

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

### APRIL 2007

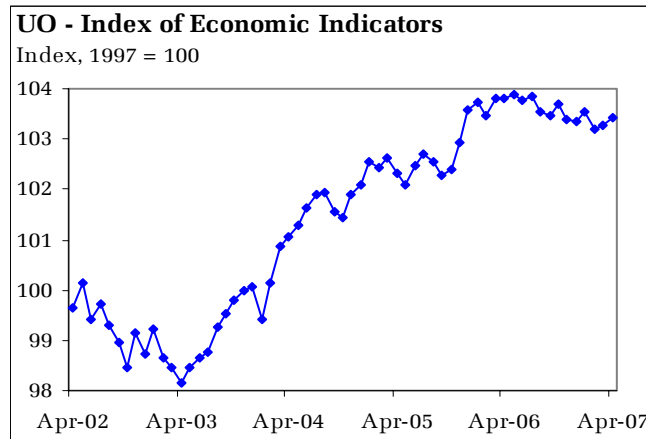
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#### Analysis

The University of Oregon Index of Economic Indicators™ edged up to 103.4 (1997=100) in April, a 0.1 percent gain from the previous month. A number of modifications were made to the UO Index this month. The measure of help-wanted advertising was extended to include data not only from the *Oregonian* but also from the *Eugene Register-Guard*, and the *Bend Bulletin*. Because data for the *Bulletin* is not available prior to March 1996, the UO Index now begins at April 1996, compared to February 1995 prior to the additional help-wanted ad data. Also, the base year has been changed accordingly, from 1996 to 1997. Finally, statistical adjustments were made to better remove seasonal variation from initial unemployment claims and weight distance tax data. Overall, the impact on the UO Index from these changes was qualitatively minor.

Labor market conditions continued to improve in April. Initial unemployment claims were largely unchanged, while Oregon employers added 5,600 jobs to nonfarm payrolls, the third consecutive monthly gain and the largest gain since last July. Payrolls have increased by a total of 11,400 in the past three months, compared to the 1,200 gain of the prior six months. In



addition, help-wanted advertising gained by 4.5 percent for the month of April, also signaling rebounding hiring activity.

Oregon residential building permits declined again, falling near its recent low in December of last year. Permitting activity has been erratic recently, falling sharply in the second half of last year, but staging a rebound in the first quarter of this year before slipping again in April. The fall in April suggests it is premature to declare that local housing activity has reached a bottom. The yield spread—the difference between short- and long-term interest rates—improved as financial market participants reduced expectations for Federal Reserve action to lower interest rates. On a positive note, real new orders of core manufactured goods—nondefense, nonaircraft capital

goods—gained for a second consecutive month, helping to offset concerns that a contraction in investment spending would lead to deteriorating economic conditions later this year.

The index suggests 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 25 (in other words, more than half of the indicators deteriorated over the past six months). 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			
	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.
University of Oregon Index of Economic Indicators™, 1997=100	103.4	103.3	103.6	103.2	103.3	103.4
Percentage Change	-0.3	0.0	0.2	-0.3	0.1	0.1
Diffusion Index	18.8	50.0	56.3	31.3	50.0	56.3
6-Month Percentage Change, Annualized	-1.0	-0.8	-0.5	-0.6	-0.3	-0.5
6-Month Diffusion Index	25.0	31.3	37.5	31.3	56.3	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, and did, for a single month, register a decline greater than 2 percent during this period. No other recessions were signaled during the period for which data are available (beginning March 1996).

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.

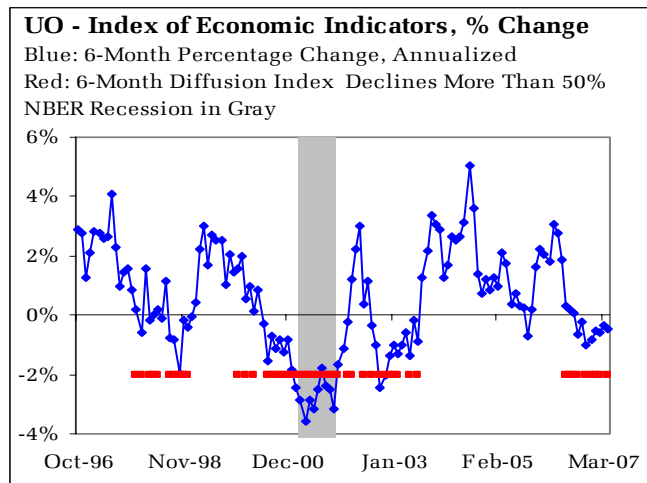
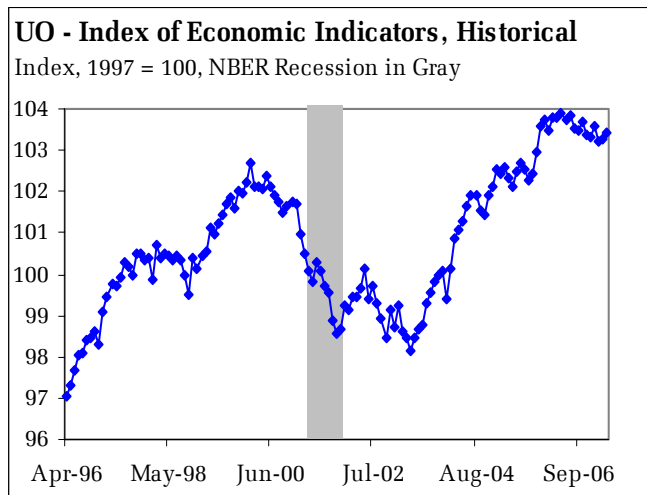


Table 2: Index Components

	2006		2007			
	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.
Oregon Initial Unemployment Claims, SA *	7,117	6,189	6,054	6,768	6,123	6,330
Oregon Residential Building Permits, SA	2,430	1,607	2,501	2,788	2,037	1,612
Oregon Help-Wanted Advertising, SA	35,185	34,776	31,496	32,041	32,136	33,572
Oregon Weight Distance Tax, \$ Thousands, SA	20,370	21,046	20,196	19,662	20,469	22,211
Oregon Total Nonfarm Payrolls, Thousands, SA	1714.0	1712.2	1711.7	1715.2	1717.5	1723.1
Univ. of Michigan U.S. Consumer Confidence	92.1	91.7	96.9	91.3	88.4	87.1
Real Manufacturers’ New Orders for Nondefense, Nonaircraft Capital Goods, \$ Millions, SA	42,423	42,727	40,751	39,633	41,410	41,896
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	-0.65	-0.68	-0.51	-0.54	-0.70	-0.56

\* 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.