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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MARCH 2011

Analysis

The University of Oregon Index of Economic Indicators™ rose 0.7 percent to 92.0 in March 2011, the fifth consecutive monthly gain. Of the seven indicators that comprise the UO Index, four—Oregon initial unemployment claims, Oregon employment services payrolls, Oregon residential building permits, and core manufacturing orders—improved in March. Remaining indicators were essentially unchanged or deteriorated slightly. Recent trends in the UO Index continue to suggest the Oregon economy will see sustained economic improvement in the months ahead.

Labor markets continue to improve. Initial unemployment claims fell, more than offsetting the gain in January and February. The decline brings claims to the lowest level since March of 2008. Employment services payrolls—largely temporary employment—continued to edge up, signaling improved labor demand. Overall nonfarm payrolls (not included in the index) slipped after several months of strong gains. Firms cut 2,500 employees in March, on the back of a 9,700-worker gain the previous month. During the first quarter of 2011, the Oregon economy has added an average of 4,633 jobs per month.

Residential building permits (smoothed) gained after three months of stagnation. Multifamily housing accounted for almost half the units permitted in the raw, nonseasonally adjusted data as demand for rental units offset the decline in homeownership rates in the wake of the housing bubble. Core manufacturing orders improved significantly, offsetting the decline of the two previous months. Trucking activity, as measured by the Oregon weight-distance tax, slipped during March but this can be a volatile indicator; the first-quarter trend is an improvement over the final quarter of last year. Consumer confidence (smoothed with a five-month moving average) was stagnant in March as higher energy costs weighed on consumers. The interest rate spread again fell, offsetting February's improvement.

Continued economic improvement is likely as national gains propel activity in Oregon. Although national growth slowed in the first quarter of this year, at least partially a response to the sharp jump in commodity prices, most forecasters continue to expect overall better growth in 2011 compared to last year. That said, forecasts suggest the pace of growth still falls short of the rapid gains normally experienced when the economy rebounds from a deep recession. Consequently, the recovery is still anticipated to be a lengthy process.

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

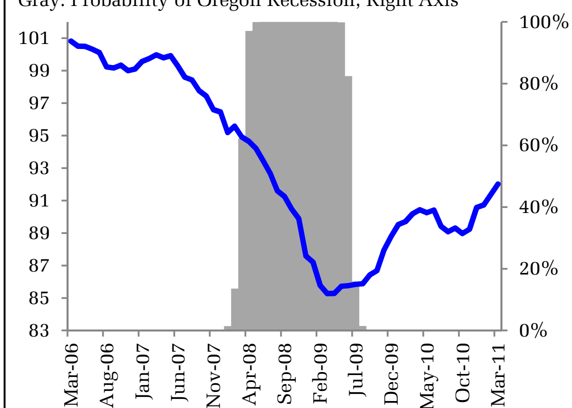

Table 1: Summary Measures

	2010			2011		
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
University of Oregon Index of Economic Indicators™, 1997=100	89.0	89.2	90.6	90.7	91.4	92.0
Percentage Change	-0.4	0.3	1.5	0.2	0.7	0.7
Diffusion Index	28.6	64.3	85.7	50.0	78.6	64.3
Six Month Percentage Change, Annualized	-3.2	-2.2	0.3	2.9	5.2	6.2
Six Month Diffusion Index	28.6	42.9	57.1	85.7	92.9	100.0

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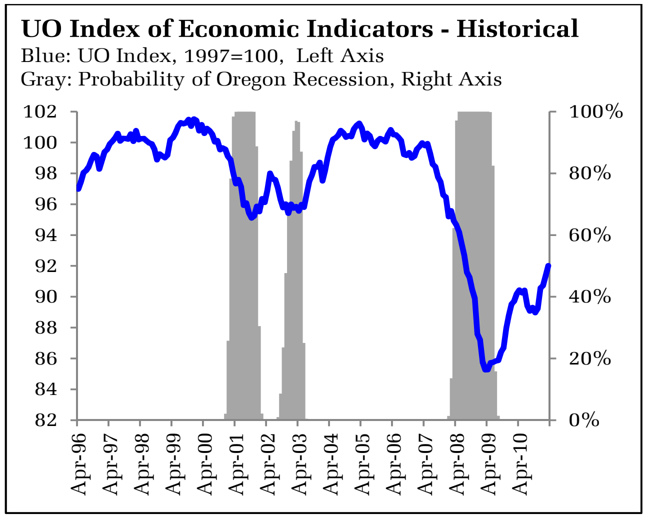
Methodology and Notes

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.

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 sustained decline in the index of greater than 2.75 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.



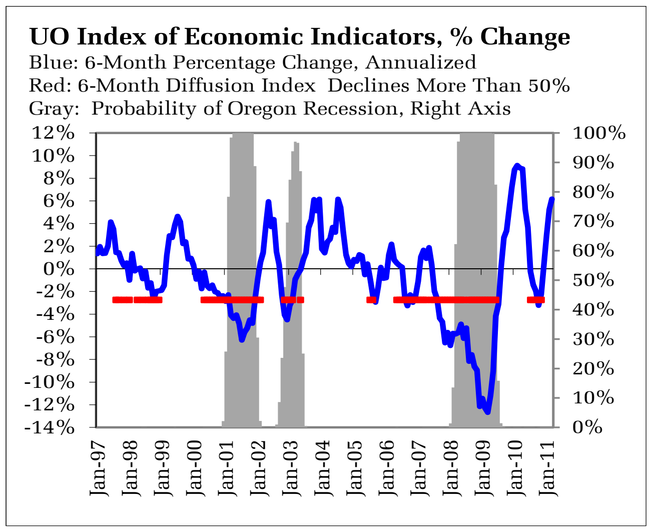


Table 2: Index Components

	2010			2011		
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Oregon Initial Unemployment Claims, SA*	9,794	9,416	8,219	8,470	8,509	8,046
Oregon Employment Services Payrolls, SA	30,704	31,181	31,676	31,761	32,562	32,716
Oregon Residential Building Permits, SA, 5 MMA*	605	587	647	627	638	717
Oregon Weight Distance Tax, SA, Index, 1998=100, 3 MMA	102.74	102.44	99.38	106.40	106.87	106.26
Univ. of Michigan U.S. Consumer Confidence, 5 MMA	69.7	68.8	70.2	71.2	73.1	73.1
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, $ Millions, SA	39,462	40,775	42,344	39,728	39,884	41,261
Interest Rate Spread, Ten-Year Treasury Bonds Less Federal Funds Rate	2.35	2.57	3.11	3.22	3.42	3.27

* *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.