UNIVERSITY OF OREGON INDEX OF ECONOMIC INDICATORS™

oregon economic forum

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

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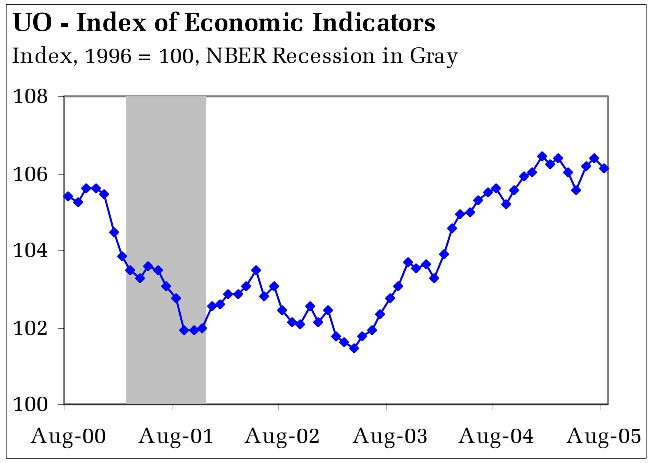
Author
Timothy A. Duy
Director, Oregon Economic Forum
Department of Economics

Research Assistant
Tanya Raterman
Economics Undergraduate



Analysis

The University of Oregon Index of Economic Indicators™ slipped to 106.2 (1996=100) in August, a 0.2 percent decline from the previous reading. Three of the eight indicators that comprise the UO Index—Oregon nonfarm payrolls, Oregon residential building permits, and U.S. manufacturing orders—improved in August. Four indicators—Oregon initial unemployment claims, *The Oregonian* help-wanted ads, U.S. consumer confidence, and the interest rate spread—deteriorated. The Oregon weight distance tax was unchanged.

Oregon labor market indicators were mixed in August. Importantly, nonfarm payrolls climbed by 5,300, extending the hiring gains made in July for a gain of 13,800 jobs in two months. In contrast, help-wanted ads in *The Oregonian* slipped in August, while Oregon initial unemployment claims edged up. For the year, however, the monthly average for initial claims is 6,610, consistent with the pre-recession average of 6,681 from 1995–2000.

Remaining economic indicators also were mixed. Residential building permits and new orders for nondefense, nonaircraft capital goods, a measure of business investment activity, both improved in August, while consumer confidence dropped. The interest rate spread continued to narrow—an indication of slowing growth—to a difference of just seventy-six basis points between ten-year treasury bonds and the federal funds rate. This reflects the failure of longer term interest rates to move in line with monetary tightening conducted by the Federal Reserve.

The impact of Hurricane Katrina on Oregon's economy remains uncertain and is not reflected in the UO Index. The behavior of the UO Index remains consistent with continued near term moderate economic growth, indicating that the local economy was on solid footing in the period before the hurricane-induced energy price shock. Compared to six months ago, the UO Index is down 0.2 percent, while the six-month diffusion index, a measure of the proportion of components that are rising, rose to fifty over the same period of time (in other words, on balance, half of the components improved). As a general rule, a decline in the index of greater than 2 percent over six months (annualized), coupled with a decline in more than half of its components, signals that a recession is likely imminent.

Table 1: Summary Measures

	2005					
	Mar.	Apr.	May	Jun.	Jul.	Aug.
University of Oregon Index of Economic Indicators™, 1996=100	106.4	106.0	105.6	106.2	106.4	106.2
Percentage Change	0.2	-0.4	-0.4	0.6	0.2	-0.2
Diffusion Index	43.8	50.0	31.3	56.3	56.3	37.5
6-Month Percentage Change, Annualized	2.4	0.8	-0.6	0.3	0.0	-0.2
6-Month Diffusion Index	56.3	62.5	37.5	50.0	37.5	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 constructed to have the properties of a leading indicator. As a general rule, a decline in the index of greater than 2 percent over six months, coupled with a decline in more than half of its components, signals that a recession is likely imminent. The 2 percent rule—which has since changed to 3.5 percent due to index revisions—was originally employed by The Conference Board for the U.S. Leading Indicators, and it appears appropriate for the UO Index.

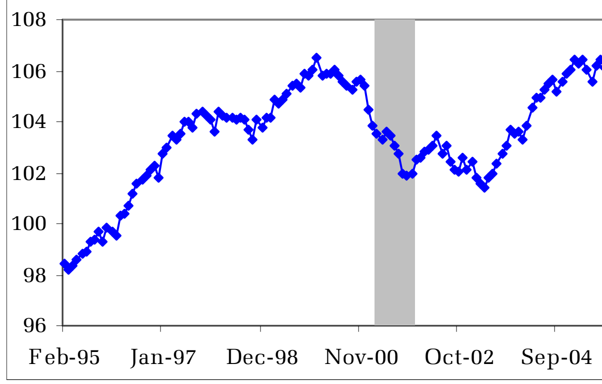
Using the rule, the index signaled an impending recession in January 2001; the National Bureau of Economic Research (NBER) dates the national recession from March to November 2001. The index did signal the so-called "jobless recovery" that followed the 2001 recession, but did not falsely predict a double-dip recession. No other recessions were signaled during the period for which data are available (beginning February 1995).

The general rule, however, should be used judiciously. The available data encompass only one recession, a very small sample from which to draw generalities. 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.

UO - Index of Economic Indicators, Historical

Index, 1996 = 100, NBER Recession in Gray



UO - Index of Economic Indicators, % Change

Blue: 6-Month Percentage Change, Annualized
Red: 6-Month Diffusion Index Declines More Than 50%
NBER Recession in Gray

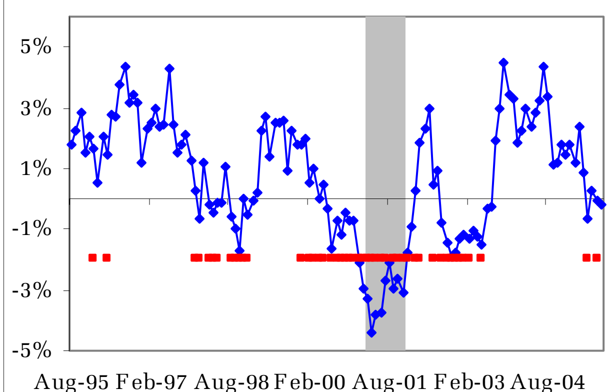


Table 2: Index Components

	2005					
	Mar.	Apr.	May	Jun.	Jul.	Aug.
Oregon Initial Unemployment Claims, SA*	6,544	6,506	7,501	6,798	6,819	6,950
Oregon Residential Building Permits, SA	3,067	2,586	2,262	2,715	2,533	2,899
The Oregonian Help-Wanted Ads, SA	23,109	23,401	24,687	22,523	24,431	21,580
Oregon Weight Distance Tax, $ Thousands, SA	18,230	18,229	22,287	18,506	18,851	18,851
Oregon Total Nonfarm Payrolls, Thousands, SA	1,640.1	1,640.9	1,638.2	1,642.1	1,650.6	1,655.9
Univ. of Michigan U.S. Consumer Confidence	92.6	87.7	86.9	96.0	96.5	89.1
Real Manufacturer's New Orders for Nondefense, Nonaircraft Capital Goods, $ Billions, SA	42,291	42,540	42,299	44,457	42,781	44,355
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	1.87	1.55	1.14	0.96	0.92	0.76

* *SA–seasonally adjusted*

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.