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## Analysis

The Oregon economy improved in October. The University of Oregon Index of Economic Indicators rebounded 0.2 percent in October, partially offsetting a steep decline in September. Three of the eight indicators that comprise the index—Oregon building permits, Oregon weight mile tax, and help wanted ads in the *Oregonian* newspaper—were up sharply. The remaining components were down moderately. Improving indicators outweighed those that deteriorated.

Indicators of the Oregon labor market were mixed. Non-farm payrolls fell by 3,200 workers, while help wanted ads in *The Oregonian* newspaper rose sharply. Initial unemployment claims were essentially unchanged, hovering around the 7,000 mark. Overall, how-

ever, the data suggest that labor market conditions in Oregon will improve in the months ahead. The decline in jobless claims that began in May 2003 remains intact, as does the improvement in help wanted advertising. Oregon's payroll numbers were not consistent with October's sharp rise in national payrolls, indicating the possibility of an upward revision of the state numbers.

Due to month-to-month volatility of components, a more reliable indicator of economic health is obtained from six-month changes in the index.

On that basis, the UO Index stands 1.0 percent (annualized) higher. The six-month diffusion index, a measure of the proportion of components that are rising, rose to 75.0.

While the growth in the UO Index has slowed since July, consistent with a slowdown witnessed in the national economy, the uptrend beginning in May 2003 continues. The behavior of the index remains consistent with continued, but moderate economic growth in Oregon.

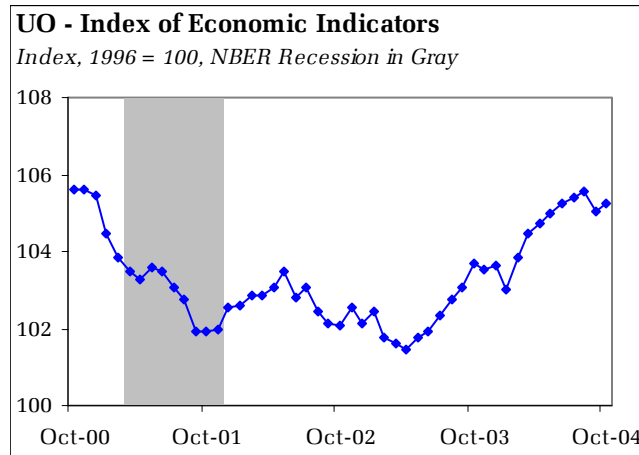


Table 1: Summary Measures

	2004					
	May	June	July	August	Sept.	Oct.
Oregon Index of Leading Indicators, 1996=100	105.0	105.3	105.4	105.5	105.1	105.2
Percentage Change	0.3	0.3	0.1	0.1	-0.5	0.2
Diffusion Index	50.0	68.8	62.5	43.8	31.3	43.8
6-month Percentage Change, Annualized	2.9	3.2	4.7	3.3	1.1	1.0
6-Month Diffusion Index	62.5	81.3	87.5	75.0	43.8	75.0



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**Methodology and Notes**

The University of Oregon Index of Economic Indicators uses the same widely accepted and proven methodology used by The Conference Board, an independent, nonprofit 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 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 US Leading Indicators, and 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.

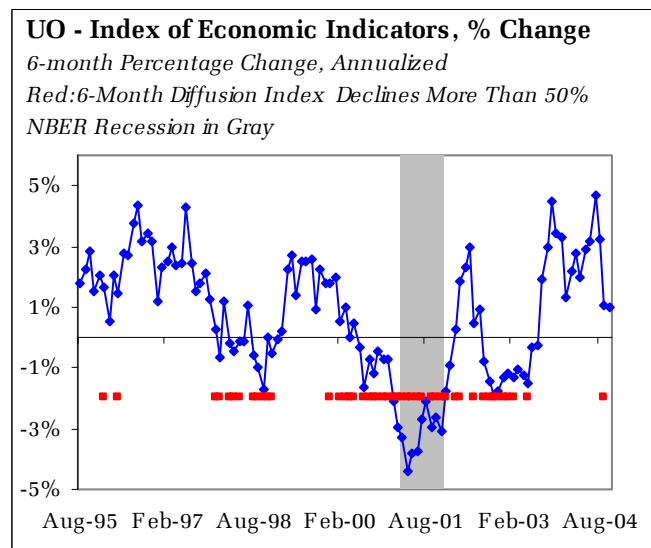
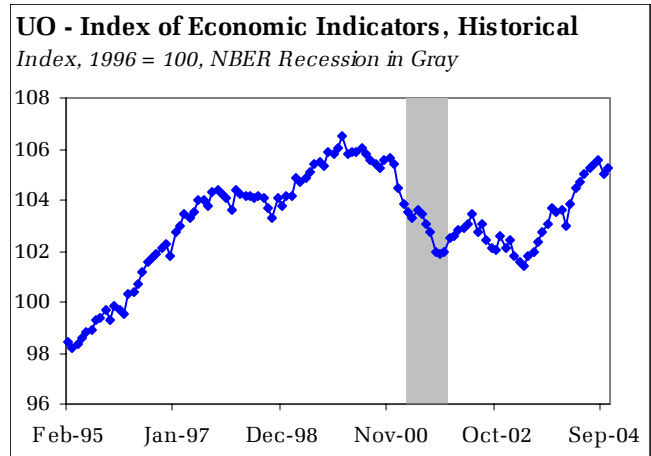


Table 2: Index Components

	2004					
	May	June	July	August	Sept.	Oct.
Oregon Initial Unemployment Claims, SA*	7,499.8	7,420.2	7,265.5	7,328.9	6,960.6	7,091.7
Oregon Residential Building Permits, SA	2,322.1	2,650.8	3,053.2	2,904.2	1,977.4	2,290.8
The Oregonian Help Wanted Ads, SA	22,613.6	17,380.7	18,702.0	20,988.2	18,871.6	23,745.4
Oregon Weight Mile Tax, \$ Thousands, SA	18,235.6	20,585.8	19,033.1	22,751.5	19,496.2	22,059.6
Oregon Total Nonfarm Payrolls, Thousands, SA	1,590.7	1,597.6	1,599.6	1,599.8	1,602.3	1,599.1
Univ. of Michigan US Consumer Confidence	90.2	95.6	96.7	95.9	94.2	91.7
Real Manufacturer's New Orders for Non-Defense, Non-Aircraft Capital Goods, \$ Thousands, SA	42,528.7	43,128.0	43,275.9	43,594.6	45,720.6	43,905.4
Interest Rate Spread, 10-year Treasury Bonds less Federal Funds Rate	3.72	3.70	3.24	2.85	2.52	2.34

The goal of the UO Index of Economic Indicators is to create a summary measure of various data that pertains to the Oregon Economy.



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