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Analysis

The University of Oregon Index of Economic Indicators™ rose 0.2 percent in October to 87.2 (1997=100), a second consecutive month of improvement. The gain was driven by an increase in building permits. Other indicators were modestly softer. Compared to six months ago, more than half of the index components declined while the UO Index fell 5.9 percent (annualized). The UO Index was revised to reflect improved estimates of payrolls in the employment services sector. The revision resulted in a more pronounced rise in the UO index during the early stages of the recovery, but the mid-year decline remains intact.

Both initial unemployment claims and employment services payrolls—largely temporary hiring—were largely unchanged. The overall trends in these indicators, elevated initial claims and stagnating employment services payrolls, generally suggest weak hiring activity. That said, aggregate nonfarm payrolls

for Oregon (not included in the index) gained a substantial 13,000 in October and November combined, effectively compensating for a period of weak gains during the middle of the year and bringing nonfarm payroll gains in-line with this decade's relationship between U.S. and Oregon nonfarm payrolls. Particularly welcome is the acceleration in private-sector employment in the last three months. Overall, the average monthly gain since July has been 1,540, a tepid pace of gains that, if reflective of the true underlying trend, would be consistent with a tepid recovery. If the October-November data represent the underlying trend (which would not be consistent with the elevated level of initial claims), then the pace of improvement has improved dramatically in the fourth quarter.

Residential building permits (smoothed) rose during the month, continuing to bounce along a bottom. The Oregon weight distance tax (smoothed), a measure of trucking activity, edged down during the month, as did consumer confidence. New orders for nondefense, nonaircraft capital goods fell slightly, again continuing its generally sideways trend since June. The interest rate spread between ten-

year treasury bonds and the federal funds rate dropped for the sixth consecutive month. Note that this pattern reversed in November and December as incoming data suggested the U.S. recovery is gaining strength.

During the 2001–3 period, initial gains in the UO Index were followed by a pullback with a subsequent decline in nonfarm payrolls. A similar pattern emerged this year, albeit the magnitude of the swing was greater than that of 2001–3. Still, with the UO Index again stabilizing and nonfarm payrolls increasing, it looks as if Oregon will avoid a second “echo” recession. This would be consistent with newly rising U.S. growth forecasts in the final quarter of this year.

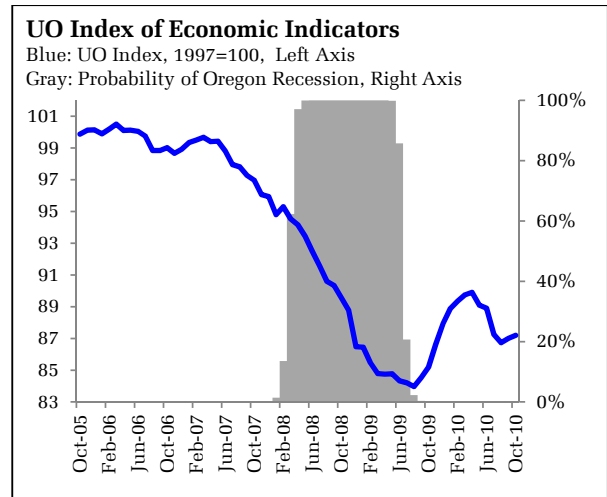


Table 1: Summary Measures

	2010					
	May	Jun.	Jul.	Aug.	Sep.	Oct.
University of Oregon Index of Economic Indicators™, 1997=100	89.1	88.9	87.2	86.7	87.0	87.2
Percentage Change	-0.9	-0.2	-1.9	-0.6	0.3	0.2
Diffusion Index	42.9	50.0	7.1	35.7	50.0	42.9
Six Month Percentage Change, Annualized	5.8	2.2	-3.6	-5.8	-6.0	-5.9
Six Month Diffusion Index	85.7	71.4	42.9	35.7	28.6	42.9



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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 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.

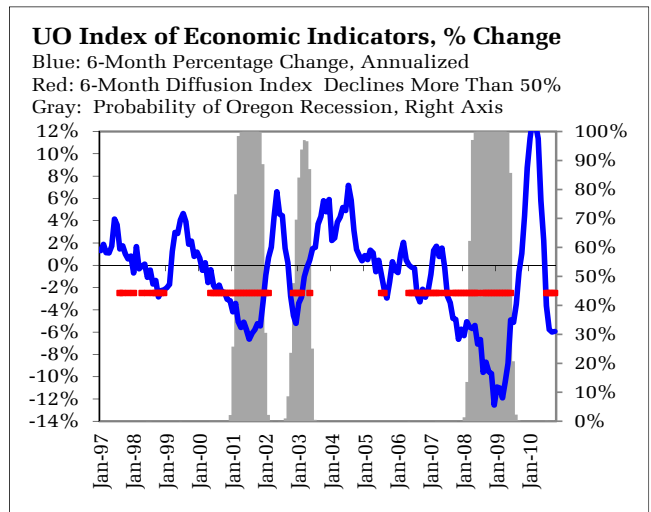
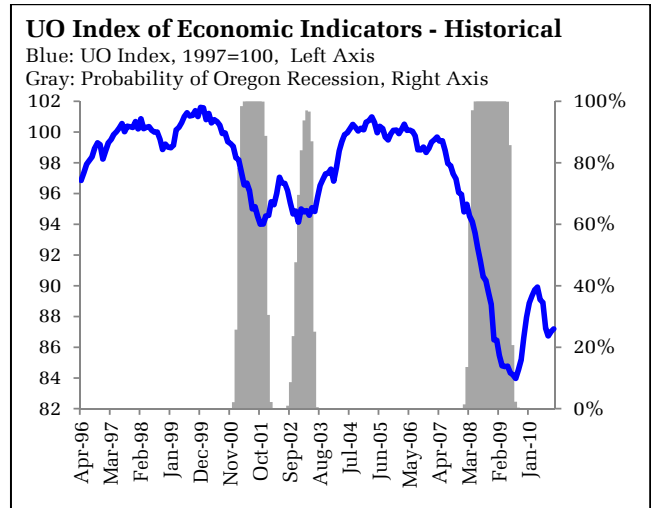


Table 2: Index Components

	2010					
	May	Jun.	Jul.	Aug.	Sep.	Oct.
Oregon Initial Unemployment Claims, SA*	9,794	9,688	10,163	10,447	9,583	9,555
Oregon Employment Services Payrolls, SA	31,050	30,166	30,326	28,948	29,790	29,583
Oregon Residential Building Permits, SA, 5 MMA*	630	606	480	488	472	544
Oregon Weight Distance Tax, \$ Thousands, SA, 3 MMA	18,692	19,013	18,341	18,324	18,652	18,501
Univ. of Michigan U.S. Consumer Confidence, 5 MMA	73.5	73.8	72.6	71.7	70.9	69.7
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, \$ Millions, SA	38,741	40,126	37,921	39,705	39,424	39,082
Interest Rate Spread, Ten-Year Treasury Bonds Less Federal Funds Rate	3.65	3.22	3.02	2.83	2.51	2.46

* 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.