

# UNIVERSITY OF OREGON INDEX OF ECONOMIC INDICATORS™

oregon  
economic  
forum

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**FEBRUARY 2008**

## Analysis

The University of Oregon Index of Economic Indicators™ partially rebounded from January's sharp decline, rising 0.6 percent in February to 102.4 (1997=100). Despite a period of persistent weakness dating back to last August, the UO Index has failed to make a sustained drop into a range consistent with the 2001 recession. This indicates a period of slow economic activity with a significant chance of tipping into an actual recession. Confirmation of a recession requires a substantial worsening of the Oregon labor market in the months ahead.

Labor market data were mixed in February. Consistent with softer economic conditions, nonfarm payrolls declined during the month as firms shed a net 1,600 employees and year-over-year job growth has decelerated to 0.7 percent. On a more positive note, initial unemployment claims registered a decline after seven consecutive monthly increases. Further rises in initial claims from January

levels would signal a pace of job losses typical of recessions. During the 2001 recession, initial claims exceeded an average of 10,000 per week at one point. Oregon help-wanted advertising was effectively unchanged. Overall, labor market indicators suggest weak economic growth.

Residential building permits rebounded in February, rising to 1,850 units authorized. The January-February average of 1,431 permits is similar to the fourth quarter 2007 monthly average, suggesting that residential construction activity is stabilizing, albeit at relatively low levels. Housing markets, however, remain challenged by tighter credit conditions and falling prices. In contrast, consumer confidence fell sharply in February as softer job markets, higher inflation, and a weak housing market weighed on household finances. New orders for non-defense nonaircraft capital goods, an important indicator of business investment plans, declined in February. Still, recent behavior in the indicator remains more consistent with slow growth than recession. The yield spread—the difference between short- and long-term interest rates—rose

sharply to positive 76 basis points (a “basis point” is one hundredth of a percentage point), a consequence of an aggressive easing of monetary policy. This is the first positive yield spread since May 2006; it suggests improving economic conditions later this year.

Compared to six months ago, the UO Index slid 1.7 percent (annualized), while the six-month diffusion index, a measure of the proportion of components that are rising, stood at 31.3 (in other words, more than 50 percent of the components deteriorated over the past six months). As a general rule, a decline in the UO 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.

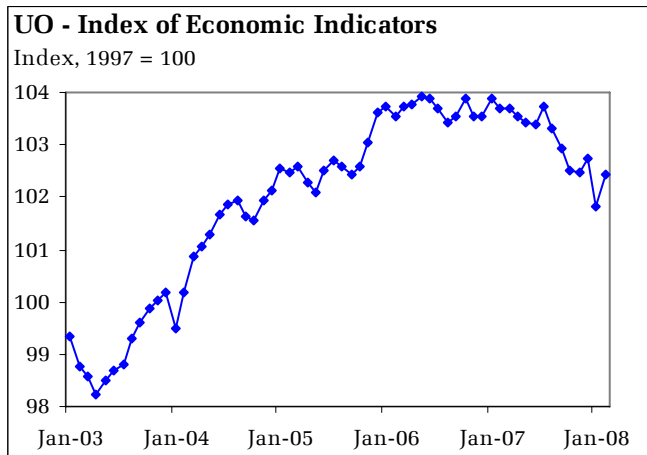


Table 1: Summary Measures

	2007				2008	
	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.
University of Oregon Index of Economic Indicators™, 1997=100	102.9	102.5	102.5	102.7	101.8	102.4
Percentage Change	-0.4	-0.4	0.0	0.2	-0.9	0.6
Diffusion Index	37.5	31.25	43.75	56.25	18.75	62.5
6-Month Percentage Change, Annualized	-1.4	-2.0	-1.9	-1.3	-3.7	-1.7
6-Month Diffusion Index	31.3	25.0	37.5	50.0	31.3	31.3



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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.

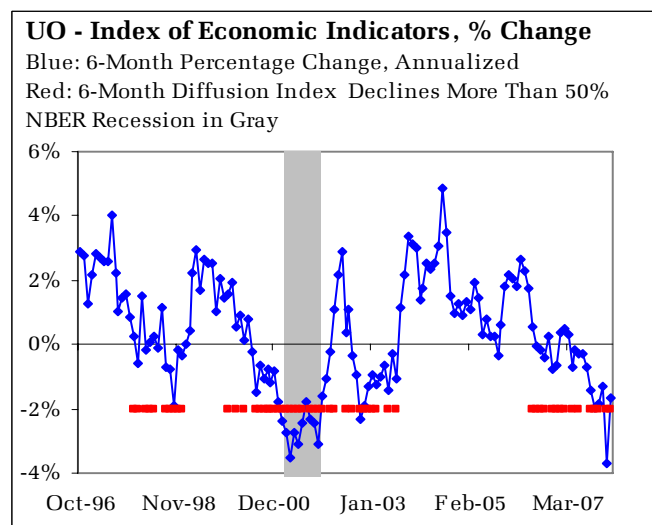
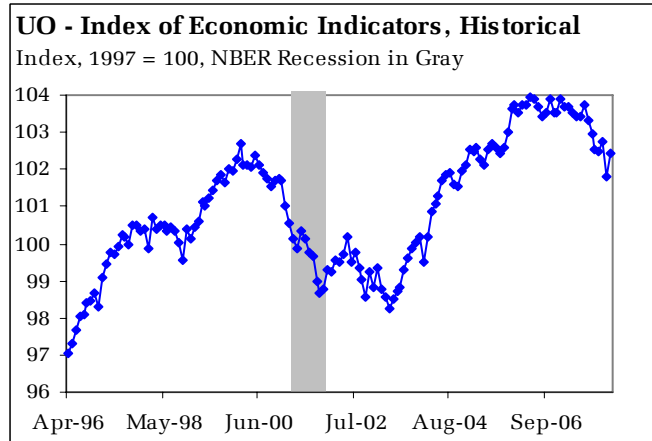


Table 2: Index Components

	2007				2008	
	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.
Oregon Initial Unemployment Claims, SA *	6,806	7,082	7,672	8,059	8,135	7,885
Oregon Residential Building Permits, SA	1,527	1,418	1,457	1,440	1,012	1,850
Oregon Help-Wanted Advertising, SA	25,756	21,032	23,851	24,262	19,309	19,354
Oregon Weight Distance Tax, \$ Thousands, SA	18,927	21,352	21,318	22,742	18,101	20,504
Oregon Total Nonfarm Payrolls, Thousands, SA	1734.5	1735.1	1739.3	1740.6	1741.0	1739.6
Univ. of Michigan U.S. Consumer Confidence	83.4	80.9	76.1	75.5	78.4	70.8
Real Manufacturers’ New Orders for Nondefense, Nonaircraft Capital Goods, \$ Millions, SA	42,436	41,150	41,004	43,092	42,137	40,809
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	-0.42	-0.23	-0.34	-0.14	-0.20	0.76

\* SA—seasonally adjusted

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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.