UNIVERSITY OF OREGON INDEX OF ECONOMIC INDICATORS™

oregon economic forum

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

OCTOBER 2005

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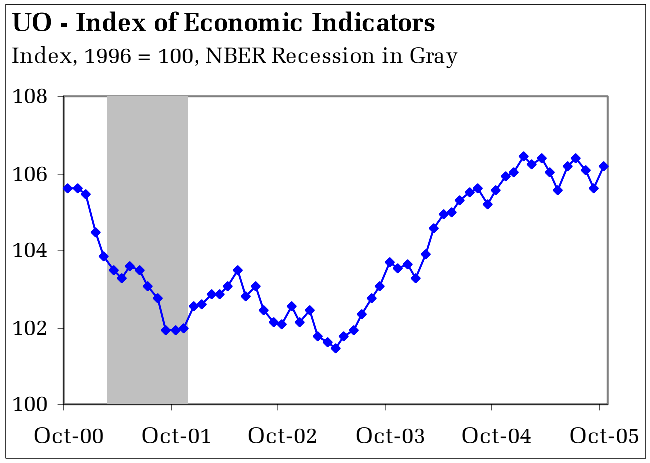

Analysis

The University of Oregon Index of Economic Indicators™ rebounded sharply in October, rising 0.5 percent to 106.2 (1996=100). Seven of the eight indicators that comprise the UO Index—Oregon initial unemployment claims, Oregon residential building permits, Oregon weight distance tax, *The Oregonian* help-wanted ads, Oregon nonfarm payrolls, U.S. manufacturing orders, and the interest rate spread between Treasury bonds and the Federal Funds rate—improved in October. Only one indicator, U.S. consumer confidence, deteriorated.

Oregon labor market indicators showed gains across the board. Notably, nonfarm payrolls improved significantly on two fronts. First, revised data revealed that employers added 4,600 jobs in September, compared to an initial estimate of just 300 jobs. Second, the Oregon economy added another 1,200 jobs in October. In addition, initial unemployment claims fell while the number of help-wanted ads rose, both signals of a healthy labor market in Oregon.

All but one of the remaining indicators showed similar improvements. Notably, both Oregon residential building permits and U.S. new manufacturing orders for nondefense, nonaircraft capital goods rose. The former suggests that the housing market remains strong despite rising mortgage rates. The latter suggests that business expansion plans remain firm, a positive signal for Oregon's manufacturing industry.

Consumer confidence continued its hurricane-induced slide in October. Looking ahead, it is important to note that confidence improved in November as gasoline prices retreated.

Incoming data reveal that Oregon's economy suffered only a glancing blow from this summer's hurricane activity. Compared to six months ago, the UO Index rose 0.4 percent, while the six-month diffusion index, a measure of the proportion of components that are rising, rose to 62.5 (in other words, on balance, more than half the components improved). As a general rule, a decline in the index of greater than 2 percent over six months (annualized), coupled with a decline in more than half of its components, signals that a recession is likely imminent. Consequently, the index suggests that Oregon's solid pace of economic growth is set to continue for at least the near term (three to six months).

Table 1: Summary Measures

	2005					
	May	Jun.	Jul.	Aug.	Sep.	Oct.
University of Oregon Index of Economic Indicators™, 1996=100	105.6	106.2	106.4	106.1	105.6	106.2
Percentage Change	-0.4	0.6	0.2	-0.3	-0.4	0.5
Diffusion Index	31.3	56.3	56.3	37.5	43.8	81.3
6-Month Percentage Change, Annualized	-0.6	0.3	-0.1	-0.3	-1.5	0.4
6-Month Diffusion Index	37.5	50.0	37.5	50.0	37.5	62.5

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Released: December 5, 2005.

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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 constructed to have the properties of a leading indicator. As a general rule, a decline in the index of greater than 2 percent over six months, coupled with a decline in more than half of its components, signals that a recession is likely imminent. The 2 percent rule—which has since changed to 3.5 percent due to index revisions—was originally employed by The Conference Board for the U.S. Leading Indicators, and it appears appropriate for the UO Index.

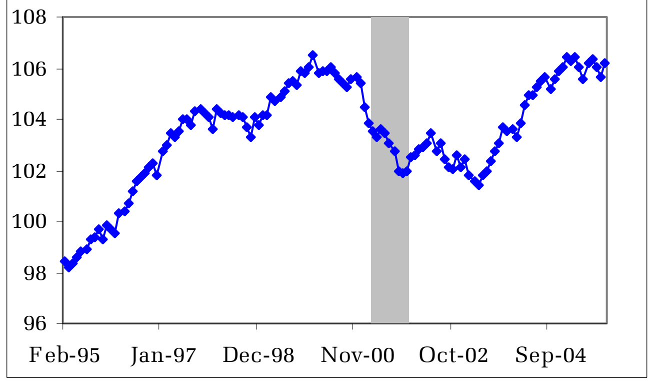
Using the rule, the index signaled an impending recession in January 2001; the National Bureau of Economic Research (NBER) dates the national recession from March to November 2001. The index did signal the so-called "jobless recovery" that followed the 2001 recession, but did not falsely predict a double-dip recession. No other recessions were signaled during the period for which data are available (beginning February 1995).

The general rule, however, should be used judiciously. The available data encompass only one recession, a very small sample from which to draw generalities. 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

Index, 1996 = 100, NBER Recession in Gray



UO - Index of Economic Indicators, % Change

Blue: 6-Month Percentage Change, Annualized

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

NBER Recession in Gray

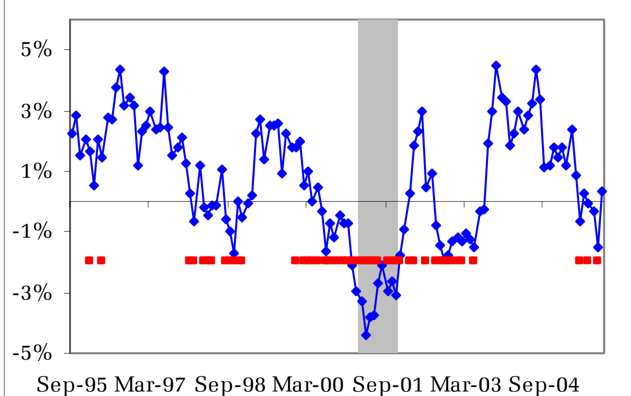


Table 2: Index Components

	2005					
	May	Jun.	Jul.	Aug.	Sep.	Oct.
Oregon Initial Unemployment Claims, SA*	7,501	7,501	6,798	6,819	6,950	6,579
Oregon Residential Building Permits, SA	2,262	2,715	2,533	2,899	2,492	2,540
The Oregonian Help-Wanted Ads, SA	24,687	22,523	24,431	21,580	22,303	25,168
Oregon Weight Distance Tax, $ Thousands, SA	22,287	18,506	18,851	18,851	19,854	25,880
Oregon Total Nonfarm Payrolls, Thousands, SA	1,638.2	1,642.1	1,650.6	1,653.8	1,658.4	1,659.6
Univ. of Michigan U.S. Consumer Confidence	86.9	96	96.5	89.1	76.9	74.2
Real Manufacturer's New Orders for Nondefense, Nonaircraft Capital Goods, $ Billions, SA	42,299	44,457	42,537	44,206	43,303	43,969
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	1.14	0.96	0.92	0.76	0.58	0.68

* *SA–seasonally adjusted*

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.

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