University of Oregon Index of Economic Indicators™

oregon economic forum

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

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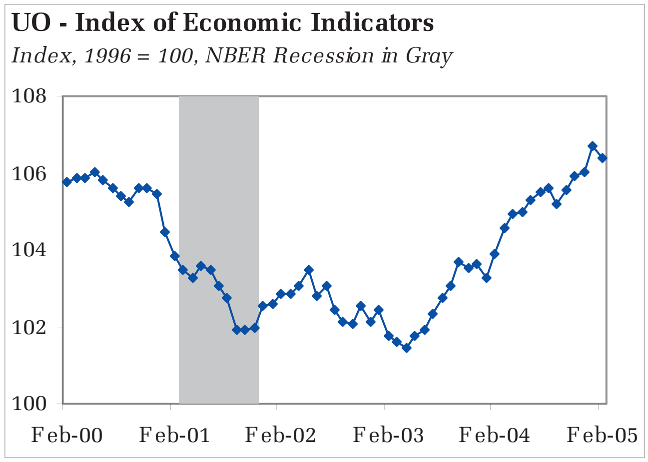

Analysis

After posting strong gains in January, the University of Oregon Index of Economic Indicators™ eased moderately in February. The UO Index fell 0.3 percent in February to a level of 106.4 (1996=100), compared to a revised 106.7 in January. Five of the eight indicators that comprise the index—Oregon initial unemployment claims, *Oregonian* help-wanted ads, Oregon weight distance tax, U.S. consumer confidence, and real new orders for manufactured goods—lost ground in February. Oregon residential building permits and the interest rate spread were virtually unchanged, while Oregon nonfarm payrolls rose significantly.

Nonfarm payrolls jumped as the Oregon economy added an impressive 10,100 workers in February, the largest monthly gain since April 2004. Initial unemployment claims in Oregon stood at a weekly average of 6,126. This compares to 5,637 in the previous month, but this needs to be put in perspective. The January level of initial unemployment claims was the lowest in the 10 years covered by the UO Index, while the February level remains below the 6,681 average during the pre-recession 1995–2000 period covered by the index. Likewise, while *Oregonian* help-wanted ads also slipped, the level stands 6 percent greater than a year ago. Overall, the Oregon labor market remained healthy in February.

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 1.5 percent (annualized) higher. The six-month diffusion index, a measure of the proportion of components that are rising, fell to 50. 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. Consequently, the February decline in the index is not considered suggestive of a downturn in the Oregon economy.

The behavior of the UO Index remains consistent with positive near term growth prospects for Oregon. The declines in many of the index's components need to be considered in the context of strong gains posted in the previous month. The February decline does not interrupt the steady improvement in the UO Index that began in May 2003.

Table 1: Summary Measures

	2004				2005	
	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
University of Oregon Index of Leading Indicators, 1996=100	105.2	105.6	105.9	106.0	106.7	106.4
Percentage Change	-0.4	0.4	0.3	0.1	0.6	-0.3
Diffusion Index	31.3	43.8	68.8	68.8	62.5	25.0
6-month Percentage Change, Annualized	1.1	1.2	1.8	1.4	2.3	1.5
6-Month Diffusion Index	50.0	75.0	75.0	62.5	62.5	50.0

College of Arts and Sciences
University of Oregon

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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.

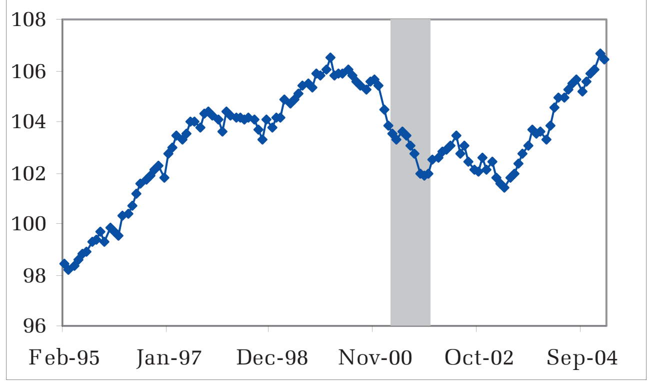
Using the rule, the index signaled an impending recession in January 2001; the National Bureau of Economic Research (NBER) dates the national recession from March to November 2001. The index did signal the so-called "jobless recovery" that followed the 2001 recession, but did not falsely predict a double-dip 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 encompasses 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

6-month Percentage Change, Annualized

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

NBER Recession in Gray

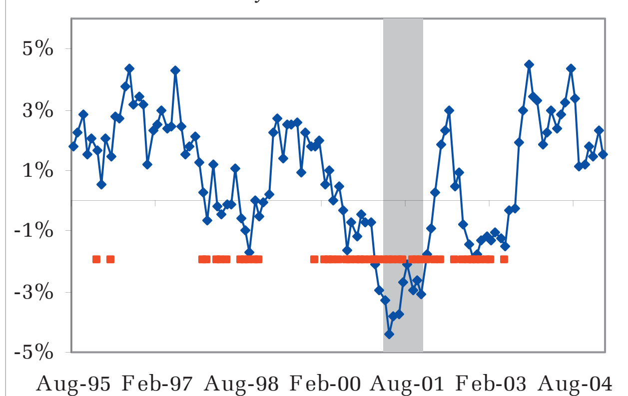


Table 2: Index Components

	2004				2005	
	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
Oregon Initial Unemployment Claims, SA*	7,046	7,158	6,345	6,129	5,637	6,126
Oregon Residential Building Permits, SA	1,789	2,283	2,352	2,467	2,457	2,455
The Oregonian Help Wanted Ads, SA	19,530	23,057	20,543	20,772	24,866	22,757
Oregon Weight Distance Tax, $ Thousands, SA	19,496	22,531	24,558	18,996	20,892	18,705
Oregon Total Nonfarm Payrolls, Thousands, SA	1,605.7	1,610.6	1,614.0	1,616.2	1,621.3	1,631.4
Univ. of Michigan U.S. Consumer Confidence	94.2	91.7	92.8	97.1	95.5	94.1
Real Manufacturer's New Orders for Nondefense, Nonaircraft Capital Goods, $ Thousands, SA	45,791	43,847	44,231	45,634	47,329	46,429
Interest Rate Spread, 10-year Treasury Bonds less Federal Funds Rate	2.52	2.34	2.26	2.07	1.67	1.67

* *SA–seasonally adjusted*

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