

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™ gained in November, rising 0.9 percent to 87.9 (1997=100). Although indicators were generally positive overall, an increase in the weight distance tax collected—a measure of trucking activity—provided an additional boost to the UO Index. That increase, however, is likely overstated somewhat as it does not yet account for a recent increase in the weight distance tax rate. Accounting for that increase is currently a challenge as some carriers may have elected to shift the actual tax payments into 2011 to defer the immediate impact of the increase. The delayed response to the new tax regime will likely last through the first quarter of 2011, at which time the higher tax rates should be fully reflected in the data. At that point, data will be revised to account for the higher tax rate.

Compared to six months ago, more than half the index components declined while

the UO Index fell 2.6 percent (annualized). This decline compares favorably with October's 6.0 percent decline. Such positive turning points in the six month percentage changes typically precede improving economic conditions, further alleviating fears of a double-dip recession that emerged during the summer.

Labor market indicators were mixed. Initial unemployment claims edged up to the highest level since August. The increase is disappointing, but the national trend of falling claims should be reflected in the Oregon data in coming months. In contrast, employment services payrolls (largely temporary help firms), rose to their highest level since July 2010, an indication of firming labor demand.

Residential building permits (smoothed) gained slightly, continuing to bounce along a bottom. Despite a period of low interest rates, the housing market remains challenged. The end of homebuyer tax credits brought renewed pricing pressure to the Portland market, as evidenced by the October decline in the Case-Shiller home price index. New orders for nondefense nonaircraft capital goods gained slightly, again

continuing its generally sideways trend since June. Consumer confidence edged down as the impact of this summer's sentiment decline was fully incorporated in the index, suggesting consumer caution despite relatively solid spending data in October and November. The interest rate spread between ten-year treasury bonds and the Federal Funds rate increased for the first time since April 2010 as incoming data suggested the US recovery is gaining strength, leading investors to bid up the rate on long term treasury bonds.

The steady to upward trend of the UO Index since August suggest the state's economy stabilized in the final months of 2010 and is poised to improve in 2011.

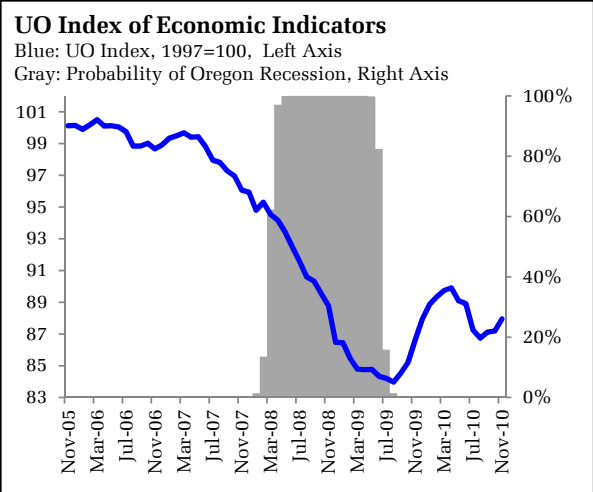


Table 1: Summary Measures

	2010					
	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
University of Oregon Index of Economic Indicators™, 1997=100	88.9	87.2	86.7	87.1	87.2	87.9
Percentage Change	-0.2	-1.9	-0.6	0.4	0.1	0.9
Diffusion Index	50.0	7.1	35.7	57.1	28.6	71.4
Six Month Percentage Change, Annualized	2.2	-3.6	-5.7	-5.7	-6.0	-2.6
Six Month Diffusion Index	71.4	42.9	35.7	28.6	35.7	28.6



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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.

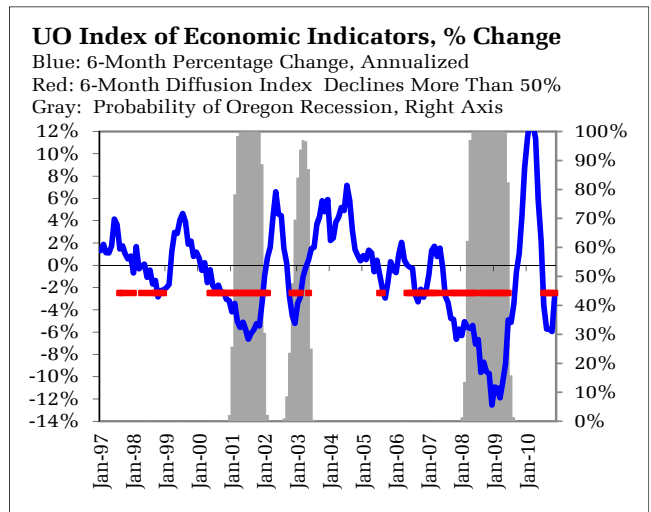
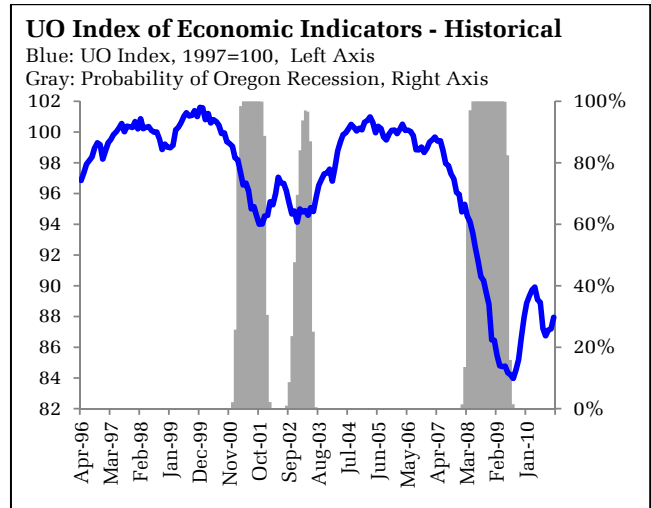


Table 2: Index Components

	2010					
	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
Oregon Initial Unemployment Claims, SA*	9,688	10,163	10,447	9,583	9,704	10,042
Oregon Employment Services Payrolls, SA	30,166	30,326	28,948	29,790	29,583	30,172
Oregon Residential Building Permits, SA, 5 MMA*	606	480	488	472	544	564
Oregon Weight Distance Tax, \$ Thousands, SA, 3 MMA	19,013	18,341	18,324	18,652	18,501	20,047
Univ. of Michigan U.S. Consumer Confidence, 5 MMA	73.8	72.6	71.7	70.9	69.7	68.8
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, \$ Millions, SA	40,152	37,945	39,830	40,541	39,367	40,307
Interest Rate Spread, Ten-Year Treasury Bonds Less Federal Funds Rate	3.02	2.83	2.51	2.46	2.35	2.57

* 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.