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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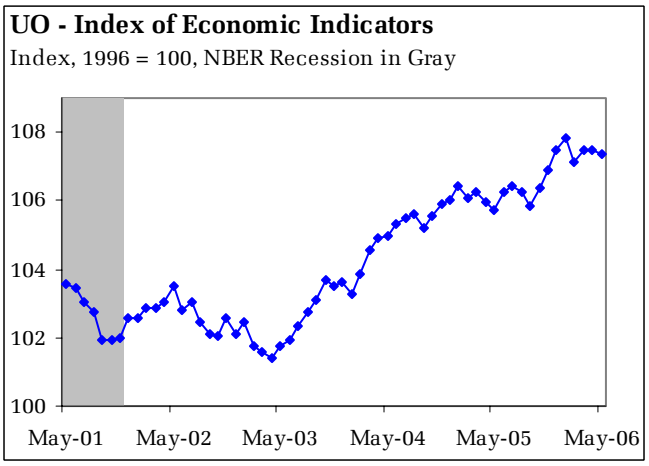

Analysis

The University of Oregon Index of Economic Indicators™ slipped in May to 107.3 (1996=100), a decline of 0.1 percent. Four indicators—Oregon residential building permits, the Oregon weight-distance tax, Oregon nonfarm payrolls, and new manufacturing orders—improved. Three indicators—Oregon initial unemployment claims, help-wanted advertising in *The Oregonian*, and U.S. consumer confidence—deteriorated. In particular, a sharp drop in consumer confidence weighed upon the UO Index. The interest rate spread was essentially unchanged.

Data on the Oregon labor market remains generally positive. Notably, nonfarm payrolls rebounded from April's slight decline as firms added 4,000 employees. In contrast, initial unemployment claims climbed in May. Still, initial claims remain low by historical standards—since 1995, the (weekly) average is 7,185 claims, compared to 6,041 claims in May. Help-wanted advertising in *The Oregonian* slipped in May, continuing to hold in the range of the past year and a half.

Other indicators were mixed. Oregon residential building permits jumped to their highest level since August 2005. This indicates that the softening of the housing market in response to higher mortgage rates continues at a moderate pace. The Oregon weight distance tax, a measure of trucking activity, also climbed in May. U.S. consumer confidence suffered a sharp decline as households responded negatively to a rapid increase in gasoline prices. But while households may feel constrained, U.S. firms continue to expand their operations. New orders for nondefense, nonaircraft capital goods—a core indicator of investment spending—climbed in May. Continued growth in orders should help support Oregon's manufacturing sector.

The index continues to suggest that Oregon's solid pace of economic growth is set to continue for at least the near term (three to six months). Compared to six months ago, the UO Index rose 0.9 percent (annualized), while the six-month diffusion index—a measure of the proportion of components that are rising—stood at 50 (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.

Table 1: Summary Measures

	2005	2006				
	Dec.	Jan.	Feb.	Mar.	Apr.	May
University of Oregon Index of Economic Indicators™, 1996=100	107.5	107.8	107.1	107.5	107.5	107.3
Percentage Change	0.6	0.3	-0.7	0.3	0.0	-0.1
Diffusion Index	56.3	50.0	12.5	56.3	56.3	43.8
6-Month Percentage Change, Annualized	2.3	2.7	1.7	3.1	2.1	0.9
6-Month Diffusion Index	62.5	62.5	56.3	56.3	50.0	50.0

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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.

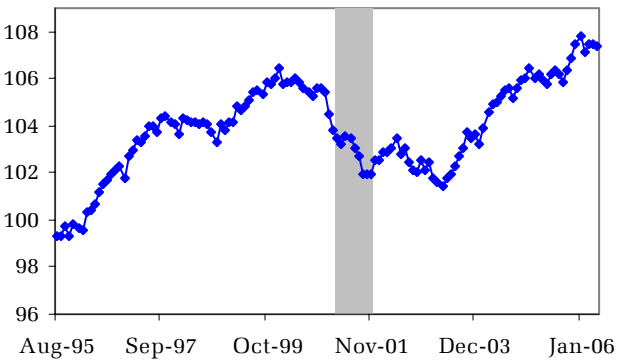
Using the rule, the index signaled an impending recession in January 2001; the National Bureau of Economic Research (NBER) dates the national recession from March to November 2001. The index did signal the so-called "jobless recovery" that followed the 2001 recession, but did not falsely predict a double-dip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

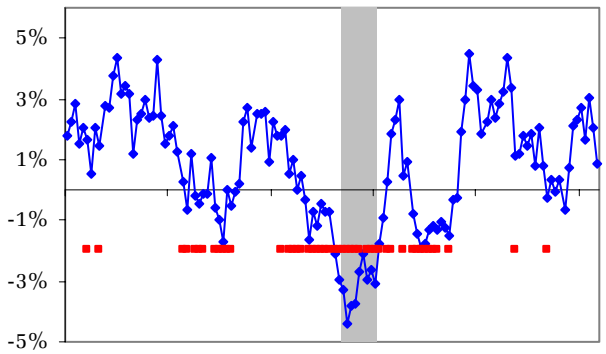


Table 2: Index Components

	2005	2006				
	Dec.	Jan.	Feb.	Mar.	Apr.	May
Oregon Initial Unemployment Claims, SA*	5,420	5,112	5,829	5,870	5,675	6,041
Oregon Residential Building Permits, SA	2,577	2,459	2,464	2,373	2,432	2,788
The Oregonian Help-Wanted Ads, SA	23,800	24,993	22,477	21,737	23,978	21,617
Oregon Weight Distance Tax, $ Thousands, SA	20,626	20,281	18,865	19,760	17,056	23,563
Oregon Total Nonfarm Payrolls, Thousands, SA	1686.6	1694.7	1697.3	1704.0	1703.5	1707.5
Univ. of Michigan U.S. Consumer Confidence	91.5	91.2	86.7	88.9	87.4	79.1
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, $ Billions, SA	41,838	42,555	42,086	43,467	42,576	42,879
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	0.31	0.13	0.08	0.13	0.20	0.17

***** *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.