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Analysis

The start-stop economic recovery continues. The University of Oregon Index of Economic Indicators™ fell 0.5 percent to 90.5 (1997=100) in June 2011, compared to a revised 90.9 the previous month. This is the third consecutive monthly decline. All components of the UO Index either deteriorated or held steady; no components improved. The UO Index is now flat compared to six months ago, and only half the components have improved or held steady over that period. Still, the downward trend of the past three months falls short of the more severe declines that typically precede recessions.

Labor markets remained weak. Initial unemployment claims rose in June to their highest levels since last November. The weak economy is taking a toll on business activity, pushing up the pace of layoffs. Employment services payrolls—largely temporary employment—also edged down; the weak hiring for temporary workers suggests firms lack sufficient sales to push employment growth higher.

Overall nonfarm payrolls (not included in the index) have been effectively flat for the past five months, gaining 600 jobs since February.

Residential building permits (smoothed) remained steady during the month. Adjusted for inflation, nondefense, nonaircraft capital goods orders edged down during June and remain essentially flat since last December. Similarly, Oregon weight distance revenue—a measure of trucking activity—has been trending sideways since a period of initial gains at the end of the recession. Both indicators indicate that underlying growth is tepid. Consumer confidence (smoothed with a five month moving average) fell in June; consumer spending actually declined in the second quarter of this year, a substantial weight on U.S. economic activity. The interest rate spread again narrowed sharply as increasing economic uncertainty drove market participants into U.S. Treasuries, pushing down longer-term interest rates.

The national and state economies slowed dramatically in the first half of this year. While, on net, indicators do not indicate recession is

imminent, the recovery is clearly fragile. This is especially discouraging given that the recovery has so far fallen short of that necessary to reverse the negative effects of the recession. Unemployment, for instance, remains very high by historical standards. Moreover, incoming U.S. data suggest the pace of economic activity remains subpar in the early part of the third quarter. Also, the positive impact of easing commodity price pressures and the reversal of Japanese supply disruptions is likely to be offset by impending fiscal contraction in the U.S. and the negative drag of the ongoing European debt crisis. In short, the recovery looks set to at best remain disappointing relative to the depth of the recession.

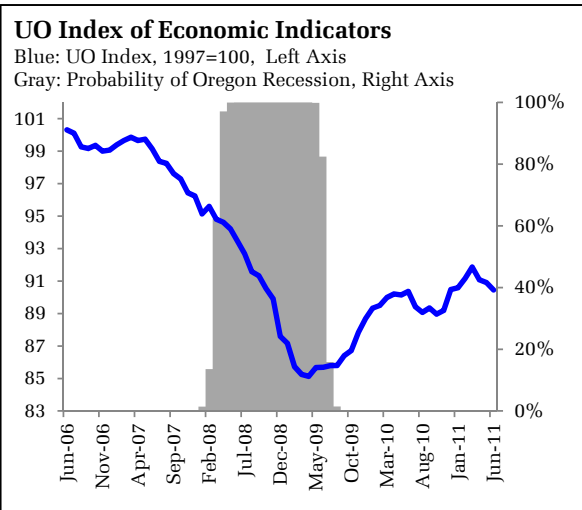


Table 1: Summary Measures

	2011					
	Jan.	Feb.	Mar.	Apr.	May	Jun.
University of Oregon Index of Economic Indicators™, 1997=100	90.6	91.2	91.9	91.1	90.9	90.5
Percentage Change	0.1	0.6	0.8	-0.9	-0.2	-0.5
Diffusion Index	50.0	71.4	64.3	35.7	42.9	21.4
Six Month Percentage Change, Annualized	2.6	4.8	5.7	4.8	3.9	0.0
Six Month Diffusion Index	85.7	85.7	100.0	85.7	100.0	50.0



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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 sustained decline in the index of greater than 2.75 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.

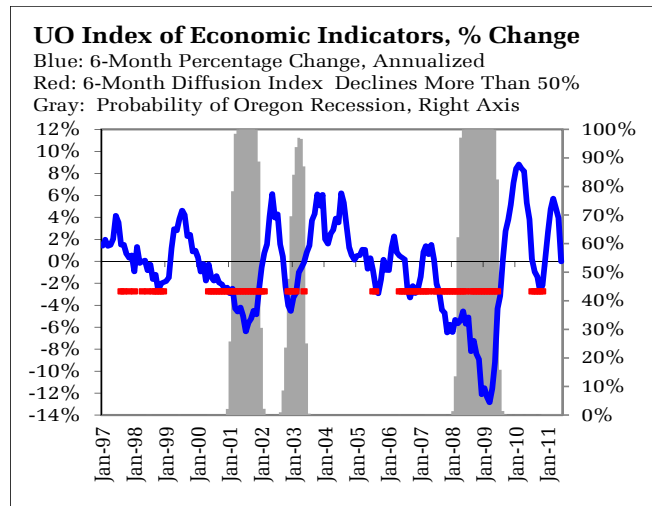
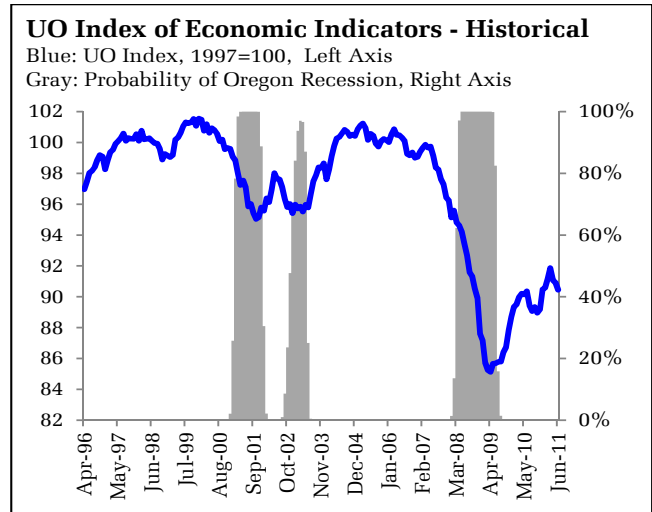


Table 2: Index Components

	2011					
	Jan.	Feb.	Mar.	Apr.	May	Jun.
Oregon Initial Unemployment Claims, SA*	8,557	8,632	8,404	9,147	9,153	9,328
Oregon Employment Services Payrolls, SA	31,755	32,566	32,799	32,218	31,458	31,164
Oregon Residential Building Permits, SA, 5 MMA*	621	622	711	708	664	653
Oregon Weight Distance Tax, SA, Index, 1998=100, 3 MMA	106.08	106.86	106.17	100.42	106.39	105.20
Univ. of Michigan U.S. Consumer Confidence, 5 MMA	71.2	73.1	73.1	72.7	72.7	72.1
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, \$ Millions, SA	39,396	39,245	41,292	41,004	41,621	41,312
Interest Rate Spread, Ten-Year Treasury Bonds Less Federal Funds Rate	3.22	3.42	3.27	3.36	3.08	2.91

* 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.