

# UNIVERSITY OF OREGON INDEX OF ECONOMIC INDICATORS™

oregon  
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forum

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**JUNE 2008**

## Analysis

The University of Oregon Index of Economic Indicators™ rose in June, gaining 0.4 percent to 101.01 (1997=100). Only one indicator, U.S. consumer confidence, deteriorated; remaining indicators either held stable or improved. Still, compared to six months ago, the index has declined 3.2 percent on an annualized basis, consistent with at least a mild recession.

On average, Oregon's labor market improved in June following weak data in May. Notably, nonfarm payrolls rose 1,600, the first increase after three consecutive declines. This improvement, however, followed a large downward revision of the May data, from an initially reported job loss of 3,700 to a loss of 6,100. Growth in nonfarm payrolls stands at just 0.2 percent compared to June 2007, with a net job loss of 7,500 over the past four months. Initial unemployment claims continued to hold steady around the 8,000 mark, similar

to levels reached at the beginning of the 2001 recession. And, on a positive note, help-wanted advertising in Oregon newspapers rose, largely offsetting a sharp decline in May.

Residential building permits gained for a second consecutive month, but remain 35.3 percent and 62.9 percent below June 2007 and June 2006 levels, respectively. While housing markets are expected to remain weak compared to the heightened activity of recent years, permits have fluctuated around an average of 917 units over the past four months, suggesting stabilization, albeit at relatively low levels. The Oregon weight-distance tax collected, a measure of trucking activity, rose in June for the second consecutive month, although the trend remains somewhat softer compared to the first half of 2007. New orders for nondefense nonaircraft capital goods, an important indicator of business investment plans, rose in June. Compared to last June, orders are up 4.1 percent; such an increase is not consistent with a typical recession and reflects, in part, steady export growth. The yield spread—the difference between short-

and long-term interest rates—rose again to 210 basis points (a “basis point” is 1/100 of a percentage point), indicating a stimulative monetary policy environment.

Generally persistent weakness in a wide range of indicators over the past six months is consistent with a mild recession. Still, the stimulative monetary conditions, combined with federal tax rebates and gains in core manufacturing orders, are all suggestive of stabilizing economic conditions over the second half of 2008. Labor market conditions, however, are likely to remain challenged by ongoing restructuring away from those industries and sectors most closely tied to the bubble-induced growth in housing during the 2003–6 period.

**UO - Index of Economic Indicators**

Index, 1997 = 100

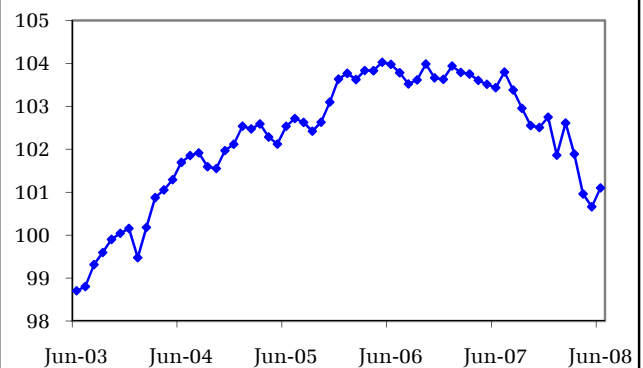


Table 1: Summary Measures

	2008					
	Jan.	Feb.	Mar.	Apr.	May	Jun.
University of Oregon Index of Economic Indicators™, 1997=100	101.9	102.6	101.9	101.0	100.7	101.1
Percentage Change	-0.9	0.7	-0.7	-0.9	-0.3	0.4
Diffusion Index	18.75	62.5	31.25	43.75	56.25	75.0
6-Month Percentage Change, Annualized	-3.7	-1.5	-2.1	-3.1	-3.6	-3.2
6-Month Diffusion Index	31.3	43.8	31.3	31.3	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.

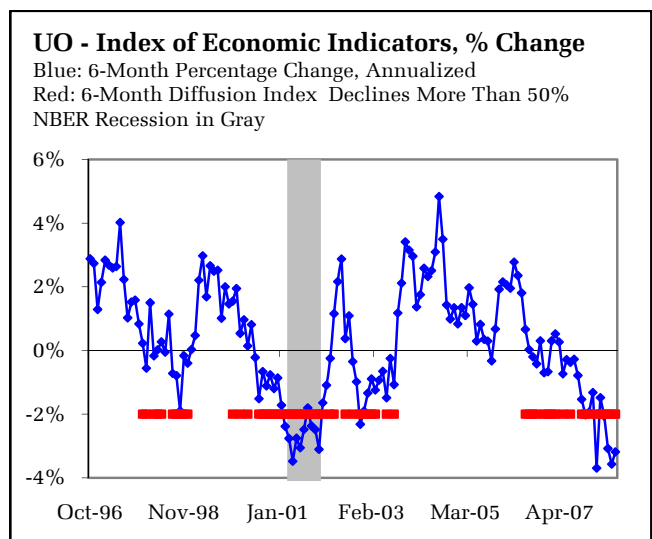
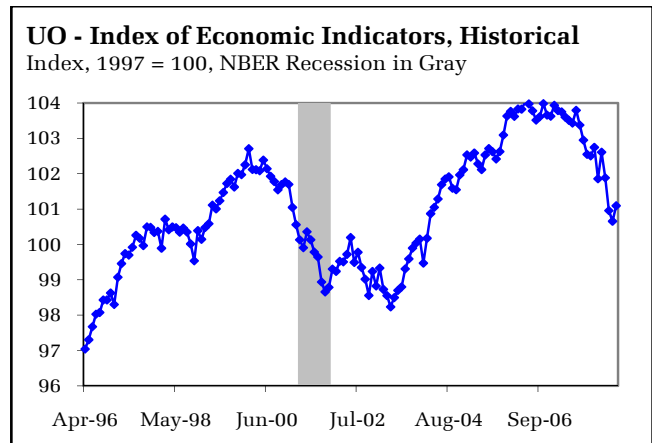


Table 2: Index Components

	2008					
	Jan.	Feb.	Mar.	Apr.	May	Jun.
Oregon Initial Unemployment Claims, SA *	8,135	7,885	8,076	8,005	7,993	8,032
Oregon Residential Building Permits, SA	1,012	1,850	975	807	908	977
Oregon Help-Wanted Advertising, SA	19,309	19,354	17,368	11,955	9,487	11,385
Oregon Weight Distance Tax, \$ Thousands, SA	18,101	20,504	21,641	18,649	20,089	21,600
Oregon Total Nonfarm Payrolls, Thousands, SA	1741.0	1741.9	1739.2	1738.9	1732.8	1734.4
Univ. of Michigan U.S. Consumer Confidence	78.4	70.8	69.5	62.6	59.8	56.4
Real Manufacturers’ New Orders for Nondefense, Nonaircraft Capital Goods, \$ Millions, SA	42,688	42,096	41,621	42,737	42,654	43,122
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	-0.20	0.76	0.90	1.40	1.90	2.10

\* 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.*