UNIVERSITY OF OREGON INDEX OF ECONOMIC INDICATORS™

oregon economic forum

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

JULY 2006

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Analysis

The University of Oregon Index of Economic Indicators™ fell 0.1 percent in July to 107.2 (1996=100). Three indicators—Oregon nonfarm payrolls, the Oregon weight-distance tax, and new manufacturing orders—improved. Two indicators—Oregon residential building permits and Oregon initial unemployment claims—deteriorated. The remaining indicators—U.S. consumer confidence, help-wanted advertising in *The Oregonian*, and the interest rate spread—were essentially unchanged.

Data on the Oregon labor market was generally weaker in July, with slowing job growth that mirrors the national trend. Nonfarm payrolls rose by 3,700 employees, largely offsetting the 3,900 loss the previous month. During the past three months, Oregon employers have added an average of 2,800 workers a month, 1,000 fewer than the same period a year ago. Moreover, initial unemployment claims rose in July to their highest level since last October, although they remain well below their long-term average. Help-wanted advertising in *The Oregonian* was essentially unchanged.

UO - Index of Economic Indicators
Index, 1996 = 100, NBER Recession in Gray
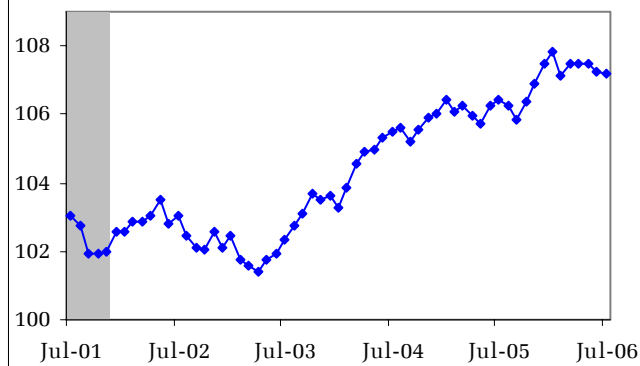
Remaining economic indicators were mixed. Notably, Oregon residential building permits dropped sharply in July to 1,923, the lowest level of permits since September 2004. The sharp decline in permits runs counter to the stronger data in May and June, and suggests a weakening of residential activity in Oregon consistent with the deterioration in the national housing market. This deterioration is widely anticipated to slow the pace of growth later this year and into 2007. In contrast, the Oregon weight-distance tax collected rose in July, indicating that trucking activity remains strong. Also, core manufacturing orders rose for the third consecutive month, a signal that business investment plans remain healthy. The yield spread—the difference between long- and short-term interest rates—was essentially unchanged in July and still suggests weaker economic conditions.

The index indicates continued economic growth in Oregon in the near term (three to six months). Still, the fall in the index over the past six months, along with a decrease in the number of improving indicators, suggests that the pace of activity is slowing. Compared to six months ago, the UO Index fell 1.3 percent (annualized), while the six-month diffusion index, a measure of the proportion of components that are rising, stood at 37.5 (in other words, more than half the components 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					
	Feb.	Mar.	Apr.	May	Jun.	Jul.
University of Oregon Index of Economic Indicators™, 1996=100	107.1	107.5	107.5	107.5	107.2	107.2
Percentage Change	-0.7	0.3	0.0	0.0	-0.2	-0.1
Diffusion Index	56.3	56.3	50.0	50.0	37.5	37.5
6-Month Percentage Change, Annualized	1.7	3.1	2.0	1.1	-0.4	-1.3
6-Month Diffusion Index	12.5	56.3	56.3	43.8	43.8	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.
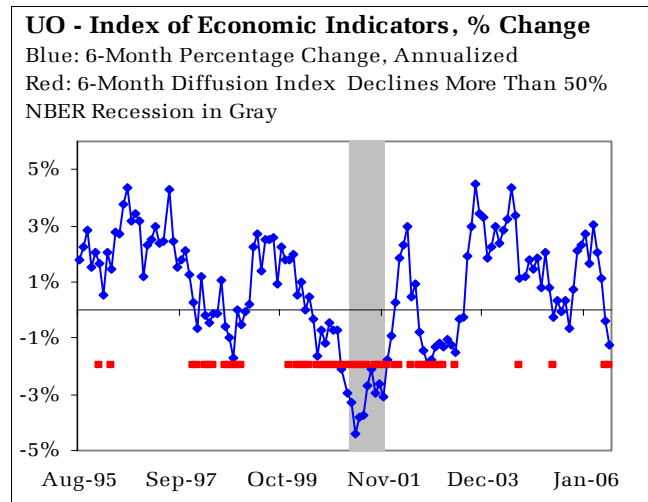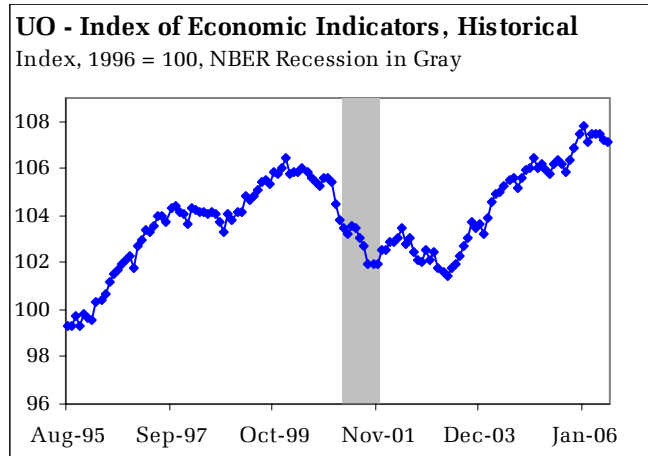
UO - Index of Economic Indicators, Historical
Index, 1996 = 100, NBER Recession in Gray

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					
	Feb.	Mar.	Apr.	May	Jun.	Jul.
Oregon Initial Unemployment Claims, SA*	5,829	5,870	5,675	6,041	5,936	6,268
Oregon Residential Building Permits, SA	2,464	2,373	2,432	2,788	2,727	1,923
The Oregonian Help-Wanted Ads, SA	22,477	21,737	23,978	21,617	20,155	20,857
Oregon Weight Distance Tax, $ Thousands, SA	18,865	19,760	17,056	23,563	19,575	21,537
Oregon Total Nonfarm Payrolls, Thousands, SA	1697.3	1704.0	1703.5	1711.8	1708.1	1712.0
Univ. of Michigan U.S. Consumer Confidence	86.7	88.9	87.4	79.1	84.9	84.7
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, $ Billions, SA	42,086	43,467	42,454	42,869	43,332	44,052
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	0.08	0.13	0.2	0.17	-0.12	-0.13

* *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.