UNIVERSITY OF OREGON INDEX OF ECONOMIC INDICATORS™

oregon economic forum

A project of the College of Arts and Sciences and its Department of Economics

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Analysis

The University of Oregon Index of Economic Indicators™ rose 2.7 percent in December to 90.5 (1997=100). All indicators improved compared to the previous month. Compared to six months ago, the UO index is up 3.5 percent, a sharp improvement from the 2.3 percent decline of the previous month. December's gains are consistent with an accelerating pace of economic activity. The weight distance tax collected continues to be volatile in response to recent increases in the tax rate; this series will be revised as the final impact of the tax increase is incorporated in the data.

Labor market indicators were generally improved. Initial unemployment claims declined sharply, falling to their lowest level since April 2008. The decline is a very good signal that labor markets are set to improve further in the coming months. Similarly, employment services payrolls—largely temporary-help workers—rose substantially during December, another indication that firms are looking to boost hiring as economic activity improves. During the final quarter of 2010, overall nonfarm payrolls (not included in the index) rose by an average of 2,567 employees each month.

Residential building permits (smoothed) gained, albeit from very low levels. Still, any improvement is welcome in this beleaguered sector. New orders for nondefense nonaircraft capital goods rose, building on an upwardly revised gain in November and moving above the generally sideways movement that began this summer. December's gain suggests business investment spending will accelerate in early 2011. Consumer confidence also rose, albeit the gain still falls short of an improvement consistent with the solid gains in consumer spending during the final months of 2010. Confidence appears to remain restrained by high unemployment rates and higher gas prices. The interest rate spread between ten-year treasury bonds and the federal funds rate widened dramatically as investors continued to upgrade their assessment of the U.S. economy.

The UO Index has now completely reversed the losses experienced this summer, alleviating concerns of a double dip recession. Similarly, national-level indicators improved at the end of 2010, with the economy re-accelerating after suffering a mid-year slowdown. Improving national conditions, combined with rising state-level measures of activity, point toward a more even, sustainable pattern of economic growth in Oregon in 2011.

UO Index of Economic Indicators
Blue: UO Index, 1997=100, Left Axis
Gray: Probability of Oregon Recession, Right Axis

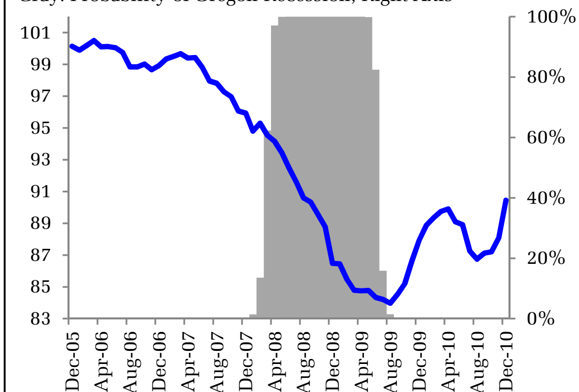


Table 1: Summary Measures

	2010					
	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
University of Oregon Index of Economic Indicators™, 1997=100	87.2	86.7	87.1	87.2	88.1	90.5
Percentage Change	-1.9	-0.6	0.4	0.1	1.0	2.7
Diffusion Index	7.1	35.7	57.1	28.6	71.4	100.0
Six Month Percentage Change, Annualized	-3.6	-5.8	-5.7	-5.9	-2.3	3.5
Six Month Diffusion Index	42.9	35.7	28.6	35.7	28.6	85.7

Released: February 3, 2011.

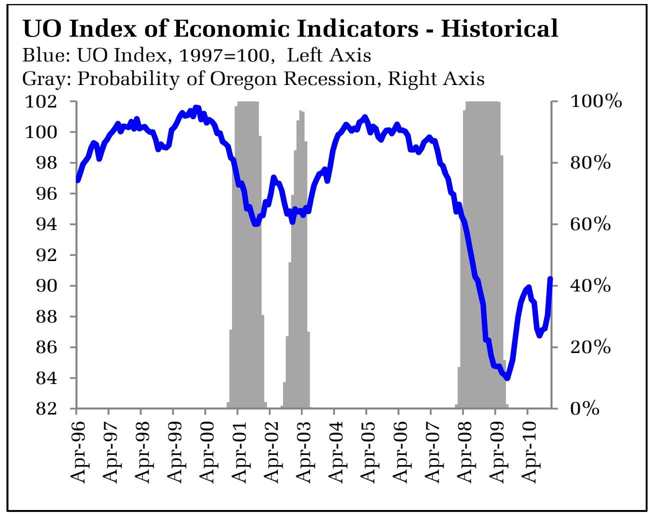
Methodology and Notes

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.

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 of economics, 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 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.



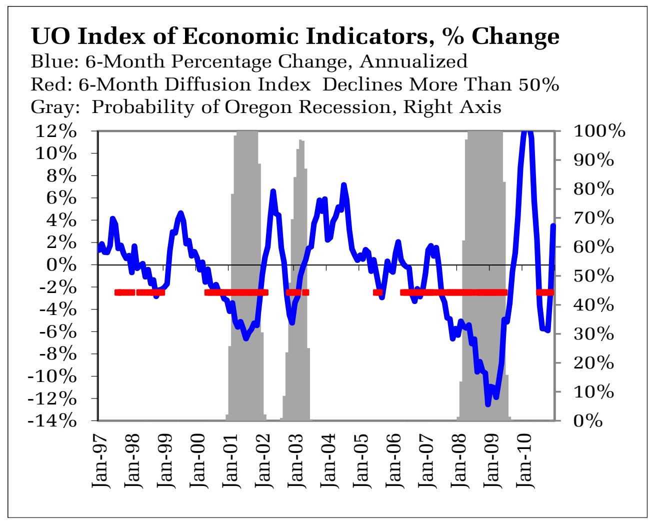


Table 2: Index Components

	2010					
	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
Oregon Initial Unemployment Claims, SA*	10,163	10,447	9,583	9,704	10,042	8,237
Oregon Employment Services Payrolls, SA	30,326	28,948	29,790	29,583	30,499	31,452
Oregon Residential Building Permits, SA, 5 MMA*	480	488	472	544	564	709
Oregon Weight Distance Tax, $ Thousands, SA, 3 MMA	18,341	18,324	18,652	18,501	20,047	20,592
Univ. of Michigan U.S. Consumer Confidence, 5 MMA	72.6	71.7	70.9	69.7	68.8	70.2
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, $ Millions, SA	37,945	39,805	40,541	39,563	40,730	41,228
Interest Rate Spread, Ten-Year Treasury Bonds Less Federal Funds Rate	2.83	2.51	2.46	2.35	2.57	3.11

** 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.