University of Oregon
Index of Economic Indicators™

oregon economic forum

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

January 2006

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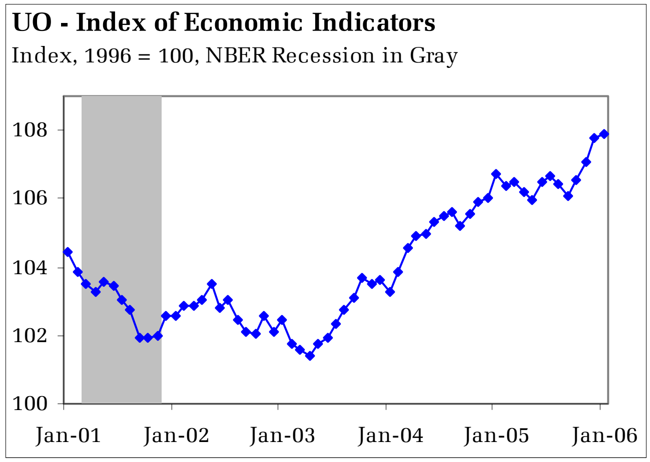


Analysis

The University of Oregon Index of Economic Indicators™ gained in January for the fourth consecutive month, rising 0.1 percent to 107.9 (1996=100). Three of the eight indicators that comprise the UO Index—Oregon initial unemployment claims, *The Oregonian* help-wanted ads, and Oregon nonfarm payrolls—improved in January. Three indicators—Oregon residential building permits, U.S. manufacturing orders, and the interest rate spread—deteriorated. The remaining indicators—the Oregon weight distance tax and U.S. consumer confidence—were essentially unchanged. On net, improving indicators outweighed those that deteriorated.

The Oregon job market data again revealed continued strength. Initial unemployment claims fell again to a new record low for the period covered by the UO Index, suggesting a still low level of layoffs. A rise in unemployment claims at this point would not be unexpected; some job destruction will occur even in the most vibrant economic environment. In addition to a slowdown in the rate of firings, Oregon firms continue to add workers. Nonfarm payrolls rose again, with Oregon firms adding 2,900 employees in January, while help-wanted advertising in *The Oregonian* climbed as well.

Remaining indicators were mixed in the wake of December's strong gains. New orders for nondefense, nonaircraft capital goods—a measure of a firm's investment intentions—slipped modestly in January after a 4.9 percent rise the previous month. Likewise, U.S. consumer confidence was essentially unchanged after a December rebound. Oregon residential building permits slipped for a second month in January. While this appears consistent with national trends indicating a slowing housing market, anecdotal evidence, such as that presented in the Federal Reserve's most recent Beige Book, indicates that the Oregon housing market remains strong. The interest rate spread continued to narrow and looks set to invert (a condition in which short term interest rates exceed long term interest rates) with the Federal Reserve's widely expected interest rate hike at the end of March. In the past, such inversions have been consistent with weaker economic conditions.

Compared to six months ago, the UO Index rose 2.4 percent. percent (annualized), while the six-month diffusion index, a measure of the proportion of components that are rising stood at 62.5 (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. Consequently, the index suggests that Oregon's solid pace of economic growth is set to continue for at least the near term (three to six months).

Table 1: Summary Measures

	2005					2006
	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.
University of Oregon Index of Economic Indicators™, 1996=100	106.4	106.1	106.6	107.1	107.8	107.9
Percentage Change	-0.2	-0.3	0.5	0.5	0.6	0.1
Diffusion Index	43.8	43.8	81.3	50.0	56.3	37.5
6-Month Percentage Change, Annualized	0.2	-0.8	0.7	2.1	2.4	2.4
6-Month Diffusion Index	50.0	56.3	68.8	50.0	62.5	62.5

Released: March 8, 2006.

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.

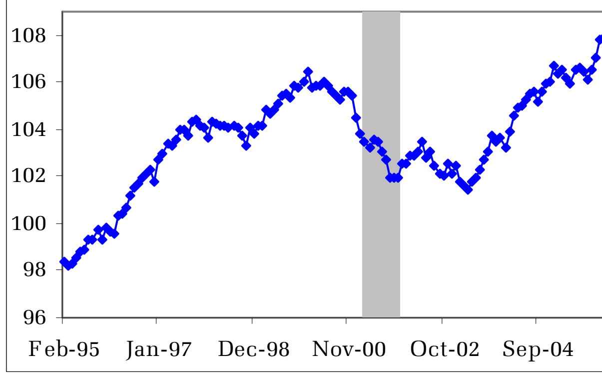
Using the rule, the index signaled an impending recession in January 2001; the National Bureau of Economic Research (NBER) dates the national recession from March to November 2001. The index did signal the so-called "jobless recovery" that followed the 2001 recession, but did not falsely predict a double-dip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

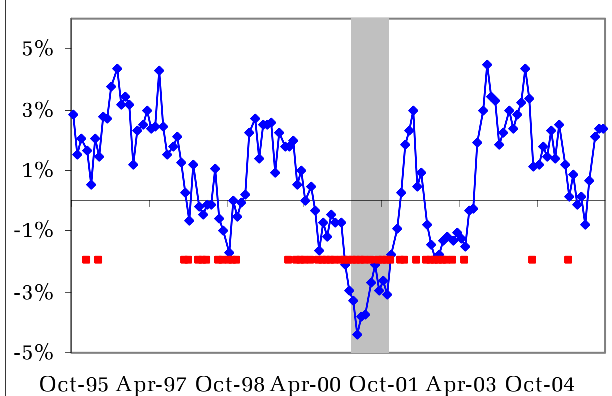


Table 2: Index Components

	2005					2006
	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.
Oregon Initial Unemployment Claims, SA*	6,755	6,489	6,297	5,730	5,420	5,112
Oregon Residential Building Permits, SA	2,800	2,522	2,565	2,752	2,577	2,459
The Oregonian Help-Wanted Ads, SA	22,127	23,009	24,419	23,280	23,800	24,993
Oregon Weight Distance Tax, $ Thousands, SA	18,851	19,854	25,880	21,731	20,626	20,281
Oregon Total Nonfarm Payrolls, Thousands, SA	1,665.2	1,672.0	1,674.6	1,681.7	1,686.6	1,689.5
Univ. of Michigan U.S. Consumer Confidence	89.1	76.9	74.2	81.6	91.5	91.2
Real Manufacturer's New Orders for Nondefense, Nonaircraft Capital Goods, $ Billions, SA	44,206	43,252	43,840	43,898	46,033	45,699
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	0.76	0.58	0.68	0.54	0.31	0.13

* *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.