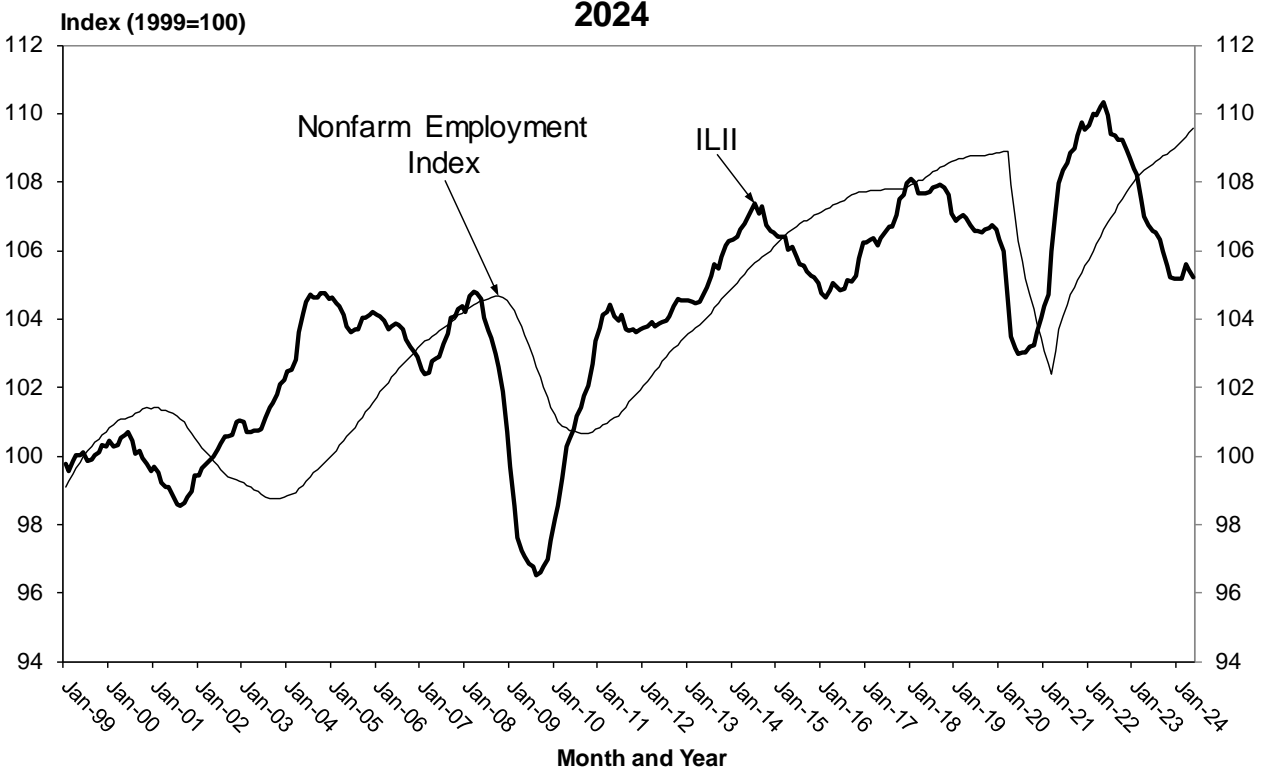


The Iowa Leading Indicators Index (ILII) decreased to 105.2 (100=1999) in May from a revised 105.4 in April. The monthly diffusion index decreased to 25.0 in May from 37.5 in April. The Iowa nonfarm employment coincident index recorded a 0.14 percent increase in May. Long term trends in the ILII suggest that nonfarm employment will increase over the next three to six months with no contractionary signal.

During the six-month span through May, the ILII was unchanged (an annualized rate of 0.0 percent). The six-month diffusion index decreased to 31.3 in May from 37.5 in April. 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 in a contractionary signal for the seventeenth month in a row while the six-month annualized change was above a contractionary signal for the third month in a row. Five 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, new orders index, residential building permits, and initial unemployment insurance claims. Average manufacturing hours and the Iowa Stock Market index were the only components to increase by more than 0.05 percent over the last six months. The national yield spread increased by less than 0.05 percent over the last six months.

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

**Figure 1. Iowa Leading Indicators Index and Iowa Nonfarm Employment Coincident Index: January 1999 - May 2024**



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

Monthly Values	2023	2024				
	Dec	Jan	Feb	Mar	Apr	May
ILII	105.2	105.2	105.2	105.6	105.4	105.2
Percentage Change <sup>a</sup>	0.0%	0.0%	0.0%	0.4%	-0.2%	-0.2%
Diffusion Index <sup>b</sup>	50.0	56.3	62.5	43.8	37.5	25.0
Six-Month Values	Jul to Dec	Aug to Jan	Sep to Feb	Oct to Mar	Nov to Apr	Dec to May
ILII						
Percentage Change	-1.3%	-1.2%	-1.0%	-0.4%	-0.1%	0.0%
Annualized Percentage Change	-2.6%	-2.5%	-2.1%	-0.7%	-0.3%	0.0%
Diffusion Index	37.5	25.0	37.5	25.0	37.5	31.3

Source: Tax Research Bureau, Iowa Department of Revenue, produced June 27, 2024.

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>	2023	2024					
	Dec	Jan	Feb	Mar	Apr	May	
AFP <sup>b</sup>							
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)	↑	120.71	121.80	123.51	131.50	133.15	135.17
Yield Spread (10-year less 3-month)	↓	-1.42	-1.39	-1.23	-1.26	-0.90	-0.98
Residential Building Permits	↓	898	916	922	911	908	868
Average Weekly Unemployment Claims <sup>d</sup>	↓	2,195	2,339	2,350	2,377	2,416	2,419
Average Weekly Manufacturing Hours	↑	39.58	39.53	39.66	39.76	39.78	39.94
New Orders Index (percent)	↓	49.9	50.2	49.7	49.1	48.9	48.6
Diesel Fuel Consumption (mil gallons)	↓	64.59	64.83	64.14	65.57	64.84	64.55

Source: Tax Research Bureau, Iowa Department of Revenue, produced June 27, 2024.

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

- **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 May, this component contributed 0.13 to the ILII with the 12-month moving average increasing to 39.94 in May from a revised 39.78 in April. In May, average hours were 41.1, just over the historical monthly average (1996-2023).
- **Iowa stock market index:** Capitalization-weighted index of 27 Iowa-based or Iowa-concentrated publicly-traded companies. During May, 17 of the 27 companies gained value, and 9 of the 9 financial-sector companies increased. With nearly two-thirds of the stocks experiencing gains, the index increased to 135.2 in May from a revised 133.15 in April, contributing 0.02 to 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 did not add or detract from the ILII value, with the 12-month moving average of claims increasing from 2,416 to 2,419. Unemployment claims were 2.0 percent above May 2023 claims, yet 35.6 percent below average historical claims for May (1988-2023).
- **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 May decreased to 48.1 from 59.3 in April. The 12-month moving average of the new orders index has decreased to 48.6 from 48.9 in April, and detracted 0.02 from the ILII.
- **Yield spread:** Difference between the yield on 10-year Treasury bonds and 3-month Treasury bills. During May, the yield spread remained in inversion territory (below 0) at -0.98 percent, down from -0.90 percent in April. May is the nineteenth month in a row that the yield spread has been in inversion. The long-term rate decreased 6 basis points while the short-term rate increased by 2 basis points. For the month, the yield spread detracted 0.03 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 5.2 percent between May 2023 and May 2024. The 12-month moving average decreased to 64.55 million gallons in May from 64.84 million in April, detracting 0.08 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 May, this component detracted 0.09 from the ILII with expected profits decreases in both crop commodities and expected profit decreases in hogs while live cattle had expected profits increase. Compared to last year, new crop corn prices were 10.6 percent lower while soybean prices were 1.2 percent lower. The May crush margin for cattle increased 11.6 percent from April while the crush margin for hogs decreased 5.5 percent.
- **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 May, permits were 849, down from 1,327 last year. This component detracted 0.14 from the May ILII with the 12-month moving average decreasing to 868 in May from 908 in April. May 2024 permits were 36.0 percent below May 2023, and 26.3 percent below the monthly historical average (1998-2023).

**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.