

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

JANUARY 2007

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Analysis

The University of Oregon Index of Economic Indicators™ gained 0.2 percent in January to 106.8 (1996=100). Data for 2006 were revised to account for revisions in Oregon employment data, update seasonal adjustment factors, and update standardization factors used in calculating the index; there were no qualitative differences as a result of the revisions. Four indicators—Oregon initial jobless claims, Oregon residential building permits, U.S. consumer confidence and the interest rate spread—improved. Three indicators—help-wanted advertising in *The Oregonian*, the Oregon weight-distance tax, and inflation-adjusted new manufacturing orders—deteriorated. Oregon nonfarm payrolls were essentially unchanged from December.

Labor market data were again mixed in January. Initial unemployment claims decreased for the second consecutive month, continuing a reversal of the rise in claims that persisted through most of 2006. Still, other indicators failed to show improvement. Help-wanted advertising in *The Oregonian* slipped significantly in January, while nonfarm payrolls recorded a slight, 500-employee gain for the month. Reflecting in part the national housing slowdown, nonfarm payrolls have been essentially flat since last

August, with job losses in manufacturing, construction, and government sectors weighing on the labor market.

Remaining indicators were generally stronger. Interestingly, Oregon residential building permits rose to levels not seen since last June, reversing December's sharp decline. While this increase is welcome, it would be premature to conclude that the housing slowdown is nearing a bottom; the data have been volatile during the past three months, and most analysts continue to anticipate that housing will be a drag on economic activity in 2007. National consumer confidence gained in January, suggesting a continued willingness and ability of households to support spending. The yield spread—the difference between short- and long-term interest rates—improved as solid national economic data reduced expectations for a

Federal Reserve interest rate cut. In contrast, new orders for core manufactured goods fell sharply in January, suggesting firms continue to be cautious with investment spending plans. Weakness in this indicator is notable and suggestive that growth will continue to be slow relative to recent years.

The index suggests continued slow to moderate economic growth in Oregon in the near term (three to six months). Compared to six months ago, the UO Index fell 0.1 percent (annualized), while the six-month diffusion index, a measure of the proportion of components that are rising, stood at 43.8 (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.

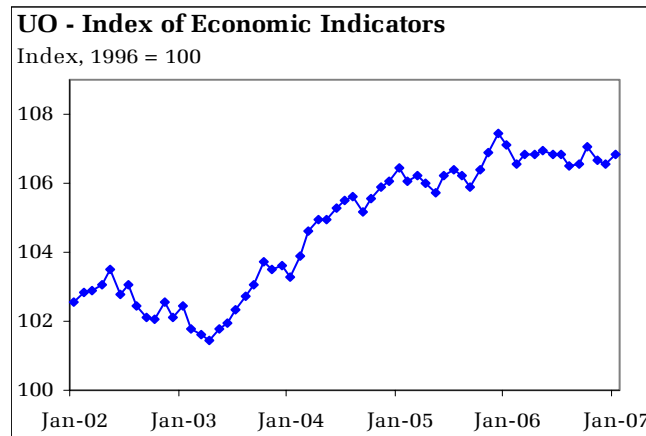


Table 1: Summary Measures

	2006					2007
	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.
University of Oregon Index of Economic Indicators™, 1996=100	106.5	106.5	107.1	106.7	106.6	106.8
Percentage Change	-0.3	0.0	0.5	-0.4	-0.1	0.2
Diffusion Index	18.8	43.8	68.8	18.8	50.0	56.3
6-Month Percentage Change, Annualized	-0.1	-0.5	0.4	-0.5	-0.5	-0.1
6-Month Diffusion Index	37.5	25.0	50.0	31.3	43.8	43.8



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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.

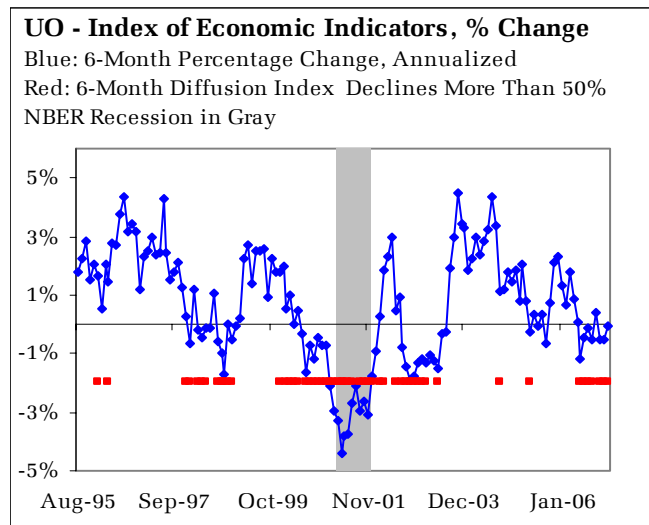
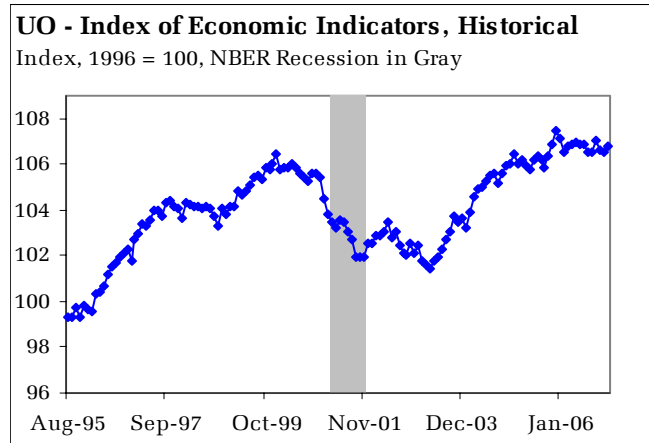


Table 2: Index Components

	2006					2007
	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.
Oregon Initial Unemployment Claims, SA*	6,303	6,350	6,211	6,972	6,269	5,676
Oregon Residential Building Permits, SA	1,952	1,809	1,873	2,430	1,607	2,501
The Oregonian Help-Wanted Ads, SA	19,334	19,801	19,372	18,817	19,302	16,194
Oregon Weight Distance Tax, \$ Thousands, SA	20,937	18,931	26,375	22,836	20,757	19,432
Oregon Total Nonfarm Payrolls, Thousands, SA	1713.5	1713.9	1712.1	1714.0	1712.2	1712.7
Univ. of Michigan U.S. Consumer Confidence	82.0	85.4	93.6	92.1	91.7	96.9
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, \$ Millions, SA	44,107	45,195	43,727	42,709	44,178	41,443
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	-0.37	-0.53	-0.52	-0.65	-0.68	-0.51

* 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.