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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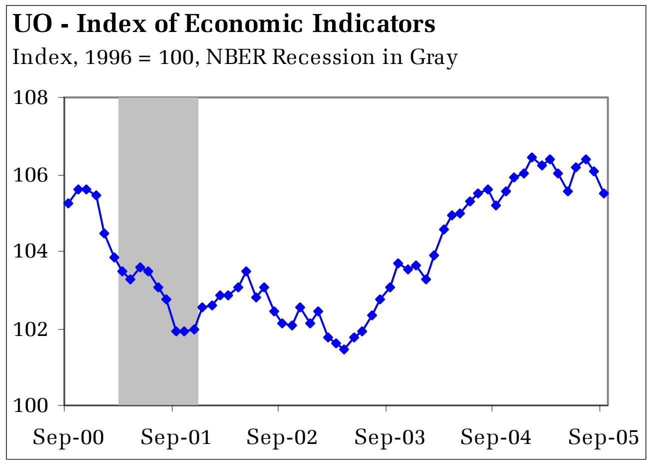
Analysis

The University of Oregon Index of Economic Indicators™ fell to 105.5 (1996=100) in September, a 0.5 percent decline from the previous month. Of the eight indicators that comprise the UO Index, three—Oregon initial unemployment claims, Oregon weight distance tax, and *The Oregonian* help-wanted ads—improved in September. Four indicators—U.S. consumer confidence, Oregon residential building permits, U.S. manufacturing orders, and the interest rate spread—deteriorated. Oregon nonfarm payrolls were essentially unchanged.

The fall in the UO Index was driven by a substantial decline in consumer confidence in the wake of the summer's hurricane activity in the Gulf coast. Consumer pessimism likely reflects the sharp rise in energy prices, particularly gasoline, in the face of relatively tepid wage gains. In short, consumers are challenged to maintain purchasing power in the face of rising costs.



Oregon labor market indicators were again mixed in September. Nonfarm payrolls posted a disappointing gain of just 300 jobs, returning to the lackluster pace of job growth of the second quarter. In contrast, help-wanted ads in *The Oregonian* gained modestly in September, while Oregon initial unemployment claims dropped to the lowest levels since last March.

Other indicators were generally negative. The exception was a sharp gain in the Oregon weight distance tax collected, suggesting increased trucking activity in the state.

The impact of this summer's hurricane activity is now being reflected in the UO Index. The energy shock is slowing economic activity via, at this point, weakened consumer confidence. Compared to six months ago, the UO Index was down 1.7 percent, while the six-month diffusion index, a measure of the proportion of components that are rising, fell to 37.5 (in other words, on balance, less than 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, while the UO Index points to slowing growth ahead, it does not yet point to a recession in the near (three- to six-month) future.

Table 1: Summary Measures

	2005					
	Apr.	May	Jun.	Jul.	Aug.	Sep.
University of Oregon Index of Economic Indicators™, 1996=100	106.0	105.6	106.2	106.4	106.1	105.5
Percentage Change	-0.4	-0.4	0.6	0.2	-0.3	-0.5
Diffusion Index	50.0	31.3	56.3	56.3	37.5	43.8
6-Month Percentage Change, Annualized	0.8	-0.6	0.3	-0.1	-0.3	-1.7
6-Month Diffusion Index	62.5	37.5	50.0	37.5	50.0	37.5

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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.

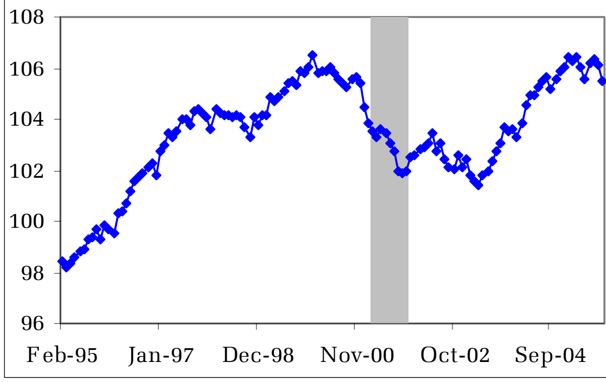
Using the rule, the index signaled an impending recession in January 2001; the National Bureau of Economic Research (NBER) dates the national recession from March to November 2001. The index did signal the so-called "jobless recovery" that followed the 2001 recession, but did not falsely predict a double-dip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

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

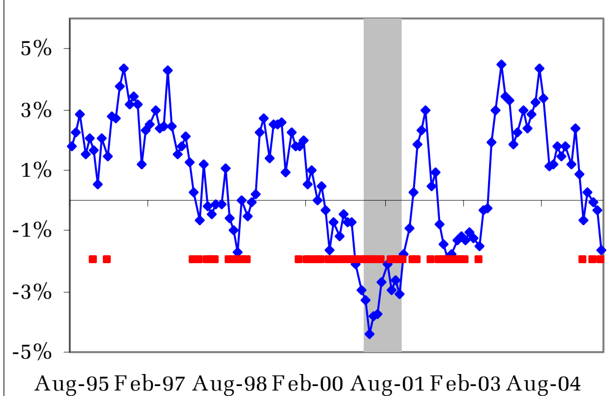


Table 2: Index Components

	2005					
	Apr.	May	Jun.	Jul.	Aug.	Sep.
Oregon Initial Unemployment Claims, SA*	6,506	7,501	6,798	6,819	6,950	6,579
Oregon Residential Building Permits, SA	2,586	2,262	2,715	2,533	2,899	2,492
The Oregonian Help-Wanted Ads, SA	23,401	24,687	22,523	24,431	21,580	22,303
Oregon Weight Distance Tax, $ Thousands, SA	18,229	22,287	18,506	18,851	18,851	19,854
Oregon Total Nonfarm Payrolls, Thousands, SA	1,640.9	1,638.2	1,642.1	1,650.6	1,653.8	1,654.1
Univ. of Michigan U.S. Consumer Confidence	87.7	86.9	96	96.5	89.1	76.9
Real Manufacturer's New Orders for Nondefense, Nonaircraft Capital Goods, $ Billions, SA	42,540	42,299	44,457	42,537	44,268	43,588
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	1.55	1.14	0.96	0.92	0.76	0.58

* *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.

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