ELI continues to rise: No recession on the horizon

Despite a well-publicized gloomy national economic climate towards the end of 2012, the ERIE Leading Index (ELI) managed to continue climbing in the final quarter of the year. In fact, the last time ELI reached a level this high was all the way back in early 2000, when it surpassed 101 for the one and only time in ELI history. ELI has increased slowly but surely over the course of 2012, with ten of the past twelve months experiencing growth that totaled 2.3% for the year. This means that ELI does not anticipate a new recession beginning anytime in the foreseeable future. Well, at least the next eight months. (ELI has historically turned down about eight months before Erie total employment peaks.)

However, as the graphs above show, the Erie total employment numbers were a bit scary in the latter half of 2012. Employment fell in four of the five months since July, shedding over 3,800 jobs. Despite that, ELI’s growth since its last trough in April 2009 has been relatively consistent, as depicted on the red lines above. But this seems paradoxical. Could ELI have missed a turning point? Could we be headed into an unforeseen recession? Did the Mayans have it right after all?! Before hitting the panic button, let’s remind ourselves of a few things that may help calm the nerves. First, ELI has caught every recession since 1972. Second, it takes five consecutive declines in ELI before a turn is imminent and we haven’t had anything like that. Third, despite the recent decline, the Erie economy sustained a net increase in jobs for the year—although only a few hundred jobs. And fourth, the U.S. Index of Leading Indicators, a similar metric to ELI for the entire U.S. economy, has not predicted a downturn for the nation—although it has been pretty flat recently.

But we should mention that ELI’s ability to predict turning points is predicated on its history. It presumes that the relationships that the eight ELI components have had with the economy in the past will continue into the future. And we all know that this recession was more than a bit unusual both at the national level and locally. Still, ELI did anticipate the turns in the recent recession, and it is built on 40+ years of data.

But we should acknowledge that there are some unusual factors that have been thrown into the mix recently. The (bigger than usual) mess in Washington, looming budget cuts, and resulting uncertainty about the future could negatively impact employment outside ELI’s notice. And a local shock, such as major layoffs at GE, could introduce another element of uncertainty. But GE has had layoffs before, and ELI has dealt with them before.

All of this leads us to think that a business cycle downturn is NOT imminent.
Five of ELI’s eight components were positive for the last quarter of 2012, while two were negative and one exhibited no change. The Money Supply saw the biggest change, continuing the Fed’s policy of pumping liquidity into the system. And apparently this has not touched off inflation fears in most people, since the interest rate remains low. (Once people start expecting inflation, they’ll ask for an inflation premium which will push up nominal interest rates. So lock those low mortgage rates in now!) Low interest rates bode well for the housing sector, which continues to recover from the bubble that burst in 2008. And the national economy continued to improve in the last quarter of 2012, although slowly, as seen in the Index of Coincident Indicators.

After falling during the third quarter of 2012, Erie manufacturing employment did not decline in the fourth quarter. Not exactly great news, but we’ll count a lack of decline in this variable as a win, given its long-term downward trend. And the average weekly hours worked by Pennsylvania manufacturing employees increased to nearly 41 hours per week, its highest level since September of 2008. These are the variables most closely tied to the Erie economy, so any positive signs appearing in these two variables are especially good news for ELI and the local economy!