

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

JUNE 2007

Author

Timothy A. Duy
Director, Oregon Economic Forum
Department of Economics

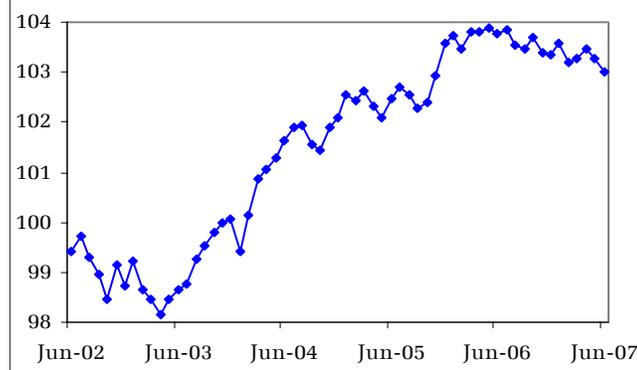
Analysis

The University of Oregon Index of Economic Indicators™ fell 0.3 percent in June to 103.0 (1997=100). Just two of the indicators that comprise the index—Oregon help-wanted advertising and the interest rate spread—improved in June. The remaining six indicators—Oregon initial unemployment claims, Oregon residential building permits, Oregon nonfarm payrolls, Oregon weight distance tax, consumer confidence, and new orders for core manufactured goods—deteriorated.

Labor market conditions softened somewhat in June. Initial unemployment claims edged up, although they remain near a historically average level. Nonfarm payrolls, however, slipped 1,200 employees, snapping a string of gains over the previous four months, while the previous month's gain was revised downward from 4,600 to 3,100. Significant declines were reported in the manufacturing, construction, and professional and business services sectors, although the declines in construction were partially attributed to a drywall workers strike. Help-wanted advertising in Oregon gained for the month.

UO - Index of Economic Indicators

Index, 1997 = 100



Housing data remain erratic, but generally point to weaker conditions. Oregon residential building permits fell sharply in June, erasing May's improvement. June permits were 43 percent lower than year-ago levels and at their lowest level since December 2001. It remains premature to expect an end to the housing slowdown in the near future, although Oregon's declines have not been as pronounced as in other parts of the nation. Oregon weight distance tax collected, a measure of trucking activity, declined modestly. The yield spread—the difference between short- and long-term interest rates—improved substantially as financial market participants sharply increased their expectations of economic growth for the second half of this year. In mid-July, however, markets were reassessing this forecast in light of continuing worries about the strength of

credit markets. Inflation-adjusted orders for new nondefense, nonaircraft capital goods slipped for a second consecutive month, sustaining concerns about the strength of businesses' capital expansion plans.

Although the index has been in a sustained period of weakness, it still 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 just 25 (in other words, only 25 percent of the components improved 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

	2007					
	Jan.	Feb.	Mar.	Apr.	May	Jun.
University of Oregon Index of Economic Indicators™, 1997=100	103.6	103.2	103.3	103.4	103.3	103.0
Percentage Change	0.2	-0.3	0.1	0.1	-0.2	-0.2
Diffusion Index	56.25	31.25	50.0	56.25	50.0	31.3
6-Month Percentage Change, Annualized	-0.5	-0.6	-0.3	-0.5	-0.2	-0.6
6-Month Diffusion Index	37.5	31.3	56.3	25.0	50.0	25.0



JUNE 2007

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, 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.

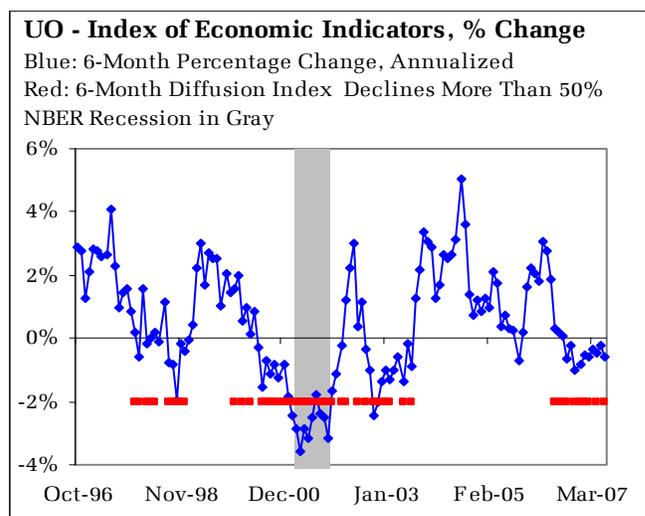
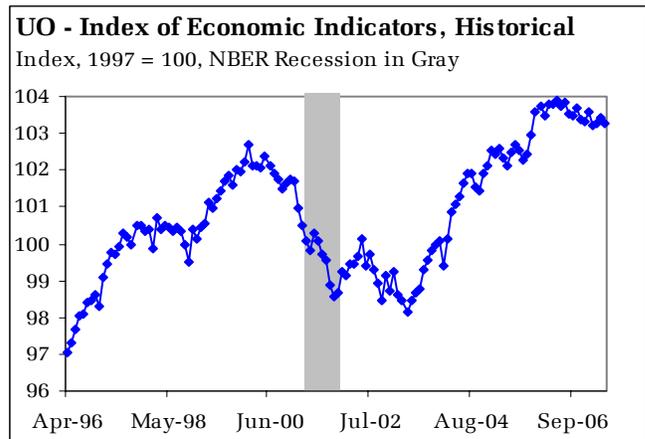


Table 2: Index Components

	2007					
	Jan.	Feb.	Mar.	Apr.	May	Jun.
Oregon Initial Unemployment Claims, SA *	6,054	6,768	6,123	6,330	6,310	6,428
Oregon Residential Building Permits, SA	2,501	2,788	2,037	1,612	1,966	1,483
Oregon Help-Wanted Advertising, SA	31,496	32,041	32,136	33,572	27,351	28,320
Oregon Weight Distance Tax, \$ Thousands, SA	20,196	19,662	20,469	22,211	20,776	20,224
Oregon Total Nonfarm Payrolls, Thousands, SA	1711.7	1715.2	1717.5	1722.7	1725.8	1724.6
Univ. of Michigan U.S. Consumer Confidence	96.9	91.3	88.4	87.1	88.3	85.3
Real Manufacturers’ New Orders for Nondefense, Nonaircraft Capital Goods, \$ Millions, SA	40,805	39,633	41,486	42,279	41,630	41,246
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	-0.51	-0.54	-0.70	-0.56	-0.50	-0.15

* 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.