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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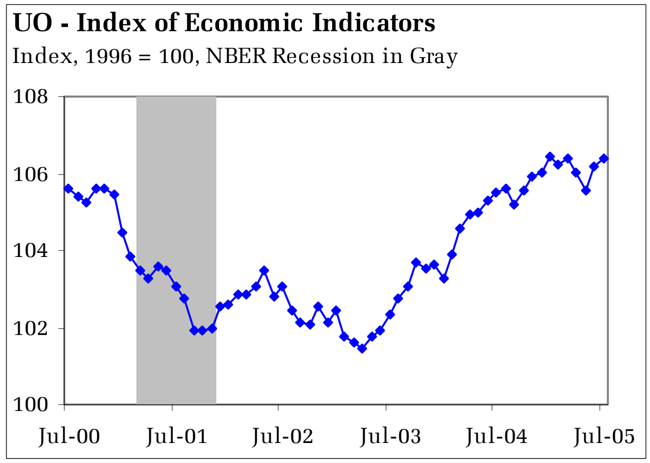

Analysis

The University of Oregon Index of Economic Indicators™ rose to 106.4 (1996=100) in July, a 0.2 percent gain from June's revised reading. Of the eight indicators that comprise the UO Index, four—*The Oregonian* help-wanted ads, the Oregon weight distance tax, Oregon nonfarm payrolls, and U.S. consumer confidence—improved in July. Two indicators—Oregon residential building permits and U.S. manufacturing orders—deteriorated. Oregon initial unemployment claims and the interest rate spread were effectively unchanged.

Oregon labor market conditions continued to improve in July. Nonfarm payrolls climbed by 9,200, a substantial improvement from the near stagnant hiring gains of the second quarter. Help-wanted ads in *The Oregonian* also rebounded from June's dip, while Oregon initial unemployment claims were unchanged.

Remaining economic indicators were mixed. Residential building permits slid in July, reversing the previous month's gains. Likewise, new orders for nondefense, nonaircraft capital goods, a measure of business investment activity, fell after gaining in June and have been virtually unchanged since the beginning of the year.

Overall, the behavior of the UO Index remains consistent with continued near term economic growth prospects, although the index continues to suggest that growth is slowing compared to last year's pace. Compared to six months ago, the UO Index is unchanged, while the six-month diffusion index—a measure of the proportion of components that are rising—fell to 37.5 (in other words, on balance, 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.

The impact of Hurricane Katrina on Oregon's economy is uncertain and not reflected in the UO Index. Sharply higher energy prices will weigh on consumer spending and squeeze firms' profit margins. Firms in turn may try to push the higher costs onto consumers in the form of higher prices. Reconstruction efforts in affected areas, however, will provide some offsetting stimulus. For instance, rising lumber prices likely will stimulate production in Oregon's forest products industry.

Table 1: Summary Measures

	2005					
	Feb.	Mar.	Apr.	May	Jun.	Jul.
University of Oregon Index of Economic Indicators™, 1996=100	106.2	106.4	106.0	105.6	106.2	106.4
Percentage Change	-0.2	0.2	-0.4	-0.4	0.6	0.2
Diffusion Index	31.3	43.8	50.0	31.3	56.3	56.3
6-Month Percentage Change, Annualized	1.2	2.4	0.8	-0.6	0.2	0.0
6-Month Diffusion Index	50.0	56.3	62.5	37.5	50.0	37.5

College of Arts and Sciences
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Methodology and Notes

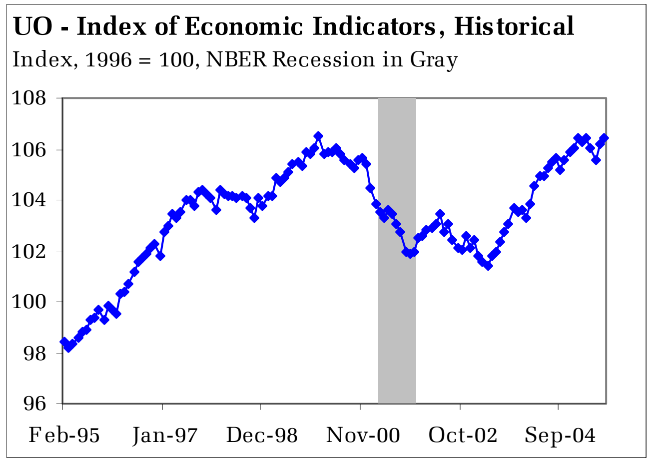
The methodology employed in creating the University of Oregon Index of Economic Indicators™ is identical to that used by The Conference Board, an independent, not-for-profit research organization, in the computation of the U.S. Leading Index. For information, see www.globalindicators.org.

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.



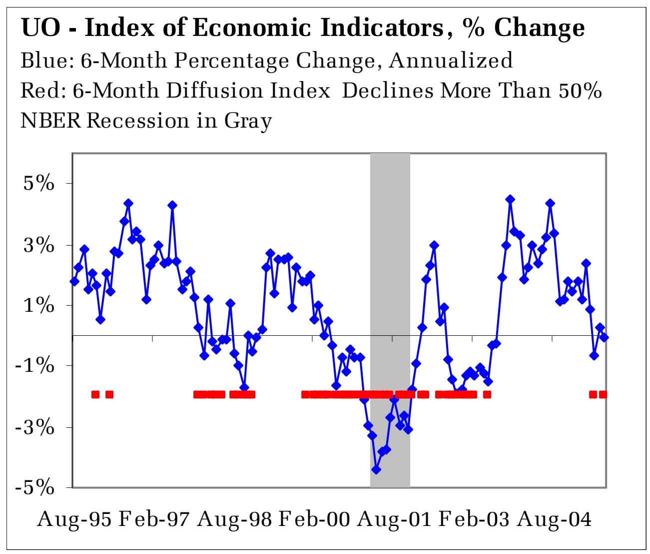


Table 2: Index Components

	2005					
	Feb.	Mar.	Apr.	May	Jun.	Jul.
Oregon Initial Unemployment Claims, SA*	6,126	6,544	6,506	7,501	6,798	6,819
Oregon Residential Building Permits, SA	2,455	3,067	2,586	2,262	2,715	2,533
The Oregonian Help-Wanted Ads, SA	22,757	23,109	23,401	24,687	22,523	24,431
Oregon Weight Distance Tax, $ Thousands, SA	18,705	18,230	18,229	22,287	18,506	18,851
Oregon Total Nonfarm Payrolls, Thousands, SA	1,632.9	1,640.1	1,640.9	1,638.2	1,642.1	1,651.3
Univ. of Michigan U.S. Consumer Confidence	94.1	92.6	87.7	86.9	96	96.5
Real Manufacturer's New Orders for Nondefense, Nonaircraft Capital Goods, $ Billions, SA	43,323	42,291	42,540	42,299	44,436	42,568
Interest Rate Spread, 10-year Treasury Bonds Less Federal Funds Rate	1.67	1.87	1.55	1.14	0.96	0.92

* *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.