UNIVERSITY OF OREGON INDEX OF ECONOMIC INDICATORS™

oregon economic forum

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

OCTOBER 2006

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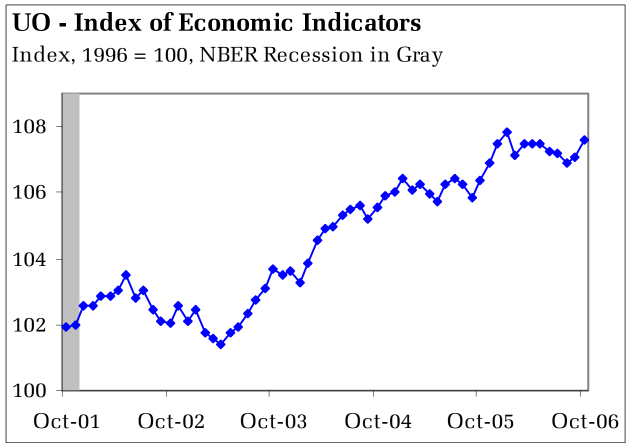


Analysis

The University of Oregon Index of Economic Indicators™ gained 0.5 percent in October to 107.6 (1996=100), increasing for the second consecutive month. Four indicators—Oregon residential building permits, help-wanted advertising in *The Oregonian,* the Oregon weight-distance tax, and U.S. consumer confidence—improved. Three indicators—Oregon initial jobless claims, Oregon nonfarm payrolls, and inflation-adjusted new manufacturing orders—deteriorated. The interest rate spread was essentially unchanged.

October saw mixed Oregon labor market data. Oregon employers reduced nonfarm payrolls by 2,700 workers, but this loss was offset by a large September revision. Last month, firms added 6,900 employees, compared to the 3,900 initially reported. The level of initial unemployment claims rose, but remains at a level consistent with continued employment gains. In contrast, help-wanted advertising in *The Oregonian* edged higher for the second consecutive month. Overall, the indicators suggest that the Oregon labor market remains healthy, albeit with some signs of softening.

Remaining indicators were generally positive. Oregon residential building permits rose in October, partially offsetting September's steep decline. Still, permits are down 31 percent from their May 2006 peak, and it would be premature to conclude that the housing market is stabilizing. The Oregon weight-distance tax collected, a measure of trucking activity in the state, rose significantly, but this partly reflects an increase in early filing of licensing fees. Falling gasoline prices fostered a sharp gain in consumer confidence, which rose to its highest level since July 2005. The yield curve was essentially unchanged, suggesting that investors did not see a substantially increased risk of recession. On a weaker note, new orders for core manufactured goods, a key indicator of business investment spending, dropped sharply in October.

The mixed nature of the data and the mostly stable index over the past year is consistent with an economy that is transitioning to a lower rate of economic activity. Still, the index suggests continued economic growth in Oregon in the near term (three to six months). Compared to six months ago, the UO Index rose 0.2 percent (annualized), while the six-month diffusion index—a measure of the proportion of components that are rising—stood at 50 (in other words, half the indicators improved). 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					
	May	Jun.	Jul.	Aug.	Sep.	Oct.
University of Oregon Index of Economic Indicators™, 1996=100	107.5	107.2	107.2	106.9	107.1	107.6
Percentage Change	0.0	-0.2	0.0	-0.3	0.2	0.5
Diffusion Index	43.8	43.8	50.0	31.3	50.0	68.8
6-Month Percentage Change, Annualized	1.1	-0.4	-1.2	-0.4	-0.7	0.2
6-Month Diffusion Index	50.0	37.5	37.5	37.5	25.0	50.0

Released: December 6, 2006.

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.

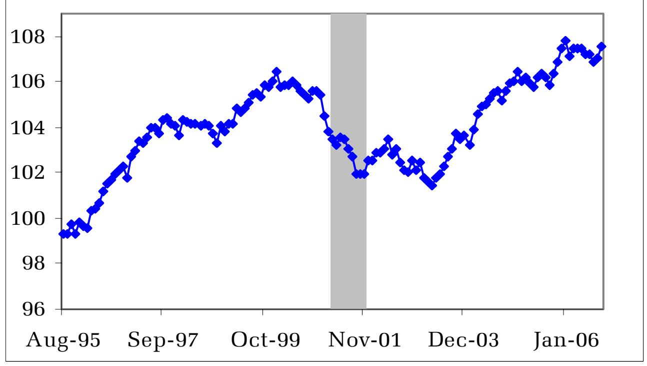
Using the rule, the index signaled an impending recession in January 2001; the National Bureau of Economic Research (NBER) dates the national recession from March to November 2001. The index did signal the so-called "jobless recovery" that followed the 2001 recession, but did not falsely predict a double-dip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

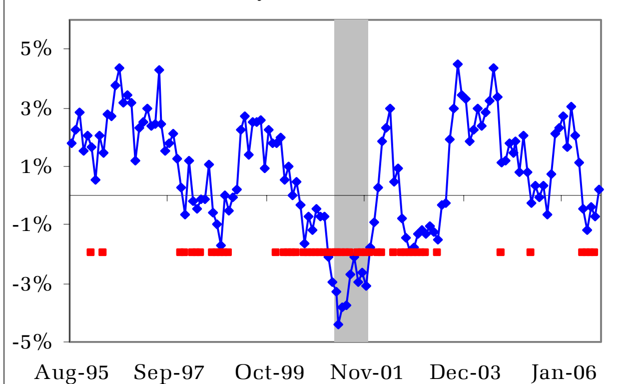


Table 2: Index Components

	2006					
	May	Jun.	Jul.	Aug.	Sep.	Oct.
Oregon Initial Unemployment Claims, SA*	6,041	5,936	6,268	6,551	6,579	6,676
Oregon Residential Building Permits, SA	2,788	2,727	1,923	2,038	1,758	1,856
The Oregonian Help-Wanted Ads, SA	21,617	20,155	20,857	18,799	19,448	19,683
Oregon Weight Distance Tax, $ Thousands, SA	23,563	19,575	21,537	20,937	18,931	26,375
Oregon Total Nonfarm Payrolls, Thousands, SA	1711.8	1708.1	1715.3	1719.6	1726.5	1723.8
Univ. of Michigan U.S. Consumer Confidence	79.1	84.9	84.7	82	85.4	93.6
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, $ Millions, SA	42,869	43,154	43,492	44,107	45,225	43,319
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	0.17	-0.12	-0.13	-0.37	-0.53	-0.52

* *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.