

# UNIVERSITY OF OREGON INDEX OF ECONOMIC INDICATORS™

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## MARCH 2010

### Analysis

The University of Oregon Index of Economic Indicators™ rose 0.2 percent in March to 88.9 (1997=100) from a revised February figure of 88.7. The pace of improvement slowed compared to the previous month. All indicators improved compared to six months ago, with the six-month annualized change falling slightly to a still very high 11.1%. Most index components were little changed compared to February, with the exception of solid gains in consumer sentiment and new orders for core capital goods.

Labor market indicators were largely unchanged during March. Initial unemployment claims and employment services payrolls—largely temporary employment firms—were both effectively steady during the month. Claims have improved dramatically since last year, but still remain elevated, while steady economic growth since last summer has had limited impact on new hiring. The combination leaves overall nonfarm pay-

rolls (not included in the UO Index) stagnant with a net loss of just 100 jobs for the first three months of 2010.

Residential building permits (smoothed) fell slightly, the first decline in five months as construction activity bounced from the very low levels last summer. Only moderate improvements are expected as tighter mortgage underwriting conditions and nonexistent job growth both continue to weigh on the outlook for residential housing activity. The Oregon weight-distance tax (smoothed)—a measure of trucking activity—rose slightly, partially offsetting a decline in February.

New orders for nondefense nonaircraft capital goods rose sharply, a signal of continuing improvement in business confidence that is supportive of manufacturing industries. Likewise, consumer confidence (smoothed) gained in March; gradual improvements in job markets is likely supporting some additional spending as layoff fears ebb. The interest rate spread between 10-Year Treasury Bonds and the Federal Funds was effectively

unchanged; the Federal Reserve continues to signal accommodative monetary policy for an “extend” period of time, likely into 2011.

The steady gains in the UO Index—especially the large gains compared to six months ago—signal sustained growth in Oregon. Still, labor market conditions remain challenging, as economic growth falls short of that necessary to generate solid gains in hiring intentions. Although hiring is expected to improve as ongoing recovery improves business confidence, the pace of growth looks consistent with only slow improvements in unemployment.

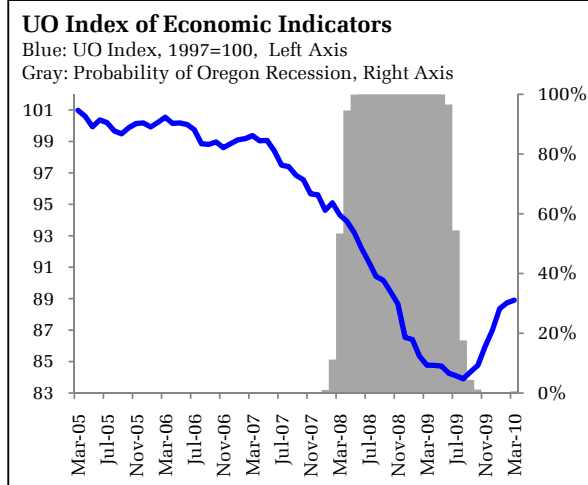


Table 1: Summary Measures

	2009			2010		
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
University of Oregon Index of Economic Indicators™, 1997=100	84.8	86.0	87.0	88.4	88.7	88.9
Percentage Change	0.5	1.4	1.2	1.6	0.4	0.2
Diffusion Index	42.9	85.7	78.6	85.7	57.1	50.0
6-Month Percentage Change, Annualized	0.0	3.0	6.6	10.4	11.8	11.1
6-Month Diffusion Index	64.3	71.4	78.6	100.0	85.7	100.0



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## Methodology and Notes

The methodology employed in creating the University of Oregon Index of Economic Indicators is identical to that used by the Conference Board, an independent, not-for-profit research organization, in the computation of the U.S. Leading Index. For information, see [www.globalindicators.org](http://www.globalindicators.org).

The UO Index is a leading indicator as the economy transitions from expansion to recession. Steep declines in the UO Index are recorded during periods of economic stress, signaling diminishing prospects for growth. Rising values of the UO Index tend to coincide with the end of a recession. As a general rule, a decline in the index of greater than 2.5 percent (annualized) over six months, coupled with a decline in more than half of its components, signals that a recession is likely imminent. Using the rule, the index signaled an impending recession in October 2000; a business cycle dating procedure developed by Jeremy Piger, a University of Oregon associate professor, indicates Oregon entered recession in November of 2000. Similarly, the UO Index suffered a sharp drop ahead of the recession in 2007.

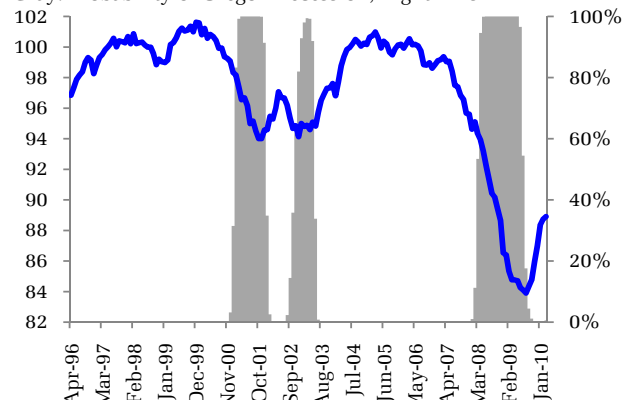
The general rule, however, should be used judiciously. Using the rule, the UO Index indicated recession for a single month in 1998 during the Asian Financial Crisis. More recently, the UO Index sent recessionary warnings in the middle of 2006, well before Oregon actually slipped into recession in at the end of 2007. Moreover, no single variable is capable of decisively determining the state of the business cycle. Consequently, the UO Index of Economic Indicators is best considered as another tool in assessing the economy.

Sources: The Conference Board, Oregon Department of Transportation, Oregon Employment Department, Federal Reserve Bank of St. Louis, Bureau of Labor Statistics, Census Bureau, and the author's calculations.

### UO Index of Economic Indicators - Historical

Blue: UO Index, 1997=100, Left Axis

Gray: Probability of Oregon Recession, Right Axis



### UO Index of Economic Indicators, % Change

Blue: 6-Month Percentage Change, Annualized

Red: 6-Month Diffusion Index Declines More Than 50%

Gray: Probability of Oregon Recession, Right Axis

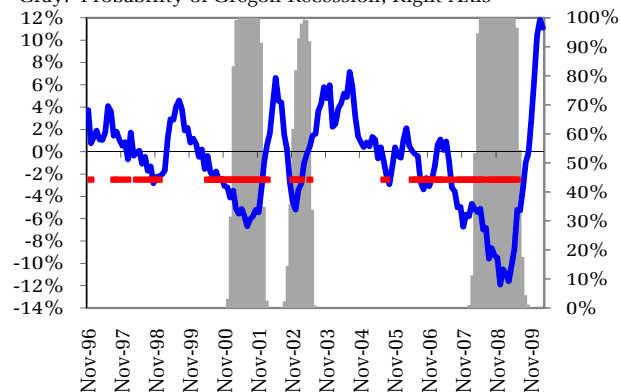


Table 2: Index Components

	2009			2010		
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Oregon Initial Unemployment Claims, SA*	11,307	10,819	10,754	10,081	9,216	9,188
Oregon Employment Services Payrolls, SA	25,453	26,735	26,810	28,403	28,311	28,305
Oregon Residential Building Permits, SA, 5 MMA*	499	575	678	756	820	798
Oregon Weight Distance Tax, \$ Thousands, SA, 3 MMA	18,000	18,325	18,311	18,890	18,186	18,252
Univ. of Michigan U.S. Consumer Confidence, 5 MMA	69.3	68.6	69.9	71.7	71.7	72.3
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, \$ Millions, SA	33,218	34,346	35,189	33,565	34,284	35,653
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	3.27	3.28	3.47	3.62	3.56	3.57

\* SA—seasonally adjusted; MMA—month moving average

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*The goal of the University of Oregon Index of Economic Indicators™ is to create a summary measure of various data that pertain to the Oregon economy.*