

UNIVERSITY OF OREGON INDEX OF ECONOMIC INDICATORS™

oregon
economic
forum

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MAY 2008

Analysis

The University of Oregon Index of Economic Indicators™ again extended its decline in May, falling 0.3 percent to 100.7 (1997=100). Only three indicators—the interest rate spread, the Oregon weight-distance tax, and Oregon building permits—improved. Remaining indicators held roughly steady or deteriorated. Compared to six months ago, the index declined at an annualized 3.5 percent rate, the fourth decline greater than 2 percent in the past five months. Such persistent weakness is consistent with at least a mild recession.

Oregon's economy shed jobs for the third consecutive month in May as nonfarm payrolls fell by 3,700, pulling job growth down to just 0.3 percent compared to May 2007. The three-month job loss total now stands at 6,700; consistent with incoming housing data, construction is the hardest hit sector, suffering from a decline of 9,400 jobs since last July. Initial unemployment claims continue to hover around a weekly average of

8,000, indicating continuing weakness in labor markets, while Oregon help-wanted advertising continues to decline.

Residential building permits edged upward for the month to 908 units authorized (seasonal adjusted), but are down 52 percent compared to April 2007. Recent increases in mortgage rates, combined with tighter underwriting conditions, argue for sustained weakness in residential housing for the foreseeable future. Ongoing declines in consumer confidence indicate that households continue to suffer from the weight of higher food and energy costs and a weaker job market. Still, the fiscal stimulus via federal tax rebates is expected to support consumer spending this summer and into the fall. The Oregon weight-distance tax collected, a measure of trucking activity, rose in May, but the trend is turning weaker; for the first five months of the year, revenues are down 4.1 percent compared to the same period last year. New orders for nondefense nonaircraft capital goods, an important indicator of business investment plans, fell in May. This sector remains resilient compared to previous economic downturns, reflecting stronger export growth supported by

the weaker dollar. The yield spread—the difference between short- and long-term interest rates—rose again to 190 basis points (a “basis point” is 1/100 of a percentage point) indicating a stimulative monetary policy environment. The Federal Reserve ended its easing campaign, leaving the federal funds rate unchanged at 2 percent at the conclusion of its June meeting.

The three consecutive months of declining nonfarm payrolls, in combination with a general persistent weakness among most indicators, suggests that Oregon tipped into recession territory in March. While monetary and fiscal policy are supportive of firming economic activity by the end of this year, labor markets could remain weak for a protracted time, similar to the 2001–3 period.

UO - Index of Economic Indicators

Index, 1997 = 100

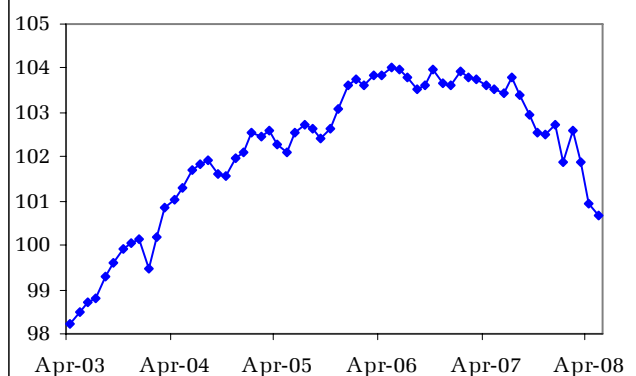


Table 1: Summary Measures

	2007	2008				
	Dec.	Jan.	Feb.	Mar.	Apr.	May
University of Oregon Index of Economic Indicators™, 1997=100	102.7	101.9	102.6	101.9	101.0	100.7
Percentage Change	0.2	-0.9	0.7	-0.7	-0.9	-0.3
Diffusion Index	56.25	18.75	62.5	31.25	43.75	50.0
6-Month Percentage Change, Annualized	-1.3	-3.7	-1.5	-2.1	-3.1	-3.5
6-Month Diffusion Index	50.0	31.3	43.8	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.

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.

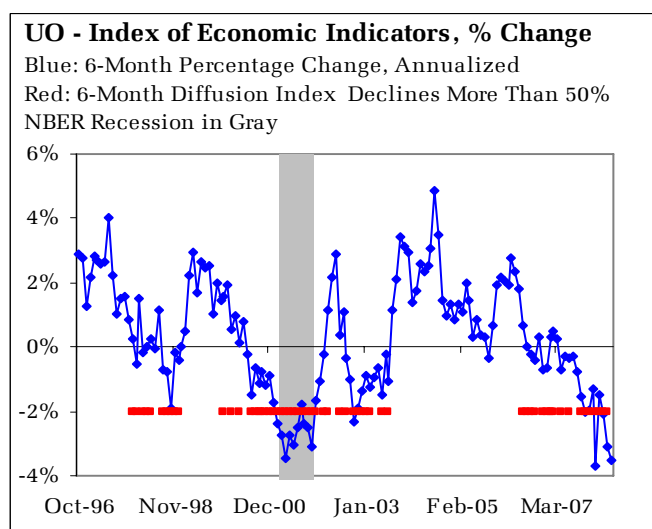
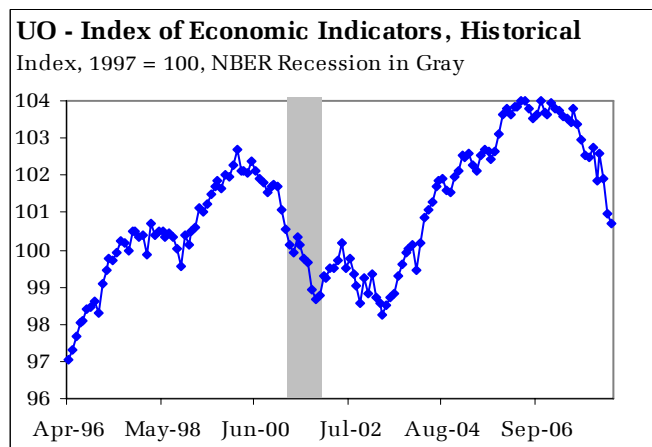


Table 2: Index Components

	2007	2008				
	Dec.	Jan.	Feb.	Mar.	Apr.	May
Oregon Initial Unemployment Claims, SA *	8,059	8,135	7,885	8,076	8,005	7,993
Oregon Residential Building Permits, SA	1,440	1,012	1,850	975	807	908
Oregon Help-Wanted Advertising, SA	24,262	19,309	19,354	17,368	11,955	9,487
Oregon Weight Distance Tax, \$ Thousands, SA	22,742	18,101	20,504	21,641	18,649	20,089
Oregon Total Nonfarm Payrolls, Thousands, SA	1740.6	1741.0	1741.9	1739.2	1738.9	1735.2
Univ. of Michigan U.S. Consumer Confidence	75.5	78.4	70.8	69.5	62.6	59.6
Real Manufacturers’ New Orders for Nondefense, Nonaircraft Capital Goods, \$ Millions, SA	43,245	42,688	42,096	41,621	42,746	42,363
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	-0.14	-0.20	0.76	0.9	1.4	1.9

* 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.