ELI Erie Leading Index

ERIE
Marquette SAVINGS BANK
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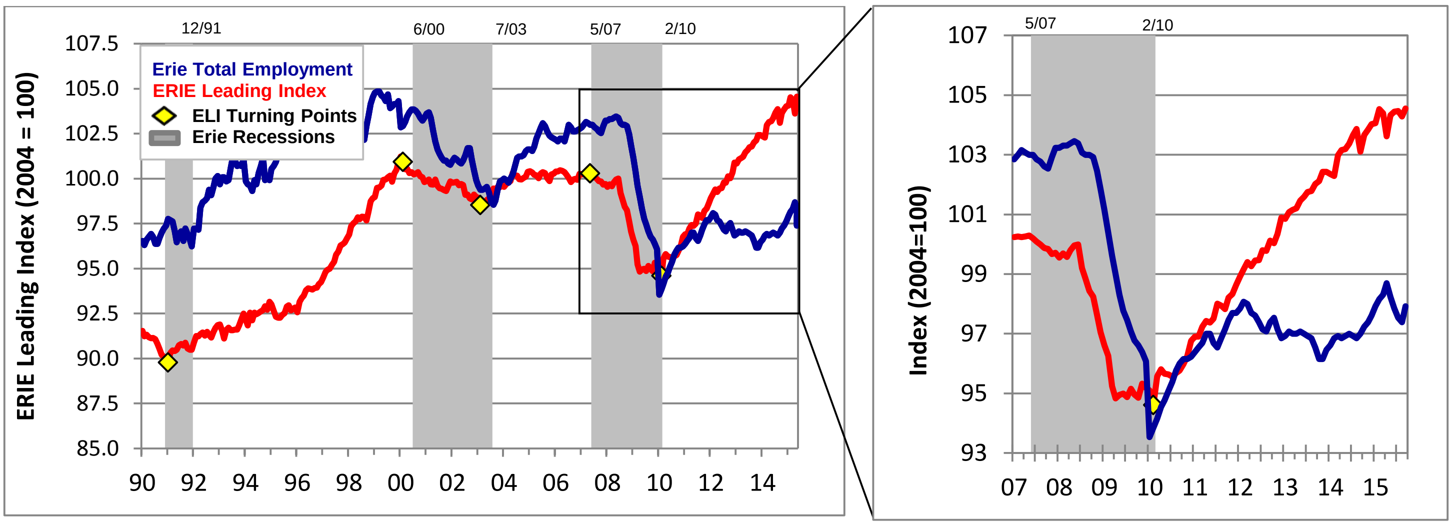

ELI Takes a Break, But Manages to Spread a Little Holiday Cheer

Will ELI be naughty or nice after the holiday season?

Though it has been rising fairly consistently since 2010 as Erie recovered from the Great Recession along with the national economy, the Erie Leading Index (ELI) has apparently decided to take a holiday break this season from its steady five-year upward climb. ELI has remained stable through the past few quarters and is currently hovering at just below 105. Overall, ELI grew by only 0.11% through the third quarter and even dipped slightly in August before picking back up again. Although this represents a slight improvement compared to the 0.05% growth that ELI saw in the previous quarter, it unfortunately is much less than the 2.0% growth that ELI enjoyed over the course of 2014.

ELI's anemic performance reflects the recent sluggish pace of growth in Erie total nonfarm employment, which rose on a seasonally adjusted basis by only 1.5% (2,000 jobs) year-on-year in September, and by only 0.54% (700 jobs) in the third quarter. While the rate of employment growth has been less robust than we would have liked to see, the modest improvement means that ELI is still managing to spread a little holiday cheer! However, if the recently announced plans by G.E. and Lord Corp. for possible job reductions locally are realized, Erie manufacturing as well as total employment are expected to decrease in the next several months, unless those anticipated job losses are offset by job gains in other parts of the local economy. We will therefore need to pay careful attention to see if ELI will be naughty or nice next quarter. Of course, our holiday wish is for ELI to hold its ground, based on the strength of its other input components, and continue to point to growth (or at least stability) in overall local employment.

Erie's seasonally adjusted unemployment rate in September remained at 5.5%, unchanged since June, and was just slightly higher than the unemployment rate in Pennsylvania (5.3%) and the nation as a whole (5.1%).

Variable	June	July	August	September	Jun-Sept	% Change*	Weights
ERIE Leading Index	**104.44**	**104.46**	**104.29**	**104.55**	**0.11**	**0.11**	**1.000**
U.S Interest Rate Spread (%)	2.23	2.19	2.03	2.03	**-0.20**	**-8.97**	0.320
U.S. Index of Coincident Indicators (2004=100)	112.2	112.5	112.6	112.8	**0.60**	**0.53**	0.250
U.S. Real Money Supply (M2) (bill of chained 2009 $)	10,916.8	10,973.9	11,043.5	11,121.7	**204.90**	**1.88**	0.168
PA Avg Weekly Hours in Manufacturing (hours)	41.1	40.9	40.7	40.7	**-0.33**	**-0.80**	0.078
Erie Manufacturing Employment (thou of jobs)	22.2	22.2	22.3	22.3	**0.08**	**0.37**	0.091
U.S. TS Freight Index (2000=100)	122.2	123.2	123.2	123.4	**1.20**	**0.98**	0.053
S&P 500 Stock Index (1941-43=10)	2,099.3	2,094.1	2,039.9	1,944.4	**-154.88**	**-7.38**	0.023
U.S. Building Permits (thou of units)	1,337	1,130	1,161	1,103	**-234.00**	**-17.50**	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

The eight components that make up ELI split themselves right down the middle this quarter, with four increasing and four decreasing.

Who's been nice?

During and after the Great Recession, the Fed has been maintaining an expansionary monetary policy, with the growth in the U.S. real money supply helping to sustain the recovery and growth of the national economy. This, in turn, has been consistently contributing to ELI's upward movement. In addition, despite the recent announcements of planned layoffs by G.E. and Lord Corp., Erie manufacturing employment had been holding steady, even rising modestly, on a seasonally adjusted basis, in the third quarter. An additional "nice" factor has been the U.S. Freight Index, which saw a modest increase after falling slightly last quarter.

ELI components were half naughty and half nice this quarter, with 4 falling and 4 growing!

Will ELI be naughty or nice once the holiday season is over?

Who's been naughty?

U.S. residential building permits showed the largest decrease, registering a 17.5% decline (a dramatic reversal compared to the almost 29% increase registered in the second quarter) and therefore signaling a moderation in the growth of the U.S. housing sector. Although this may be due to seasonal factors that normally affect the housing and construction industries this time of year, the latest decrease in housing permits warrants close attention, since this slowdown may spill over into other sectors of the local economy. A similar reversal has occurred in the U.S. Interest Rate Spread, which grew by over 15% in the second quarter but fell by almost 9% in the third quarter. Moreover, if the Fed goes ahead with a much anticipated hike in short-term interest rates in mid-December, the interest rate spread is likely to shrink further. The ghosts of recessions past have shown that when the interest rate spread (which measures the difference between the 10-year U.S. Treasury bond yield and the short-term Federal Funds rate) becomes negative, it may be an indicator of an impending recession. A final naughty factor helping to restrain ELI was the S&P 500 Stock Index, which fell 7% in the third quarter.

Just like Santa, we will continue to monitor ELI throughout the year to see which components are naughty and which are nice.

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