UNIVERSITY OF OREGON INDEX OF ECONOMIC INDICATORS™

oregon economic forum

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

NOVEMBER 2004

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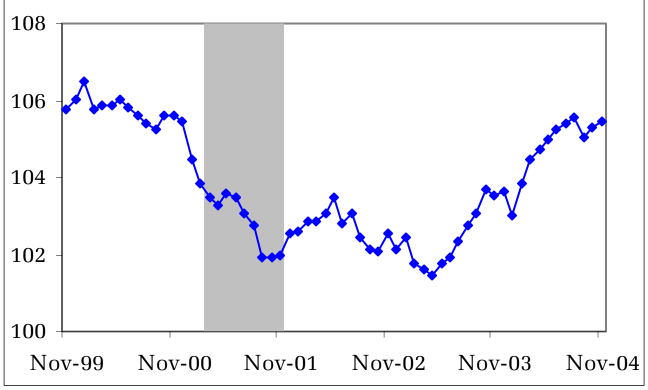
Analysis

The Oregon economy continued to improve in November. The University of Oregon Index of Economic Indicators edged up 0.1 percent in November to a level of 105.4 (1996=100), compared to 105.3 in October. Four of the eight indicators that comprise the index—initial unemployment claims, the Oregon weight-distance tax, U.S. consumer confidence, and new orders for capital goods—improved in November. Improving indicators outweighed those that deteriorated or held steady, creating a gain in the index.



UO - Index of Economic Indicators
Index, 1996 = 100, NBER Recession in Gray

Interestingly, indicators of the Oregon labor market remain mixed. November registered a steep decline in initial jobless claims, which have now returned to pre-recession levels. Help wanted ads in *The Oregonian* newspaper slipped from October's level, but at 21,017, they remain well above the low of 14,332 registered in April 2003. In contrast, nonfarm payrolls have essentially stagnated since July. In the same period, the national economy has added 732,000 workers to the payrolls. While the stagnation in payrolls is disappointing, the decline in jobless claims is encouraging as it suggests that Oregon firms have moved beyond the layoffs associated with the recession and may be ready to begin hiring again in the months ahead.

Due to month-to-month volatility of components, a more reliable indicator of economic health is obtained from six-month changes in the index. On that basis, the UO Index stands 0.9 percent (annualized) higher. The six-month diffusion index, a measure of the proportion of components that are rising, rose to 62.5.

In recent months, growth in the UO Index has slowed. Nevertheless, the index does not suggest a renewed period of economic weakness, as the uptrend beginning in May 2003 remains in place. The behavior of the index remains consistent with continued, but moderate economic growth in Oregon.

Table 1: Summary Measures

	2004					
	June	July	August	Sept.	Oct.	Nov.
University of Oregon Index of Economic Indicators, 1996=100	105.3	105.4	105.5	105.1	105.3	105.4
Percentage Change	0.3	0.1	0.1	-0.5	0.2	0.1
Diffusion Index	68.8	62.5	43.8	31.3	43.8	56.3
6-month Percentage Change, Annualized	3.2	4.7	3.3	1.1	1.1	0.9
6-Month Diffusion Index	81.3	87.5	75.0	43.8	68.8	62.5

Released: January 6, 2005.

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.

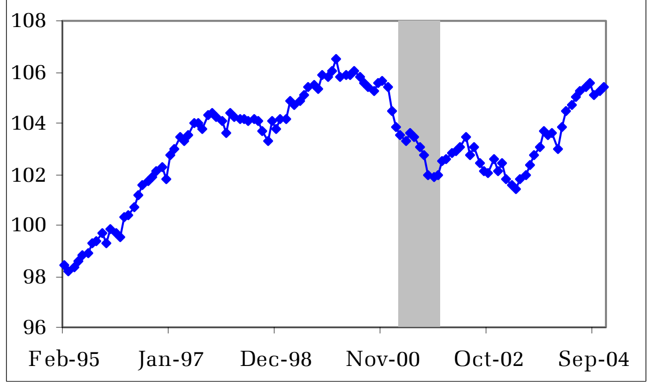
Using the rule, the index signals an impending recession in January 2001; the National Bureau of Economic Research (NBER) dates the national recession from March to November 2001. The index did signal the so-called “jobless recovery” that followed the 2001 recession, but did not falsely predict a double-dip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

6-month Percentage Change, Annualized

Red:6-Month Diffusion Index Declines More Than 50%

NBER Recession in Gray

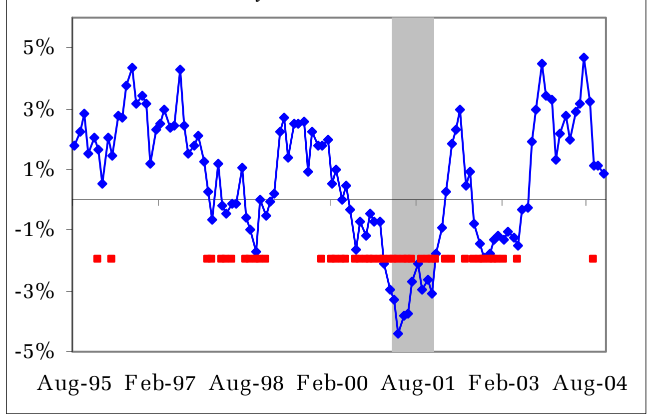


Table 2: Index Components

	2004					
	June	July	August	Sept.	Oct.	Nov.
Oregon Initial Unemployment Claims, SA*	7,420.2	7,265.5	7,328.9	6,960.6	7,091.7	6,125.2
Oregon Residential Building Permits, SA	2,650.8	3,053.2	2,904.2	1,977.4	2,290.8	2,028.0
The Oregonian Help Wanted Ads, SA	17,380.7	18,702.0	20,988.2	18,871.6	23,745.4	21,016.7
Oregon Weight-Distance Tax, $ Thousands, SA	20,585.8	19,033.1	22,751.5	19,496.2	22,531.5	24,557.5
Oregon Total Nonfarm Payrolls, Thousands, SA	1,597.6	1,599.6	1,599.8	1,602.3	1,601.2	1,600.5
Univ. of Michigan US Consumer Confidence	95.6	96.7	95.9	94.2	91.7	92.8
Real Manufacturer's New Orders for Non-Defense, Non-Aircraft Capital Goods, $ Thousands, SA	43,128.0	43,275.9	43,594.6	45,791.0	43,723.9	44,416.1
Interest Rate Spread, 10-year Treasury Bonds less Federal Funds Rate	3.7	3.24	2.85	2.52	2.3	2.26

** SA–seasonally adjusted*

The goal of the UO Index of Economic Indicators is to create a summary measure of various data that pertains to the Oregon Economy.