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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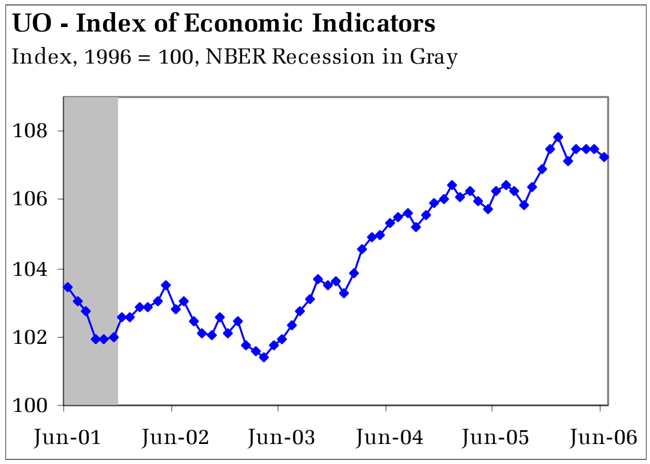

Analysis

The University of Oregon Index of Economic Indicators™ slipped in June to 107.2 (1996=100), a decline of 0.2 percent. Two indicators—U.S. consumer confidence and new manufacturing orders—improved. Four indicators—help-wanted advertising in *The Oregonian*, the Oregon weight-distance tax, Oregon nonfarm payrolls, and interest rate spread—deteriorated. Oregon residential building permits and Oregon initial unemployment claims were essentially unchanged.

Data on the Oregon labor market is mixed as the pace of hiring slows. Nonfarm payrolls fell by 2,800 employees, but the May figure was revised up to reveal a gain of 8,300 (originally reported as a gain of 4,000). Oregon employers have added, on net, an average of 3,700 workers a month in the first six months of 2006, compared to a monthly average of 4,600 workers in 2005. Still, the pace of layoffs does not appear to have increased; initial unemployment claims remained essentially unchanged in June, well below the ten-year average. Help-wanted advertising in *The Oregonian* slipped again in June.

Other indicators were also mixed. The Oregon weight distance tax, a measuring of trucking activity, slipped in June, while Oregon residential building permits remained nearly unchanged. U.S. consumer confidence rebounded from May's decline. Likewise, new orders for nondefense, nonaircraft capital goods—a core indicator of investment spending—continued to edge upward in June.

A notable development is the inversion of the yield curve, a situation that occurs when short-term interest rates exceed longer term interest rates. The spread between ten-year Treasury bonds and the Federal Funds Rate fell from 0.17 to -0.12 percentage points in June. Currently, the shape of the yield curve implies that investors expect the Federal Reserve to cut interest rates later this year in response to slowing economic activity.

The index continues to suggest that the Oregon economy will continue to grow (three to six months). The stabilization in the index, along with a decrease in the number of improving indicators, suggests that the pace of activity is slowing. 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 37.5 (in other words, more than half the components deteriorated). 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					
	Jan.	Feb.	Mar.	Apr.	May	Jun.
University of Oregon Index of Economic Indicators™, 1996=100	107.8	107.1	107.5	107.5	107.5	107.2
Percentage Change	0.3	-0.7	0.3	0.0	0.0	-0.2
Diffusion Index	50.0	12.5	56.3	56.3	43.8	37.5
6-Month Percentage Change, Annualized	2.7	1.7	3.1	2.0	1.1	-0.4
6-Month Diffusion Index	62.5	56.3	56.3	50.0	50.0	37.5

COLLEGE OF ARTS AND SCIENCES
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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.

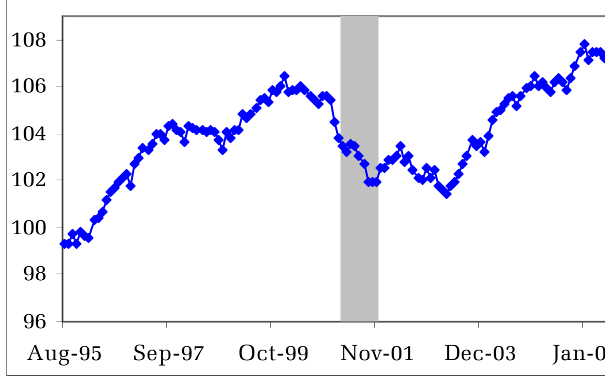
Using the rule, the index signaled an impending recession in January 2001; the National Bureau of Economic Research (NBER) dates the national recession from March to November 2001. The index did signal the so-called "jobless recovery" that followed the 2001 recession, but did not falsely predict a double-dip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

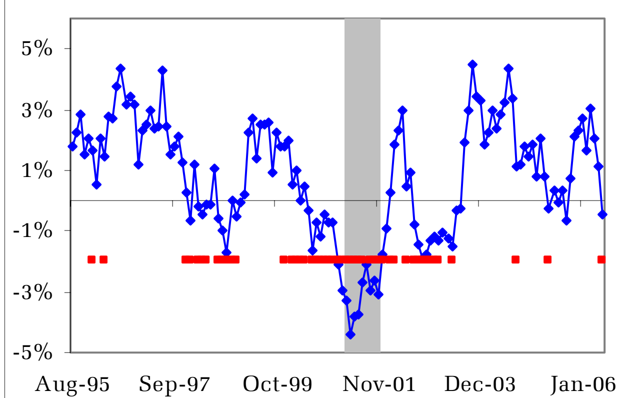


Table 2: Index Components

	2006					
	Jan.	Feb.	Mar.	Apr.	May	Jun.
Oregon Initial Unemployment Claims, SA*	5,112	5,829	5,870	5,675	6,041	5,936
Oregon Residential Building Permits, SA	2,459	2,464	2,373	2,432	2,788	2,727
The Oregonian Help-Wanted Ads, SA	24,993	22,477	21,737	23,978	21,617	20,155
Oregon Weight Distance Tax, $ Thousands, SA	20,281	18,865	19,760	17,056	23,563	19,575
Oregon Total Nonfarm Payrolls, Thousands, SA	1,694.7	1,697.3	1,704.0	1,703.5	1,711.8	1,709.0
Univ. of Michigan U.S. Consumer Confidence	91.2	86.7	88.9	87.4	79.1	84.9
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, $ Billions, SA	42,555	42,086	43,467	42,454	42,899	42,965
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	0.13	0.08	0.13	0.20	0.17	-0.12

* *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.