

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

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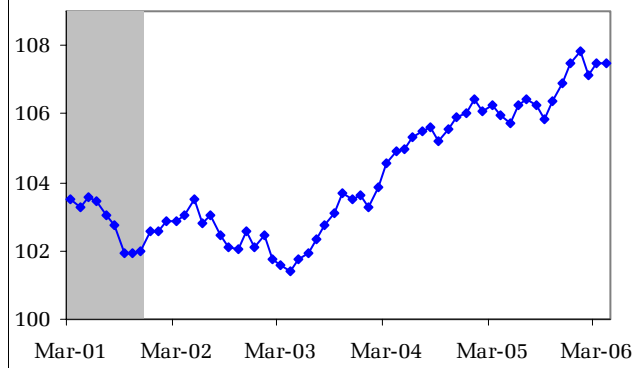
#### Analysis

The University of Oregon Index of Economic Indicators™ held steady in April at 107.5 (1996=100). Performance of individual components was mixed, as four indicators—Oregon initial unemployment claims, Oregon residential building permits, *The Oregonian* help-wanted ads, and the interest rate spread—improved while three indicators—Oregon weight distance tax, U.S. consumer confidence, and manufacturing orders—deteriorated. Oregon nonfarm payrolls data were essentially unchanged.

Incoming data paint the Oregon labor market in a positive light. While nonfarm payrolls were essentially unchanged with a reported gain of just 100 employees, on average Oregon firms have added 4,400 workers per month this year. In comparison, the average monthly gain for 2005 was 4,600. Initial unemployment claims edged down after two months of gains, holding in a range consistent with an expanding labor market. Likewise, help wanted ads in *The Oregonian* advanced to their highest level in three months.

#### UO - Index of Economic Indicators

Index, 1996 = 100, NBER Recession in Gray



Other Oregon-specific indicators were mixed, with the weight distance tax, a measure of transportation activity, down while residential building permits edged up. Note, however, that permit activity looks to have entered a slowing phase after peaking in the middle of last year. This slowing is consistent with expectations that rising interest rates would cool the housing sector. National trends impacting the Oregon economy were also mixed. U.S. consumer confidence slipped in April as increasing energy costs restrained consumers' ability to spend. Manufacturing orders also slipped, but this tends to be a volatile indicator and the decline should be taken in light of a strong March gain in orders. The underlying trend in manufacturing remains positive. The interest rate spread—the difference between

short- and long-term interest rates—signaled that financial market participants' concerns about economic weakness were lessened in April.

The index continues to suggest that Oregon's solid pace of economic growth is set to continue for at least the near term (three to six months). Compared to six months ago, the UO Index rose 2.1 percent (annualized), while the six-month diffusion index—a measure of the proportion of components that are rising—stood at 50 (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.

Table 1: Summary Measures

	2005		2006			
	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.
University of Oregon Index of Economic Indicators™, 1996=100	106.9	107.5	107.8	107.1	107.5	107.5
Percentage Change	0.5	0.6	0.3	-0.7	0.4	0.0
Diffusion Index	50.0	56.3	50.0	12.5	56.3	56.3
6-Month Percentage Change, Annualized	2.1	2.3	2.7	1.7	3.1	2.1
6-Month Diffusion Index	50.0	62.5	62.5	56.3	56.3	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](http://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.

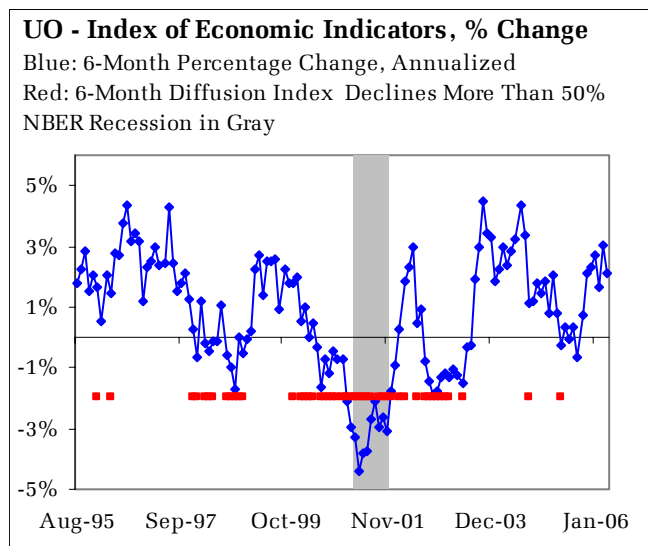
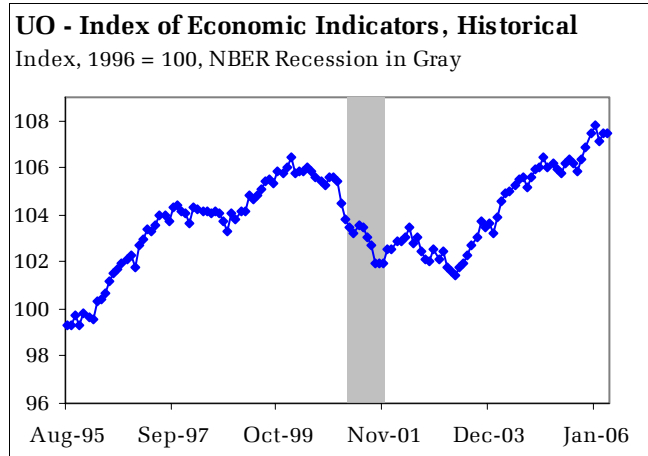


Table 2: Index Components

	2005		2006			
	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.
Oregon Initial Unemployment Claims, SA*	5,730	5,420	5,112	5,829	5,870	5,675
Oregon Residential Building Permits, SA	2,752	2,577	2,459	2,464	2,373	2,432
The Oregonian Help-Wanted Ads, SA	23,280	23,800	24,993	22,477	21,737	23,978
Oregon Weight Distance Tax, \$ Thousands, SA	21,731	20,626	20,281	18,865	19,760	17,056
Oregon Total Nonfarm Payrolls, Thousands, SA	1681.7	1686.6	1694.7	1697.3	1704.0	1704.1
Univ. of Michigan U.S. Consumer Confidence	81.6	91.5	91.2	86.7	88.9	87.4
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, \$ Billions, SA	41,017	41,838	42,555	42,086	43,522	42,691
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	0.54	0.31	0.13	0.08	0.13	0.20

\* 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.