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SEPTEMBER 2007

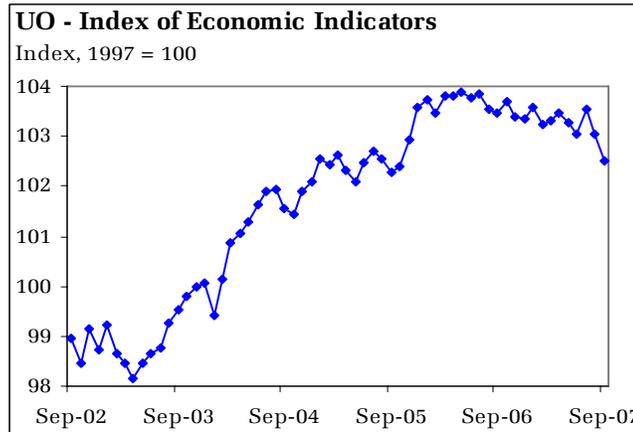
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Analysis

The University of Oregon Index of Economic Indicators™ dropped 0.5 percent in September to 102.5 (1997=100), extending the August drop. Just two of the indicators that comprise the index—Oregon help-wanted advertising and new orders for core manufactured goods—improved in September. One indicator, national consumer confidence, remained unchanged from the previous month. The remaining five indicators—Oregon initial unemployment claims, Oregon nonfarm payrolls, Oregon weight-distance tax, Oregon residential building permits, and the interest rate spread—all deteriorated during September.

Labor market indicators were generally softer in September. Initial unemployment claims rose to the highest level since November 2006. Although the indicator remains consistent with continued job growth, the steady trend increase in claims since the beginning of 2006 suggests a deceleration in economic growth. Similarly, nonfarm payrolls slipped by 1,000 employees during September, just 0.8 percent higher than year-ago levels. Help-wanted advertising in Oregon newspapers increased modestly during the month. Labor market conditions are consistent with a soft but still growing economy.



Oregon residential buildings permits dropped sharply to their lowest level since September of 2000, extending the decline that began in the middle of 2006. The drop in permitting activity is likely the result of general tightening in the home mortgage market during the period of credit market turmoil in August and September. In sharp contrast to recent trends, the Oregon weight distance tax collected dropped sharply to a level last seen in October 2004. Normally, this would suggest a significant slowdown in trucking activity. Tax collections, however, may have been adversely affected by an unusually few number of working days, nineteen, in September. Nationally, inflation-adjusted orders for new nondefense nonaircraft capital goods rose, consistent with a softer, but not recessionary, economy. In contrast, the yield spread—the difference between short- and long-term interest rates—deteriorated again in September, as expectations rose for the Federal

Reserve to cut interest rates to offset potential weakness induced by intensifying weakness in national housing markets.

The UO Index suggests softer economic conditions during the near term (three to six months), consistent with expectations of considerable slowing of the national economy over the next two quarters. The index, however, may be registering excessive weakness in September due to an anomalous drop in weight distance tax collected. Compared to six months ago, the UO Index slid 1.4 percent (annualized), while the six-month diffusion index, a measure of the proportion of components that are rising, stood at 37.5 (in other words, more than 50 percent of the components 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

	2007					
	Apr.	May	Jun.	Jul.	Aug.	Sep.
University of Oregon Index of Economic Indicators™, 1997=100	103.4	103.3	103.0	103.5	103.0	102.5
Percentage Change	0.1	-0.2	-0.2	0.5	-0.5	-0.5
Diffusion Index	56.25	50.0	37.5	68.75	25.0	37.5
6-Month Percentage Change, Annualized	-0.5	-0.2	-0.6	-0.1	-0.3	-1.5
6-Month Diffusion Index	25.0	50.0	25.0	50.0	62.5	37.5



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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.

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.

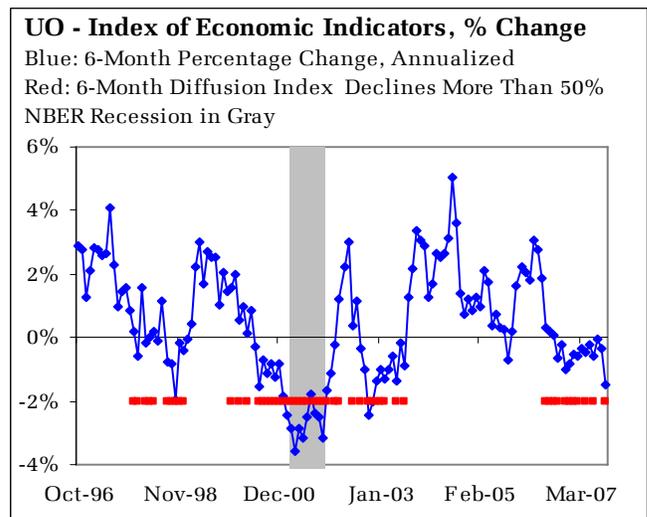
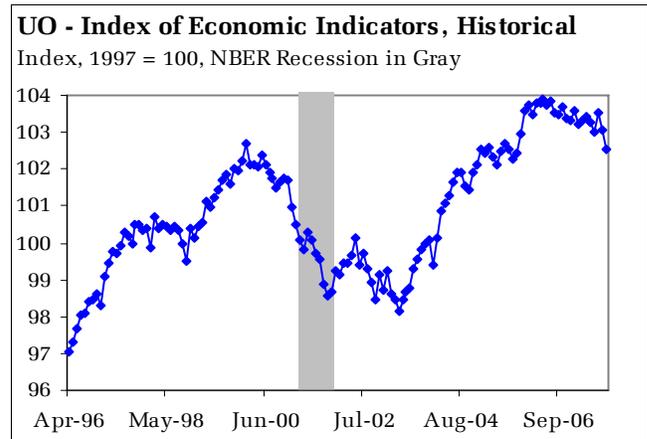


Table 2: Index Components

	2007					
	Apr.	May	Jun.	Jul.	Aug.	Sep.
Oregon Initial Unemployment Claims, SA *	6,330	6,310	6,428	6,174	6,545	6,873
Oregon Residential Building Permits, SA	1,612	1,966	1,483	1,890	1,675	1,345
Oregon Help-Wanted Advertising, SA	33,572	27,351	28,320	27,468	25,277	26,199
Oregon Weight Distance Tax, \$ Thousands, SA	22,211	20,776	20,224	21,974	23,012	18,479
Oregon Total Nonfarm Payrolls, Thousands, SA	1722.7	1725.8	1724.2	1725.3	1728.8	1727.8
Univ. of Michigan U.S. Consumer Confidence	87.1	88.3	85.3	90.4	83.4	83.4
Real Manufacturers’ New Orders for Nondefense, Nonaircraft Capital Goods, \$ Millions, SA	42,279	41,608	41,428	41,786	41,813	42,099
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	-0.56	-0.51	-0.15	-0.26	-0.35	-0.42

* 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.