

UNIVERSITY OF OREGON INDEX OF ECONOMIC INDICATORS™

oregon
economic
forum

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

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Analysis

The University of Oregon Index of Economic Indicators™ rose 1.2 percent in December to 86.8 (1997=100) from a revised November figure of 85.8. Since reaching a low in July 2009, the UO Index has risen for five consecutive months as the Oregon economy pulled out of recession. Moreover, December saw tentative improvements in labor markets, with nonfarm payrolls rising by 2,900 employees. A return of nonfarm payrolls to their prerecession levels, however, requires sustained strong growth for many months. The UO index was revised to account for an annual update of seasonal adjustment and standardization factors; the revisions resulted in only minor quantitative changes.

Labor markets firmed somewhat during December, showing welcome but modest signs of improvement. Initial unemployment claims continue to edge down, signaling a slow but steady reduction in the pace of layoffs, although they still remain above the highest levels of the 2001

recession. Notably, employment services payrolls—largely temporary employment firms—extended the previous month's modest improvement, rising to the highest level since last July. This is a sign that some firms need to bolster their workforce in the face of firming economic activity. Still, unemployment remains high, and will only be reduced with many months of sustained job growth.

Residential building permits (smoothed) rose again, continuing the path of improvement that began in October 2009. It is increasingly likely that new residential construction markets bottomed last fall, although it is important to note that activity remains well below the height reached during the recent housing boom. The December 2009 level of 678 permits compares to 2,651 permits in December 2005. The Oregon weight-distance tax (smoothed)—a measure of trucking activity—was effectively unchanged. New orders for nondefense nonaircraft capital goods continued to climb as firms, more confident of economic conditions, increase their investment spending plans. Consumer confidence (smoothed) rose slightly, a sign of im-

proving household budgets, although the relatively low level of confidence suggests spending growth remains weak.

While the Oregon economy, like the national economy, is no longer in recession, considerable uncertainty about the pace of the recovery remains. The combined impact of inventory correction, pent-up demand, and fiscal and monetary stimulus greatly supported economic activity at the end of 2009. The underlying rate of growth may prove disappointing and unable to sustain strong, consistent improvement in labor market conditions as the impact of these forces wanes in the months ahead.

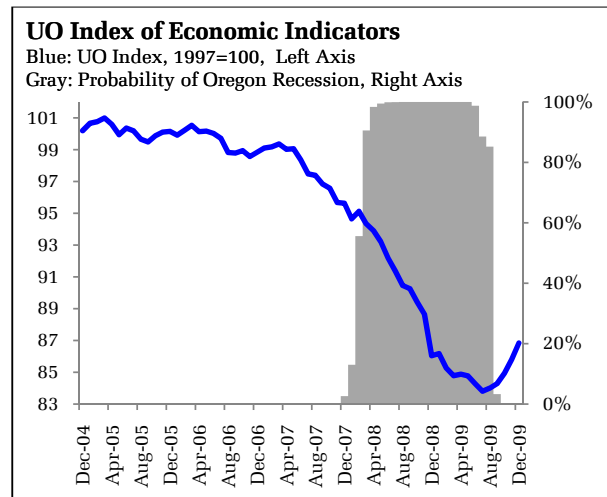


Table 1: Summary Measures

	2009					
	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
University of Oregon Index of Economic Indicators™, 1997=100	83.8	84.0	84.3	84.9	85.8	86.8
Percentage Change	-0.6	0.2	0.3	0.8	1.0	1.2
Diffusion Index	35.7	50.0	50.0	50.0	85.7	78.6
6-Month Percentage Change, Annualized	-5.4	-2.9	-1.2	0.2	2.5	6.2
6-Month Diffusion Index	57.1	71.4	71.4	64.3	71.4	71.4



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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 a leading indicator as the economy transitions from expansion to recession. Steep declines in the UO Index are recorded during periods of economic stress, signaling diminishing prospects for growth. Rising values of the UO Index tend to coincide with the end of a recession. As a general rule, a decline in the index of greater than 2.5 percent (annualized) over six months, coupled with a decline in more than half of its components, signals that a recession is likely imminent. Using the rule, the index signaled an impending recession in October 2000; a business cycle dating procedure developed by Jeremy Piger, a University of Oregon associate professor of economics, indicates Oregon entered recession in November of 2000. Similarly, the UO Index suffered a sharp drop as Oregon reentered recession in 2003.

The general rule, however, should be used judiciously. Using the rule the UO Index indicated recession for a single month in 1998 during the Asian Financial Crisis. More recently, the UO Index sent recessionary warnings in the middle of 2006, well before Oregon actually slipped into recession in April 2008. 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.

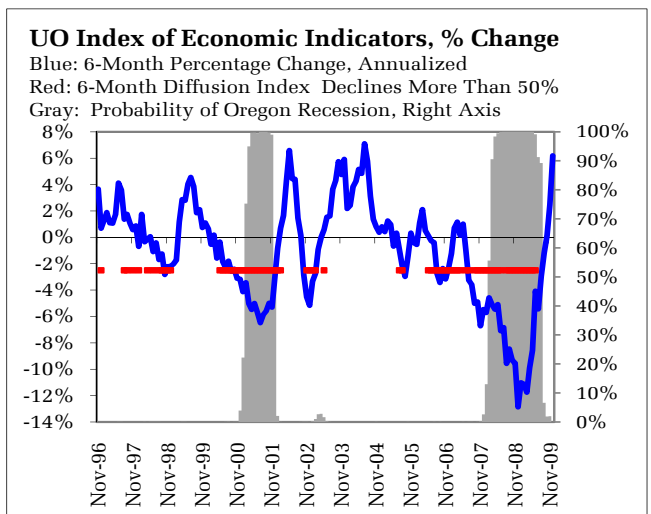
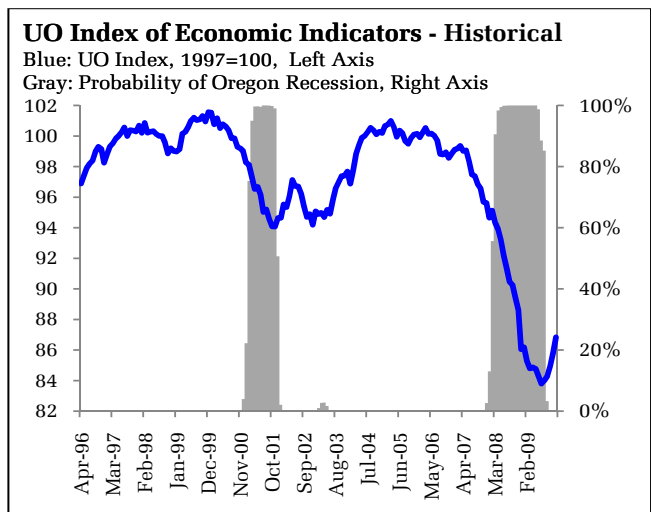


Table 2: Index Components

	2009					
	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
Oregon Initial Unemployment Claims, SA*	12,192	11,729	11,309	11,307	10,819	10,754
Oregon Employment Services Payrolls, SA	26,032	25,297	25,491	25,467	25,791	25,993
Oregon Residential Building Permits, SA, 5 MMA*	446	425	415	499	575	678
Oregon Weight Distance Tax, \$ Thousands, SA, 3 MMA	17,235	18,312	18,116	18,000	18,325	18,311
Univ. of Michigan U.S. Consumer Confidence, 5 MMA	65.6	67.3	68.9	69.3	68.6	69.9
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, \$ Millions, SA	32,993	32,395	33,565	33,197	34,109	34,579
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	3.40	3.43	3.25	3.27	3.28	3.47

* SA—seasonally adjusted; MMA—month moving average

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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.