

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

JULY 2007

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Analysis

The University of Oregon Index of Economic Indicators™ gained 0.6 percent in July, rising to 103.6 (1997=100) and rebounding from two consecutive months of declines. Just two of the indicators that comprise the index—Oregon help-wanted advertising and the interest rate spread—deteriorated in July. 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—posted gains for the month.

Labor market indicators generally improved in July. Initial unemployment claims slid to the lowest level since last March, continuing to trend in a range consistent with a healthy labor market. Nonfarm payrolls gained by 2,100 employees during the month; year-to-date, the Oregon economy has added a net 14,100 gains—a rate half that of the same period in 2006 and consistent with a softer but still growing economy. Help-wanted advertising in Oregon declined, reversing part of June's gain.

Oregon residential building permits remain a volatile indicator, rising sharply after plunging in June to the lowest level since 2001. Despite the rebound, the three-month average suggests that new home construction has slid to a pace more consistent with that of 2001. The decline in housing activity in certain parts of the state, such as the Bend area, mirrors national weakness in this sector, while other parts of the state remain less impacted to date. The Oregon weight distance tax collected gained sharply, indicating that trucking activity remains firm. Nationally, inflation-adjusted orders for new nondefense nonaircraft capital goods rebounded, offsetting declines in the previous two months and suggesting that firms remain willing to engage in capital expansion. In contrast, the yield spread—

the difference between short- and long-term interest rates—fell in July as conditions in credit markets deteriorated. Note that credit conditions worsened significantly in August, raising the possibility of softer economic conditions in the future.

The UO index suggests continued economic growth in Oregon in the near term (three to six months). Compared to six months ago, the UO Index rose 0.1 percent (annualized), while the six-month diffusion index, a measure of the proportion of components that are rising, stood at 50 (in other words, 50 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.

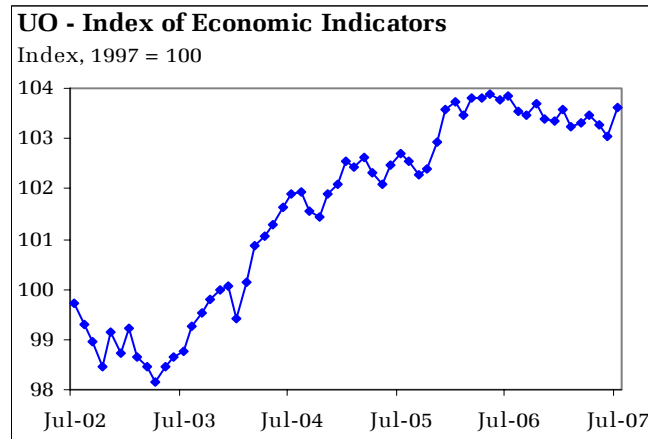


Table 1: Summary Measures

	2007					
	Feb.	Mar.	Apr.	May	Jun.	Jul.
University of Oregon Index of Economic Indicators™, 1997=100	103.2	103.3	103.4	103.3	103.0	103.6
Percentage Change	-0.3	0.1	0.1	-0.2	-0.2	0.6
Diffusion Index	31.25	50	56.25	50	37.5	68.8
6-Month Percentage Change, Annualized	-0.6	-0.3	-0.5	-0.2	-0.6	0.1
6-Month Diffusion Index	31.3	56.3	25.0	50.0	25.0	50.0



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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.

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.

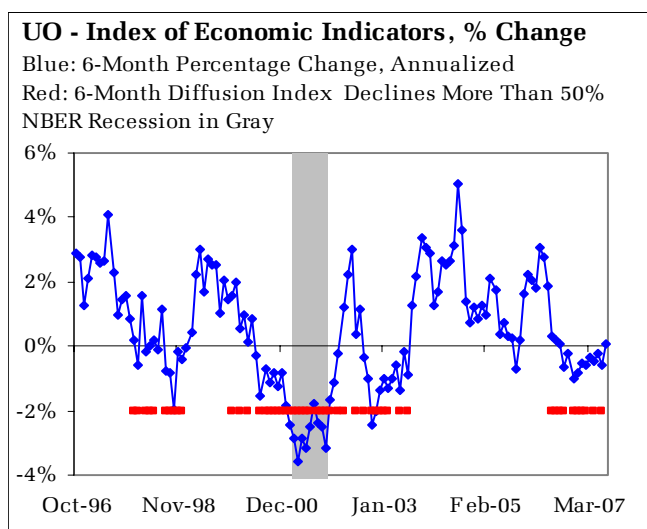
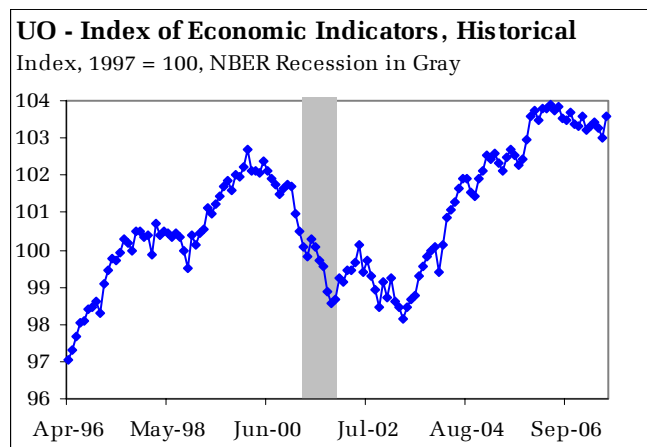


Table 2: Index Components

	2007					
	Feb.	Mar.	Apr.	May	Jun.	Jul.
Oregon Initial Unemployment Claims, SA *	6,768	6,123	6,330	6,310	6,428	6,174
Oregon Residential Building Permits, SA	2,788	2,037	1,612	1,966	1,483	1,890
Oregon Help-Wanted Advertising, SA	32,041	32,136	33,572	27,351	28,320	27,468
Oregon Weight Distance Tax, \$ Thousands, SA	19,662	20,469	22,211	20,776	20,224	21,974
Oregon Total Nonfarm Payrolls, Thousands, SA	1715.2	1717.5	1722.7	1725.8	1724.2	1726.3
Univ. of Michigan U.S. Consumer Confidence	91.3	88.4	87.1	88.3	85.3	90.4
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, \$ Millions, SA	39,686	41,541	42,279	41,608	41,460	42,326
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	-0.54	-0.70	-0.56	-0.51	-0.15	-0.26

* 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.