ELI Erie Leading Index

ERIE

Marquette SAVINGS BANK

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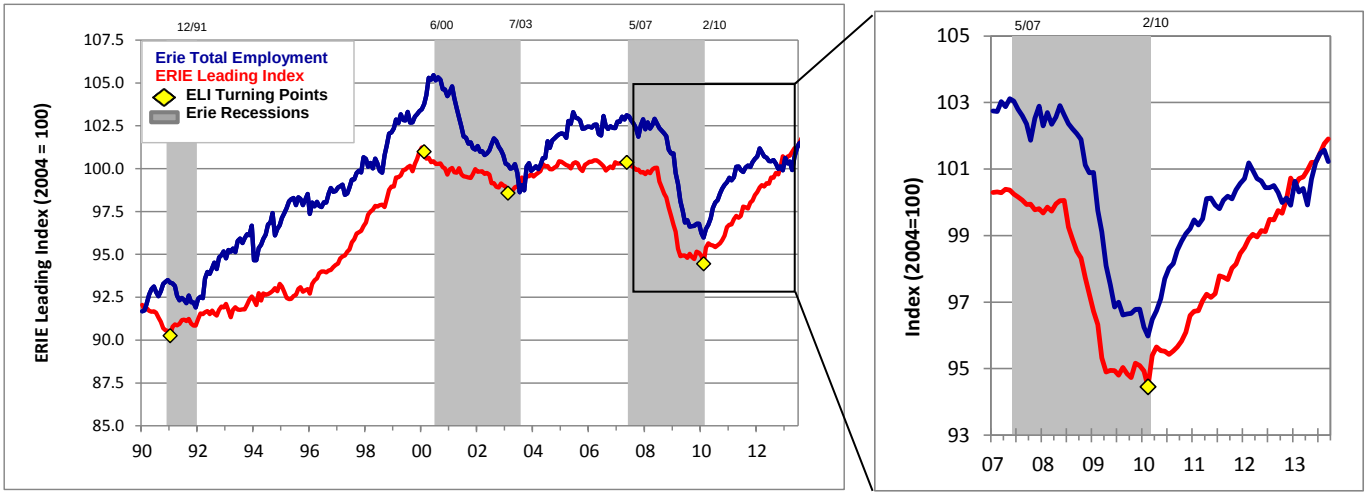
Issue #10: Third Quarter 2013 (data through September 2013)



ELI Continues to Signal Growth for the Erie Economy

The ERIE Leading Index continued its recent growth pattern in the 3rd quarter of 2013, hitting a new high of 101.9. This represents a 0.7% increase from the end of the last quarter, with all three months seeing increases. ELI, which gives advance warnings of recessions, has now grown for eight consecutive months, the longest such streak since late 2010.

This strong pattern of growth sends a good signal, considering Erie's total employment has been much less positive over the same period. While employment grew by 0.9% over the past year, the third quarter was virtually flat. ELI's upward pattern suggests that growth is the more prominent trend and that employment should continue upward over the next few months. And preliminary data for October tell us that employment did increase, happily.

ELI's value lies in its ability to anticipate downturns and upturns in the economy. The important conclusion ELI suggests in this issue is that the small decline in employment during September is not the beginning of a downward dip, but just a small bump in the ongoing recovery process.

There was a notable decline in employment through 2012, but ELI's ongoing rise during that year suggested that employment would be rising, not falling, in 2013. And employment *has* rebounded in 2013. If ELI is right again, perhaps Erie employment could hit pre-recession levels in 2014. But Erie County is still about 2,800 jobs below the 2007 peak, and current growth rates would not lead us to expect such an increase in just a few months, especially with GE layoffs. However, the recovery has brought back over 10,000 jobs since the worst days of the recession, and we have already passed peak levels in three industries (education and health, "other services", and government.)

So the good news is that the tea leaves are telling us that a downturn is not imminent for Erie. If employment follows ELI's lead, the Erie economy could experience a stretch of consistent growth that has been absent for the past 2 years.

Variable	June	July	August	September	Aug-Sep	% Change	Weights
ERIE Leading Index	**101.20**	**101.47**	**101.76**	**101.91**	**0.70**	**0.70**	**1.000**
U.S Interest Rate Spread (%)	2.2	2.5	2.7	2.7	0.52	23.53	0.299
U.S. Index of Coincident Indicators (2004=100)	106.1	106.1	106.4	106.6	0.5	0.47	0.267
U.S. Real Money Supply (M2) (bill of chained 2009 $)	9,891.6	9,981.8	10,025.7	10,064.6	173.0	1.75	0.181
PA Avg Weekly Hours in Manufacturing (hours)	41.0	40.7	40.6	40.5	-0.46	-1.13	0.078
Erie Manufacturing Employment (thou of jobs)	22.7	22.7	23.1	22.9	0.22	0.95	0.087
U.S. TS Freight Index (2000=100)	114.1	114.4	114.9	115.8	1.72	1.51	0.050
S&P 500 Stock Index (1941-43=10)	1,618.8	1,668.7	1,670.1	1,687.2	68.4	4.23	0.022
U.S. Building Permits (thou of units)	918	954	926	974	56	6.10	0.016

Components of ELI

All but one of the components of ELI grew from June to September, representing a strong quarter for the economy in general. The strongest growth came from the interest rate spread, which has grown for five consecutive months.

A strong all-around quarter saw 7 of 8 indicators growing with especially high growth for the Interest Rate Spread.

The other financial indicators, the money supply and S&P 500, also grew over the third quarter of 2013. The S&P 500 has grown much more slowly over the last 6 months than it did the previous six, but continues its upward trend.

The TSI Freight index was positive all three months this quarter and September saw a steep increase in the number of building permits for new residential structures across the country. All of the national indicators used in ELI demonstrated growth and this was reflected in the U.S. index of coincident indicators which grew half a percent from June to September.

Unfortunately, the variables specific to Erie and PA had a less promising quarter. PA weekly hours in manufacturing declined all three months, totaling a 1.13% decrease for the quarter. Erie manufacturing employment has maintained a relatively flat trend, although growth has been positive. And that is good news in the face of a long-run trend for decreasing employment in this industry sector.

One other factor that provokes concern is that seven of the eight ELI components grew more slowly in the last six months than in the last year, and in the last three months than in the last six.

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