University of Oregon Index of Economic Indicators™

oregon economic forum

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

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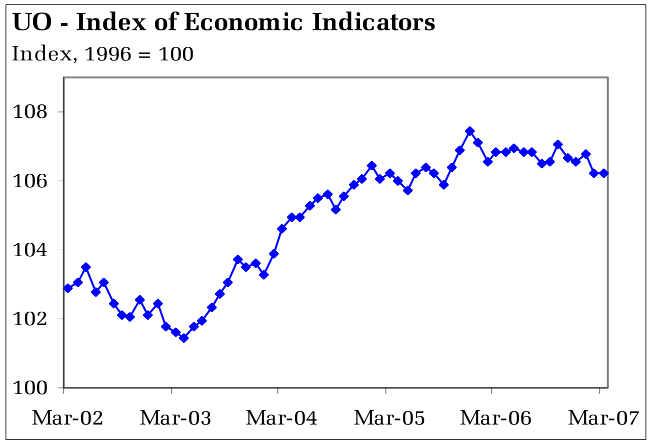

Analysis

The University of Oregon Index of Economic Indicators™ held steady at 106.2 (1996=100) in March. Four indicators—Oregon initial jobless claims, the Oregon weight-distance tax, Oregon nonfarm payrolls, and inflation-adjusted new manufacturing orders—improved. Four indicators—Oregon residential building permits, help-wanted advertising in *The Oregonian*, U.S. consumer confidence, and the interest rate spread—deteriorated.

Labor market conditions, on balance, improved in March. Initial unemployment claims fell, partially offsetting February's increase, while Oregon employers added 2,000 workers to nonfarm payrolls. March represented a second monthly gain in payrolls, although February's increase, initially reported at 7,000, was revised down to 3,500. The increases in employment are welcome in the wake of the labor market stagnation in late 2006. On a weaker note, help-wanted advertising in *The Oregonian* declined for the month, reversing February's gain.

Remaining indicators were mixed. Oregon residential building permits declined to their lowest level since December. Still, in sharp contrast to national trends, residential construction activity in Oregon has largely rebounded from the sharp declines seen in 2006. An average of 2,442 permits was issued per month during the first quarter of 2007, virtually identical to the rate of issuance in the same quarter of last year. Consumer confidence extended February's decline as increasing gas prices weighed on spending power. The yield spread—the difference between short- and long-term interest rates—deteriorated, signaling renewed worries of economic weakness among financial market participants. On a positive note, real new orders of core manufactured goods—nondefense, nonaircraft capital goods—gained, breaking a two-month trend of sharp declines. Resumption of the declines in this indicator, viewed as a signal of business investment intentions, would suggest deteriorating economic conditions later this year.

The index suggests continued slow to moderate economic growth in Oregon in the near term (three to six months). Compared to six months ago, the UO Index fell 0.6 percent (annualized), while the six-month diffusion index, a measure of the proportion of components that are rising, stood at 50 (in other words, indicators were evenly mixed between those that improved and those that deteriorated). As a general rule, a decline in the index of greater than 2 percent over six months (annualized), coupled with a decline in more than half of its components, signals that a recession is likely imminent.

Table 1: Summary Measures

	2006			2007		
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
University of Oregon Index of Economic Indicators™, 1996=100	107.0	106.7	106.6	106.8	106.2	106.2
Percentage Change	0.5	-0.4	-0.1	0.2	-0.5	0.0
Diffusion Index	68.8	18.8	50.0	56.3	31.3	43.8
6-Month Percentage Change, Annualized	0.4	-0.5	-0.5	-0.1	-0.6	-0.6
6-Month Diffusion Index	50.0	31.3	43.8	43.8	31.3	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.

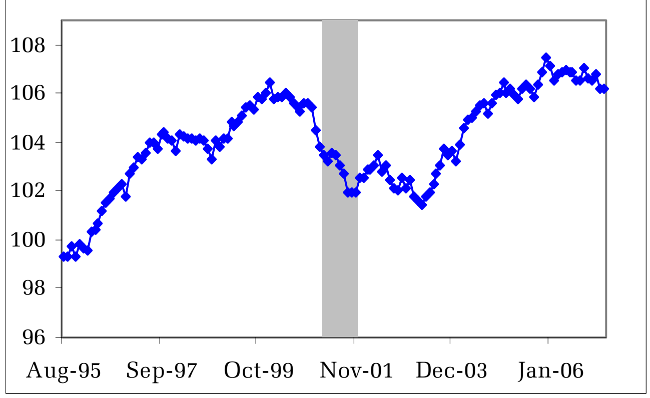
Using the rule, the index signaled an impending recession in January 2001; the National Bureau of Economic Research (NBER) dates the national recession from March to November 2001. The index did signal the so-called "jobless recovery" that followed the 2001 recession, but did not falsely predict a double-dip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

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

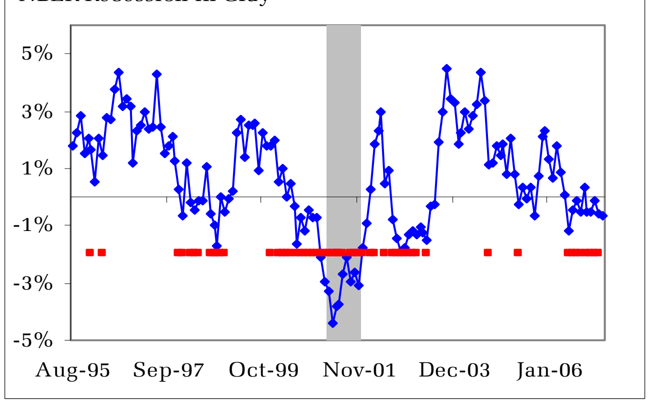


Table 2: Index Components

	2006			2007		
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Oregon Initial Unemployment Claims, SA*	6,211	6,972	6,269	5,676	6,809	6,350
Oregon Residential Building Permits, SA	1,873	2,430	1,607	2,501	2,788	2,037
The Oregonian Help-Wanted Ads, SA	19,372	18,817	19,302	16,194	16,394	15,828
Oregon Weight Distance Tax, $ Thousands, SA	26,375	22,836	20,757	19,432	18,145	19,904
Oregon Total Nonfarm Payrolls, Thousands, SA	1712.1	1714.0	1712.2	1711.7	1715.2	1717.2
Univ. of Michigan U.S. Consumer Confidence	93.6	92.1	91.7	96.9	91.3	88.4
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, $ Millions, SA	43,519	42,709	44,341	41,496	40,421	42,349
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	-0.52	-0.65	-0.68	-0.51	-0.54	-0.70

* *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.