CBER-DETR Nevada Coincident and Leading Employment Indexes

Did the Nevada Employment Recession End?
Coincident Index Moves Higher from October 2009

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.

Figures 1 and 2 depict the coincident and leading indexes with data through January 2010. Figure 1 encompasses four recessions in employment, including the current recession. The peak of the last employment cycle in Nevada occurred in November 2006. Since then, the coincident index regressed steadily through October 2009. Previous reports suggested that we may soon see a bottom to the coincident index. The chart identifies that bottom tentatively as October 2009. 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 May 2006, six months before the coincident index reached its peak. Based on current data, the leading indexed reached its trough in May or August of 2009.

In sum, this employment recession may have ended. Future data releases will provide further information that will allow us to identify the bottom or to continue to wait. Based on our seasonally adjusted data, the insured unemployment rate (inverted), the unemployment rate (inverted), household employment, and nonfarm employment moved in a positive direction. Overall the coincident rose continuously from a trough in October. In January, the components of the leading index experienced the following changes -- initial claims for unemployment insurance (inverted), the short-duration unemployment rate (inverted), housing permits, the real Moody’s Baa bond rate (inverted), commercial permits, and construction employment moved in a positive direction. The leading indexed moved slightly higher in the last five months and exceeds its level in May 2009.
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.