Nevada’s Coincident Employment Index Falls while Its Leading Index Rises Month over Month in Response to the COVID-19 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.2

Figures 1 and 2 depict the coincident and leading indexes with data through July 2020. Figure 1 shows that the coincident index recovered a bit from its May trough and then gave back part of the June increase in July. The chart encompasses four recessions in employment, including the recent Great Recession, where the peak Nevada occurred in March 2007. The coincident index then regressed steadily to bottom out in October 2009. Now, we call the peak of the most recent expansion in May 2019 and the trough in May 2020.

Figure 2 shows the leading index also recovering somewhat. The chart shows the leading index and its movements relative to Nevada recessions in its 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 bottoming out in May 2009, five months before the coincident index bottomed out. The most recent peak occurred in January 2020 and the trough in May 2020.

The July release tells a consistent, negative story for the coincident index on a year-over-year and a missed story on a month-over-month basis. The unemployment rate (inverted), household employment, nonfarm employment, and the insured unemployment rate (inverted) all moved in a negative direction on a year-over-year basis and became positive on a month over month basis, except for the household employment and insured unemployment rate (inverted), which remained negative. For the leading index, housing permits, the short-duration unemployment rate (inverted), construction employment,
initial claims for unemployment insurance (inverted), and commercial permits moved in a negative direction while the real 10-year Treasury interest rate (inverted) moved in a positive direction on a year-over-year basis. On a month-over-month basis, the real 10-year Treasury interest rate (inverted), commercial permits, housing permits and the short-duration unemployment rate (inverted) moved in a positive direction and initial claims for unemployment insurance (inverted) and construction employment moved in a negative direction.

This current downturn (recession) differs from past recessions in that the government imposed lockdown caused the recession and not some imbalances in the economy. As a result, the leading index did not provide a warning that preceded the recession.

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.