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™ fell 0.9 percentage points in February to 85.6 (1997=100), signaling continued deterioration in the Oregon economy. Similar to recent months, a wide array of indicators worsened; in February, five of the seven components deteriorated.

Weakness was pervasive throughout the Oregon labor market. Initial jobless claims rose in February, holding in a range consistent with substantial declines in nonfarm payrolls. Likewise, payrolls at employment services firms (largely temporary help agencies) fell during the month, reversing a slight uptick in January. Total nonfarm payrolls (not included in the UO Index) fell by 21,700 in February, bringing the two-month total job loss to 34,700. The unemployment rate climbed to 10.8 percent, third highest in the nation.

Residential housing permits (smoothed) fell in February, edging down to the bottom of the roughly 900–1,000 range it has been tracking for the past seven months. It remains premature, however, to declare that housing activity has bottomed. Moreover, a bottom in new housing does not signal a bottom in existing home prices, as builders are likely to move more aggressively on pricing compared to homeowners. New orders for nondefense nonaircraft capital goods, adjusted for inflation, rose in February, partially offsetting a sharp drop the previous month. The general trend remains consistent with declining investment activity on the part of firms.

The Oregon weight distance tax (smoothed), a measure of trucking activity, fell again as the recession reduces transportation demand. U.S. consumer confidence (smoothed) edged downward during February. Consumer spending has recently stabilized after a significant deterioration in the second half of last year. Still, the level of confidence remains consistent with year-over-year declines in spending. The yield spread—the difference between short- and long-term interest rates—increased as interest rates on ten-year Treasuries rose. In the past, a steep yield curve in response to substantial monetary easing signaled imminent recovery. In the current environment, however, the effectiveness of monetary policy is hampered by the strains of the financial crisis.

The continued decline of the UO Index coupled with its depth (down 10.9 percent (annualized) over the past six months, indicates the Oregon economy is likely to remain in recession for the foreseeable future (three to six months). Stabilization in economic activity is likely as conditions in financial markets stabilize and fiscal stimulus gains force, although there is a strong risk that job growth remains subdued similar to the 2001–3 period.

UO Index of Economic Indicators

Blue: UO Index, 1997=100, Left Axis

Gray: Probability of Oregon Recession, Right Axis

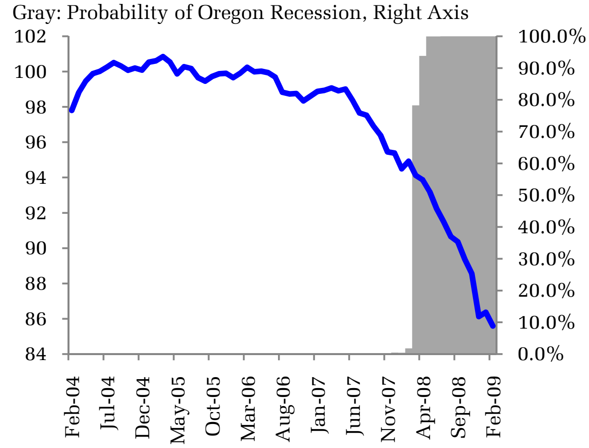

Table 1: Summary Measures

	2008				2009	
	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.
University of Oregon Index of Economic Indicators™, 1997=100	90.4	89.4	88.6	86.1	86.4	85.6
Percentage Change	-0.3	-1.1	-0.9	-2.8	0.3	-0.9
Diffusion Index	35.7	21.4	42.9	7.1	64.3	28.6
6-Month Percentage Change, Annualized	-7.8	-9.4	-9.7	-12.8	-10.9	-10.9
6-Month Diffusion Index	28.6	14.3	14.3	14.3	14.3	14.3

COLLEGE OF ARTS AND SCIENCES
University of Oregon

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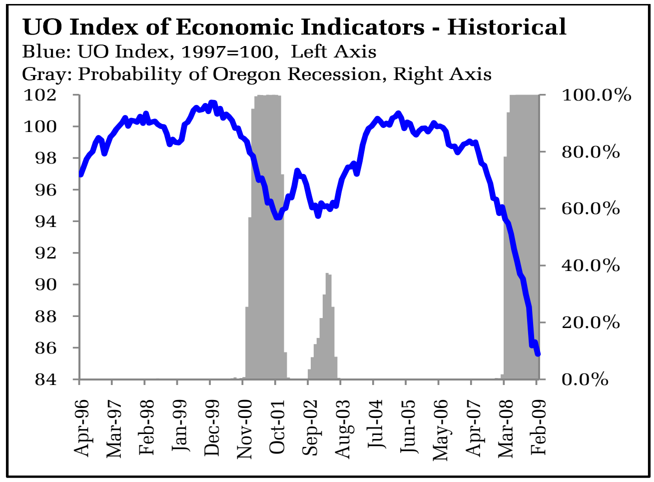
Methodology and Notes

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 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, indicates Oregon entered recession in November of 2000. Similarly, the UO Index suffered a sharp drop as Oregon reentered recession in 2003.

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 in April 2008. 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.



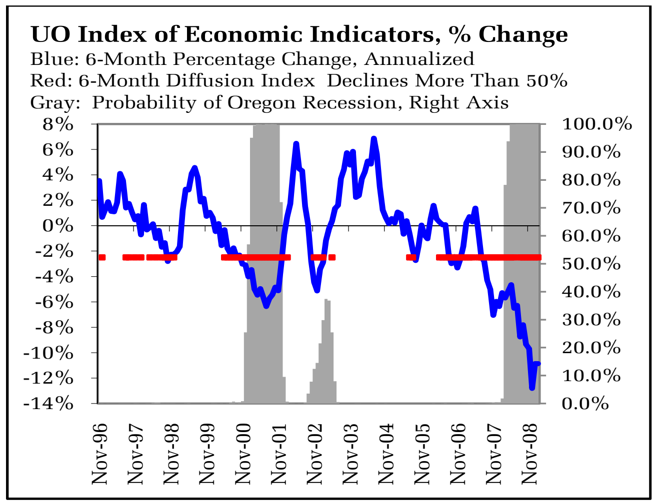


Table 2: Index Components

	2008				2009	
	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.
Oregon Initial Unemployment Claims, SA*	9,648	10,780	13,615	15,504	13,865	14,679
Oregon Employment Services Payrolls, SA	34,920	33,141	31,609	28,959	29,833	28,809
Oregon Residential Building Permits, SA, 5 MMA*	999	987	959	872	947	918
Oregon Weight Distance Tax, $ Thousands, SA, 3 MMA	20,730	19,304	19,748	18,661	18,387	17,747
Univ. of Michigan U.S. Consumer Confidence, 5 MMA	62.1	61.7	61.5	61.3	60.9	58.1
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, $ Millions, SA	40,249	37,419	37,769	35,485	31,307	33,353
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	1.88	2.84	3.14	2.26	2.37	2.65

* *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.