UNIVERSITY OF OREGON INDEX OF ECONOMIC INDICATORS™

oregon economic forum

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

OCTOBER 2007

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Analysis

The University of Oregon Index of Economic Indicators™ dropped 0.5 percent in October, to 102.0 (1997=100), the third consecutive monthly fall. Compared to six months ago, the UO Index has fallen 2.8 percent annualized and more than half the components have declined. A decline of this breadth and magnitude preceded the 2001 recession and suggests a weak economic environment in the near term. Just two of the indicators that comprise the index—the Oregon weight-distance tax and the interest rate spread—improved in October. Remaining indicators all declined.

Oregon labor markets softened during October. Initial unemployment claims rose again to the highest level since November 2006, continuing a steady deterioration that began early this year. The persistent upward trend of claims is consistent with a softening job market. Likewise, help-wanted advertising fell sharply during October, and nonfarm payrolls declined by 1,400 employees during the month. While payrolls are 0.8 percent higher than year-ago levels, they have been effectively flat since May 2007. Recent data indicate that firms are increasingly cautious about expanding employment.

The general tightening in credit markets continued to weigh on housing activity in Oregon, with residential permits dropping again to the lowest level since September 2000. Most analysts anticipate the housing market will continue to decline well into 2008. The Oregon weight distance tax collected rebounded from a September drop, but remains below August levels. Nationally, inflation-adjusted orders for new nondefense nonaircraft capital goods fell, remaining essentially flat over the past year and suggestive of a weak environment for business investment. The yield spread—the difference between short- and long-term interest rates—improved in October. The Federal Reserve cut interest rates on October 31 to limit the negative impact of deteriorating housing markets and tighter credit conditions in general. Additional rate cuts are expected in December and January, although the positive impact of easier monetary policy will not be felt until late next year.

The UO Index suggests a weak—and possibly recessionary—pace of economic activity in the near term (three to six months). Nationally, the intensifying drag from housing is anticipated to significantly slow economic activity through at least the first quarter of next year, with Oregon likely to follow a similar pattern. Compared to six months ago, the UO Index slid 2.8 percent (annualized), while the six-month diffusion index, a measure of the proportion of components that are rising, stood at 18.8 (in other words, more than 50 percent of the components deteriorated over the past six months). 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.

UO - Index of Economic Indicators
Index, 1997 = 100

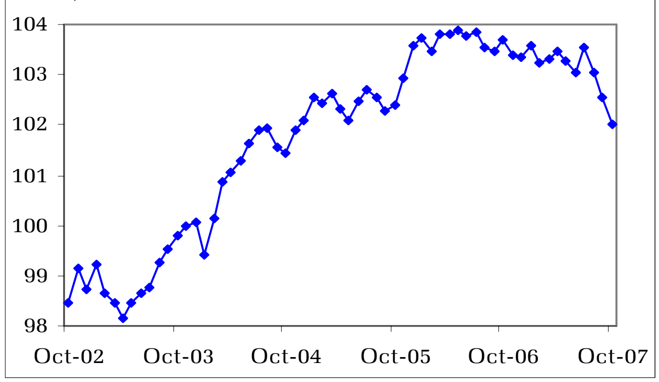


Table 1: Summary Measures

	2007					
	May	Jun.	Jul.	Aug.	Sep.	Oct.
University of Oregon Index of Economic Indicators™, 1997=100	103.3	103.0	103.5	103.0	102.5	102.0
Percentage Change	-0.2	-0.2	0.5	-0.5	-0.5	-0.5
Diffusion Index	50.0	37.5	68.8	25.0	37.5	31.3
6-Month Percentage Change, Annualized	-0.2	-0.6	-0.1	-0.3	-1.5	-2.8
6-Month Diffusion Index	50	25	50	62.5	37.5	18.8

COLLEGE OF ARTS AND SCIENCES
University of Oregon

Released: December 10, 2007.

OCTOBER 2007

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.

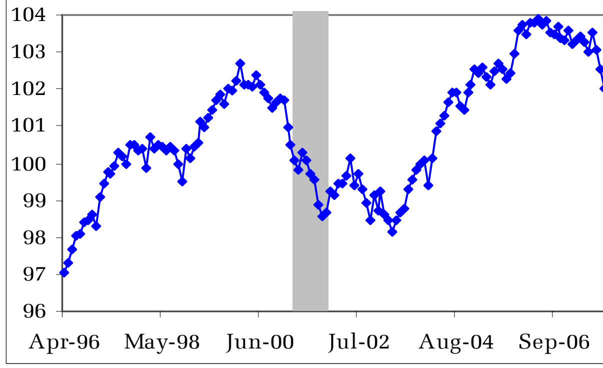
Using the rule, the index signaled an impending recession in January 2001; the National Bureau of Economic Research (NBER) dates the national recession from March to November 2001. The index did signal the so-called "jobless recovery" that followed the 2001 recession, and did, for a single month, register a decline greater than 2 percent during this period. No other recessions were signaled during the period for which data are available (beginning March 1996).

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, 1997 = 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

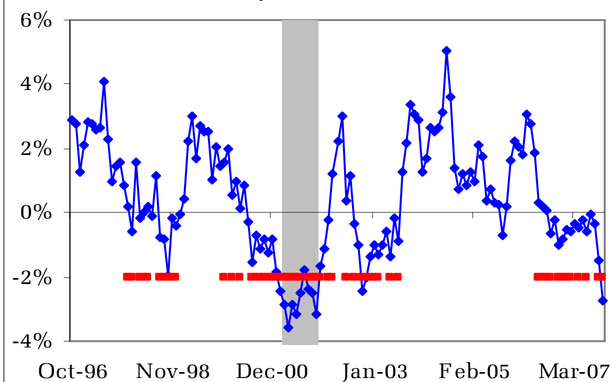


Table 2: Index Components

	2007					
	May	Jun.	Jul.	Aug.	Sep.	Oct.
Oregon Initial Unemployment Claims, SA*	6,310	6,428	6,174	6,545	6,873	7,091
Oregon Residential Building Permits, SA	1,966	1,483	1,890	1,675	1,345	1,234
Oregon Help-Wanted Advertising, SA	27,351	28,320	27,468	25,277	26,199	20,092
Oregon Weight Distance Tax, $ Thousands, SA	20,776	20,224	21,974	23,012	18,479	21,442
Oregon Total Nonfarm Payrolls, Thousands, SA	1725.8	1724.2	1725.3	1728.8	1727.2	1725.8
Univ. of Michigan U.S. Consumer Confidence	88.3	85.3	90.4	83.4	83.4	80.9
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, $ Millions, SA	41,608	41,428	41,786	41,813	42,356	41,401
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	-0.51	-0.15	-0.26	-0.35	-0.42	-0.23

* *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.