# 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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## NOVEMBER 2007

### Analysis

The University of Oregon Index of Economic Indicators™ rose 0.2 percent in November, to 102.3 (1997=100), partially reversing a fall in October and pulling the six-month annualized change above the rate associated with the 2001 recession. Despite the monthly gain, the trend over the past four months remains consistent with relatively weak economic conditions in the near term. Just three of the indicators that comprise the index, Oregon residential building permits, Oregon help-wanted advertising, and Oregon nonfarm payrolls, improved during November. Remaining indicators all declined.

Oregon labor market data was mixed in November. Notably, nonfarm payrolls gained sharply after stagnating during the middle part of 2007. Oregon firms added 7,500 employees in November, extending a 3,200 gain in October that had been previously reported as a decline. Likewise, help-wanted advertising in Oregon newspapers gained in November offsetting a portion of the October decline. Still, it would be premature to conclude that the labor market is poised for a sustained rebound—initial unemployment claims jumped again, continuing a recent uptrend that has pushed claims to their highest level since February 2004.

Residential building permits gained in November to their highest level since August, but remain 34% below year ago levels and are consistent with activity seen during the 2001 recession. Ongoing tightness in credit markets suggests housing activity will remain soft in the months ahead. Consumer confidence fell again in November, extending a decline that began last August in the wake of financial market stress and rising energy cost. Note that, nationally, spending has not declined as sharply as consumer confidence, suggesting that the latter may be overstating the softness in consumer spending. New orders for nondefence nonaircraft capital goods slipped again in November, indicating continued softness in business investment activity. The yield spread—the difference between short and long term interest rates—fell in November in response to renewed tightening in credit markets. In response to slowing economic activity, the Federal Reserve eased monetary policy for a third time in December for a total reduction in short term interest rates of 1 percentage point since September. Additional rate cuts are expected in early 2008.

The UO Index suggests a weak pace of economic activity in the near term (3 to 6 months). The drag from the declining housing sector and tighter credit markets are likely to result in near recessionary economic conditions in the early part of 2008. Continued job growth would help the economy avoid a recession. Compared to six months ago, the UO Index slid 1.8 percent (annualized), while the six-month diffusion index, a measure of the proportion of components that are rising stood at 31.3 (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

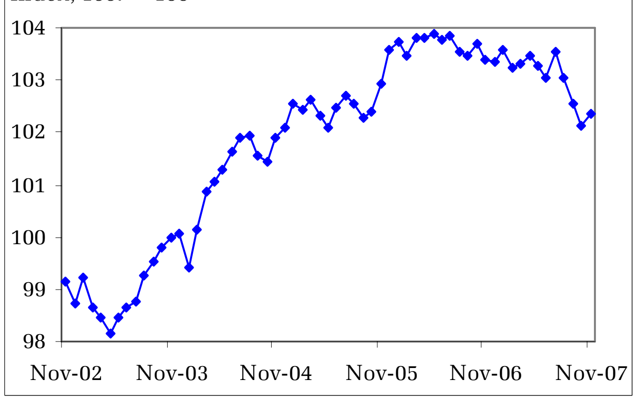


Table 1: Summary Measures

| | 2007 | | | | | |
|---|---|---|---|---|---|---|
| | Jun. | Jul. | Aug. | Sep. | Oct. | Nov. |
| University of Oregon Index of Economic Indicators™, 1997=100 | 103.0 | 103.5 | 103.0 | 102.5 | 102.1 | 102.3 |
| Percentage Change | -0.2 | 0.5 | -0.5 | -0.5 | -0.4 | 0.2 |
| Diffusion Index | 50.0 | 37.5 | 68.8 | 25.0 | 37.5 | 31.3 |
| 6-Month Percentage Change, Annualized | -0.6 | -0.1 | -0.3 | -1.5 | -2.5 | -1.8 |
| 6-Month Diffusion Index | 37.5 | 68.75 | 25 | 37.5 | 31.3 | 31.3 |

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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.

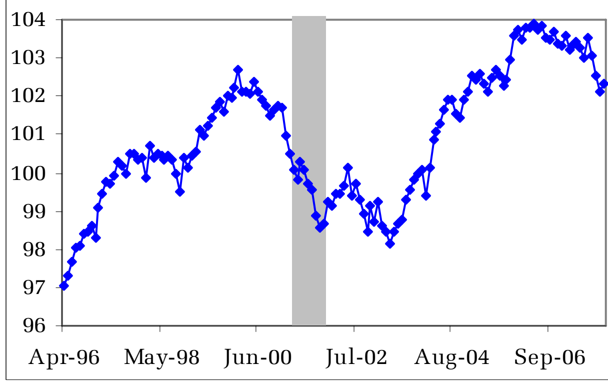
Using the rule, the index signaled an impending recession in January 2001; the National Bureau of Economic Research (NBER) dates the national recession from March to November 2001. The index did signal the so-called "jobless recovery" that followed the 2001 recession, and did, for a single month, register a decline greater than 2% 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 encompasses 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

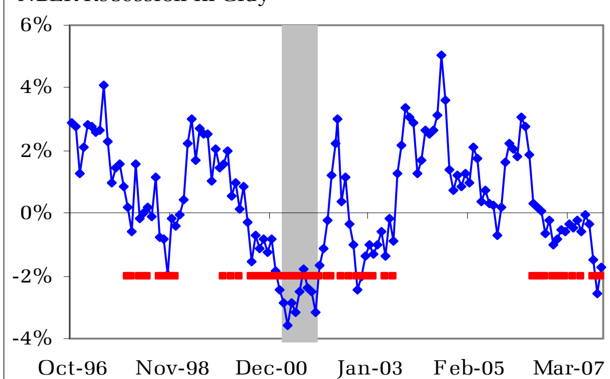



Table 2: Index Components

| | 2007 | | | | | |
|---|---|---|---|---|---|---|
| | Jun. | Jul. | Aug. | Sep. | Oct. | Nov. |
| Oregon Initial Unemployment Claims, SA* | 6,428 | 6,174 | 6,545 | 6,873 | 7,091 | 7,736 |
| Oregon Residential Building Permits, SA | 1,483 | 1,890 | 1,675 | 1,345 | 1,234 | 1,613 |
| Oregon Help-Wanted Advertising, SA | 28,320 | 27,468 | 25,277 | 26,199 | 20,092 | 23,806 |
| Oregon Weight Distance Tax, $ Thousands, SA | 20,224 | 21,974 | 23,012 | 18,479 | 21,442 | 20,886 |
| Oregon Total Nonfarm Payrolls, Thousands, SA | 1724.2 | 1725.3 | 1728.8 | 1727.2 | 1730.4 | 1737.9 |
| Univ. of Michigan U.S. Consumer Confidence | 85.3 | 90.4 | 83.4 | 83.4 | 80.9 | 76.1 |
| Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, $ Millions, SA | 41,428 | 41,786 | 41,813 | 42,408 | 41,190 | 40,877 |
| Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate | -0.15 | -0.26 | -0.35 | -0.42 | -0.23 | -0.34 |

** SA–seasonally adjusted*

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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.*