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Nebraska Monthly Economic Indicators: March 20, 2019

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Nebraska Monthly Economic Indicators: March 20, 2019

Prepared by the UNL College of Business, Bureau of Business Research

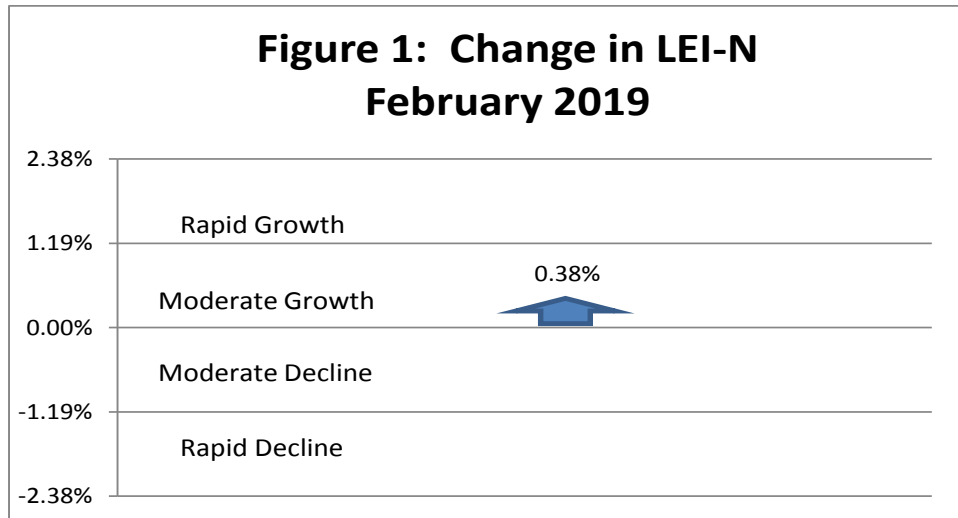
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Summary: *The Leading Economic Indicator – Nebraska (LEI-N)¹ rose by 0.38% during February of 2019. The increase in the LEI-N, which is designed to predict economic activity six months into the future, implies moderate economic growth in Nebraska through the third quarter of 2019. Strong business expectations were the primary reason for the increase in the leading indicator. Respondents to the February Survey of Nebraska Business reported plans to increase both sales and employment at their businesses over the next six months. Business expectations were at odds with other components of the indicator. Building permits for single-family homes and manufacturing hours-worked both declined during February. Further, the value of the U.S. dollar rose, which is challenging for businesses which export.*

Leading Economic Indicator – Nebraska

Figure 1 shows the change in the Leading Economic Indicator – Nebraska (LEI-N) during February 2019 compared to the previous month. The LEI-N predicts economic growth six months into the future. The LEI-N rose by 0.38% in February.



¹ The author would like to thank Dr. William Walstad for helping to design the LEI-N.

Figure 2 shows that the LEI-N has increased over the last five months. Further, the rate of increase was higher during the first two months of 2019. The improving indicator implies that the Nebraska economy will grow at a moderate rate through the third quarter of 2019.

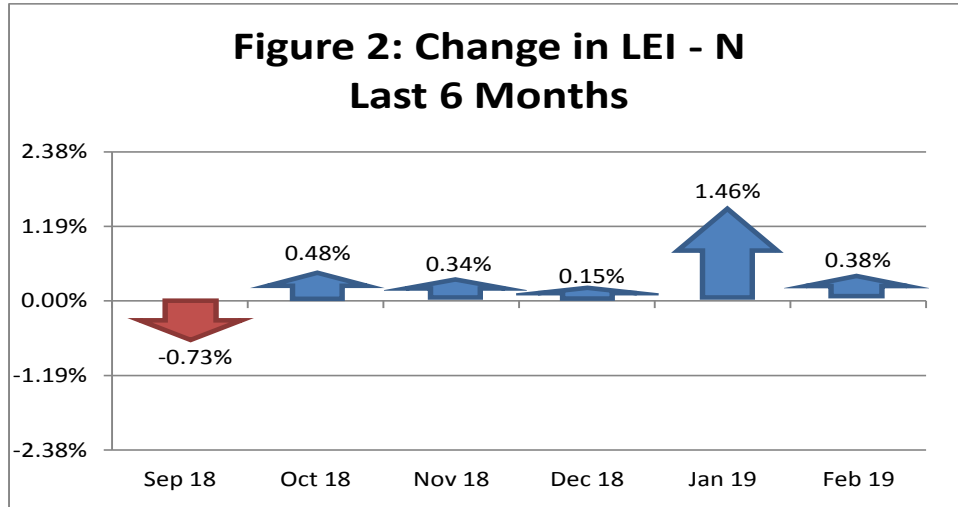
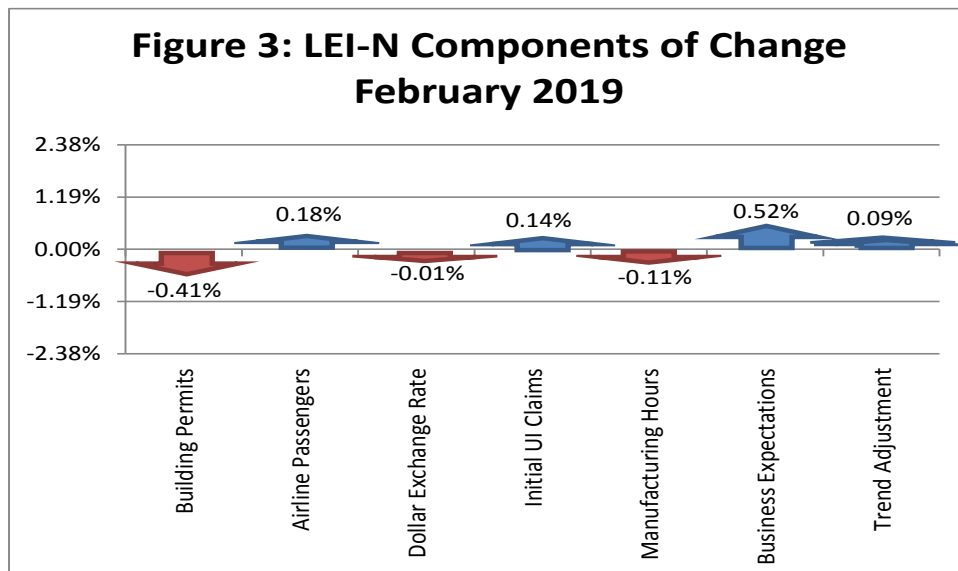


Figure 3 shows the components of change in the Leading Economic Indicator – Nebraska during February of 2019. The change in the overall LEI-N is the weighted average of changes in each component (see page 5). Business expectations made the largest contribution to the leading indicator. Respondents to the February *Survey of Nebraska Business* reported plans to increase both sales and employment at their business over the next six months. Other components of the LEI-N were mixed. Building permits for single-family homes dropped during February and there was an increase in the value of the U.S. dollar. A rising dollar is a challenge for businesses which export. On the positive size, there was a drop in initial claims for unemployment insurance during February. Note that the trend adjustment component pictured in Figure 3 is discussed on page 5.



Coincident Economic Indicator – Nebraska

The Coincident Economic Indicator - Nebraska (CEI-N) is a measure of the current size of the Nebraska economy. The CEI-N rose by 0.39% during February of 2019, as seen in Figure 4.

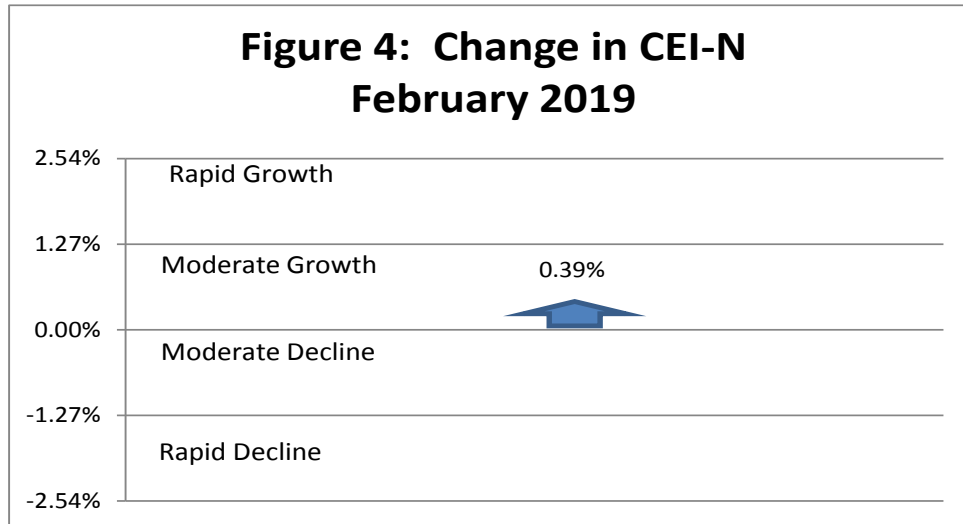
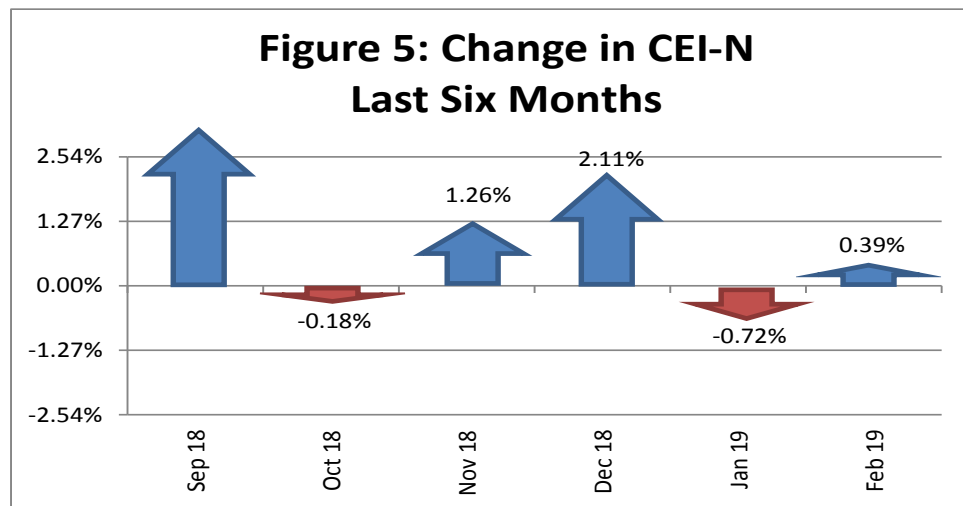


Figure 5 shows the change in the CEI-N over the last 6 months. The CEI-N rose strongly at the end of 2018 but has been mixed during 2019. The pace of economic growth has moderated in Nebraska.



Three of four CEI-N components rose during February. While electricity sales dropped on a seasonally-adjusted basis, there was an increase in real private wages and agricultural commodity prices. Business conditions also were positive during February, with respondents to the *February Survey of Nebraska Business* reporting modest increases in sales and employment in recent months. A detailed discussion of the components of the CEI-N and LEI-N can be found at www.cba.unl.edu in *Technical Report: Coincident and Leading Economic Indicators- Nebraska*.

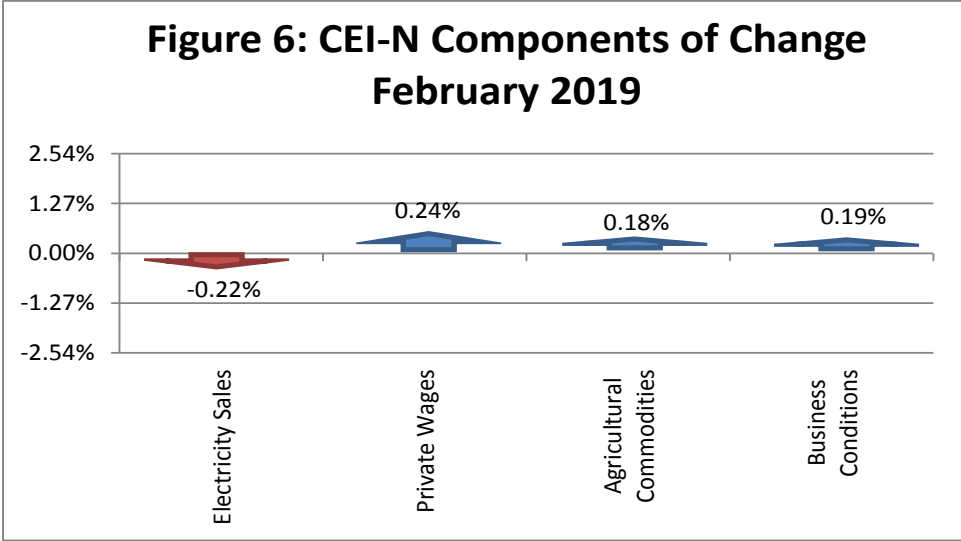
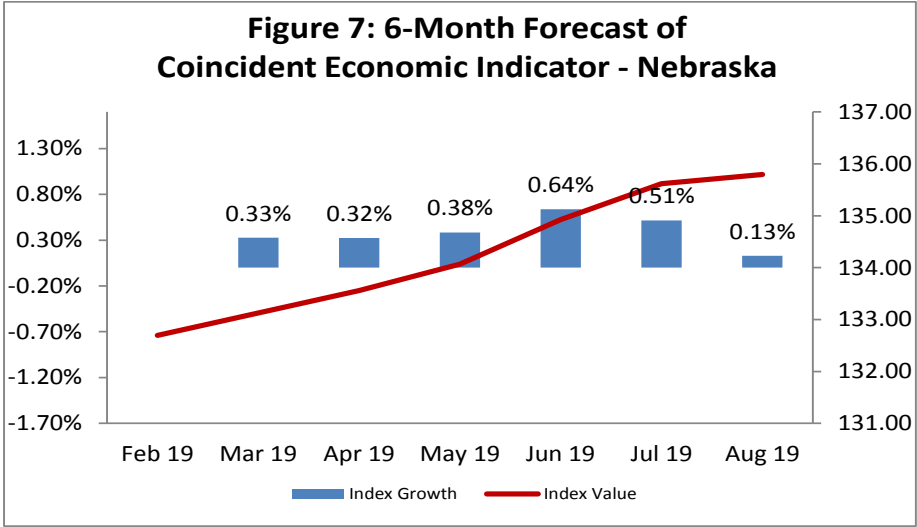


Figure 7 shows the forecast for the CEI-N over the next six months. Moderate economic growth is expected in Nebraska through August of 2019. Forecast growth in the CEI-N is consistent with changes in the LEI-N over the last six months (Figure 2).



Weights and Component Shares

Table 1 shows the weights used to aggregate the individual components into the LEI-N and CEI-N. The weights are the inverse of the “standardized” standard deviation of each component variable. The term standardized simply means that the inverse standard deviations are adjusted proportionately to sum to 1. This weighting scheme makes sense since individual components that are more stable have smaller standard deviations, and therefore, a larger inverse standard deviation. A large movement in a typically stable economic series would provide a more powerful signal of economic change than a large movement in a series with significant month-to-month fluctuations.

Table 1: Component Weights for LEI-N and CEI-N							
Leading Economic Indicator - Nebraska				Coincident Economic Indicator - Nebraska			
Variable	Standard Deviation	Inverse STD	Weight (Inverse STD Standardize)	Variable	Standard Deviation	Inverse STD	Weight (Inverse STD Standardize)
SF Housing Permits	13.4367	0.0744	0.0348	Electricity Sales	4.5325	0.2206	0.1658
Airline Passengers	3.2626	0.3065	0.1431	Private Wages	1.8535	0.5395	0.4054
Exchange Rate	1.1904	0.8400	0.3922	Agricultural Commodities	3.2638	0.3064	0.2302
Initial UI Claims	10.6150	0.0942	0.0440	Survey Business Conditions	3.7838	0.2643	0.1986
Manufacturing Hours	1.6935	0.5905	0.2757				
Survey Business Expectations	4.2379	0.2360	0.1102				

Tables 2 and 3 show the calculation for the change in LEI-N and CEI-N between January and February of 2019. Weights (from Table 1) are multiplied by the change to calculate the contribution of each component. Contributions are converted to percentage terms and summed. Note that in Table 2 a trend adjustment factor is utilized in calculating LEI-N. This is done because LEI-N historically under-predicts CEI-N by 0.09% per month. The U.S. Leading Economic Indicator also has a trend adjustment.

Table 2: Component Contributions to the Change in Leading Economic Indicator						
Leading Economic Indicator - Nebraska						
Component Index Value (May 2007=100)						
Component	Current	Previous	Difference	Weight	Contribution	Percentage Contribution (Relative to Previous LEI-N)
SF Building Permits	44.70	62.61	-17.92	0.03	-0.62	-0.41%
Airline Passengers	112.18	110.32	1.86	0.14	0.27	0.18%
U.S. Dollar Exchange Rate (Inverse)	82.44	82.49	-0.05	0.39	-0.02	-0.01%
Initial Unemployment Insurance Claims (Inverse)	152.16	147.50	4.66	0.04	0.21	0.14%
Manufacturing Hours	93.53	94.15	-0.61	0.28	-0.17	-0.11%
Survey Business Expectations ¹	57.08		7.08	0.11	0.78	0.52%
Trend Adjustment					0.13	0.09%
Total (weighted average)	151.51	150.94			0.57	0.38%

¹ Survey results are a diffusion Index, which is always compared to 50

Table 3: Component Contributions to the Change in Coincident Economic Indicator						
Coincident Economic Indicator - Nebraska						
Component Index Value (May 2007=100)						
Component	Current	Previous	Difference	Weight	Contribution	Percentage Contribution (Relative to Previous CEI-N)
Electricity Sales	198.54	200.29	-1.75	0.17	-0.29	-0.22%
Private Wage	110.15	109.36	0.78	0.41	0.32	0.24%
Agricultural Commodities	119.40	118.38	1.03	0.23	0.24	0.18%
Survey Business Conditions ¹	51.28		1.28	0.20	0.25	0.19%
Total (weighted average)	132.69	132.18			0.52	0.39%

¹ Survey results are a diffusion Index, which is always compared to 50

Performance of the LEI-N and CEI-N

Further information is available on both economic indicators to demonstrate how well the CEI-N tracks the Nebraska economy and how well the LEI-N leads the CEI-N. Figure 8 shows the value of CEI-N and the real gross state product (real GDP) in Nebraska for 2001 through 2017. Annual real gross state product data is provided by the Bureau of Economic Analysis, U.S. Department of Commerce, and quarterly values were estimated using quarterly earnings data. CEI-N closely tracks Nebraska real GDP for the period. The correlation coefficient between the two-pictured series is 0.95.

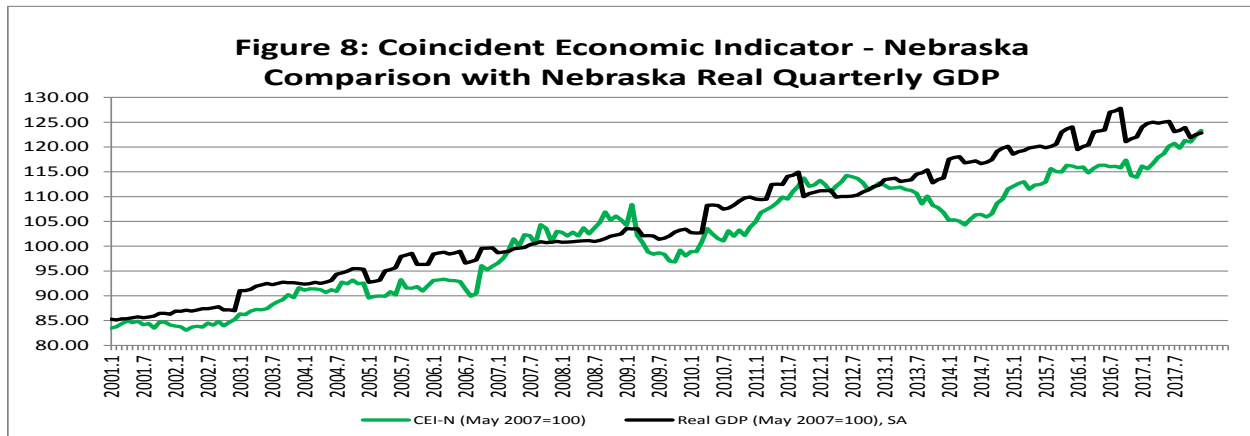


Figure 9 again shows the values for the CEI-N. It also graphs 6-months forward values for the LEI-N. Recall that the LEI-N is intended to forecast the Nebraska economy six months into the future. This implies that Figure 9 is comparing the predicted movement in CEI-N (predicted by LEI-N values six months earlier) with the actual movement in CEI-N. In Figure 9, predicted values using the LEI-N closely track trends and movement in the CEI-N. The correlation coefficient between CEI-N and six-month forward values of LEI-N is 0.92.

