion index remains in a contractionary signal whereas the six-month annualized change is on the verge of the contractionary threshold. 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 average weekly manufacturing hours.

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

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

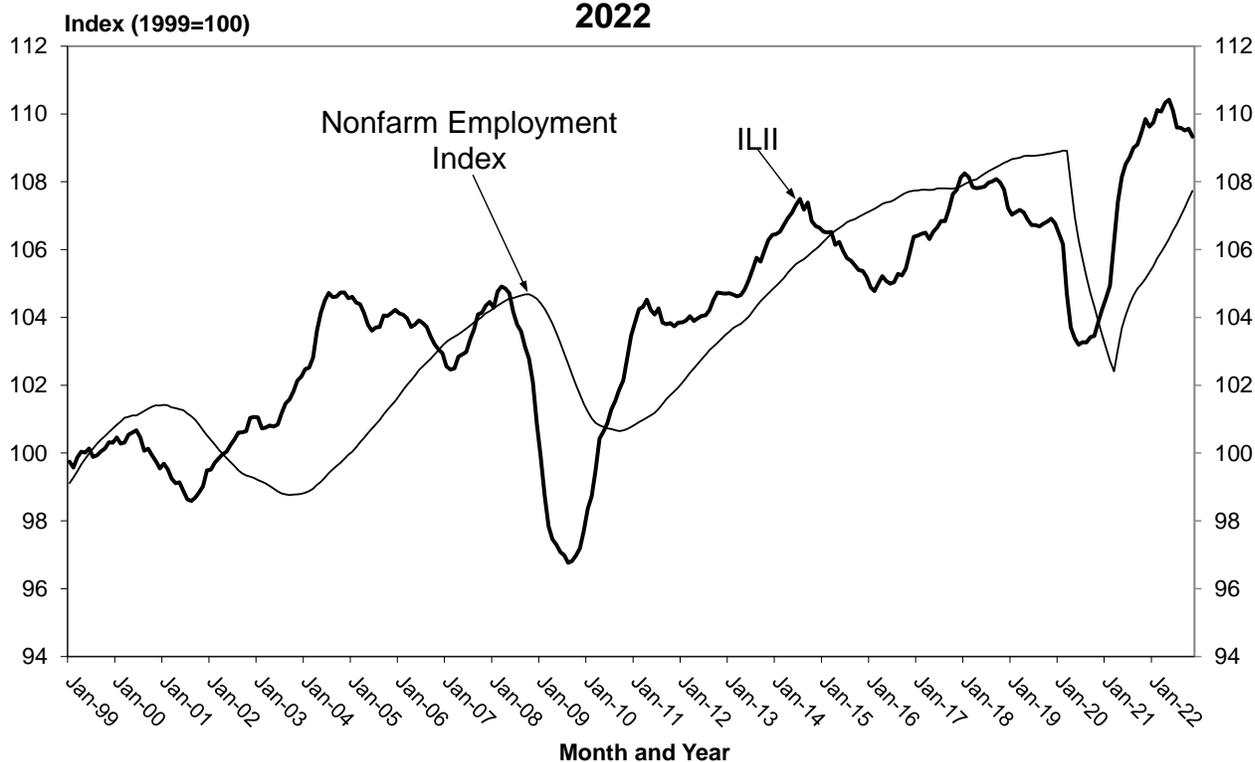


Table 1. Iowa Leading Indicators Index: Six Month Overview

Monthly Values	2022					
	Jun	Jul	Aug	Sept	Oct	Nov
ILII	110.1	109.6	109.6	109.5	109.6	109.3
Percentage Change ^a	-0.3%	-0.5%	0.0%	-0.1%	0.1%	-0.2%
Diffusion Index ^b	43.8	25.0	50.0	56.3	62.5	37.5
Six-Month Values	Dec to Jun	Jan to Jul	Feb to Aug	Mar to Sept	Apr to Oct	May to Nov
ILII						
Percentage Change	0.4%	-0.1%	-0.5%	-0.5%	-0.7%	-1.0%
Annualized Percentage Change	0.9%	-0.3%	-0.9%	-1.0%	-1.4%	-1.99%
Diffusion Index	50.0	37.5	37.5	37.5	37.5	37.5

Source: Tax Research Bureau, Iowa Department of Revenue, produced January 3, 2023.

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						
	Jun	Jul	Aug	Sept	Oct	Nov	
AFP ^b							
Corn Profits (cents per bushel)							
Soybean Profits (cents per bushel)							
Hog Profits (cents per pound)							
Cattle Profits (cents per pound)							
Iowa Stock Market Index (10=1984-86)	↑	122.20	118.51	129.75	124.99	132.97	135.01
Yield Spread (10-year less 3-month)	↓	1.60	0.60	0.18	0.30	0.11	-0.43
Residential Building Permits	↓	1,128	1,106	1,126	1,113	1,084	1,060
Average Weekly Unemployment Claims ^d	↓	1,963	1,933	1,887	1,852	1,810	1,830
Average Weekly Manufacturing Hours	↑	39.15	39.13	39.08	39.12	39.16	39.29
New Orders Index (percent)	↓	65.3	63.8	62.1	60.6	59.2	58.4
Diesel Fuel Consumption (mil gallons)	↓	67.78	67.73	68.02	68.00	68.17	67.52

Source: Tax Research Bureau, Iowa Department of Revenue, produced January 3, 2023.

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 12, 2022).

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 November, this component contributed 0.14 to the ILII with expected profits increases in both crop commodities and livestock commodities. Compared to last year, new crop corn prices were 17.1 percent higher while soybean prices were 14.7 percent higher. The November crush margin for cattle increased 4.7 percent from October while the crush margin for hogs increased 18.0 percent.
- **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, this component contributed 0.11 to the ILII with the 12-month moving average increasing to 39.29 in November from a revised 39.16 in October. In November 2022, average hours were 40.2, above the 38.6 hours in November 2021, yet just under one and a half 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 November 2022, 18 of the 28 companies gained value, and eight of the 10 financial-sector companies increased. With nearly three-fourths of the stocks experiencing gains, the index increased to 135.01 in November from 132.97 in October, contributing 0.02 of the ILII value.
- **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 detracted 0.01 to the ILII value, for the first time since February 2021, with the 12-month moving average of claims increasing from 1,810 to 1,830. Unemployment claims were 9.51 percent above November 2021 claims, yet 33.5 percent below average historical claims for November (1988-2021).
- **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 November 2022 decreased sharply to 47.4 compared to 57.4 in October. Likewise, the 12-month moving average of the new orders index has decreased to 58.38 from 72.67 in November 2021, and detracted 0.05 from the ILII.
- **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 November, permits were 954, down from 1,244 last year. This component detracted 0.07 from the November ILII with the 12-month moving average, decreasing to 1,060 in November from 1,084 in October. November 2022 permits were 23.3 percent below November 2021, and 2.8 percent below the monthly historical average (1998-2021).
- **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 8.6 percent between November 2021 and November 2022. The 12-month moving average decreased to 67.53 million gallons in November from 68.17 million in October, detracting 0.17 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 decreased to inversion territory (moving below 0) at -0.43 percent from 0.11 percent in October. November is the fifth month in a row since December 2020 that the yield spread has been below 1.0 percent. The long-term rate decreased 9 basis points while the short-term rate increased 45 basis points. For the month, the yield spread detracted 0.19 from the ILII value.

Table 3. ILII Components and Standardization Factors for FY 2023

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.