

# UNIVERSITY OF OREGON INDEX OF ECONOMIC INDICATORS™

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forum

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## DECEMBER 2007

The University of Oregon Index of Economic Indicators™ rose 0.2 percent in December, to 102.6 (1997=100), with the majority of index components improving during the month. Revisions to the 2007 data have been made to account for annual adjustments to the standardization and seasonality factors. The most significant result of the revisions was a minimization of the sharp drop experienced last October. Despite the December gains, the behavior of the index in recent months remains consistent with a substantial risk of recession in the near future.

Oregon labor market data were generally softer in December. Nonfarm payroll growth slowed sharply, with Oregon firms adding just 900 employees, compared to the 10,300 added the previous two months. Likewise, help-wanted advertising in Oregon newspapers posted a small gain during the month. More concerning, however, is the continued rise in initial unemployment claims that pushed upward to a weekly average of 8,059—a rise in claims to this level preceded the 2001 recession.

A reversal of recent relative weakness in the job market would help the economy avoid recession.

Residential building permits were largely unchanged in December; the monthly average during the third quarter was 1,438 permits, down 27 percent and 45 percent from the fourth quarters of 2006 and 2005, respectively. Housing markets are likely to remain soft for the foreseeable future. Consumer confidence also largely stabilized in December following a significant decline that began last July. Oregon's weight-distance tax, a measure of trucking activity, gained in December, signaling underlying economic growth. Importantly, new orders for nondefense nonaircraft capital goods rebounded in December; the stability of this indicator is consistent with slow but not recessionary growth. The yield spread—the difference between short- and long term interest rates—narrowed sharply as the Federal Reserve continued to cut interest rates in December. In addition, policymakers cut rates another 1.25 percentage points in January. These substantial rate cuts should have a positive impact on economic growth by the end of 2008.

Recent economic indicators in general are mixed, with labor, housing, and confidence measures weak, while manufacturing and trucking activity are still solid. In total, this suggests sluggish economic activity with substantial risk of recession. Compared to six months ago, the UO Index slid 1.1 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.

**UO - Index of Economic Indicators**

Index, 1997 = 100

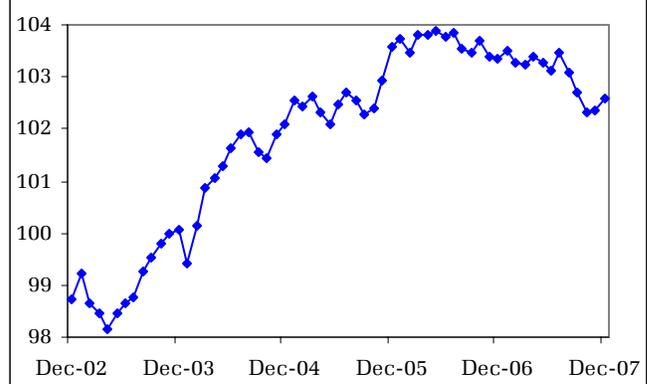


Table 1: Summary Measures

	2007					
	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
University of Oregon Index of Economic Indicators™, 1997=100	103.5	103.1	102.7	102.3	102.4	102.6
Percentage Change	0.3	-0.4	-0.4	-0.3	0.0	0.2
Diffusion Index	68.8	25.0	37.5	31.3	43.8	56.3
6-Month Percentage Change, Annualized	-0.1	-0.4	-1.1	-2.0	-1.7	-1.1
6-Month Diffusion Index	50	62.5	37.5	25	37.5	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](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.

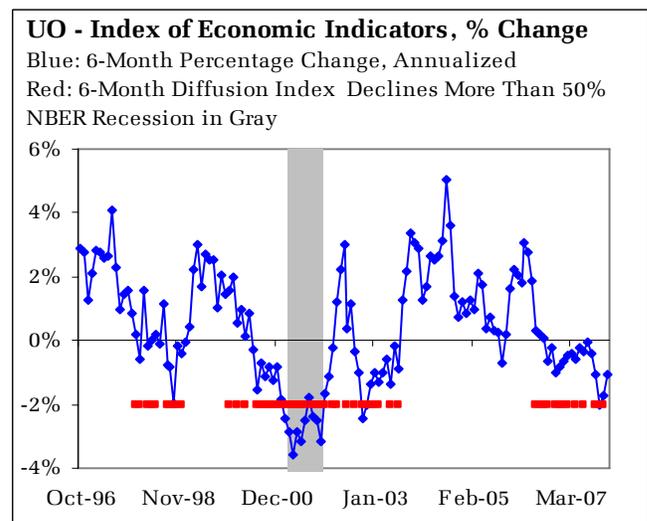
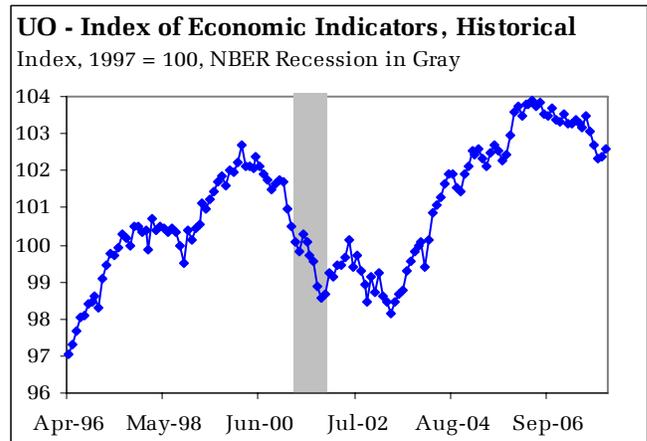


Table 2: Index Components

	2007					
	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
Oregon Initial Unemployment Claims, SA*	6,211	6,480	6,806	7,082	7,672	8,059
Oregon Residential Building Permits, SA	1,893	1,684	1,527	1,418	1,457	1,440
Oregon Help-Wanted Advertising, SA	26,920	25,583	25,756	21,032	23,851	24,262
Oregon Weight Distance Tax, \$ Thousands, SA	21,626	22,508	18,927	21,352	21,318	22,742
Oregon Total Nonfarm Payrolls, Thousands, SA	1725.3	1728.8	1727.2	1730.4	1737.9	1738.8
Univ. of Michigan U.S. Consumer Confidence	90.4	83.4	83.4	80.9	76.1	75.5
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, \$ Millions, SA	41,786	41,813	42,408	41,178	40,978	42,754
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	-0.26	-0.35	-0.42	-0.23	-0.34	-0.14

\* SA—seasonally adjusted

**Author**

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

*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.*