CBER-DETR Nevada Coincident and Leading Employment Indexes

Data Continue to Send Mixed Signals on the End of Nevada’s Employment Recession

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 October 2010. Figure 1 encompasses four recessions in employment, including the current recession. The peak of the last employment cycle in Nevada occurred in December 2006. Since then, the coincident index regressed steadily through October 2009. Since then, the coincident index appears to have reached a bottom, where the chart still identifies that bottom tentatively as October 2009. But since reaching its most recent high value in January 2010, the coincident index fell seven of the last nine months, including a small decrease in October 2010. 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 March 2006, nine months before the coincident index reached its peak. Based on current data, the leading index reached a trough in August 2009. After reaching its most recent high in January 2010, the leading index fell in seven of the last nine months, tracing its way back to just above its August 2009 low in October 2010, including a small increase in October.

Although we do see improvements in the Nevada economy in visitor volume, gaming revenue, and taxable sales, Nevada remains buried in its current employment recession. Future data releases will provide additional information that will allow us to identify the forward-looking path of the economy. Based on our seasonally adjusted data, household employment and nonfarm employment moved in a negative direction while the insured unemployment rate (inverted) and the unemployment rate (inverted) moved in a positive direction with the October release. The same release shows that the components of the leading index experienced the following changes -- initial claims for unemployment insurance (inverted), commercial permits, the short-duration unemployment rate (inverted), and housing permits moved in a positive direction. The remaining variables – the real Moody’s Baa bond rate (inverted) and construction employment – 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 Hhttp://cber.unlv.edu/nvindices.pdfH. 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.