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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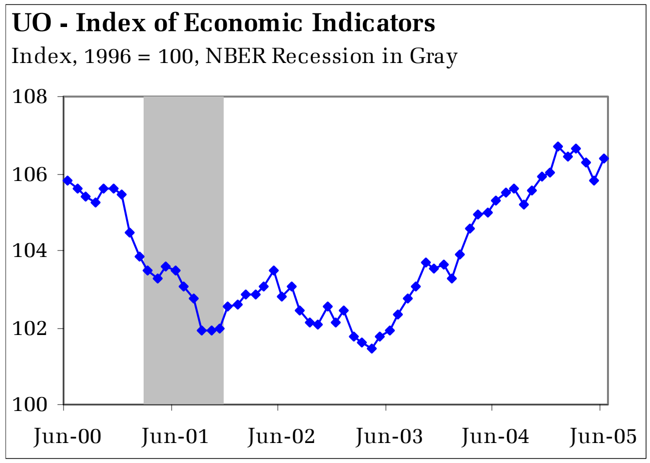

Analysis

The University of Oregon Index of Economic Indicators™ rose to 106.4 (1996=100) in June, a 0.6 percent gain from May's reading. Of the eight indicators that comprise the UO Index, five—Oregon initial unemployment claims, Oregon residential building permits, Oregon nonfarm payrolls, U.S. consumer confidence, and manufacturing orders—improved in June. The remaining three indicators—*The Oregonian* help-wanted ads, the Oregon weight distance tax, and the interest rate spread—deteriorated.

Following a soft May, labor market conditions in Oregon rebounded in June. While *Oregonian* help-wanted ads slid, the remaining two indicators of labor market strength both improved. Nonfarm payrolls climbed by 3,900, more than offsetting May's revised decline of 2,700. Oregon initial unemployment claims also improved in June. Still, the job market in Oregon remains soft compared to earlier in the year; average monthly job growth in the second quarter of 2005 was 667 employees, compared to average gains of 7,900 workers per month in the first quarter.

Remaining economic indicators were, on balance, positive. The housing market remains strong, with Oregon residential building permits rebounding from two months of declines (note that construction jobs have grown 8.2 percent this year). New orders for nondefense, nonaircraft capital goods, a measure of business investment activity, also gained in June, as did consumer confidence. The spread between ten-year treasury bonds yields and the federal funds rate (the "yield spread") continued to decline.

Overall, the behavior of the UO Index remains consistent with continued near-term economic growth prospects. Compared to six months ago, the UO Index has gained 0.6 percent (annualized), an improvement from May's negative reading. The six-month diffusion index, a measure of the proportion of components that are rising, rose to 50 (in other words, on balance, half of the components improved). 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 stabilization of the UO Index since the beginning of the year suggests that the pace of growth slowed from last year, not that a recession is imminent.

Table 1: Summary Measures

	2005					
	Jan.	Feb.	Mar.	Apr.	May	Jun.
University of Oregon Index of Economic Indicators™, 1996=100	106.7	106.5	106.6	106.3	105.8	106.4
Percentage Change	0.6	-0.2	0.2	-0.3	-0.4	0.6
Diffusion Index	62.5	25.0	43.8	50.0	31.3	56.3
6-Month Percentage Change, Annualized	2.3	1.6	2.8	1.4	-0.1	0.7
6-Month Diffusion Index	62.5	50.0	50.0	62.5	37.5	50.0

COLLEGE OF ARTS AND SCIENCES
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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.

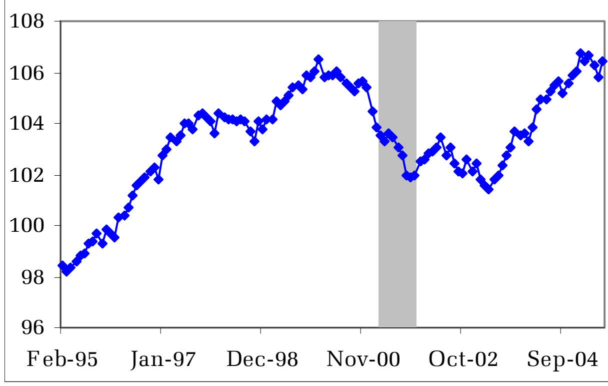
Using the rule, the index signaled an impending recession in January 2001; the National Bureau of Economic Research (NBER) dates the national recession from March to November 2001. The index did signal the so-called "jobless recovery" that followed the 2001 recession, but did not falsely predict a double-dip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

UO - Index of Economic Indicators, Historical

Index, 1996 = 100, NBER Recession in Gray



UO - Index of Economic Indicators, % Change

Blue: 6-Month Percentage Change, Annualized

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

NBER Recession in Gray

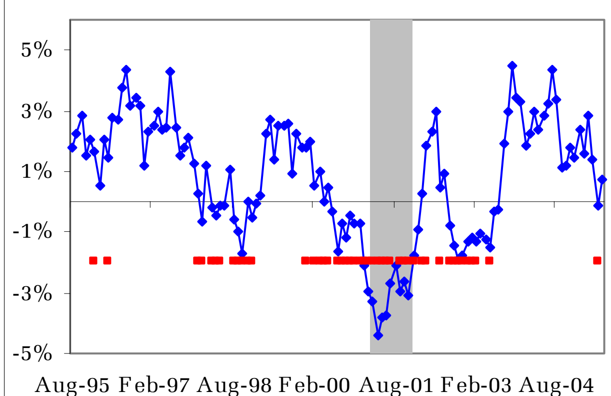


Table 2: Index Components

	2005					
	Jan.	Feb.	Mar.	Apr.	May	Jun.
Oregon Initial Unemployment Claims, SA*	5,637	6,126	6,544	6,506	7,501	6,798
Oregon Residential Building Permits, SA	2,457	2,455	3,067	2,586	2,262	2,715
The Oregonian Help-Wanted Ads, SA	24,866	22,757	23,109	23,401	24,687	22,523
Oregon Weight Distance Tax, $ Thousands, SA	20,892	18,705	18,230	18,229	22,287	18,506
Oregon Total Nonfarm Payrolls, Thousands, SA	1,621.3	1,632.9	1,640.1	1,640.9	1,638.2	1,642.1
Univ. of Michigan U.S. Consumer Confidence	95.5	94.1	92.6	87.7	86.9	96.0
Real Manufacturer's New Orders for Nondefense, Nonaircraft Capital Goods, $ Billions, SA	47,449	46,437	45,549	46,225	45,905	47,756
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	1.67	1.67	1.87	1.55	1.14	0.96

* *SA–seasonally adjusted*

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.