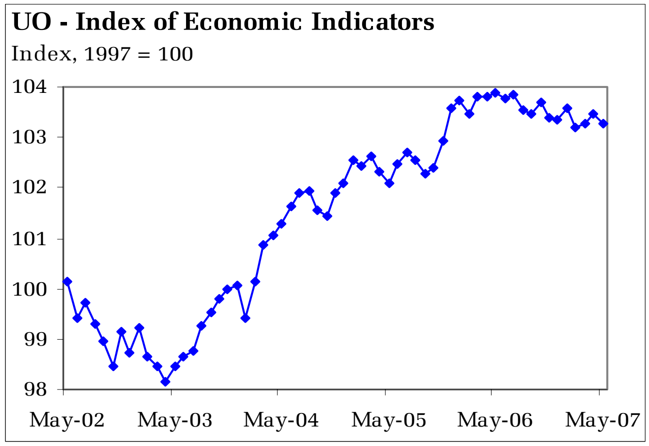
UNIVERSITY OF OREGON INDEX OF ECONOMIC INDICATORS™

oregon economic forum

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

MAY 2007

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



Analysis

The University of Oregon Index of Economic Indicators™ slipped to 103.3 (1997=100) in May, a 0.2 percent decline from the previous month. Four of the eight indicators that comprise the index—Oregon residential building permits, Oregon nonfarm payrolls, consumer confidence, and the interest rate spread—improved in May. Three indicators—help-wanted advertising, Oregon weight distance tax, and new orders for core manufactured goods—deteriorated. Oregon initial unemployment claims were effectively unchanged for the month.

In general, labor market conditions remained solid in May. Initial unemployment claims were again largely unchanged, while nonfarm payrolls posted another strong gain as Oregon employers added 4,600 workers, bringing the year-to-date total to a gain of 15,100. May job gains, however, were narrowly concentrated in three sectors—construction, government, and education and health services. It remains to be seen if gains in construction can be maintained given the slowdown in housing activity. Help-wanted advertising unexpectedly declined sharply, perhaps due to the increasing influence of Internet alternatives to traditional newspaper ads. If so, this indicator may need to be replaced in the future; alternatives are being investigated.

Oregon residential building permits rebounded, but remain 30 percent below last year's level. The rebound in permits in January and February appears to have been temporary, and declines since then are more consistent with declines nationally. The Oregon weight distance tax, a measure of trucking activity, softened after a sharp gain in April. The yield spread—the difference between short- and long-term interest rates—improved somewhat, as did consumer confidence. In contrast, inflation-adjusted orders for new nondefence nonaircraft capital goods slipped after two months of gains, renewing concerns about the strength of businesses' capital expansion plans. Still, the stabilization of orders in recent months remains consistent with an economy experiencing slow to moderate economic growth.

The index suggests continued economic growth in Oregon in the near term (three to six months). Compared to six months ago, the UO Index fell 0.4 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 indicators improved over the past six months). 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	2007				
	Dec.	Jan.	Feb.	Mar.	Apr.	May
University of Oregon Index of Economic Indicators™, 1997=100	103.3	103.6	103.2	103.3	103.5	103.3
Percentage Change	0.0	0.2	-0.3	0.1	0.2	-0.2
Diffusion Index	50.0	56.3	31.3	50.0	56.3	50.0
6-Month Percentage Change, Annualized	-0.8	-0.5	-0.6	-0.3	-0.4	-0.2
6-Month Diffusion Index	37.5	37.5	31.3	56.3	25.0	50.0

COLLEGE OF ARTS AND SCIENCES
University of Oregon

© 2007 University of Oregon. All rights reserved.
Released: July 5, 2007.

MAY 2007

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.

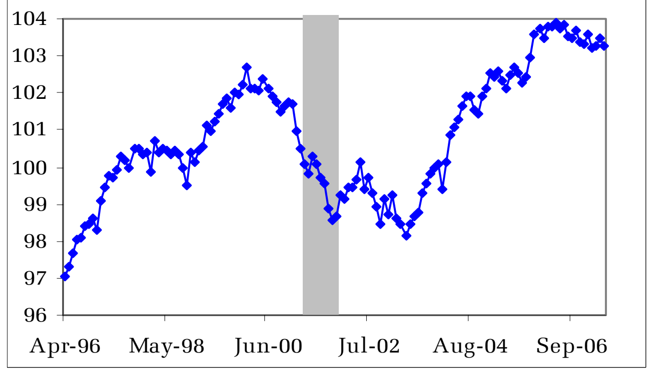
Using the rule, the index signaled an impending recession in January 2001; the National Bureau of Economic Research (NBER) dates the national recession from March to November 2001. The index did signal the so-called "jobless recovery" that followed the 2001 recession, and did, for a single month, register a decline greater than 2 percent during this period. No other recessions were signaled during the period for which data are available (beginning March 1996).

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, 1997 = 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

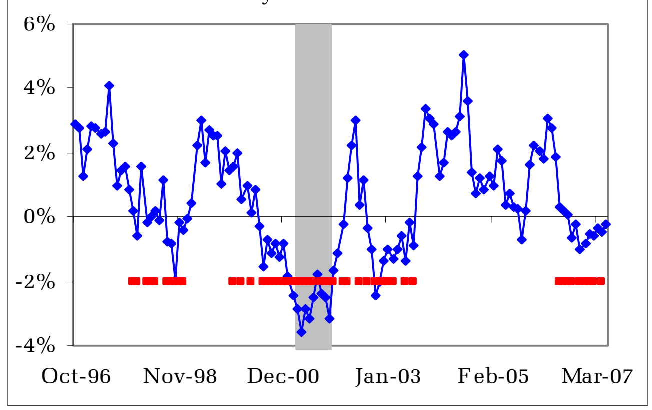


Table 2: Index Components

	2006	2007				
	Dec.	Jan.	Feb.	Mar.	Apr.	May
Oregon Initial Unemployment Claims, SA*	6,189	6,054	6,768	6,123	6,330	6,310
Oregon Residential Building Permits, SA	1,607	2,501	2,788	2,037	1,612	1,966
Oregon Help-Wanted Advertising, SA	34,776	31,496	32,041	32,136	33,572	27,351
Oregon Weight Distance Tax, $ Thousands, SA	21,046	20,196	19,662	20,469	22,211	20,776
Oregon Total Nonfarm Payrolls, Thousands, SA	1712.2	1711.7	1715.2	1717.5	1722.7	1727.3
Univ. of Michigan U.S. Consumer Confidence	91.7	96.9	91.3	88.4	87.1	88.3
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, $ Millions, SA	42,756	40,805	39,633	41,486	42,399	41,096
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	-0.68	-0.51	-0.54	-0.70	-0.56	-0.51

* 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.

© 2007 University of Oregon. All rights reserved. Released: July 5, 2007.