

CBER-DETR Nevada Coincident and Leading Employment Indexes¹

UNLV | LEE BUSINESS SCHOOL
CENTER FOR BUSINESS
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Residential and Commercial Permits a Drag on This Month's Nevada Employment Indexes

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 February 2017. Figure 1 encompasses four recessions in employment, including the most recent Great Recession. The peak of the last employment cycle in Nevada occurred in March 2007. The coincident index then regressed steadily through October 2009, where it bottomed out. 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 most recent employment recession, the leading index provided a clear signal by peaking in January 2006, fourteen months before the coincident index reached its peak, and reached a bottom in May 2009, five months before the coincident index reached its bottom.

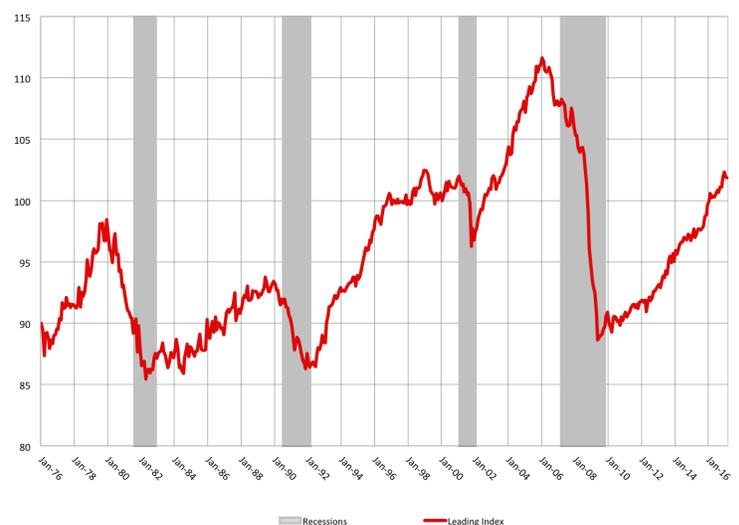
The February release tells a nearly consistent, positive story for both the coincident and leading indexes on a year-over-year basis. For the coincident index, the unemployment rate (inverted), household employment, nonfarm employment, and the insured unemployment rate (inverted) all moved in a positive direction. For the leading index, initial claims for unemployment insurance (inverted), the short-duration unemployment rate (inverted), construction employment, and the real 10-year Treasury interest rate (inverted) all moved in a positive direction, whereas commercial permits and housing permits moved in a negative direction.

On a month-over-month basis, the coincident and leading indexes tell a generally consistent, positive story. That

Figure 1. CBER-DETR Nevada Coincident Employment Index



Figure 2. CBER-DETR Nevada Leading Employment Index



is, for the coincident index, the insured unemployment rate (inverted), nonfarm employment, and household employment all moved in a positive direction, while the unemployment rate (inverted) moved in a negative direction. For the leading index, initial claims for unemployment insurance (inverted), construction employment, the real 10-year Treasury interest rate (inverted), and the short-duration unemployment rate (inverted) moved in a positive direction, while housing permits and commercial permits moved in a negative direction.

Overall, the coincident and leading indexes rose on a year-over-year basis. The coincident index now lies 4.6 percent above its previous peak, whereas the leading index lies 8.8 percent below its previous peak. See Figures 1 and 2.

1 Source: Center for Business and Economic Research ([CBER], 702-895-3191) in the Lee Business School at the University of Nevada, Las Vegas and the Department of Employment, Training and Rehabilitation (DETR). Developed by Stephen M. Miller (director of CBER and professor of economics, 702-895-3969) and Mustafa Gunaydin (former graduate student in economics). DETR provided a grant to support Mr. Gunaydin's research during the development of the indexes.

2 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 10-year Treasury 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 real 10-year Treasury 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 10-year Treasury rate all begin in January 1976. Housing permits and the insured unemployment rate begin 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.

The views expressed are those of the author and do not necessarily express those of the University of Nevada, Las Vegas or the Nevada System of Higher Education.