University of Oregon Index of Economic Indicators™

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

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November 2009

Analysis

The University of Oregon Index of Economic Indicators™ rose 1.0 percent in November to 85.8 (1997=100) from an October figure of 85.0. The UO Index has risen for four consecutive months. Moreover, compared to six months ago, the UO Index is up an annualized 2.1 percent. These patterns are consistent with expanding economic activity; similarly, based on the measure of recession probability developed by Jeremy Piger, a University of Oregon associate professor of economics, August 2009 was the last month of recession in Oregon. Despite solid gains in the overall index, the employment indicators remain weak, suggesting that job markets in Oregon will recover only slowly.

Labor markets remain challenging for job seekers despite overall economic improvement. Initial jobless claims fell modestly in November, nearly offsetting the previous month's rise. But in stark contrast to the ongoing, steady declines for the nation as a whole, Oregon claims have been relatively flat at elevated levels for four consecutive months. Likewise, weakness is evident in employment services sector payrolls, which have been effectively flat for four months. These indicators suggest that the Oregon labor market continues to struggle, again raising concerns of a "jobless" recovery. Note that overall nonfarm payrolls declined by 4,600 employees in October.

Residential building permits (smoothed) rose sharply for the second consecutive month, bringing permits to the highest level since May 2009. These gains should be interpreted cautiously; permits are increasing off an extremely low base. Moreover, housing markets have been boosted artificially by both tax credits and Federal Reserve purchases of mortgage-based financial assets—both policies that are expected to end during the first half of 2010. The Oregon weight-distance tax (smoothed)—a measure of trucking activity—rose modestly, while new orders for nondefense nonaircraft capital goods climbed to their highest level since last December. The gains in manufacturing orders highlight the substantial firming during the second half of 2009 of capital spending plans, an indication of improving confidence in the business sector. Consumer confidence (smoothed) slipped and remains consistent with low rates of spending growth.

While the Oregon economy, like the national economy, is no longer in recession, considerable uncertainty about the pace of the recovery remains. While near-term improvements can be expected as firms restock inventories and pent-up demand returns to the marketplace, the picture in the second half of 2010 is clouded by the expected fading of federal stimulus efforts—both monetary and fiscal—in the months ahead. In the absence of these factors, the underlying rate of growth is likely impaired by ongoing transition away from the debt-driven dynamic that supported activity during the housing boom.

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

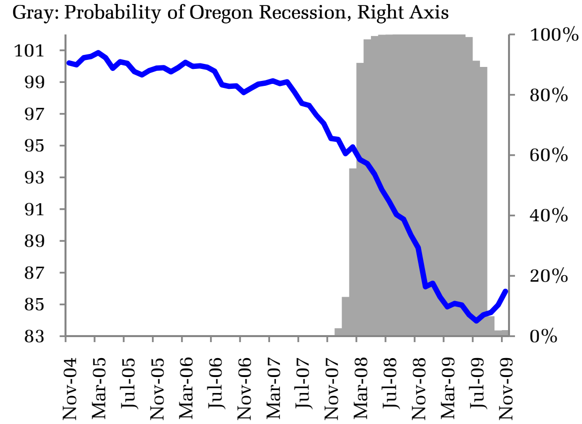


Table 1: Summary Measures

	2009					
	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
University of Oregon Index of Economic Indicators™, 1997=100	84.3	84.0	84.3	84.5	85.0	85.8
Percentage Change	-0.7	-0.5	0.5	0.2	0.6	1.0
Diffusion Index	71.4	42.9	50.0	57.1	35.7	78.6
6-Month Percentage Change, Annualized	-4.0	-5.4	-2.6	-0.8	-0.2	2.1
6-Month Diffusion Index	42.9	57.1	64.3	71.4	57.1	71.4

Methodology and Notes

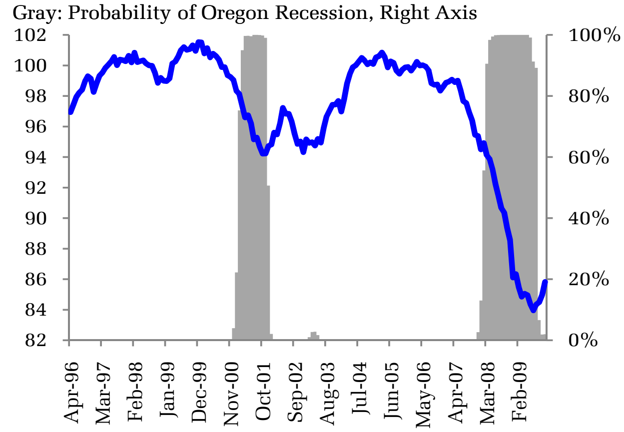
The methodology employed in creating the University of Oregon Index of Economic Indicators is identical to that used by The Conference Board, an independent, not-for-profit research organization, in the computation of the U.S. Leading Index. For information, see www.globalindicators.org.

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 Piger, the UO economics 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.

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



UO Index of Economic Indicators, % Change
Blue: 6-Month Percentage Change, Annualized
Red: 6-Month Diffusion Index Declines More Than 50%
Gray: Probability of Oregon Recession, Right Axis

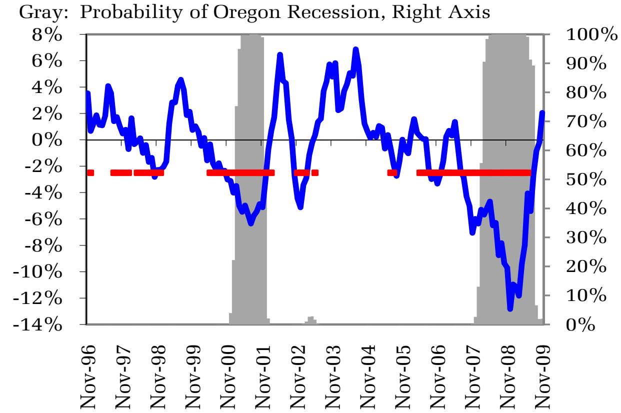


Table 2: Index Components

	2009					
	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
Oregon Initial Unemployment Claims, SA*	11,915	11,793	11,288	10,954	11,361	11,045
Oregon Employment Services Payrolls, SA	26,269	26,361	25,559	25,723	25,523	25,614
Oregon Residential Building Permits, SA, 5 MMA*	469	411	401	398	496	590
Oregon Weight Distance Tax, $ Thousands, SA, 3 MMA	17,966	17,376	18,831	18,116	17,526	17,903
Univ. of Michigan U.S. Consumer Confidence, 5 MMA	63.6	65.6	67.3	68.9	69.3	68.6
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, $ Millions, SA	33,166	32,845	32,404	33,350	32,888	33,948
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	3.51	3.40	3.43	3.25	3.27	3.28

** 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.