INTRODUCING A NEW MEASURE OF NEVADA LABOR MARKET ACTIVITY

The Nevada Economy Enters Its Third Year of an Employment Recession with Few Signs of a Bottom or Recovery in the Near Term

This report launches the CBER-DETR Nevada Coincident and Leading Employment Indexes. The Nevada Coincident Employment Index measures the ups and downs of the Nevada economy using an index of 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 also measures the ups and downs of the Nevada economy, but it also provides a signal about the future direction of the coincident index. The leading index combines 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. 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.

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.

Figures 1 and 2 depict the coincident and leading indexes with data through March 2009. Figure 1 encompasses four recessions in employment, including the current recession. We note that the severity (depth) of the four downturns seems to become more pronounced with each downturn. The old saw that Nevada did not experience recessions as did the rest of the country no longer holds true. The peak of the last employment cycle in Nevada occurred in November 2006. Since then, the coincident index regressed steadily through February 2009, slightly over a two-year employment recession.

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 first three employment recessions in Nevada the leading index provides some signal, if somewhat murky, of employment cycle peaks and troughs. These recessions generally seemed rather mild and led many to conclude that Nevada avoids the business cycle that the rest of the country experiences. 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. Time will tell whether the leading index provides a signal about the bottom of the current employment recession.

Several of the components of the leading index provide some additional insight into the current employment recession. All data references are to seasonally adjusted data. The short-duration unemployment rate, the latest addition to the leading index beginning with January 2001, reached its low point of 0.98 percent in February 2006. Currently, it stands at 3.76 percent. Initial claims for unemployment insurance reached its low point of 10,042 in November 2005 and now nearly tripled to 29,596, rising to a new high after small reductions in January and February. Next, construction employment peaked in December 2006 at 152,946 and now reports only 101,433. Housing permits peaked in January 2006 at 5,452 and now resides at 649, but up from the February value of 279. Commercial permits peaked later than housing permits in October 2007 at 302 and now come in at 107, but up from 28 in December 2008.

In sum, this employment recession departs dramatically from prior recessions in Nevada. We sail in uncharted waters. All components of the coincident index continue to move in a negative direction. Two components of the leading index, however, provide the only positive news. Housing permits rose in March from their February value and commercial permits rose in January, February, and March from their December trough.
Figure 1: CBER-DETR Nevada Coincident Employment Index

Figure 2: CBER-DETR Nevada Leading Employment Index
Source: Center for Business and Economic research (CBER, 702-895-3191) in the College of Business at the University of Nevada, Las Vegas and the Department of Employment Training and Rehabilitation (DETR). Developed by Stephen M. Miller (Professor and Chair of Economics, 702-895-3969) and Mustafa Gunaydin (Graduate Student in Economics). DETR provided a grant to support Mr. Gunaydin’s research during the development of the indexes.

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.