

Leading Index

The leading index is essentially unchanged from last quarter, with no strong, clear signal about what might be on the horizon. The spread between short term and longer term interest rates decreased, the Boeing backlog to deliveries ratio fell very slightly, and housing permits dipped very slightly. At the same time, durable sales increased along with manufacturing hours worked. That is, changes in the various components of the index were largely offsetting.

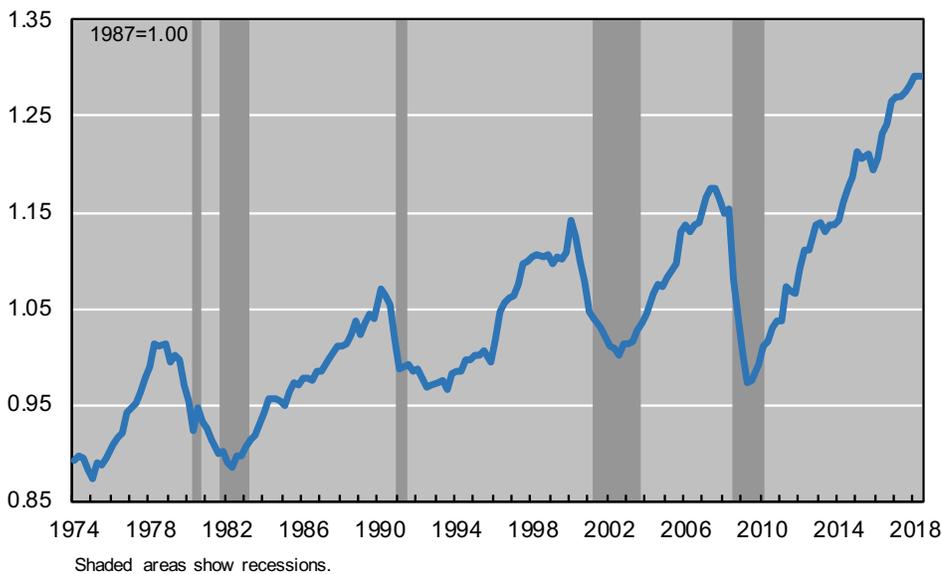
The two components of the index that focus on the labor market - help wanted ads and initial claims for unemployment insurance – are also sending something of a mixed signal. More initial claims for unemployment insurance means more people have been working and more people are moving between jobs. That ‘churning’ can be a good thing and is expected with a strong economy.

A decrease in help wanted ads has our attention. It could be a sign of a softening labor market. Having said that, we also know businesses are changing the way they search for workers. We have to be careful not to read too much into changes in this one component of the index.

With mixed indicators, we often look for other indicators to find clarity. Financial markets tend to be forward looking and can help provide insights about what people are expecting. At first glance it appears the bond market is telling a pessimistic tale. Interest rate spreads are low and the yield curve could invert, something that has many people worried. But the appeal of the U.S. dollar and very low yields on bonds in other countries make U.S. debt relatively attractive – and lots of buyers from around the world means higher prices and lower yields. So yes, risks abound, but the bond market is not necessarily telling us to worry. Like our index, the bond market is saying that we need to

be very attentive, but the numbers alone remain fine... for now.

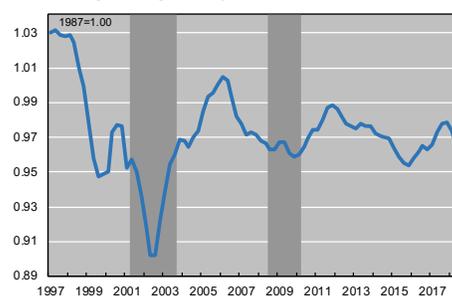
Puget Sound Index of Leading Economic Indicators



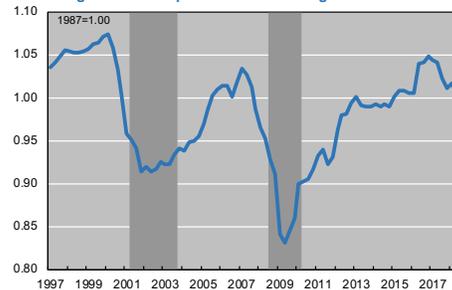
Puget Sound Housing Permits



Boeing Backlog-Delivery Ratio



Puget Sound Help-Wanted Advertising



Puget Sound Initial Claims for Unemployment Insurance



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