# 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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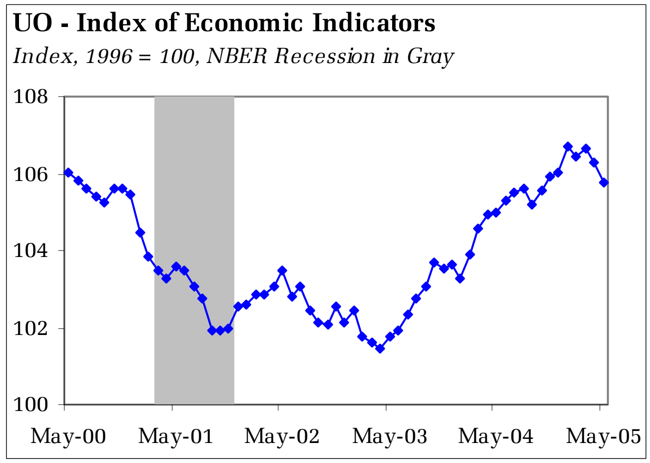
**Author**
Timothy A. Duy
Director, Oregon Economic Forum
Department of Economics

**Research Assistant**
Tanya Raterman
Economics Undergraduate




## Analysis

The University of Oregon Index of Economic Indicators™ fell to 105.7 (1996=100) in May, a 0.5 percent drop from April's reading. Of the eight indicators that comprise the UO Index, only two, *The Oregonian* help-wanted ads and the Oregon weight distance tax, improved. The remaining six indicators—Oregon initial unemployment claims, Oregon residential building permits, Oregon nonfarm payrolls, U.S. consumer confidence, manufacturing orders, and the interest rate spread—all deteriorated in May.

Labor market conditions in Oregon softened measurably in April. While *The Oregonian* help-wanted ads improved, other indicators were weak. Notably, Oregon nonfarm payrolls declined by 3,300 employees, the first drop since January 2004. While this decline comes on the back of a relatively strong labor market over the past 16 months, it coincides with a rise in the more forward-looking indicator, Oregon initial unemployment claims, which was up sharply to 7,501 (weekly average) from 6,506 in April. Together, these data suggest a more significant softening in the Oregon labor market than indicated in April.

Other indicators were also weak. Oregon residential building permits fell for the second consecutive month, while new orders for nondefense, nonaircraft capital goods, a measure of business investment, dropped to its lowest level since January. Consumer confidence continued to be weighed down. And the interest rates spread, the difference between 10-year Treasury bonds and the federal funds rate, continued to narrow. Such narrowing has historically presaged weakening economic conditions, while a negative spread (a "yield curve inversion") is considered a recession indicator.

The behavior of the UO Index remains consistent with continued near term economic growth prospects. However, compared to six months ago, the UO Index has fallen 0.3 percent (annualized), the first negative reading since July 2003. Moreover, the six-month diffusion index, a measure of the proportion of components that are rising, dropped to 37.5 (in other words, more than half of the components deteriorated). 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 UO Index is not signaling a recession is imminent, but does suggest that the pace of growth is slowing.

Table 1: Summary Measures

| | 2004 | 2005 | | | | |
|---|---|---|---|---|---|---|
| | Dec. | Jan. | Feb. | Mar. | Apr. | May |
| University of Oregon Index of Economic Indicators™, 1996=100 | 106.0 | 106.7 | 106.5 | 106.6 | 106.3 | 105.7 |
| Percentage Change | 0.1 | 0.6 | -0.2 | 0.2 | -0.3 | -0.5 |
| Diffusion Index | 68.8 | 62.5 | 25.0 | 43.8 | 50.0 | 31.3 |
| 6-Month Percentage Change, Annualized | 1.4 | 2.3 | 1.6 | 2.8 | 1.4 | -0.3 |
| 6-Month Diffusion Index | 62.5 | 62.5 | 50.0 | 50.0 | 62.5 | 37.5 |

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## Methodology and Notes

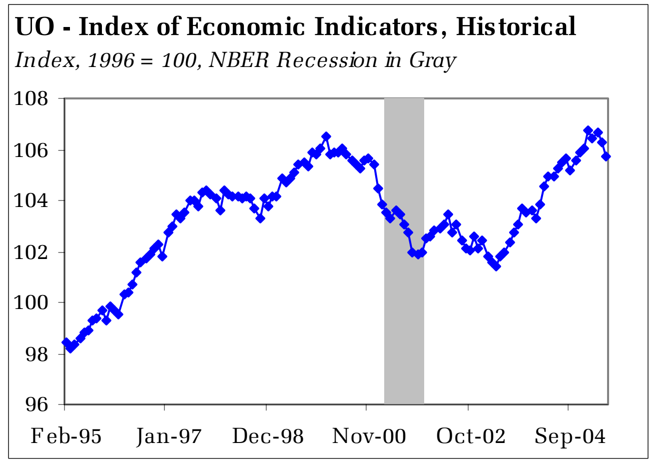
The methodology employed in creating the University of Oregon Index of Economic Indicators is identical to that used by The Conference Board, an independent, not-for-profit research organization, in the computation of the U.S. Leading Index. For information, see www.globalindicators.org.

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.



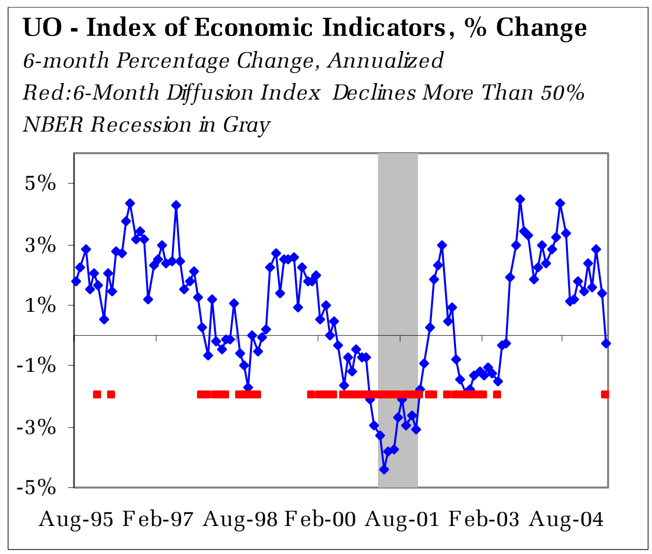




Table 2: Index Components

| | 2004 | 2005 | | | | |
|---|---|---|---|---|---|---|
| | Dec. | Jan. | Feb. | Mar. | Apr. | May |
| Oregon Initial Unemployment Claims, SA* | 6,129 | 5,637 | 6,126 | 6,544 | 6,506 | 7,501 |
| Oregon Residential Building Permits, SA | 2,467 | 2,457 | 2,455 | 3,067 | 2,586 | 2,262 |
| *The Oregonian* Help-Wanted Ads, SA | 20,772 | 24,866 | 22,757 | 23,109 | 23,401 | 24,687 |
| Oregon Weight Distance Tax, $ Thousands, SA | 18,996 | 20,892 | 18,705 | 18,230 | 18,229 | 22,287 |
| Oregon Total Nonfarm Payrolls, Thousands, SA | 1,616.2 | 1,621.3 | 1,632.9 | 1,640.1 | 1,640.9 | 1,637.6 |
| Univ. of Michigan U.S. Consumer Confidence | 97.1 | 95.5 | 94.1 | 92.6 | 87.7 | 86.9 |
| Real Manufacturer's New Orders for Nondefense, Nonaircraft Capital Goods, $ Billions, SA | 45,634 | 47,449 | 46,437 | 45,549 | 46,228 | 45,122 |
| Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate | 2.07 | 1.67 | 1.67 | 1.87 | 1.55 | 1.14 |

* *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.*