

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

### AUGUST 2006

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#### Analysis

The University of Oregon Index of Economic Indicators™ slipped 0.4 percent in August to 106.8 (1996=100). Only two indicators—Oregon nonfarm payrolls and Oregon residential building permits—improved. One indicator—inflation-adjusted new manufacturing orders—was unchanged. The remaining five indicators—Oregon initial unemployment claims, help-wanted advertising in *The Oregonian*, the Oregon weight-distance tax, U.S. consumer confidence, and the interest rate spread—deteriorated.

Data on the Oregon labor market was mixed in August, with recent trends pointing to slowing activity. Nonfarm payrolls rose by 3,500 employees, while the July gain, initially estimated at 3,700, was revised sharply higher to a gain of 7,200 workers. This revision, coupled with the solid August gain, show that year to date, hiring has eased only modestly, with an average monthly gain of 4,025, compared to 4,238 during the same period last year. In a sign that the pace of hiring may ease further in the months ahead, initial unemployment claims rose in August to their highest level in twelve months. Also, help-

wanted advertising in *The Oregonian* slipped noticeably.

Remaining economic indicators were generally weaker in August. Oregon residential building permits rose slightly after July's sharp decline, but remain at levels last seen in 2004 and still suggest that the national housing slowdown is having a local impact. Also, core manufacturing orders, adjusted for inflation, were flat in August, while gains for the previous two months were revised downwards. While manufacturing data tend to be volatile, and not too much should be read into a single data point, the weaker-than-expected data raise concerns about the path of business investment in the months ahead. The yield spread—the difference between long-and short-term interest rates—widened significantly as investors bid down yields on

ten-year Treasury bonds, revealing increasing expectations that the Federal Reserve will cut interest rates late this year or early next year.

The fall in the index over the past six months, along with a decrease in the number of improving indicators, suggests that the pace of activity is slowing. Still, the index indicates continued economic growth in Oregon in the near term (three to six months). Compared to six months ago, the UO Index fell 0.5 percent (annualized), while the six-month diffusion index—a measure of the proportion of components that are rising—stood at 37.5 (in other words, more than half the components deteriorated). 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.

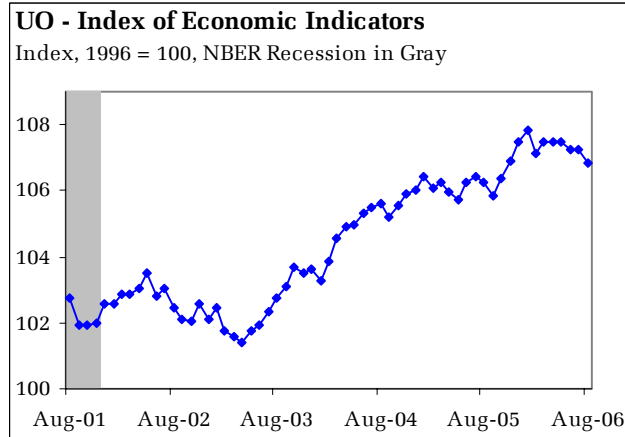


Table 1: Summary Measures

	2006					
	Mar.	Apr.	May	Jun.	Jul.	Aug.
University of Oregon Index of Economic Indicators™, 1996=100	107.5	107.5	107.5	107.2	107.2	106.8
Percentage Change	0.3	0.0	0.0	-0.2	0.0	-0.4
Diffusion Index	56.3	56.3	43.8	43.8	50.0	25.0
6-Month Percentage Change, Annualized	3.1	2.0	1.1	-0.4	-1.1	-0.5
6-Month Diffusion Index	56.3	50.0	50.0	37.5	37.5	37.5



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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.

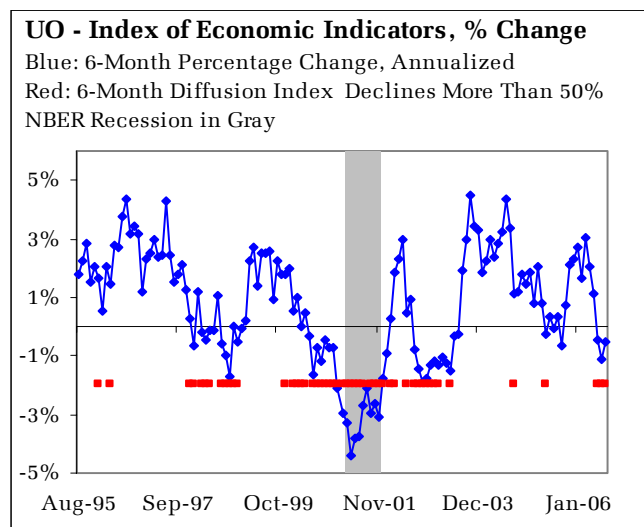
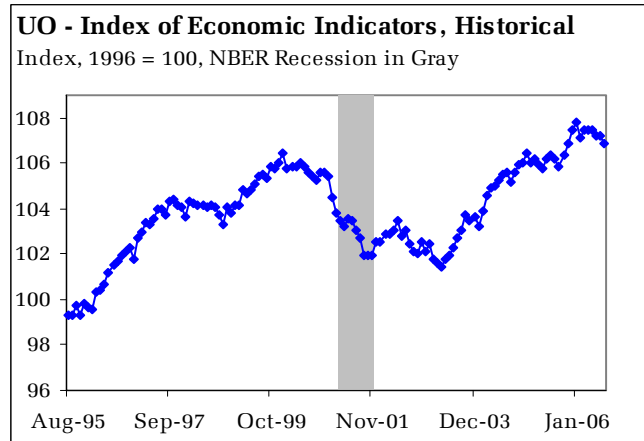


Table 2: Index Components

	2006					
	Mar.	Apr.	May	Jun.	Jul.	Aug.
Oregon Initial Unemployment Claims, SA*	5,870	5,675	6,041	5,936	6,268	6,551
Oregon Residential Building Permits, SA	2,373	2,432	2,788	2,727	1,923	2,038
The Oregonian Help-Wanted Ads, SA	21,737	23,978	21,617	20,155	20,857	18,799
Oregon Weight Distance Tax, \$ Thousands, SA	19,760	17,056	23,563	19,575	21,537	20,937
Oregon Total Nonfarm Payrolls, Thousands, SA	1704.0	1703.5	1711.8	1708.1	1715.3	1718.8
Univ. of Michigan U.S. Consumer Confidence	88.9	87.4	79.1	84.9	84.7	82.0
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, \$ Billions, SA	43,467	42,454	42,869	43,154	43,651	43,655
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	0.13	0.2	0.17	-0.12	-0.13	-0.37

\* 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.