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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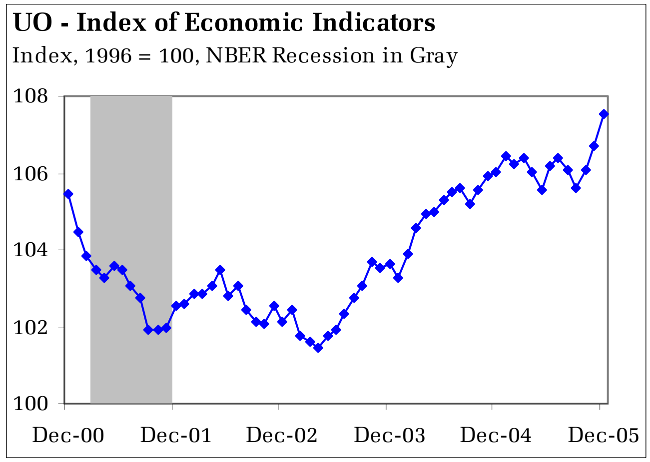

Analysis

The University of Oregon Index of Economic Indicators™ gained in December, rising 0.8 percent to 107.5 (1996=100). Four of the eight indicators that comprise the UO Index—Oregon initial unemployment claims, Oregon nonfarm payrolls, U.S. manufacturing orders, and U.S. consumer confidence—improved in December. Three indicators—Oregon residential building permits, Oregon weight distance tax, and the interest rate spread—deteriorated. *The Oregonian* help-wanted ads were essentially unchanged.

The job market in Oregon continues to show dramatic improvements. Initial unemployment claims fell to a new record low for the period covered by the UO Index, indicating a very low level of layoffs. Moreover, nonfarm payrolls rose again, with Oregon firms adding 7,500 employees in December. For the year, firms added 56,400 workers for a monthly average of 4,700. Nonfarm payrolls have grown 3.5 percent over the past year, more than twice the national rate of 1.5 percent.

Remaining indicators were generally upbeat. U.S. consumer confidence rose sharply as households continue to recover from the impact of last summer's hurricane activity. Likewise, orders for nondefense, nonaircraft capital goods gained sharply in December on top of an upward revision of the November figure. This indicates that investment spending by firms remains healthy and will likely continue to offer near-term support for economic activity. Note that over the past year the manufacturing sector in Oregon has added jobs, compared to declines nationally. The Oregon weight-distance tax collected, Oregon residential building permits, and the interest rate spread all fell, but the declines were moderate.

Compared to six months ago, the UO Index rose 2.5 percent (annualized), while the six-month diffusion index, a measure of the proportion of components that are rising, stood at 62.5 (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					
	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
University of Oregon Index of Economic Indicators™, 1996=100	106.4	106.1	105.6	106.1	106.7	107.5
Percentage Change	0.2	-0.3	-0.4	0.5	0.6	0.8
Diffusion Index	56.3	37.5	43.8	81.3	56.3	56.3
6-Month Percentage Change, Annualized	-0.1	-0.3	-1.5	0.2	2.2	2.5
6-Month Diffusion Index	37.5	50.0	37.5	62.5	50.0	62.5

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Methodology and Notes

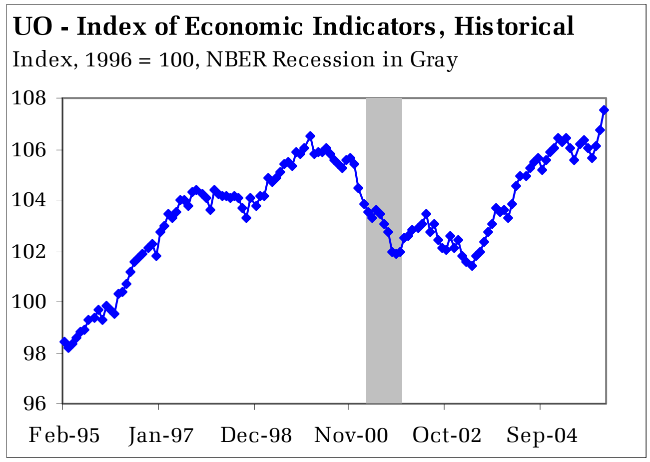
The methodology employed in creating the University of Oregon Index of Economic Indicators is identical to that used by The Conference Board, an independent, not-for-profit research organization, in the computation of the U.S. Leading Index. For information, see www.globalindicators.org.

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.



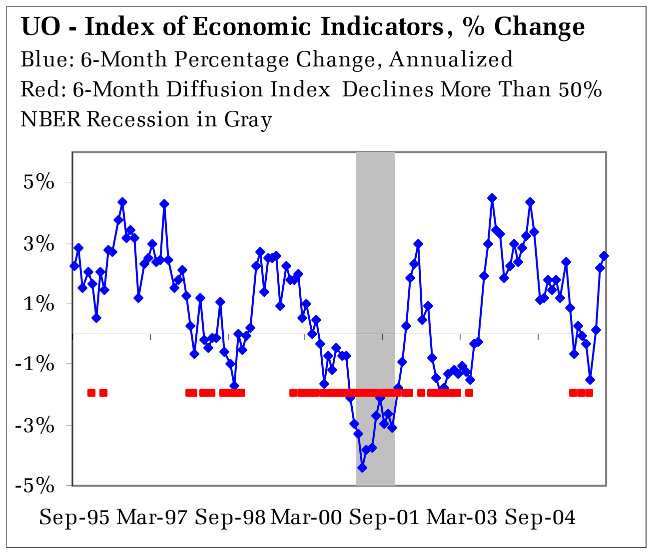


Table 2: Index Components

	2005					
	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
Oregon Initial Unemployment Claims, SA*	6,819	6,950	6,579	6,346	5,482	5,042
Oregon Residential Building Permits, SA	2,533	2,899	2,492	2,540	2,723	2,553
The Oregonian Help-Wanted Ads, SA	24,431	21,580	22,303	25,168	23,020	23,386
Oregon Weight Distance Tax, $ Thousands, SA	18,851	18,851	19,854	25,880	21,731	20,626
Oregon Total Nonfarm Payrolls, Thousands, SA	1,650.6	1,653.8	1,658.4	1,656.5	1,665.1	1,672.6
Univ. of Michigan U.S. Consumer Confidence	96.5	89.1	76.9	74.2	81.6	91.5
Real Manufacturer's New Orders for Nondefense, Nonaircraft Capital Goods, $ Billions, SA	42,537	44,206	43,252	43,840	43,948	45,469
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	0.92	0.76	0.58	0.68	0.54	0.31

* *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.