

*A project of the College of Arts and Sciences and the Department of Economics*

## SEPTEMBER 2004

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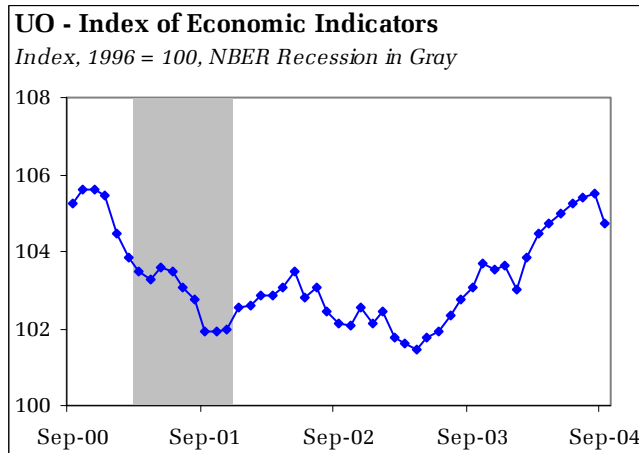
### Analysis

The University of Oregon Index of Economic Indicators fell in September from August's revised reading of 105.4. Six of the eight components of the index declined in September.

September marks the first monthly decline since January. The decline, however, is not sufficient to declare a break in the uptrend that began in May 2003. Due to month-to-month volatility of components, a more reliable indicator of economic health is obtained from six-month changes in the index. On that basis, the UO Index stands 0.5

percent (annualized) higher. The diffusion index, a measure of the proportion of components that are rising, fell to 25.3 percent.

Despite September's weakness, the behavior of the index remains consistent with continued but moderate economic growth.



### Methodology and Notes

The methodology employed in creating the UO Index of Economic Indicators is identical to that used by The Conference Board, an independent, nonprofit research organization, in the computation of the U.S. Leading Index. For information, see [www.globalindicators.org](http://www.globalindicators.org).

Table 1: Summary Measures

	2004					
	April	May	June	July	August	Sept.
Oregon Index of Leading Indicators, 1996=100	104.7	105.0	105.3	105.4	105.5	104.7
Percentage Change	0.2	0.3	0.2	0.1	0.1	-0.7
Diffusion Index	37.5	38.8	63.1	51.3	26.3	25.6
6-month Percentage Change, Annualized	2.0	2.9	3.2	4.7	3.2	0.5
6-Month Diffusion Index	75.0	62.5	75.6	87.5	75.0	25.3



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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. No other recessions were signaled during the period for which data are available (beginning February 1995).

The general rule, however, should be used judiciously. The available data encompasses only one recession, which is 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 for 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.

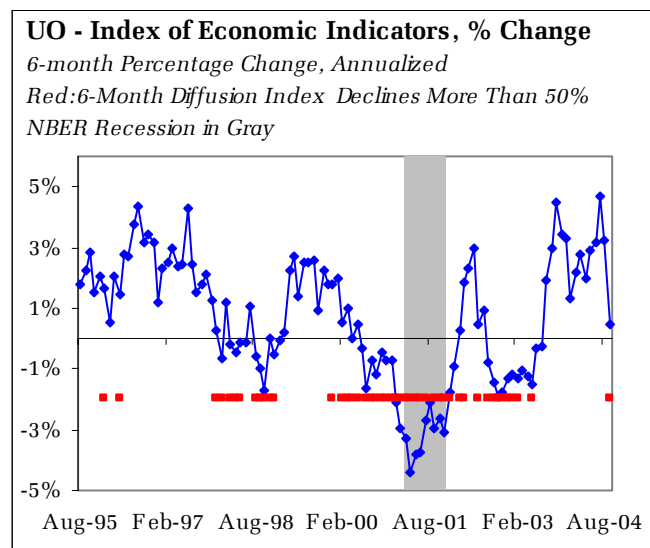
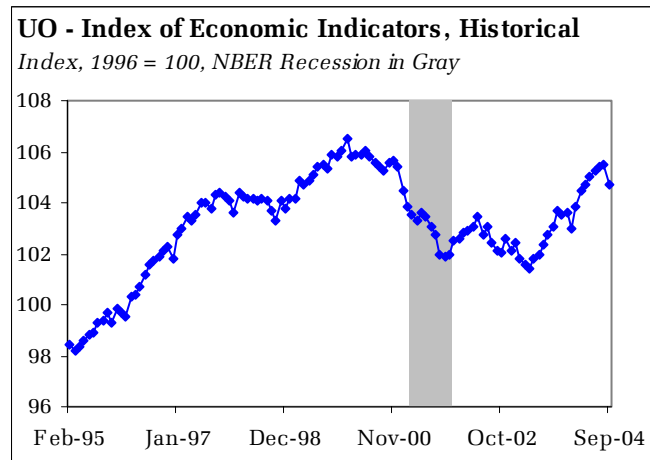


Table 2: Index Components

	2004					
	April	May	June	July	August	Sept.
Oregon Initial Unemployment Claims, SA*	7,294.0	7,499.8	7,420.2	7,265.5	7,328.9	6,960.6
Oregon Residential Building Permits, SA	2,183.5	2,322.1	2,650.8	3,053.2	2,904.2	1,977.4
The Oregonian Help Wanted Ads, SA	20,106.1	22,613.6	17,380.7	18,702.0	20,988.2	18,871.6
Oregon Weight Mile Tax, \$ Thousands, SA	18,162.5	18,235.6	20,585.8	19,033.1	22,751.5	19,496.2
Oregon Total Nonfarm Payrolls, Thousands, SA	1,584.7	1,590.7	1,597.6	1,599.6	1,599.8	1,595.5
Univ. of Michigan US Consumer Confidence	94.2	90.2	95.6	96.7	95.9	94.2
Real Manufacturer's New Orders for Non-Defense, Non-Aircraft Capital Goods, \$ Thousands, SA	43,507.5	42,528.7	43,067.1	43,275.9	43,455.5	44,409.6
Interest Rate Spread, 10-year Treasury Bonds less Federal Funds Rate	3.35	3.72	3.70	3.24	2.85	2.52

The goal of the UO Index of Economic Indicators is to create a summary measure of various data that pertains to the Oregon Economy.



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