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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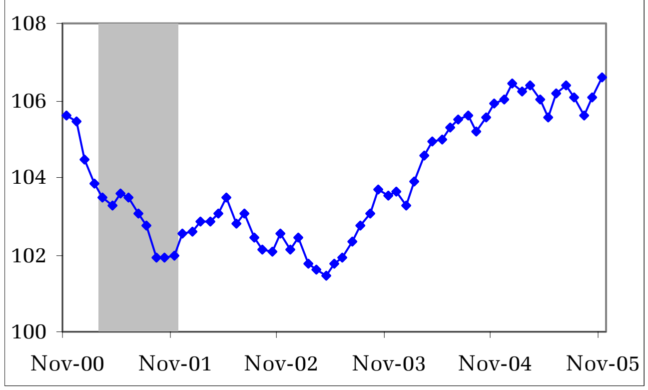
UO - Index of Economic Indicators
Index, 1996 = 100, NBER Recession in Gray



Analysis

The University of Oregon Index of Economic Indicators™ continued to gain in November, rising 0.5 percent to 106.6 (1996=100). Four of the eight indicators that comprise the UO Index—Oregon initial unemployment claims, Oregon residential building permits, Oregon nonfarm payrolls, and U.S. consumer confidence—improved in November. The remaining four indicators—Oregon weight distance tax, *The Oregonian* help-wanted ads, U.S. manufacturing orders, and the interest rate spread—deteriorated. Improving indicators outweighed those that deteriorated, however.

Two of the three Oregon labor market indicators posted strong improvements. Nonfarm payrolls gained 7,600 workers in November, the largest increase since July. On average, payrolls rose by 4,355 workers each month from January through November. Moreover, initial unemployment claims fell sharply to their lowest level in the period covered by the index, January 1995 to present. These data indicate a strong labor market in Oregon.

Remaining indicators were mixed. Retreating gasoline prices supported a gain in U.S. consumer confidence. Rising building permits suggest that the construction industry in Oregon remains healthy despite the uptick in mortgage rates this year. In contrast, the Oregon weight distance tax collected slipped from October's strong showing. Likewise, orders for manufactured goods in November failed to build upon the previous month's gain. Continued monetary tightening by the Federal Reserve contributed to a narrowing of the interest rate spread. In the past, such a narrowing has presaged weaker economic activity. Recent policy statements suggest that the pace of rate increases will slow in the months ahead.

Compared to six months ago, the UO Index rose 2.0 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 components 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. Consequently, the index suggests that Oregon's solid pace of economic growth is set to continue for at least the near term (three to six months).

Table 1: Summary Measures

	2005					
	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
University of Oregon Index of Economic Indicators™, 1996=100	106.2	106.4	106.1	105.6	106.1	106.6
Percentage Change	0.6	0.2	-0.3	-0.4	0.5	0.5
Diffusion Index	56.3	56.3	37.5	43.8	81.3	43.8
6-Month Percentage Change, Annualized	0.3	-0.1	-0.3	-1.5	0.2	2.0
6-Month Diffusion Index	50.0	37.5	50.0	37.5	62.5	50.0

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.

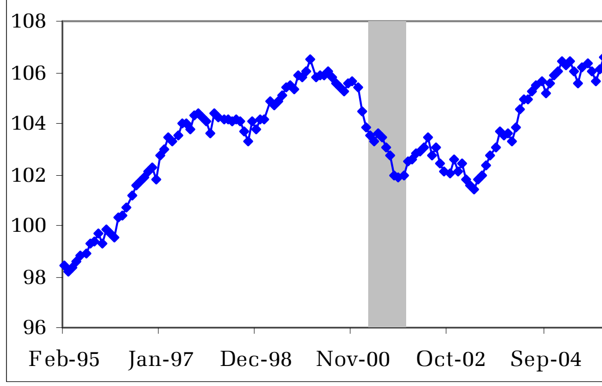
Using the rule, the index signaled an impending recession in January 2001; the National Bureau of Economic Research (NBER) dates the national recession from March to November 2001. The index did signal the so-called "jobless recovery" that followed the 2001 recession, but did not falsely predict a double-dip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

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

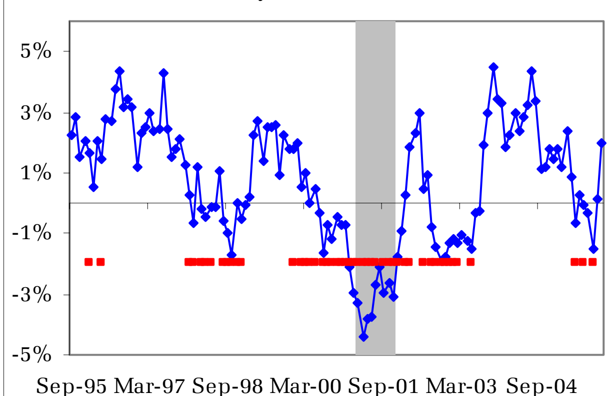


Table 2: Index Components

	2005					
	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
Oregon Initial Unemployment Claims, SA*	6,798	6,819	6,950	6,579	6,346	5,482
Oregon Residential Building Permits, SA	2,715	2,533	2,899	2,492	2,540	2,723
The Oregonian Help-Wanted Ads, SA	22,523	24,431	21,580	22,303	25,168	23,020
Oregon Weight Distance Tax, $ Thousands, SA	18,506	18,851	18,851	19,854	25,880	21,731
Oregon Total Nonfarm Payrolls, Thousands, SA	1,642.1	1,650.6	1,653.8	1,658.4	1,656.5	1,664.1
Univ. of Michigan U.S. Consumer Confidence	96	96.5	89.1	76.9	74.2	81.6
Real Manufacturer's New Orders for Nondefense, Nonaircraft Capital Goods, $ Billions, SA	44,457	42,537	44,206	43,252	43,840	42,957
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	0.96	0.92	0.76	0.58	0.68	0.54

* *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.