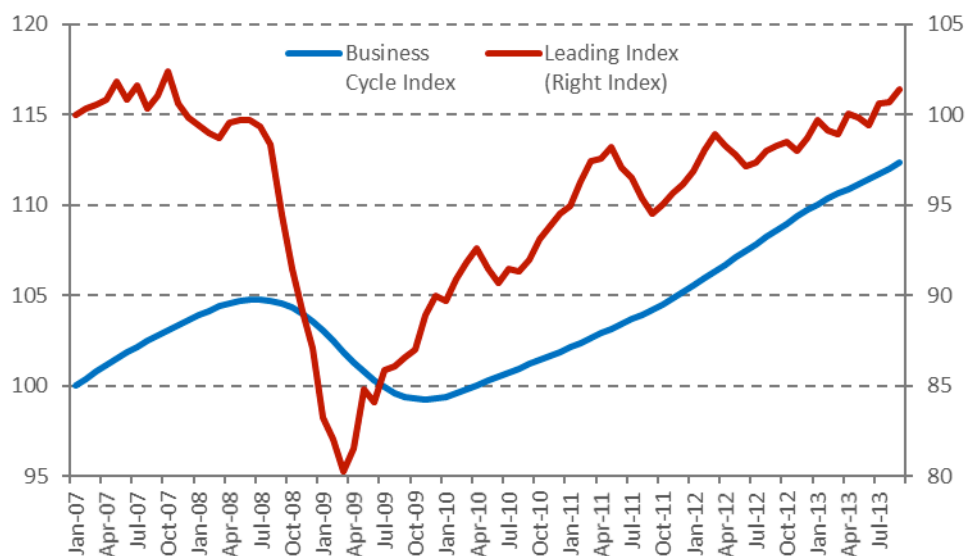


About this Reference Document

This document helps you understand and interpret a particular economic indicator that is part of the larger *Outlook for the Texas Economy*. Note that all data, charts, and explanations presented are from prior reports and thus are not current. Your feedback is always appreciated. Send comments and suggestions to info@recenter.tamu.edu.

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Texas Business Cycle Index and Leading Index
(Index Jan 2007 = 100)



Note: Seasonally adjusted.
Source: Federal Reserve Bank of Dallas

This is a business-cycle/coincident index. It is a single-summary statistic that tracks the **current** state of the overall economy. It answers the question, “Where are we now?” The business cycle index estimates changes in the underlying “state of the economy” defined by the comovement in many broad economic indicators, such as employment and production. These broad series are considered indicators that measure aggregate economic activity, thus helping define the business cycle and estimate the business cycle index. The Business Cycle Index for Texas is estimated by the Dallas Federal Reserve. Its components are the:

- monthly Texas nonfarm employment,
- quarterly Texas real gross state product (GSP) and
- monthly Texas unemployment rate.

The basic procedure for estimating a business cycle is to plot the index against calendar time and identify the peaks and troughs. This chronology of turning points shows when expansions

turn into recessions and recessions into upswings. In this graph, a recession is identified from around fourth quarter 2008 to fourth quarter 2009. An upswing in economic activity follows, signaling that the Texas economy continued to expand at a slower rate.

The leading index is a single-summary statistic that focuses on the **future** state of the overall economy, trying to answer the question, “Where are we headed?” It’s a guide to the future direction of economic activity. Changes in many economic series tend to lead changes in overall economic activity. This series changes prior to upturns and downturns in the business cycle. Its purpose is to signal upcoming directional changes in the business cycle, such as a recession or an expansion. The Leading Index for Texas is estimated by the Dallas Federal Reserve. Its components are:

- average weekly hours in manufacturing,
- help wanted advertising,
- real Texas stock index,
- initial unemployment claims,
- drilling well permits,
- real price of West Texas intermediate crude oil,
- Texas export-weighted value of the dollar and
- U.S. Leading Index.

In the graph, you can observe that the index anticipated a downturn in the Texas economy around the start of 2008. It also anticipated a recovery in second quarter 2009. It currently indicates that the Texas economy will continue to grow at a slow rate.

Source: Dallas Federal Reserve

<http://www.dallasfed.org/research/econdata/mbcicfm>

