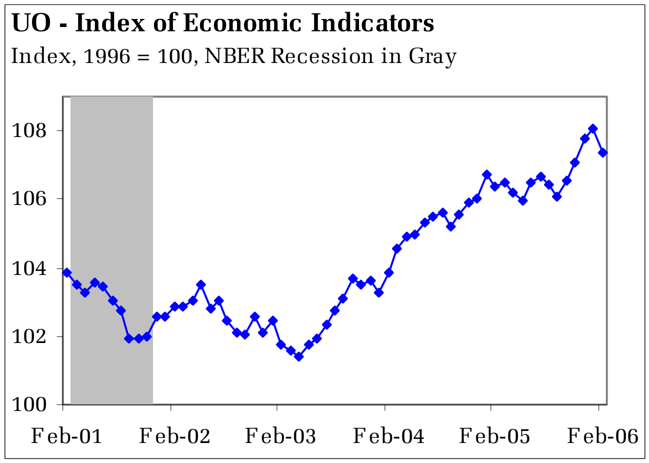
UNIVERSITY OF OREGON INDEX OF ECONOMIC INDICATORS™

oregon economic forum

A project of the College of Arts and Sciences and the Department of Economics

FEBRUARY 2006

Author
Timothy A. Duy
Director, Oregon Economic Forum
Department of Economics



Analysis

After rising for four consecutive months, the University of Oregon Index of Economic Indicators™ dropped in February, falling 0.7 percent to 107.3 (1996=100). Only one indicator, Oregon nonfarm payrolls, improved, while one indicator, Oregon residential building permits, remained essentially unchanged. The remaining indicators that comprise the UO Index—Oregon initial unemployment claims, *The Oregonian* help-wanted ads, Oregon weight distance tax, U.S. consumer confidence, U.S. manufacturing orders, and the interest rate spread—deteriorated.

Oregon job market data was mixed in February. Notably, initial unemployment claims rose to their highest level since last October. It is premature to read this as a sign of excessive weakness. Initial unemployment claims had fallen to unusually low levels. In this light, February's increase is a move toward a more normal level of claims. Moreover, February's average weakly claims of 5,829 remain well below the eleven-year average of 7,215. In contrast, Oregon nonfarm payrolls continued their upward trend as firms added 4,200 employees in February. Help-wanted advertising in *The Oregonian* slipped in February. Overall, the local labor market remains strong.

Remaining indicators were generally weaker in February. Note, however, that the UO Index is subject to significant month-to-month variation. Changes over a six-month period are in general more accurate measures of the state of the business cycle. Compared to six months ago, the UO Index rose 1.7 percent (annualized), while the six-month diffusion index, a measure of the proportion of components that are rising, stood at 56.3 (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).

Looking further ahead into 2007, two indicators are notable. First, the interest rate spread continued to narrow in February and, over some horizons, the yield curve has inverted (a condition in which short-term interest rates exceed longer term interest rates). Such inversions have often signaled weaker economic conditions. Second, increasing evidence points to a slowdown in the national housing market. This would be consistent with expectations for slower national economic activity later this year. Oregon, however, may be somewhat insulated from a housing slowdown compared to areas that have experienced more rapid price appreciation.

Table 1: Summary Measures

	2005				2006	
	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.
University of Oregon Index of Economic Indicators™, 1996=100	106.1	106.6	107.1	107.8	108.1	107.3
Percentage Change	-0.3	0.5	0.5	0.6	0.3	-0.7
Diffusion Index	43.8	81.3	50.0	56.3	43.8	12.5
6-Month Percentage Change, Annualized	-0.8	0.7	2.1	2.4	2.7	1.7
6-Month Diffusion Index	56.3	68.8	50.0	62.5	62.5	56.3

COLLEGE OF ARTS AND SCIENCES
University of Oregon

Released: April 5, 2006.

Methodology and Notes

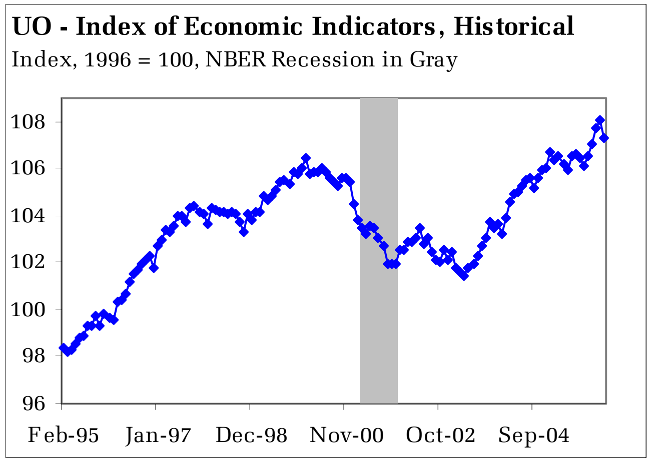
The methodology employed in creating the University of Oregon Index of Economic Indicators is identical to that used by The Conference Board, an independent, not-for-profit research organization, in the computation of the U.S. Leading Index. For information, see www.globalindicators.org.

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.



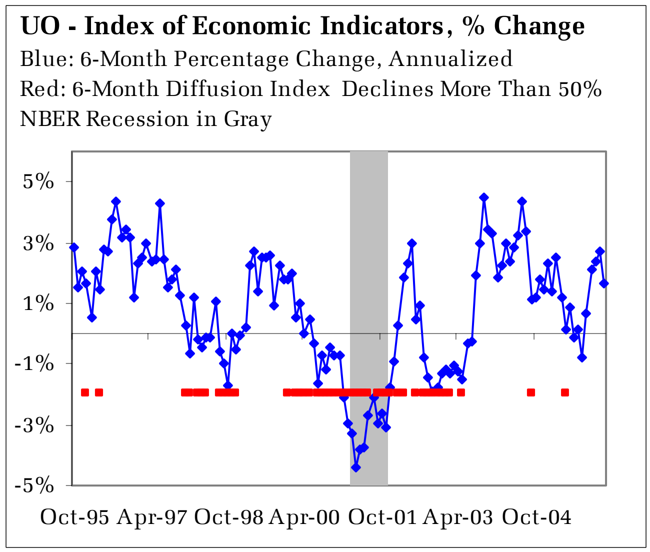


Table 2: Index Components

	2005				2006	
	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.
Oregon Initial Unemployment Claims, SA*	6,489	6,297	5,730	5,420	5,112	5,829
Oregon Residential Building Permits, SA	2,522	2,565	2,752	2,577	2,459	2,464
The Oregonian Help-Wanted Ads, SA	23,009	24,419	23,280	23,800	24,993	22,477
Oregon Weight Distance Tax, $ Thousands, SA	19,854	25,880	21,731	20,626	20,281	18,865
Oregon Total Nonfarm Payrolls, Thousands, SA	1,672.0	1,674.6	1,681.7	1,686.6	1,694.7	1,698.9
Univ. of Michigan U.S. Consumer Confidence	76.9	74.2	81.6	91.5	91.2	86.7
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, $ Billions, SA	43,252	43,840	43,898	45,971	45,969	44,837
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	0.58	0.68	0.54	0.31	0.13	0.08

* *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.