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™ rose 0.2 percent in April to 89.2 (1997=100) from a revised March figure of 89.1. Although all indicators improved compared to six months ago, the pace of improvement is slowing. Indicators were mixed for the month, with significant improvements in only three of the index components.

Labor market components were mixed during April. Initial unemployment claims rose to their highest level since January. Although the level of claims has dropped dramatically since the height of the recession, they remain at a level consistent with persistent job weakness. National trends are similar. On a more positive note, employment services payrolls—largely temporary help jobs—rose during the month. Overall nonfarm payrolls (not included in the index) rose by 3,900 jobs, the largest gain since October 2007. Gains in government hiring, however, drove much of the increase. Some of those gains, such U.S. Census Bureau, are temporary, while state and local jobs are vulnerable to additional budget cuts.

Residential building permits (smoothed) fell for the second consecutive month, suggesting the housing market is already losing some of its newfound momentum. New orders for nondefense nonaircraft capital goods fell, but the previous month's data were revised upward from an already sharp gain. The upward trend of this indicator remains intact and signals improving business confidence and factory activity. Consumer confidence (smoothed) gained again in April, an indication that spending will continue to grow. The interest rate spread between ten-year Treasury Bonds and the Federal Funds rose sharply as the economic outlook among market participants improved during the month. Note that this trend has since reversed as the European debt crisis renews concerns about the pace of recovery later this year.

Although the pace of improvement in the UO Index has slowed in the past two months, the recovery continues to look intact. That said, improvement was driven in part by fiscal stimulus and inventory correction, and, despite these additional factors, labor market improvements have been lackluster at best. The pace of growth simply remains insufficient to drive rapid employment gains. This condition is likely to persist, with future growth moderating as the additional factors such as fiscal stimulus dissipate during the second half of this

UO Index of Economic Indicators
Blue: UO Index, 1997=100, Left Axis
Gray: Probability of Oregon Recession, Right Axis

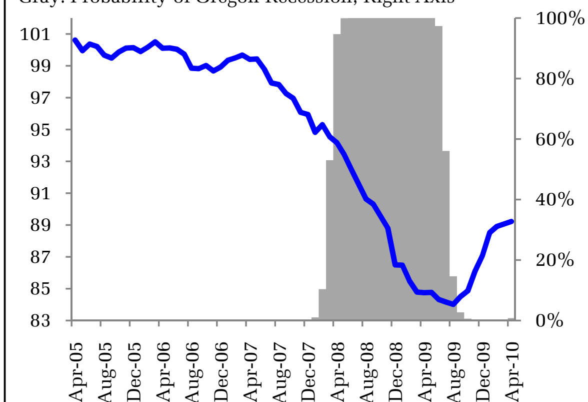

Table 1: Summary Measures

	2009		2010			
	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.
University of Oregon Index of Economic Indicators™, 1997=100	86.1	87.1	88.5	88.9	89.1	89.2
Percentage Change	1.5	1.1	1.7	0.5	0.2	0.2
Diffusion Index	85.7	71.4	85.7	57.1	42.9	50.0
6-Month Percentage Change, Annualized	3.2	6.6	10.6	12.0	11.1	10.5
6-Month Diffusion Index	71.4	78.6	100.0	85.7	100.0	100.0

COLLEGE OF ARTS AND SCIENCES
University of Oregon

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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 a leading indicator as the economy transitions from expansion to recession. Steep declines in the UO Index are recorded during periods of economic stress, signaling diminishing prospects for growth. Rising values of the UO Index tend to coincide with the end of a recession. As a general rule, a decline in the index of greater than 2.5 percent (annualized) over six months, coupled with a decline in more than half of its components, signals that a recession is likely imminent. Using the rule, the index signaled an impending recession in October 2000; a business cycle dating procedure developed by Jeremy Piger, University of Oregon associate professor of economics, indicates Oregon entered recession in November of 2000. Similarly, the UO Index suffered a sharp drop ahead of the recession in 2007.

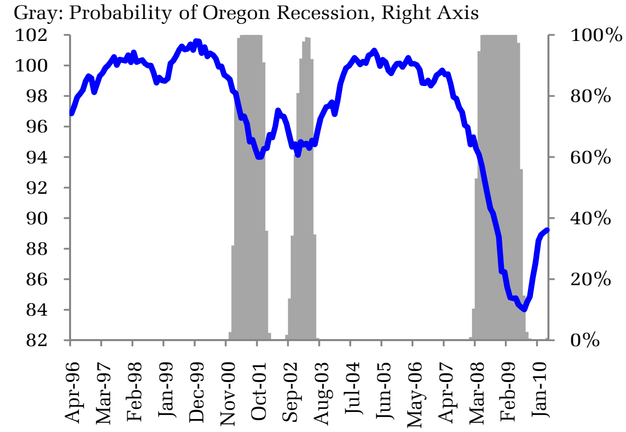
The general rule, however, should be used judiciously. Using the rule the UO Index indicated recession for a single month in 1998 during the Asian financial crisis. More recently, the UO Index sent recessionary warnings in the middle of 2006, well before Oregon actually slipped into recession at the end of 2007. 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

Blue: UO Index, 1997=100, Left Axis

Gray: Probability of Oregon Recession, Right Axis



UO Index of Economic Indicators, % Change

Blue: 6-Month Percentage Change, Annualized

Red: 6-Month Diffusion Index Declines More Than 50%

Gray: Probability of Oregon Recession, Right Axis

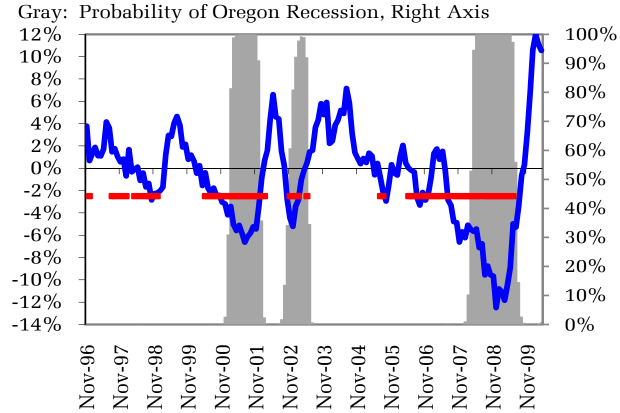


Table 2: Index Components

	2009		2010			
	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.
Oregon Initial Unemployment Claims, SA*	10,819	10,754	10,081	9,216	9,188	9,656
Oregon Employment Services Payrolls, SA	26,735	26,810	28,403	28,311	27,905	28,962
Oregon Residential Building Permits, SA, 5 MMA*	575	678	756	820	798	769
Oregon Weight Distance Tax, $ Thousands, SA, 3 MMA	18,325	18,311	18,890	18,186	18,252	18,371
Univ. of Michigan U.S. Consumer Confidence, 5 MMA	68.6	69.9	71.7	71.7	72.3	73.3
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, $ Millions, SA	35,540	35,854	34,718	35,772	38,111	37,131
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	3.28	3.47	3.62	3.56	3.57	3.65

** SA–seasonally adjusted; MMA–month moving average*

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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.