

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

### NOVEMBER 2006

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#### Analysis

The University of Oregon Index of Economic Indicators™ dropped 0.3 percent in November to 107.1 (1996=100) after two consecutive increases. The weakness in the data was widespread as six indicators—Oregon initial jobless claims, help-wanted advertising in *The Oregonian*, the Oregon weight-distance tax, U.S. consumer confidence, inflation-adjusted new manufacturing orders, and the interest rate spread—all deteriorated. Only two indicators—Oregon residential building permits and Oregon nonfarm payrolls—improved.

The labor market data weakened on average in November. While Oregon employers added 2,700 workers to payrolls, data for the previous two months were revised substantially downward. During the three months ending in November, firms added just 800 employees. Slippage in manufacturing employment—a decline of 2,000 jobs in November alone—accounts for some of the weakness. In particular, the slowing housing market (nationally and locally) has reduced the demand for wood products. Moreover, the initial unemployment claims climbed sharply higher to a weakly average of 7,060,

well above the June level of 5,936. Moreover, help-wanted advertising in *The Oregonian* fell in November, indicating a slowdown in hiring activity. Overall, the data, including revisions, suggest that the Oregon labor market softened measurably toward the end of the year.

Remaining indicators had a negative tone. Notably, new orders for core manufactured goods, a key indicator of business investment spending, dropped for the second consecutive month in November. The yield spread (the difference between long- and short-term interest rates) decreased, indicating that investors expected slower growth in the months ahead. Interestingly, Oregon residential building permits jumped substantially in November to their highest level since last June. Considering anecdotal and national reports of continued weakness in the housing market, it would be

premature to conclude that permit rise signals an end to the housing downturn in Oregon, but it could signal stabilization.

Despite the weakness in November, the index has been a generally stable index over the past year, consistent with an economy that has transitioned to a lower rate of economic activity. Still, the index suggests continued, albeit slower, economic growth in Oregon in the near term (three to six months). Compared to six months ago, the UO Index fell 0.7 percent (annualized), while the six-month diffusion index, a measure of the proportion of components that are rising, stood at 25 (in other words, more than half of the indicators 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.

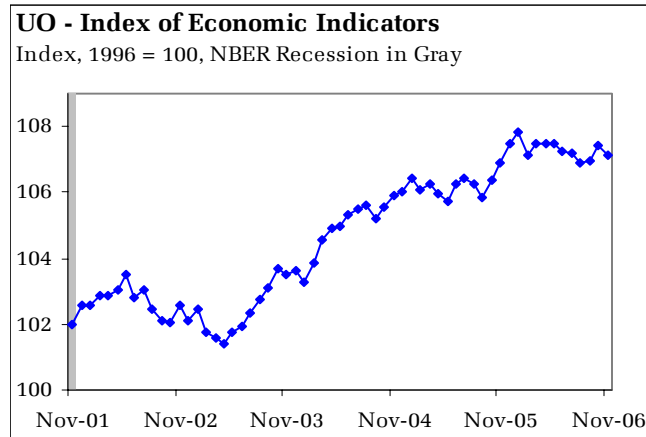


Table 1: Summary Measures

	2006					
	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
University of Oregon Index of Economic Indicators™, 1996=100	107.2	107.2	106.9	107.0	107.4	107.1
Percentage Change	-0.2	0.0	-0.3	0.1	0.4	-0.3
Diffusion Index	43.8	50.0	31.3	50.0	68.8	18.8
6-Month Percentage Change, Annualized	-0.4	-1.2	-0.4	-0.9	0.0	-0.7
6-Month Diffusion Index	37.5	37.5	37.5	25.0	50.0	25.0



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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.

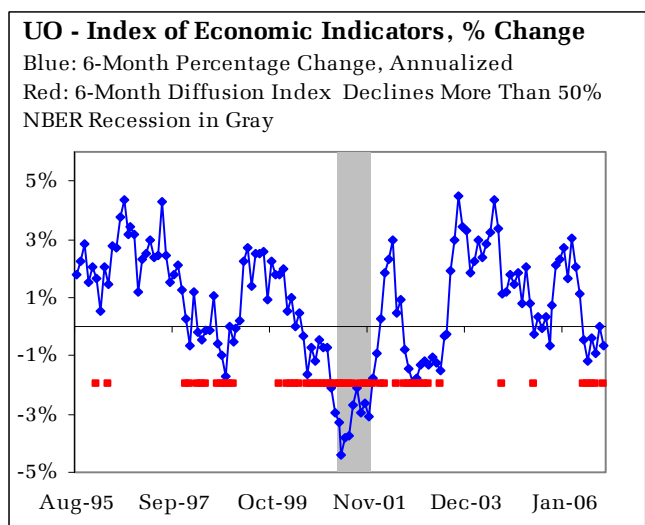
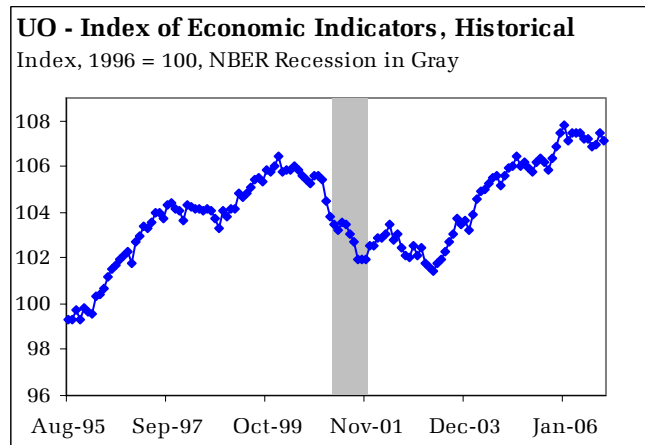


Table 2: Index Components

	2006					
	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
Oregon Initial Unemployment Claims, SA*	5,936	6,268	6,551	6,579	6,676	7,060
Oregon Residential Building Permits, SA	2,727	1,923	2,038	1,758	1,856	2,465
The Oregonian Help-Wanted Ads, SA	20,155	20,857	18,799	19,448	19,683	18,369
Oregon Weight Distance Tax, \$ Thousands, SA	19,575	21,537	20,937	18,931	26,375	22,836
Oregon Total Nonfarm Payrolls, Thousands, SA	1708.1	1715.3	1719.6	1722.7	1718.0	1720.4
Univ. of Michigan U.S. Consumer Confidence	84.9	84.7	82	85.4	93.6	92.1
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, \$ Millions, SA	43,154	43,492	44,107	45,195	43,821	42,603
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	-0.12	-0.13	-0.37	-0.53	-0.52	-0.65

\* 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.