

The Iowa Leading Indicators Index (ILII) decreased to 105.6 (100=1999) in October (-0.4 percent) from a revised 106.0 in September. The monthly diffusion index decreased to 25.0 in October from 37.5 in September. The Iowa nonfarm employment coincident index recorded a 0.01 percent increase in October. Long term trends in the ILII suggest that nonfarm employment will decrease over the next three to six months.

During the six-month span through October, the ILII decreased 1.3 percent (an annualized rate of -2.6 percent). The six-month diffusion index increased to 25.0 in October from 18.8 in September. 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 remained a contractionary signal for the tenth month in a row and the six-month annualized change showed contraction for the twelfth month in a row. Six of the eight component indicators decreased more than 0.05 percent over the last half-year: the agricultural futures profits index (AFPI), diesel fuel consumption, the Iowa stock market index, new orders index, residential building permits, and initial unemployment insurance claims. Average manufacturing hours and the national yield spread were the only components to increase by more than 0.05 percent over the last six months.

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

Figure 1. Iowa Leading Indicators Index and Iowa Nonfarm Employment Coincident Index: January 1999-October 2023

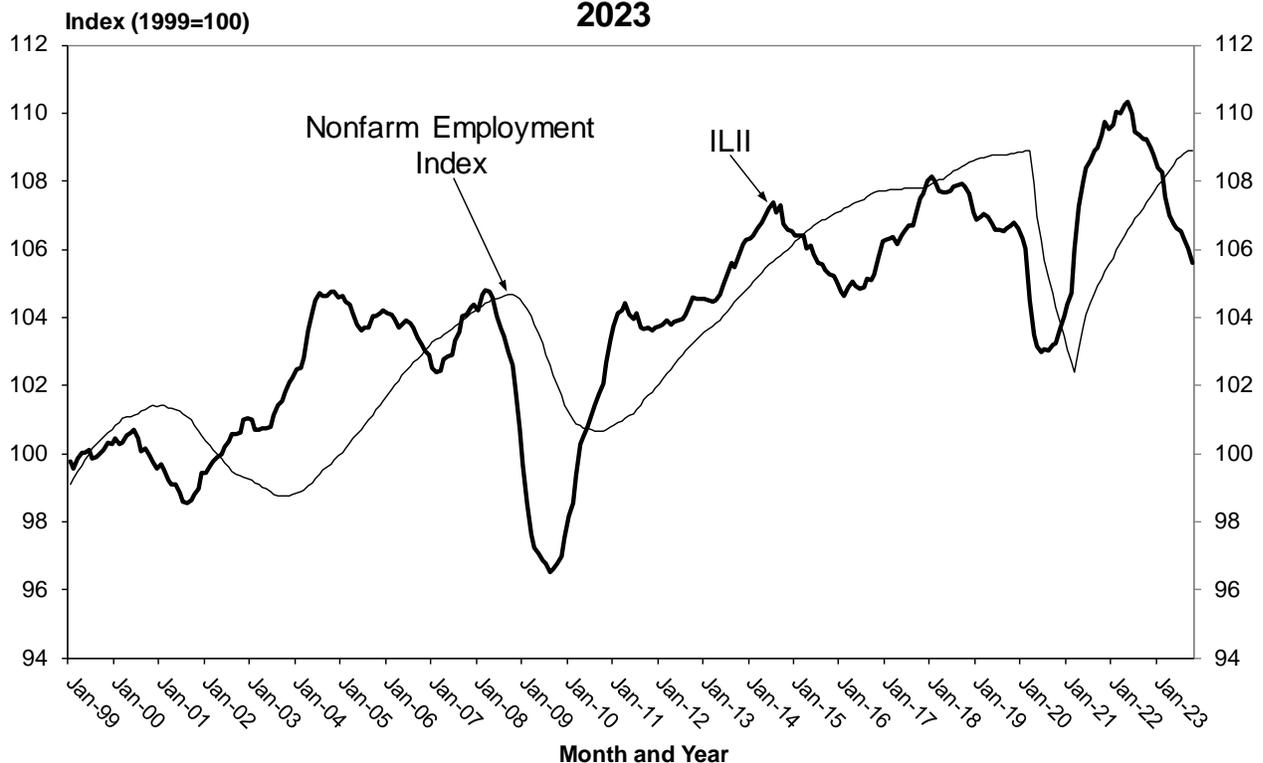


Table 1. Iowa Leading Indicators Index: Six Month Overview

Monthly Values	2023					
	May	Jun	Jul	Aug	Sep	Oct
ILII	106.8	106.6	106.5	106.3	106.0	105.6
Percentage Change ^a	-0.2%	-0.1%	-0.1%	-0.2%	-0.3%	-0.4%
Diffusion Index ^b	12.5	37.5	37.5	31.3	37.5	25.0
Six-Month Values	Dec to May	Jan to Jun	Feb to Jul	Mar to Aug	Apr to Sep	May to Oct
ILII						
Percentage Change	-2.0%	-2.0%	-1.7%	-1.8%	-1.4%	-1.3%
Annualized Percentage Change	-4.1%	-4.0%	-3.4%	-3.5%	-2.8%	-2.6%
Diffusion Index	12.5	6.3	6.3	6.3	18.8	25.0

Source: Tax Research Bureau, Iowa Department of Revenue, produced November 29, 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	2023					
	May	Jun	Jul	Aug	Sep	Oct
AFPJ ^b						
Corn Profits (cents per bushel)	214.9	199.2	188.6	172.7	152.1	131.5
Soybean Profits (cents per bushel)	323.2	287.1	272.6	250.8	227.3	203.9
Hog Profits (cents per pound)	20.7	21.2	22.3	23.1	24.7	22.5
Cattle Profits (cents per pound)	12.6	12.4	13.4	13.6	12.6	13.6
Iowa Stock Market Index (10=1984-86)	115.09	119.54	125.68	122.06	118.79	111.51
Yield Spread (10-year less 3-month)	-1.74	-1.67	-1.59	-1.39	-1.18	-0.80
Residential Building Permits	994	963	961	937	917	892
Average Weekly Unemployment Claims ^d	1,871	1,901	1,954	2,016	2,055	2,100
Average Weekly Manufacturing Hours	39.33	39.30	39.34	39.36	39.40	39.44
New Orders Index (percent)	52.1	52.0	51.0	50.1	50.3	49.4
Diesel Fuel Consumption (mil gallons)	66.79	66.86	66.61	66.67	65.92	65.45

Source: Tax Research Bureau, Iowa Department of Revenue, produced November 29, 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, 2023).

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

- **Yield spread:** Difference between the yield on 10-year Treasury bonds and 3-month Treasury bills. During October, the yield spread increased yet remained in inversion territory (below 0) at -0.80 percent from -1.18 percent in September. October is the twelfth month in a row that the yield spread has been in inversion. The long-term rate increased 42 basis points while the short-term rate increased by 4 basis points. For the month, the yield spread contributed 0.13 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 October, this component contributed 0.03 to the ILII with the 12-month moving average increasing to 39.44 in October from a revised 39.40 in September. In October, average hours were 40.1, above the 39.6 hours in October 2022, yet just under an hour and a half below the historical monthly average (1996-2022).
- **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 0.03 from the ILII value, with the 12-month moving average of claims increasing from 2,055 to 2,100. Unemployment claims were 37.42 percent above October 2022 claims, yet 36.34 percent below average historical claims for October (1988-2022).
- **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 October decreased to 46.6 compared to 47.5 in September. The 12-month moving average of the new orders index has decreased to 49.4 from 50.3 in September 2023, and detracted 0.06 to 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 October, permits were 912, down from 1,209 last year. This component detracted 0.09 from the October ILII with the 12-month moving average decreasing to 892 in October from 917 in September. October permits were 24.6 percent below October 2022, and 27.7 percent below the monthly historical average (1998-2022).
- **Iowa stock market index:** Capitalization-weighted index of 28 Iowa-based or Iowa-concentrated publicly-traded companies. During October, 4 of the 28 companies gained value, and 1 of the 10 financial-sector companies increased. With over two-thirds of the stocks experiencing losses, the index decreased to 111.51 in October from 118.79 in September, detracting 0.10 from the ILII value.
- **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 7.8 percent between October 2022 and October 2023. The 12-month moving average decreased to 65.45 million gallons in October from 65.92 million in September, detracting 0.13 from the ILII value.
- **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 October, this component detracted 0.16 to the ILII with expected profits decreases in both crop commodities and hogs. Cattle experienced expected profit increases. Compared to last year, new crop corn prices were 28.8 percent lower while soybean prices were 7.0 percent lower. The October crush margin for hogs decreased 9.0 percent from September while the crush margin for cattle increased 8.0 percent.

Table 3. ILII Components and Standardization Factors for FY 2024

Iowa Leading Indicator Index Components	Standardization Factor
Agricultural Futures Profits Index	0.034
Iowa Stock Market Index	0.015
Yield Spread	0.346
Residential Building Permits	0.032
Average Weekly Unemployment Claims	0.014
Average Weekly Manufacturing Hours	0.322
New Orders Index	0.062
Diesel Fuel Consumption	0.175

Source: Tax Research Bureau, Iowa Department of Revenue, produced September 12, 2023

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 2023 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.