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### AUGUST 2010

#### Analysis

The University of Oregon Index of Economic Indicators™ edged down 0.2 percent to 86.3 (1997=100) in August. Compared to six months ago, more than half the index components declined while the UO Index fell 5.9 percent (annualized). In the past, declines of this magnitude signaled impending weakness in Oregon nonfarm payrolls. Three indicators—Oregon initial unemployment claims, U.S. consumer sentiment, and the interest rate spread—posted declines in August. One indicator, core capital goods orders, rose. The remaining indicators were essentially unchanged.

Weak economic conditions continue to weigh on labor markets. Initial unemployment claims rose again, continuing the upward drift that began in April. Employment services payrolls—largely temporary hiring—were essentially unchanged. Both trends are disappointing and signal that despite

being in a recovery phase, the pace of economic activity continues to fall short of that necessary to generate solid job growth. Overall nonfarm payrolls for Oregon (not included in the index) fell 1,500 compared to a revised loss of 2,100 in July, while the unemployment rate held at 10.6 percent.

Both residential building permits (smoothed) and the Oregon weight distance tax (smoothed), a measure of trucking activity, were effectively unchanged compared to July. New orders for nondefense, nonaircraft capital goods rebounded, largely offsetting a worrisome decline in July. This is a hopeful sign that the pace of manufacturing activity will not falter abruptly in the near future. Consumer confidence continued to decline. Although household spending is growing, weak job growth tempers the pace of gains. The interest rate spread between ten-year treasury bonds and the federal funds rate dropped for the fourth consecutive month as the deteriorating economic outlook prompted market participants to anticipate an expansion of monetary easing.

The UO Index continues to follow a pattern similar to its behavior in the 2001–3 period. The 2001 recession was followed by a sharp but temporary upturn in the UO Index. A subsequent reversal of gains signaled renewed economic weakness. The resulting “echo” recession triggered a renewal of job losses, albeit the declines were not as severe as those of the 2001 recession. Assuming the pattern is repeating itself now and is not reversed soon, the UO Index signals that, at a minimum, sustained labor market recovery will be delayed until next year with actual job losses possible over the next three to six months.

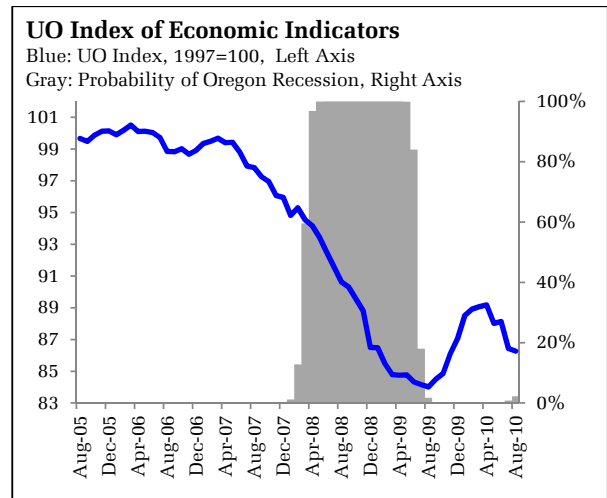


Table 1: Summary Measures

|  | 2010  |       |      |      |      |      |
|--|-------|-------|------|------|------|------|
|  | Mar.  | Apr.  | May  | Jun. | Jul. | Aug. |
| University of Oregon Index of Economic Indicators™, 1997=100 | 89.1  | 89.2  | 88.0 | 88.1 | 86.4 | 86.3 |
| Percentage Change  | 0.2   | 0.1   | -1.3 | 0.1  | -1.9 | -0.2 |
| Diffusion Index  | 42.9  | 50.0  | 35.7 | 57.1 | 7.1  | 42.9 |
| Six Month Percentage Change, Annualized                      | 11.1  | 10.4  | 4.5  | 2.4  | -4.7 | -5.9 |
| Six Month Diffusion Index                                    | 100.0 | 100.0 | 85.7 | 71.4 | 28.6 | 35.7 |



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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](http://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 ahead of the recession in 2007.

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 at the end of 2007. 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.

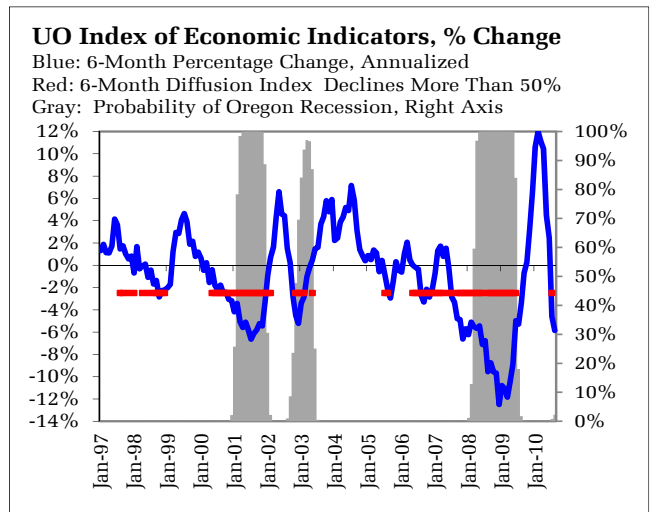
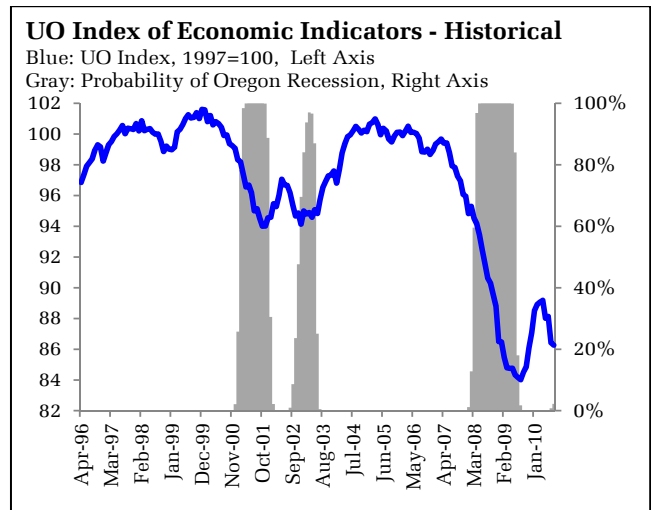


Table 2: Index Components

|   | 2010   |        |        |        |        |        |
|---|--------|--------|--------|--------|--------|--------|
|   | Mar.   | Apr.   | May    | Jun.   | Jul.   | Aug.   |
| Oregon Initial Unemployment Claims, SA*   | 9,188  | 9,656  | 9,794  | 9,688  | 10,163 | 10,447 |
| Oregon Employment Services Payrolls, SA   | 27,905 | 28,862 | 27,431 | 27,602 | 27,577 | 27,499 |
| Oregon Residential Building Permits, SA, 5 MMA*   | 798    | 769    | 630    | 606    | 480    | 488    |
| Oregon Weight Distance Tax, \$ Thousands, SA, 3 MMA                                       | 18,252 | 18,371 | 18,692 | 19,013 | 18,341 | 18,324 |
| Univ. of Michigan U.S. Consumer Confidence, 5 MMA   | 72.3   | 73.3   | 73.5   | 73.8   | 72.6   | 71.7   |
| Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, \$ Millions, SA | 38,155 | 37,080 | 38,741 | 40,126 | 37,910 | 39,445 |
| Interest Rate Spread, Ten-Year Treasury Bonds Less Federal Funds Rate                     | 3.57   | 3.65   | 3.22   | 3.02   | 2.83   | 2.51   |

\* 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.