Summary
The Southern California Leading Economic Indicator decreased by -2.81% in the second quarter of 2020 compared to the first quarter of 2020. The effect of COVID-19 has negatively impacted the Southern California region and the decline suggests a decrease economic activity in the Southern California region in the next three to six months. The U.S. leading economic indicator decreased in the second quarter of 2020 and implies a decrease in economic activity for the U.S. economy in the next three to six months (Figure 1).

U.S. economic activity, often measured by real GDP growth, is expected to decrease in the next three to six months, given the decrease in the U.S. leading indicator. The decrease in the SC Leading Indicator suggests a fall in economic activity in Southern California (Figure 2).
Southern California Indicator and Economic Activity

In the absence of up-to-date gross state product data for Southern California, our index is used to analyze trends in total civilian employment. The indicator has been found to be a good predictor of regional economic trends. In general, changes in the index take place prior to changes in regional economic activity. For example, during the recessions of the early 1990s, 2001 and late 2007-2008 the Southern California leading indicator decreased significantly (Figure 3).

![Figure 3](image.png)

Figure 3
Southern California Leading Indicator and Employment

For the last two years the Southern California Leading indicator usually changed one to two quarters before SC employment changes (Figure 4). The SC indicator currently projects a decrease in Southern California economic activity in the next three to six months.

![Figure 4](image.png)

Changes in the WCEAF Leading Indicator and its Components

The Southern California Leading Indicator decreased from a value of 105.59 in the first quarter of 2020 to a value of 102.62 in the second quarter of 2020. The -2.81% decrease in the second quarter of 2020 suggests a decline in economic activity in the Southern California region in the next 3 to 6 months. Civilian employment in Southern California, which is notoriously erratic, subject to measurement errors and continually revised, showed a decrease in the second quarter of 2020 of -17.55%.

For the quarterly data, three of the seven components had a positive impact on the Southern California leading indicator. The positive impacts were from an increase the money supply adjusted for inflation, rise in the Pacific region consumer confidence index, and increase in the Standard & Poor’s 500 stock index. The negative impacts were from decrease in regional building permits, change in the interest rate spread, decrease in regional nonfarm employment, and increase regional unemployment.
Table 1
Leading Economic Indicators and Total Civilian Employment

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>SC Indicator</td>
<td>105.17</td>
<td>105.30</td>
<td>105.79</td>
<td>105.59</td>
<td>102.62</td>
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<tr>
<td>% Change</td>
<td>0.27</td>
<td>0.12</td>
<td>0.47</td>
<td>-0.20</td>
<td>-2.81</td>
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<td>US Indicator</td>
<td>111.70</td>
<td>111.80</td>
<td>111.43</td>
<td>109.10</td>
<td>100.00</td>
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<tr>
<td>% Change</td>
<td>0.18</td>
<td>0.09</td>
<td>-0.33</td>
<td>-2.09</td>
<td>-8.34</td>
</tr>
<tr>
<td>Civilian Employment</td>
<td>8,884,502</td>
<td>8,948,929</td>
<td>8,976,164</td>
<td>8,875,448</td>
<td>7,317,774</td>
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<tr>
<td>% Change</td>
<td>-0.19</td>
<td>0.73</td>
<td>0.30</td>
<td>-1.12</td>
<td>-17.55</td>
</tr>
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</table>

Economic Conditions

For the U.S. economy, real gross domestic product decreased at an annualized growth rate of -31.7% during the second quarter of 2020, following the -5.0% decrease in the first quarter of 2020. U.S. inflation, measured by the consumer price index, increased in July 2020 by 0.6% compared to June 2020. For California, the seasonally adjusted unemployment rate for June remains elevated at 14.9%, which is lower than the 16.4% in May 2020 and is also higher than the U.S. unemployment rate of 11.2% in June 2020. Payroll employment in California registered a net gain in June 2020 compared to the previous month. There were job losses in the 9 categories of manufacturing; trade, transportation, and utilities; financial activities; educational and health services; other services; construction; leisure and hospitality; information; and professional and business service. There were job losses in the 2 categories of mining and logging; and government.

Technical Notes

The WCEAF Southern California Leading Economic Indicator includes Los Angeles County, Orange County, San Bernardino County, Riverside County, Ventura County, and Imperial County. The index consists of both national and regional data. The national variables used are interest rates, Standard & Poor 500 stock index and real money supply. Nonfarm employment, the unemployment rate, building permits, and the Pacific region consumer confidence index make up the regional data. The employment and unemployment data are from the new North American Industry Classification System (NAICS).

The CEAF Southern California Leading Indicator provides information about future economic activity in Southern California and is not a prediction of the level of employment. Interpreting changes in a leading economic indicator requires analyzing the size and duration of changes in the direction of the index. As stated by the Conference Board, three consecutive downward movements in the leading index do not necessarily signal a recession. The Southern California leading economic indicator was initially constructed in May 2000 and is revised each quarter using the most recent and often revised data available. Historical labor data include the recent updates. The Conference Board data includes the 2016 benchmark revisions. The SC Leading Indicator (2016=100), following the procedure of the U.S. indicator, has been revised and equals 100 in the year 2016.

Woods Center for Economic Analysis and Forecasting (WCEAF)

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