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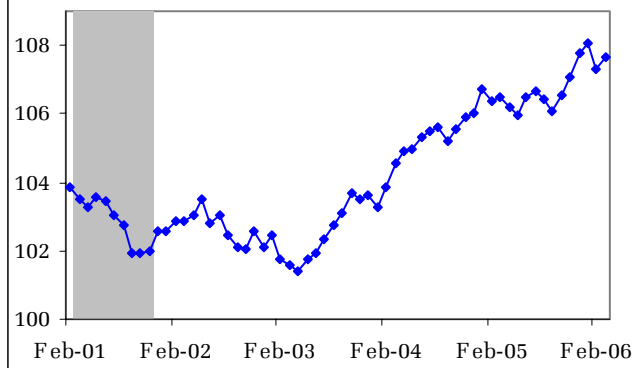
Analysis

Rebounding from February's sharp decline, the University of Oregon Index of Economic Indicators™ rose in March, gaining 0.3 percent to 107.7 (1996=100). Only two indicators—Oregon residential building permits and *The Oregonian* help-wanted ads—deteriorated in March. One indicator, Oregon initial unemployment claims, was essentially unchanged. The remaining five indicators—Oregon weight-distance tax, Oregon nonfarm payrolls, U.S. consumer confidence, manufacturing orders, and the interest rate spread—all improved.

Oregon job market data remain on a positive trajectory. Initial unemployment claims are stabilizing around a low level. This suggests steady economic activity—and confidence in the near term outlook on the part of firms—is holding down the number of layoffs. Moreover, firms continue to add workers at a rapid pace, with nonfarm payrolls climbing by 6,500 in March. During the first quarter, payrolls grew at a 3.5 percent rate compared to the same period last year, more than twice the national average of 1.6 percent. It is important to note that job gains in Oregon are relatively broad-

UO - Index of Economic Indicators

Index, 1996 = 100, NBER Recession in Gray



based, with employment growing across a wide range of private industries.

Oregon's economy is also supported by largely positive national trends. U.S. consumer confidence edged higher in March, indicating continuing willingness to spend at the household level. Manufacturing orders for nondefense, nonaircraft capital goods, an indicator of business investment activity, also rose in March. Note that Oregon appears to be disproportionately gaining from solid manufacturing activity, with the sector adding 6,900 jobs over the past year. Nationally, the sector shed 56,000 jobs over the same period. The interest rate spread, the difference between long- and short-term interest rates, increased, easing earlier concerns that the narrowing spread served as a harbinger of

weaker economic conditions. On a softer note, Oregon residential building permits slipped to their lowest level since last May, consistent with the pattern of cooling housing markets nationally.

Compared to six months ago, the UO Index rose 3.0 percent (annualized), while the six-month diffusion index, a measure of the proportion of components that are rising, stood at 56.3 (in other words, half 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. Consequently, the index suggests that Oregon's solid pace of economic growth is set to continue for at least the near term (three to six months).

Table 1: Summary Measures

	2005			2006		
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
University of Oregon Index of Economic Indicators™, 1996=100	106.6	107.1	107.8	108.1	107.3	107.7
Percentage Change	0.5	0.5	0.6	0.3	-0.7	0.3
Diffusion Index	81.3	50.0	56.3	43.8	12.5	56.3
6-Month Percentage Change, Annualized	0.7	2.1	2.4	2.7	1.7	3.0
6-Month Diffusion Index	68.8	50.0	62.5	62.5	56.3	56.3



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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.

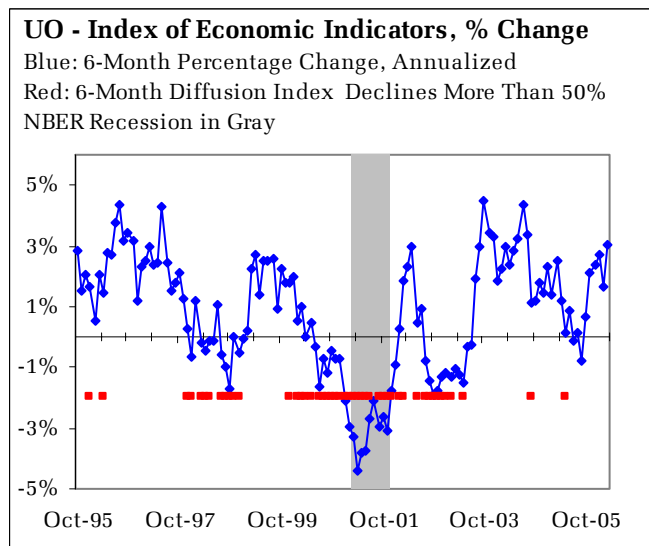
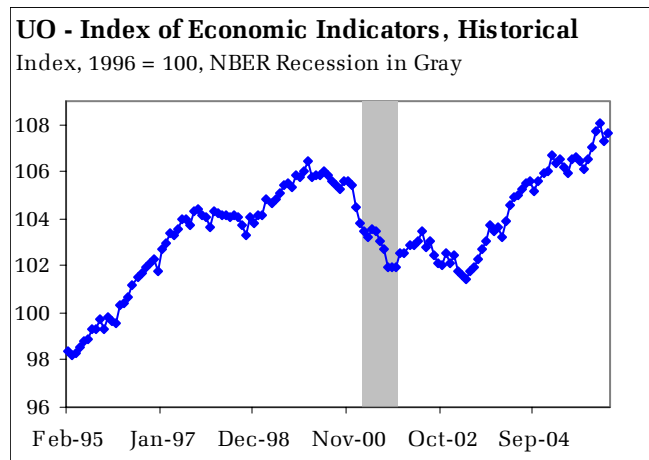


Table 2: Index Components

	2005			2006		
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Oregon Initial Unemployment Claims, SA *	6,297	5,730	5,420	5,112	5,829	5,870
Oregon Residential Building Permits, SA	2,565	2,752	2,577	2,459	2,464	2,373
The Oregonian Help-Wanted Ads, SA	24,419	23,280	23,800	24,993	22,477	21,737
Oregon Weight Distance Tax, \$ Thousands, SA	25,880	21,731	20,626	20,281	18,865	19,760
Oregon Total Nonfarm Payrolls, Thousands, SA	1,674.6	1,681.7	1,686.6	1,694.7	1,697.3	1,703.8
Univ. of Michigan U.S. Consumer Confidence	74.2	81.6	91.5	91.2	86.7	88.9
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, \$ Billions, SA	43,840	43,898	45,971	45,813	45,382	46,670
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	0.68	0.54	0.31	0.13	0.08	0.13

* 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.