UNIVERSITY OF OREGON INDEX OF ECONOMIC INDICATORS™

oregon economic forum

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

JANUARY 2005

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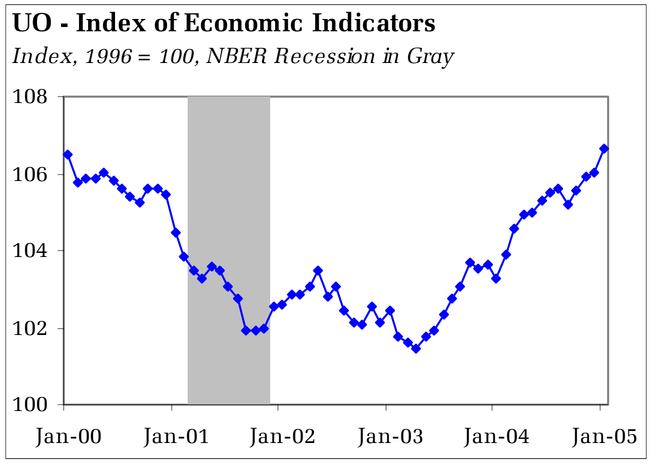

Analysis

The Oregon economy gained momentum in January. The University of Oregon Index of Economic Indicators™ rose 0.6 percent in January to a level of 106.6 (1996=100), compared to a revised 106.0 in December. Five of the eight indicators that comprise the index—Oregon initial unemployment claims, Oregon nonfarm payrolls, *Oregonian* help wanted ads, Oregon weight distance tax, and real new orders for manufactured goods—improved in January. Oregon residential building permits were essentially unchanged, while U.S. consumer confidence and the interest rate spread declined.

The January UO Index incorporated a number of statistical changes. The U.S. Census Bureau increased the sample universe for estimates of building permits, and the nonfarm payrolls data reflects an annual benchmarking revision. Also, seasonality factors and index weightings underwent an annual update. Index values prior to 2004 were unaffected by these changes.

Nonfarm payrolls experienced the most significant change as the result of these annual updates. Previously reported data indicated a gain of 34,100 workers in 2004; the revisions indicate a more substantial gain of 47,800 workers. Moreover, many of the additional jobs were created in the second half of 2004, and supported a considerable improvement in the UO Index during that period. In addition, the Oregon economy added 4,400 jobs in January. The improvement in nonfarm payrolls is now more consistent with the sharp drop in initial unemployment claims experienced over the past year. In short, the Oregon labor market is considerably stronger than indicated by previous data.

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 2.2 percent (annualized) higher. The six-month diffusion index, a measure of the proportion of components that are rising, held steady at 62.5.

The behavior of the index suggests continued economic growth in Oregon. Labor market data revisions suggest that near term growth will be stronger than previously expected.

Table 1: Summary Measures

	2004					2005
	August	Sept.	Oct.	Nov.	Dec.	Jan.
University of Oregon Index of Economic Indicators, 1996=100	105.6	105.2	105.6	105.9	106.0	106.6
Percentage Change	0.1	-0.4	0.4	0.3	0.1	0.6
Diffusion Index	43.8	31.3	43.8	68.8	68.8	62.5
6-month Percentage Change, Annualized	3.4	1.1	1.2	1.8	1.4	2.2
6-Month Diffusion Index	75.0	50.0	75.0	75.0	62.5	62.5

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Released: March 9, 2005.

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.

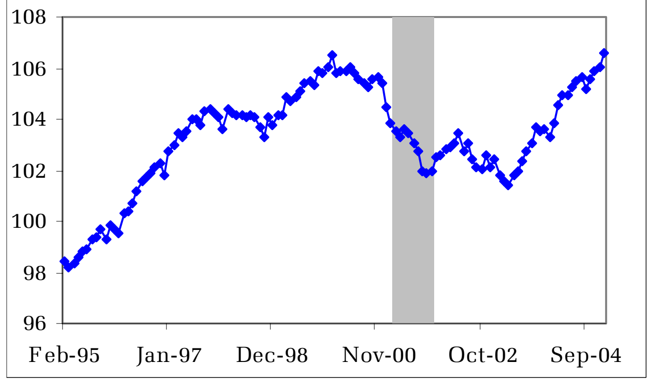
Using the rule, the index signaled an impending recession in January 2001; the National Bureau of Economic Research (NBER) dates the national recession from March to November 2001. The index did signal the so-called "jobless recovery" that followed the 2001 recession, but did not falsely predict a double-dip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

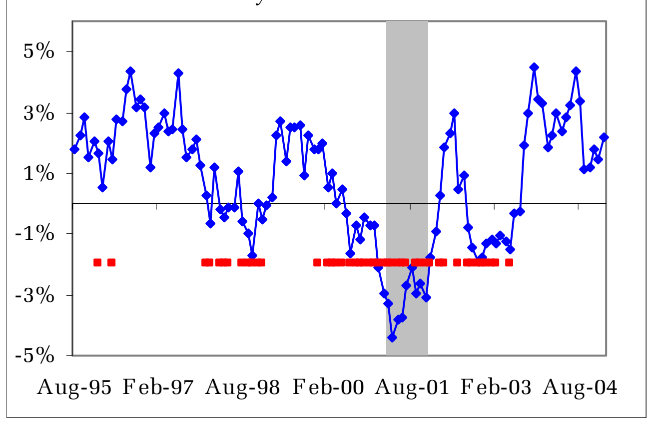


Table 2: Index Components

	2004					2005
	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
Oregon Initial Unemployment Claims, SA*	7,354	7,046	7,158	6,345	6,129	5,637
Oregon Residential Building Permits, SA	3,002	1,789	2,283	2,352	2,467	2,457
The *Oregonian* Help Wanted Ads, SA	20,974	19,530	23,057	20,543	20,772	24,866
Oregon Weight Mile Tax, $ Thousands, SA	22,751	19,496	22,531	24,558	18,996	20,892
Oregon Total Nonfarm Payrolls, Thousands, SA	1,600.8	1,605.7	1,610.6	1,614.0	1,616.2	1,620.6
Univ. of Michigan U.S. Consumer Confidence	95.9	94.2	91.7	92.8	97.1	95.5
Real Manufacturer's New Orders for Nondefense, Nonaircraft Capital Goods, $ Thousands, SA	43,564	45,791	43,816	44,231	45,594	46,645
Interest Rate Spread, 10-year Treasury Bonds less Federal Funds Rate	2.85	2.52	2.34	2.26	2.07	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.