

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

### AUGUST 2007

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#### Analysis

The University of Oregon Index of Economic Indicators™ dropped 0.4 percent in August, falling to 103.1 (1997=100), largely reversing July's jump. Just two of the indicators that comprise the index—Oregon nonfarm payrolls and Oregon weight distance tax—improved in August. The remaining six indicators—Oregon initial unemployment claims, Oregon help-wanted advertising, Oregon residential building permits, consumer confidence, new orders for core manufactured goods, and the interest rate spread—all deteriorated during August.

Labor market indicators were mixed in August. Rising initial unemployment claims and falling help-wanted advertising indicated softer job market conditions in August, although initial claims remain in a range consistent with continued job growth. In contrast, nonfarm payrolls rose by 5,000 employees during the month, the largest increase since last April. Still, job growth has slipped to a one percent year-over-year rate, compared to rates that exceed three percent during the first half of 2006. In sum, labor market indicators suggest hiring caution among employers, yet sufficient

economic growth to prevent widespread layoffs.

True to recent form, Oregon residential building permits remained volatile, dropping back from July's rebound. Still, the downtrend is clear; Oregon has not escaped weaker national housing trends. The Oregon weight distance tax collected gained sharply for the second month, indicating that trucking activity remains firm. Nationally, inflation-adjusted orders for new nondefense, nonaircraft capital goods softened. Orders for these core manufactured goods, which are flat compared to last year, remain consistent with a softer, but not recessionary, economy. In contrast, the yield spread—the difference between short- and long-term interest rates—continued to deteriorate in

August, as investors increasingly expected the Federal Reserve would reduce interest rates in response to ongoing credit market turmoil. The Federal Reserve cut its key interest rate on September 18, setting the stage for stronger economic growth next year.

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 slid 0.3 percent (annualized), while the six-month diffusion index, a measure of the proportion of components that are rising, stood at 62.5 (in other words, more than 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.

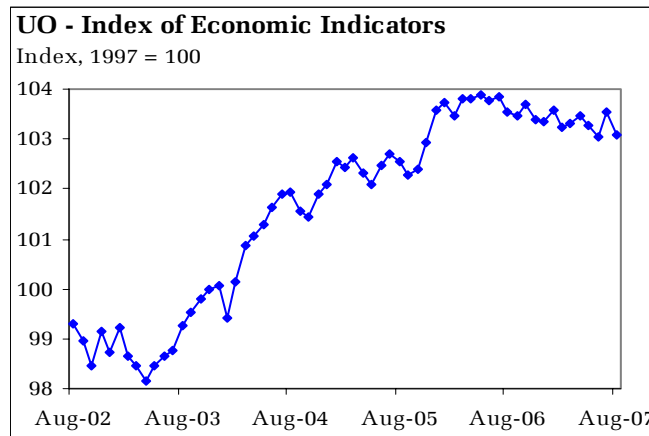


Table 1: Summary Measures

	2007					
	Mar.	Apr.	May	Jun.	Jul.	Aug.
University of Oregon Index of Economic Indicators™, 1997=100	103.3	103.4	103.3	103.0	103.5	103.1
Percentage Change	0.1	0.1	-0.2	-0.2	0.5	-0.4
Diffusion Index	50	56.25	50	37.5	68.75	18.8
6-Month Percentage Change, Annualized	-0.3	-0.5	-0.2	-0.6	-0.1	-0.3
6-Month Diffusion Index	56.3	25.0	50.0	25.0	50.0	62.5



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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.

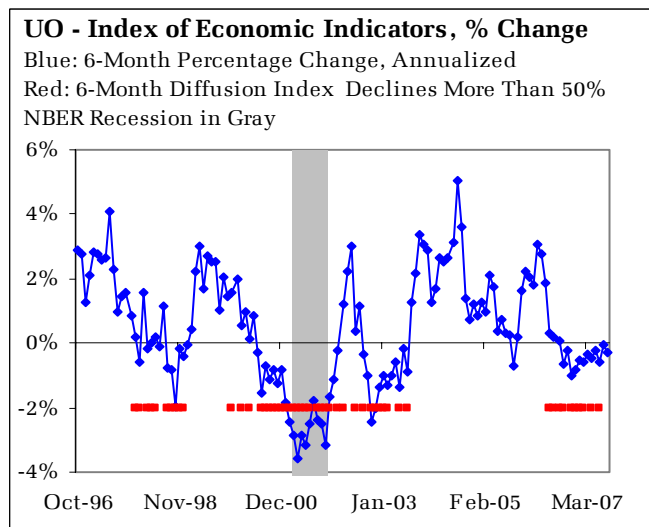
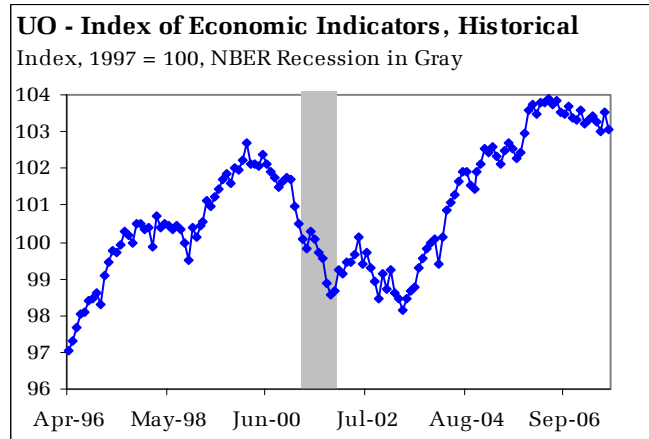


Table 2: Index Components

	2007					
	Mar.	Apr.	May	Jun.	Jul.	Aug.
Oregon Initial Unemployment Claims, SA*	6,123	6,330	6,310	6,428	6,174	6,545
Oregon Residential Building Permits, SA	2,037	1,612	1,966	1,483	1,890	1,675
Oregon Help-Wanted Advertising, SA	32,136	33,572	27,351	28,320	27,468	25,277
Oregon Weight Distance Tax, \$ Thousands, SA	20,469	22,211	20,776	20,224	21,974	23,012
Oregon Total Nonfarm Payrolls, Thousands, SA	1717.5	1722.7	1725.8	1724.2	1725.3	1730.3
Univ. of Michigan U.S. Consumer Confidence	88.4	87.1	88.3	85.3	90.4	83.4
Real Manufacturers’ New Orders for Nondefense, Nonaircraft Capital Goods, \$ Millions, SA	41,541	42,279	41,608	41,428	41,786	41,539
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	-0.7	-0.56	-0.51	-0.15	-0.26	-0.35

\* 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.