

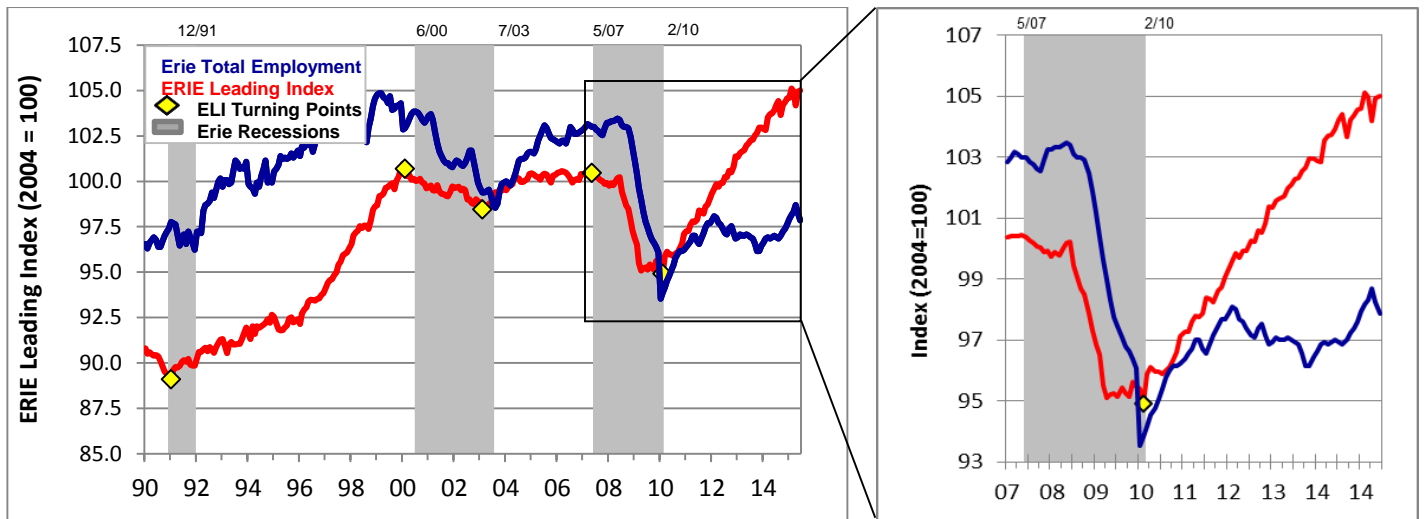
ELI

Erie Leading Index



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Issue #17: Third Quarter 2015 (data through June 2015)



ELI Turns 5, So Let's Hope It Survives Kindergarten!

It seems that ELI is determined to celebrate its big 5th birthday by continuing to hover about 5 points above 100! After reaching this plateau, and just like kindergartners (well some of them, at least!) who decide that they love school once they get a taste of what it's like and therefore want to remain forever young at age 5, ELI seems to be content with staying at 5 points above 100. Of course, just like parents eager to see their kids grow up and move on to 1st grade, we all want to see ELI start inching soon towards 106, which would signal growth in Erie employment! While recess and afternoon naps can be fun, an economy remaining at a plateau is less preferred, compared to one that is expanding, creating jobs, and producing a higher standard of living for the community.

Even though ELI has been steadily rising in the past few years, these last few months have been rocky. ELI dipped slightly at the beginning of the second quarter, but fortunately has resumed a modest climb since then. This is not unlike the erratic autumn weather we have been experiencing! And we need to remember that, just like that unpredictable kindergartner, ELI has been known in the past to exhibit these sudden and temporary changes in direction. The good news is that, despite its current holding pattern, ELI isn't telling us to sound the alarms bells yet.

Although Erie total employment grew by 1,000 (or 0.7%) year-on-year in June 2015, it fell by 900 (or also about 0.7%) during the 2nd quarter. Perhaps employment just wanted to take one more dip in the pool before the weather becomes too cold! These rather poor recent employment numbers were anticipated by ELI, which only rose by a very modest 0.05% in the 2nd quarter. We'll need to wait and see whether ELI will resume a more robust upward trajectory and therefore point to growth in local employment. Erie's seasonally adjusted unemployment rate stood at 5.5% in June, dipping slightly from the 5.6% in May and remaining roughly comparable to the unemployment rate in Pennsylvania (5.4%) and the nation as a whole (5.3%).

Variable	March	April	May	June	Mar-Jun	% Change*	Weights
ERIE Leading Index	104.95	104.17	104.93	105.01	0.05	0.05	1.000
U.S Interest Rate Spread (%)	1.93	1.82	2.08	2.23	0.30	15.54	0.320
U.S. Index of Coincident Indicators (2004=100)	111.8	112.0	112.1	112.3	0.50	0.45	0.250
U.S. Real Money Supply (M2) (bill of chained 2009 \$)	10,865.2	10,905.2	10,909.4	10,926.0	60.80	0.56	0.168
PA Avg Weekly Hours in Manufacturing (hours)	41.0	41.1	40.7	41.1	0.03	0.08	0.078
Erie Manufacturing Employment (thou of jobs)	22.5	22.6	22.5	22.2	-0.30	-1.33	0.091
U.S. TS Freight Index (2000=100)	122.7	121.6	122.2	121.9	-0.80	-0.65	0.053
S&P 500 Stock Index (1941-43=10)	2,080.0	2,094.9	2,111.9	2,099.3	19.29	0.93	0.023
U.S. Building Permits (thou of units)	1,038	1,140	1,250	1,337	299.00	28.81	0.017

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

*Changes may differ from hand calculations due to rounding.

Components of ELI

Six of the eight ELI components grew during this quarter, causing the overall index to rise, but by only 0.05%. As noted above, it appears that ELI may have reached a plateau. The U.S. interest rate spread grew by 15.54%, which is great considering that it has shown declines quite consistently since January 2014.

It is cause for concern that Erie manufacturing employment has decreased, on a seasonally adjusted basis, by 1.3% in the 2nd quarter, and PA average weekly hours in manufacturing have only grown .08%. Unfortunately, these components of ELI are a reflection of the ongoing challenges faced by the manufacturing sector in the local economy. Many manufacturing companies continue to try to do their best in adapting to structural changes in the economy, but it remains a challenge for others in an increasingly integrated national and international economy.

The U.S. freight index also decreased during this quarter overall; it has been rather tumultuous in recent months, displaying somewhat erratic behavior. It is worth keeping an eye on, but recent movements in the index have been relatively small and therefore don't appear to pose a threat at this time.

Ending on a positive note, the number of U.S. residential building permits (which usually signal upcoming increases in other types of economic production) increased by almost 29% in the 2nd quarter, in contrast to the 2% decline in the first quarter. And although it is not a component of ELI, the U.S. Index of Leading Indicators continued to point in the right direction in the 2nd quarter, which is good news since the U.S. economy tends to lead the Erie economy. Along with the U.S. Federal Reserve's recent decision to postpone a much anticipated interest rate hike this fall, these trends in the overall national economy are likely to help prevent ELI from taking a wrong turn towards the downward direction.

The leaves might be falling, but 6 out of the 8 ELI components aren't!

The number of U.S. residential building permits grew by 28.8% this quarter!

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