ELI Erie Leading Index

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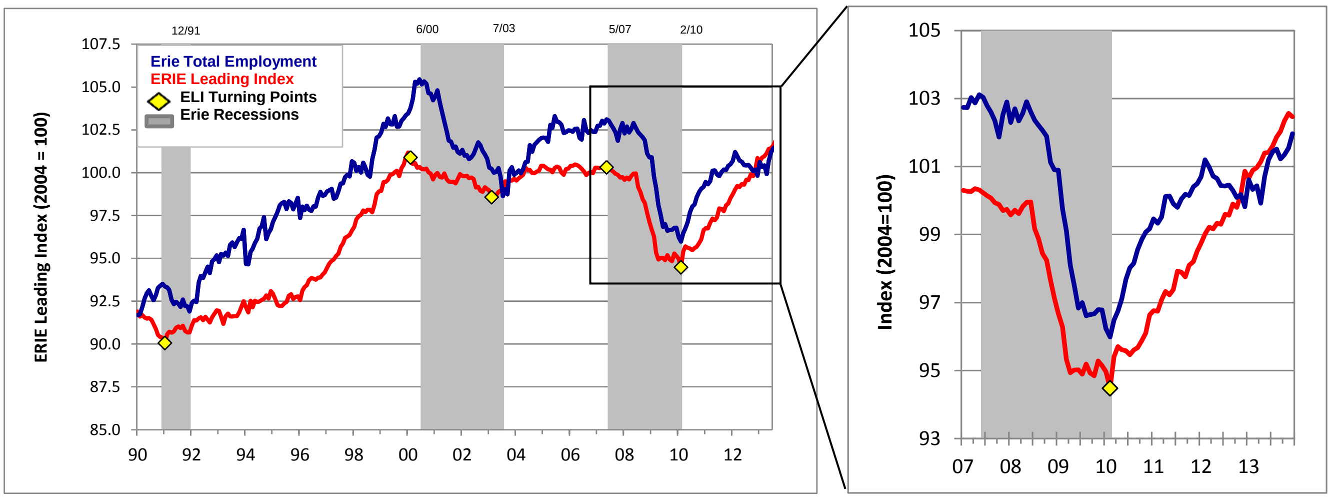

Spring is in the air—or at least in the Econ statistics!

It's hard to see it out our windows, but Spring is here. And ELI says it will be a good one for Erie...at least in terms of employment! Punxsutawney Phil may have predicted a rough spring, but the ERIE Leading Index (ELI) has a different perspective, as can be seen in the red line above. In fact, ELI reached a new record high in the last quarter. In November 2013 ELI hit 102.6, the highest value in the index's 24-year history. Moreover, the index consistently reached a new record high each month from May 2013 to November 2013. In December ELI was slightly below the November high, but this small drop is nothing to worry about. Taking the longer view, ELI has grown 1.6% since December of 2012, and 8.5% since the trough of the recession, a very strong run indeed.

There was a dip in Erie employment starting in March 2012 that made some people wonder if we were seeing the start of a new recession. From the highest to lowest point in this growth pause, Erie employment decreased by 1.4% or 1,800 jobs. But the graph shows that ELI did not foresee this dip as the beginning of a new downturn, and ELI was correct.

Most importantly, employment in Erie has been following ELI's lead recently and growing (more or less) steadily. Since December 2012 employment has grown by 2.2% or 2,800 jobs, outpacing the national growth rate of 1.7%. In fact, Erie County is only 1,500 jobs shy of its pre-recession peak in May 2007. And we're more than 7,800 jobs higher than the recession's low point in May 2010. (All these are seasonally adjusted numbers.)

Overall, the data for ELI and Erie employment paint a positive picture for the Erie economy. Following a year of struggling employment growth in 2012, 2013 saw substantial growth and the most recent quarter closed out the year in impressive fashion. ELI's upward trend would suggest that this growth will continue, giving a strong start to 2014 as well. While we cannot know with certainty what 2014 will hold for the Erie economy, it is well within the range of possibilities that Erie total employment could return to its pre-recession peak during the coming year. Now if it would just stop snowing…

Variable	Sep	Oct	Nov	Dec	Sep-Dec Chg	% Change	Weights
ERIE Leading Index	**102.03**	**102.34**	**102.56**	**102.46**	**0.43**	**0.42**	**1.000**
U.S Interest Rate Spread (%)	2.73	2.53	2.64	2.81	0.08	2.93	0.299
U.S. Index of Coincident Indicators (2004=100)	107.3	107.5	107.9	108.0	0.7	0.65	0.267
U.S. Real Money Supply (M2) (bill of chained 2009 $)	10,048.4	10,140.8	10,147.3	10,172.8	124.4	1.24	0.181
PA Avg Weekly Hours in Manufacturing (hours)	40.49	40.55	40.29	40.24	-0.26	-0.63	0.078
Erie Manufacturing Employment (thou of jobs)	22.97	23.13	23.10	22.86	-0.11	-0.47	0.087
U.S. TS Freight Index (2000=100)	114.95	114.50	117.72	116.51	1.56	1.36	0.050
S&P 500 Stock Index (1941-43=10)	1,687.2	1,720.0	1,783.5	1,807.8	120.6	7.15	0.022
U.S. Building Permits (thou of units)	974	1,039	1,017	991	17	1.75	0.016

*Symmetric % change, using the average value of the series in the last quarter as the base.

Components of ELI

Weak manufacturing components are a cause for concern, but all other variables point up.

While the overall picture for the Erie economy is rosy, some of ELI's components are less positive. Six of the eight individual data series were up last quarter, but the manufacturing sector was decidedly less so. PA weekly hours in manufacturing and Erie manufacturing employment both fell from September to December, and these are the two components that are the most specific, geographically, to the Erie economy. PA weekly hours has been the weakest of all of the ELI components recently, declining in five of the last six months. This need not be a negative sign if cuts in overtime hours are making way for new employees. But Erie manufacturing employment has seen inconsistent growth for the past year, and declined 0.5% in the final quarter of 2013. Still, this was only a 100-job drop so it's not a cause for major concern.

Apart from the manufacturing sector, ELI's components paint a strong picture. The S&P 500 saw the largest increase of all the components with a 7.2% increase, and the interest rate spread and money supply round out a strong set of financial sector variables. The U.S. coincident indicators, freight index, and the number of new building permits all grew modestly. And the U.S. Index of Leading Indicators (which is not a component of ELI) saw steady growth over the last quarter. These things, along with growth in Erie employment despite the sideways pattern in Erie manufacturing, are a good portent for Erie in 2014.

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