CBER-DETR Nevada Coincident and Leading Employment Indexes\(^1\)

*Leading Index Hits Bump in the Road*

The Nevada Coincident Employment Index measures the ups and downs of the Nevada economy using an index of employment variables. The Nevada Leading Employment Index also measures the ups and downs of the Nevada economy, providing a signal about the future direction of the coincident index. The coincident index provides the benchmark series that defines the employment cycle or reference cycle in Nevada. The leading index then tracks the economy relative to that reference cycle. A good leading index will provide signals about the future path of the reference cycle.\(^2\)

Figures 1 and 2 depict the coincident and leading indexes with data through April 2012. Figure 1 encompasses four recessions in employment, including the most recent Great Recession. The peak of the last employment cycle in Nevada occurred in December 2006. The coincident index then regressed steadily through October 2009, where the coincident index reached a bottom. Figure 2 shows the leading index and its movements relative to the recessions in the Nevada employment cycle captured by the coincident index. For the current employment recession, the leading index provided a clear signal by peaking in January 2006, eleven months before the coincident index reached its peak and reached a bottom in May 2009, five months before the coincident index reached its bottom. The leading index took a significant drop in April, continuing a downward trend from the high mark in January 2012. The leading index fell to a level not seen since November 2010. But, one significant month does not tell a story. We need to see future releases of the leading index to see if it now signals a slowdown in the Nevada economy.

The April release of seasonally adjusted data conveys a generally positive picture for the coincident index. On a year-over-year basis, the unemployment rate (inverted), household employment, nonfarm employment, and the insured unemployment rate (inverted) all moved in a positive direction. The leading index tells a mixed story on a year-over-year basis. Initial claims for unemployment insurance (inverted), residential permits, and the short-duration unemployment rate (inverted) moved in a positive direction, whereas the real Moody’s Baa bond rate (inverted), construction employment, and commercial permits moved in a negative direction.

On a monthly basis, the unemployment rate (inverted) and the insured unemployment rate (inverted) moved in a positive direction while household employment and nonfarm employment moved in a negative direction for the coincident index. For the leading index, initial claims for unemployment insurance (inverted), the short-duration unemployment rate (inverted), housing permits, commercial permits, construction employment, and the real Moody’s Baa bond rate (inverted) moved in a negative direction.
Figure 1: CBER-DETR Nevada Coincident Employment Index

Figure 2: CBER-DETR Nevada Leading Employment Index
All series are initially not seasonally adjusted and then seasonally adjusted using Census X12. In some instances, our seasonally adjusted series differ from the seasonally adjusted data reported by the Bureau of Labor Statistics. The Nevada Coincident Employment Index includes four employment measures – household employment, nonfarm employment, the unemployment rate (inverted, since an upward movement in the jobless rate is a “negative”), and the insured unemployment rate (inverted). The Nevada Leading Employment Index includes six employment related measures – initial claims for unemployment insurance (inverted), the real Moody’s Baa bond rate (inverted), housing permits, commercial permits, construction employment, and the short-duration unemployment rate (inverted). While not employment variables, housing and commercial permits, as well as the Moody’s Baa bond rate, closely relate to construction activity and construction employment. All data are seasonally adjusted and come from DETR, CBER, and the Federal Reserve Bank of St. Louis FRED® data. The description of the construction method is posted at http://cber.unlv.edu/nvindices.pdf. Data availability restricts our coverage in the two indexes to monthly series beginning in January 1976. The data series for household employment, nonfarm employment, the unemployment rate, initial claims, and the real Moody’s Baa bond rate all begin in January 1976. Housing permits and the insured unemployment rate begins in January 1980 and March 1987, respectively. Commercial permits, construction employment, and the short-duration unemployment rate begin in January 1988, January 1990, and January 2001, respectively. Thus, the coincident index uses three series through March 1987, when we add the insured unemployment rate. The leading index begins with two series and adds housing permits in January 1980, commercial permits in January 1988, construction employment in January 1990, and finally, the short-duration unemployment rate in January 2001.