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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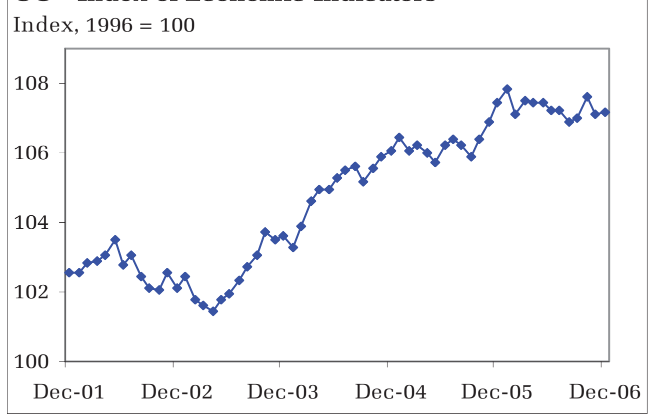

UO - Index of Economic Indicators

Analysis

The University of Oregon Index of Economic Indicators™ gained 0.1 percent in December to 107.2 (1996=100). The Index has held within a narrow range for the past eleven months, consistent with an economy easing into a moderate pace of growth compared with the rapid expansion that followed the downturn in 2001. Three indicators—Oregon initial jobless claims, help-wanted advertising in The Oregonian, and inflation-adjusted new manufacturing orders—improved. Three indicators—the Oregon weight-distance tax, Oregon residential building permits, and Oregon nonfarm payrolls—deteriorated. Two indicators—U.S. consumer confidence and the interest rate spread—were essentially unchanged from November.

The labor market data were mixed in November. Initial unemployment claims, which had been trending upward since last January, dropped sharply in December to a weekly average of 5,928 claims. This is the lowest level since June and indicates that the pace of layoffs slowed in the final month of 2007. Another leading indicator of the labor market, help-wanted advertising in The Oregonian, improved in December, largely reversing a decline the previous month. Still, nonfarm payrolls decline by 2,100 employees in December, continuing the softer employment picture that emerged in the second half of 2006; for the fourth quarter as a whole, payrolls were down by 4,600 workers. From July to December, firms added just 10,000 workers in Oregon, compared to a gain of 32,800 for the same period in 2005.

Remaining indicators also had a mixed tone. Oregon residential building permits fell sharply, to 1,590, the lowest reading in five years. The declining housing market is expected to weigh on the economy into 2007. In contrast, new orders for core manufactured goods, a key indicator of business investment spending, rose in December following two consecutive decreases. This suggests that underlying business spending remains solid, a signal of continuing economic growth. The yield spread remained relatively constant in December, suggesting that bond market participants did not see an increased risk of recession during the month.

The index suggests continued, albeit slower, economic growth in Oregon in the near term (three to six months). Compared to six months ago, the UO Index fell 0.1 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, more than half of the indicators 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.

Table 1: Summary Measures

	2006					
	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
University of Oregon Index of Economic Indicators™, 1996=100	107.2	106.9	107.0	107.6	107.1	107.2
Percentage Change	0.0	-0.3	0.1	0.5	-0.4	0.1
Diffusion Index	50.0	31.3	56.3	81.3	18.8	50.0
6-Month Percentage Change, Annualized	-1.2	-0.4	-0.8	0.3	-0.6	-0.1
6-Month Diffusion Index	37.5	37.5	25.0	50.0	25.0	56.3

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 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.

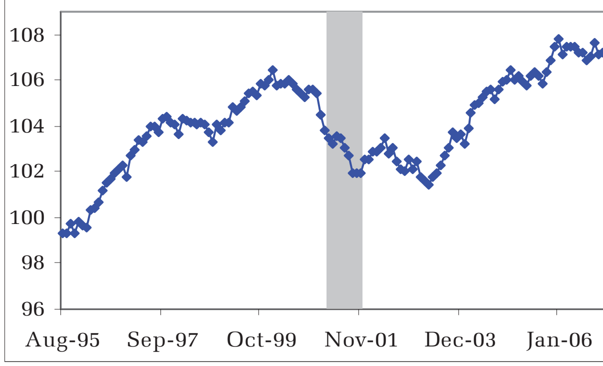
Using the rule, the index signaled an impending recession in January 2001; the National Bureau of Economic Research (NBER) dates the national recession from March to November 2001. The index did signal the so-called "jobless recovery" that followed the 2001 recession, but did not falsely predict a double-dip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

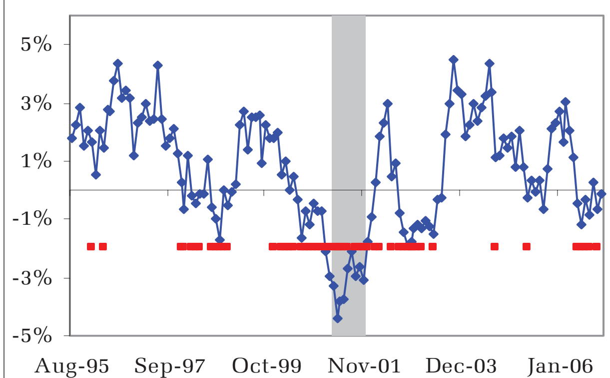


Table 2: Index Components

	2006					
	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
Oregon Initial Unemployment Claims, SA*	6,257	6,497	6,438	6,249	7,069	5,928
Oregon Residential Building Permits, SA	1,923	2,038	1,758	1,856	2,465	1,590
The Oregonian Help-Wanted Ads, SA	20,857	18,799	19,448	19,683	18,369	19,438
Oregon Weight Distance Tax, $ Thousands, SA	21,537	20,937	18,931	26,375	22,836	20,757
Oregon Total Nonfarm Payrolls, Thousands, SA	1715.3	1719.6	1722.7	1718.0	1720.2	1718.1
Univ. of Michigan U.S. Consumer Confidence	84.7	82	85.4	93.6	92.1	91.7
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, $ Millions, SA	43,492	44,107	45,195	43,757	42,713	43,661
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	-0.13	-0.37	-0.53	-0.52	-0.65	-0.68

** 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.