UNIVERSITY OF OREGON INDEX OF ECONOMIC INDICATORS™

oregon economic forum

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

MARCH 2005

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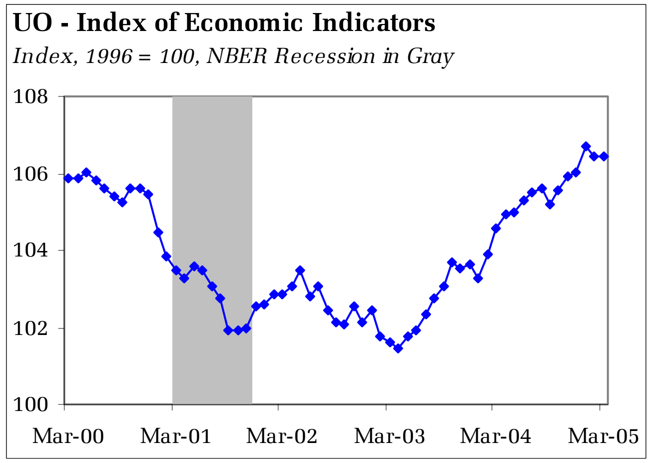

Analysis

The University of Oregon Index of Economic Indicators™ held steady in March following February's decline. The UO Index stood at a level of 106.4 (1996=100) in March, identical to February's reading. Four of the eight indicators that make up the index—Oregon initial unemployment claims, Oregon weight distance tax, U.S. consumer confidence, and real new orders for manufactured goods—lost ground in March. Oregon residential building permits, *Oregonian* help-wanted ads, Oregon nonfarm payrolls, and the interest rate spread all improved.

The ongoing improvements in Oregon's labor markets continued in March. Nonfarm payrolls posted another strong gain with the addition of 5,000 jobs in March. Altogether, Oregon firms have added 21,700 employees in 2005. Initial unemployment claims in Oregon rose for a second month and stood at a weekly average of 6,544, returning to their prerecession average. Help-wanted ads in *The Oregonian* improved modestly.

Residential building permits in Oregon jumped 25 percent in March, indicating that the housing market remains healthy. Of some concern is the slide in new manufacturing orders. This indicator of business investment activity has declined in two consecutive months. New orders, however, is a relatively volatile indicator, and two months of data are not sufficient to declare a sustained decline in investment activity. Consumer confidence waned, likely due to higher gas prices.

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 2.4 percent (annualized) higher. The six-month diffusion index, a measure of the proportion of components that are rising, held at fifty (in other words, half of the components rose). 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 behavior of the UO Index remains consistent with positive near-term growth prospects for Oregon. The flattening of the index over the past two months, however, suggests some easing in the pace of growth, consistent with the softening of the national economy in response to higher energy prices and waning fiscal and monetary stimulus.

Table 1: Summary Measures

	2004			2005		
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
University of Oregon Index of Leading Indicators™, 1996=100	105.6	105.9	106.0	106.7	106.4	106.4
Percentage Change	0.4	0.3	0.1	0.6	-0.2	0.0
Diffusion Index	43.8	68.8	68.8	62.5	25.0	43.8
6-Month Percentage Change, Annualized	1.2	1.8	1.4	2.3	1.6	2.4
6-Month Diffusion Index	75.0	75.0	62.5	62.5	50.0	50.0

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Methodology and Notes

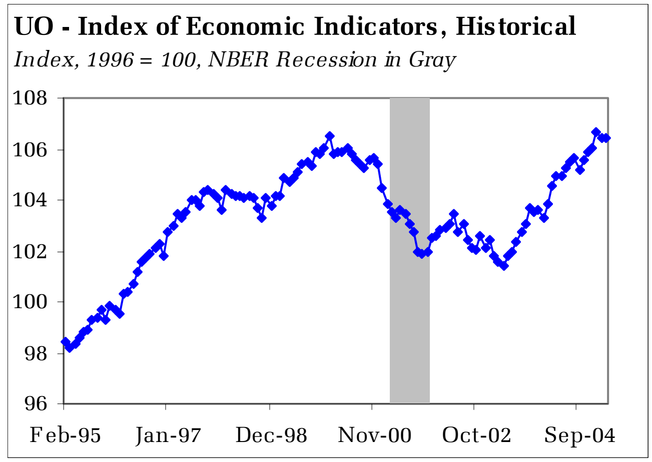
The methodology employed in creating the University of Oregon Index of Economic Indicators is identical to that used by The Conference Board, an independent, not-for-profit research organization, in the computation of the U.S. Leading Index. For information, see www.globalindicators.org.

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.



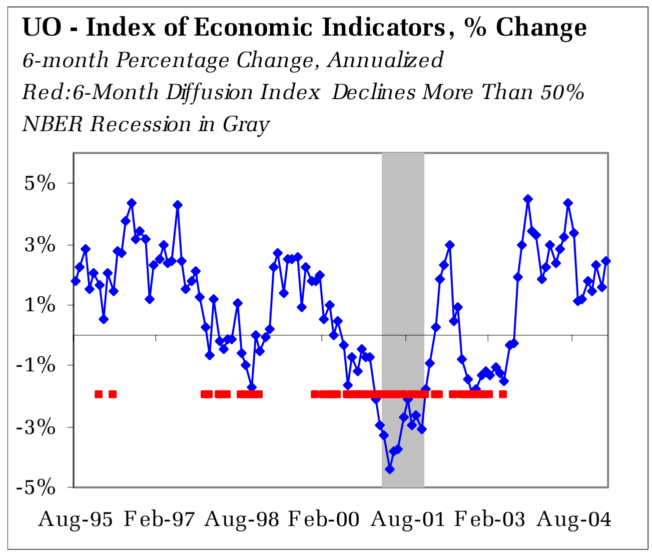


Table 2: Index Components

	2004			2005		
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Oregon Initial Unemployment Claims, SA*	7,158	6,345	6,129	5,637	6,126	6,544
Oregon Residential Building Permits, SA	2,283	2,352	2,467	2,457	2,455	3,067
The Oregonian Help-Wanted Ads, SA	23,057	20,543	20,772	24,866	22,757	23,109
Oregon Weight Distance Tax, $ Thousands, SA	22,531	24,558	18,996	20,892	18,705	18,230
Oregon Total Nonfarm Payrolls, Thousands, SA	1,610.6	1,614.0	1,616.2	1,621.3	1,632.9	1,637.9
Univ. of Michigan U.S. Consumer Confidence	91.7	92.8	97.1	95.5	94.1	92.6
Real Manufacturer's New Orders for Nondefense, Nonaircraft Capital Goods, $ Thousands, SA	43,847	44,262	45,634	47,350	46,252	43,975
Interest Rate Spread, 10-Year Treasury BondsLess Federal Funds Rate	2.34	2.26	2.07	1.67	1.67	1.87

* *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.