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MAY 2009

Analysis

The University of Oregon Index of Economic Indicators™ fell 0.1 percentage points in May to 85.0 (1997=100). The relative stability in the UO Index over the past three months is consistent with a pattern of economic stabilization, but falls short of a turn that would conclusively mark the end of the recession.

Oregon labor market data continue to be mixed. Initial jobless claims edged downward slightly, but remain at a level that suggests further declines in nonfarm payrolls. Still, initial claims remain well below the peak of December as the pace of economic deterioration has slowed markedly. Employment services payroll—largely temporary-help agencies—fell in May, but, importantly, the rate of decline is slowing. Nonfarm payrolls (not included in the index) fell by just 100 jobs during May, an abrupt slowing compared to the recent declines. It is difficult to see a substantial improvement in the jobs picture, however, with initial claims remaining at high levels. The unemploy-

ment rate, a lagging indicator, rose to 12.4 percent.

Residential housing permits (smoothed) continued to decline, falling to just 627. The typical seasonal boost in building activity is largely absent, a testament to persistent weakness in the housing market; builders are finding it difficult to compete in an environment of rising foreclosures and tighter underwriting conditions for home mortgages. The Oregon weight-distance tax reversed gains seen the previous month. In contrast, new orders for nondefense nonaircraft capital goods, adjusted for inflation, rose in May to the highest level since December 2008. Despite the low levels, the relative stability since the beginning of the year is a hopeful sign that the worst declines in business spending are behind us. U.S. consumer confidence (smoothed) rose again in May, a further indication that consumer spending has stabilized. The yield spread—the difference between short- and long-term interest rates—continued to improve; traditionally, this indicates improving economic conditions in the months ahead.

The Oregon economy likely remained in recession in May. That

said, the pace of deterioration has slowed; the six-month annualized change in the index improved significantly over the past two months, from -11.8 percent in March to -8.0 percent in May. Similar improvement signaled an impending end to the 2001 recession, and would be consistent with the prediction that economic growth would firm in the second half of 2009. Still, caution is warranted. The UO Index has not yet turned upward, and six-month change remains well below rates normally consistent with economic expansions, and more than half of the index components remain below six-month-ago levels. Finally, there is a strong possibility of a “jobless recovery” as the economy continues to face structural adjustment issues that limit the pace of growth.

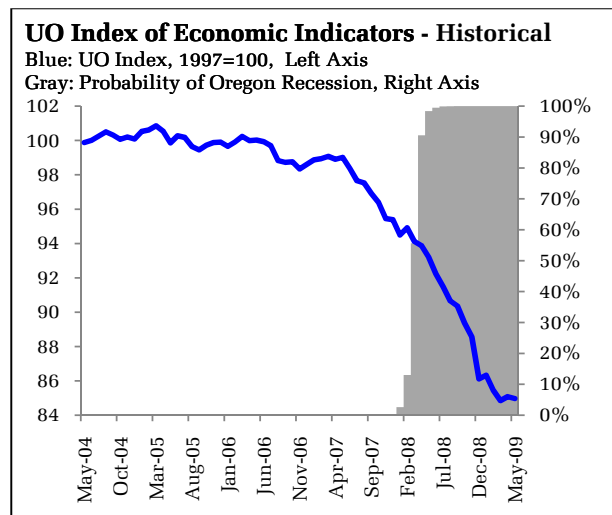


Table 1: Summary Measures

	2008	2009				
	Dec.	Jan.	Feb.	Mar.	Apr.	May
University of Oregon Index of Economic Indicators™, 1997=100	86.1	86.3	85.5	84.8	85.1	85.0
Percentage Change	-2.8	0.2	-1.0	-0.7	0.3	-0.1
Diffusion Index	7.1	64.3	28.6	28.6	57.1	57.1
6-Month Percentage Change, Annualized	-12.8	-11.0	-11.1	-11.8	-9.4	-8.0
6-Month Diffusion Index	14.3	14.3	14.3	14.3	0.0	21.4



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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 a leading indicator as the economy transitions from expansion to recession. Steep declines in the UO Index are recorded during periods of economic stress, signaling diminishing prospects for growth. Rising values of the UO Index tend to coincide with the end of a recession. As a general rule, a decline in the index of greater than 2.5 percent (annualized) over six months, coupled with a decline in more than half of its components, signals that a recession is likely imminent. Using the rule, the index signaled an impending recession in October 2000; a business cycle dating procedure developed by Jeremy Piger, a University of Oregon associate professor, indicates Oregon entered recession in November of 2000. Similarly, the UO Index suffered a sharp drop as Oregon reentered recession in 2003.

The general rule, however, should be used judiciously. Using the rule the UO Index indicated recession for a single month in 1998 during the Asian financial crisis. More recently, the UO Index sent recessionary warnings in the middle of 2006, well before Oregon actually slipped into recession in April 2008. 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.

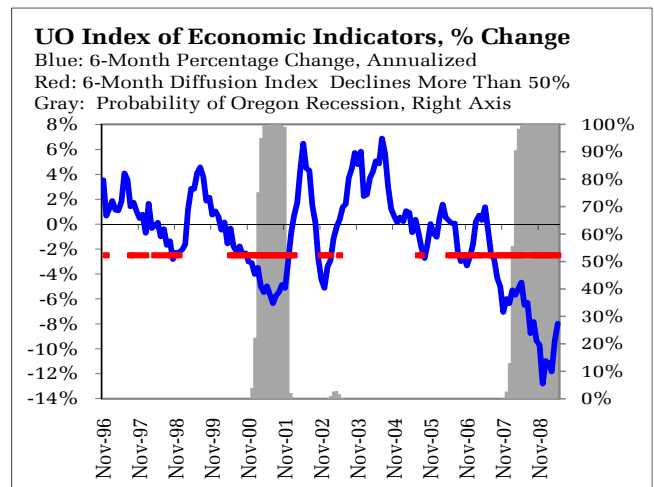
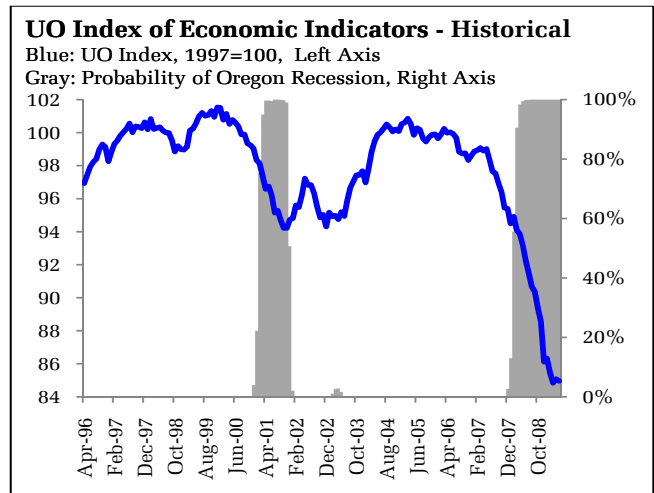


Table 2: Index Components

	2008	2009				
	Dec.	Jan.	Feb.	Mar.	Apr.	May
Oregon Initial Unemployment Claims, SA*	15,504	13,865	14,679	13,820	12,564	12,308
Oregon Employment Services Payrolls, SA	28,959	29,833	28,809	27,870	27,134	26,836
Oregon Residential Building Permits, SA, 5 MMA*	872	947	918	836	766	672
Oregon Weight Distance Tax, \$ Thousands, SA, 3 MMA	18,661	18,387	17,747	17,424	18,285	17,441
Univ. of Michigan U.S. Consumer Confidence, 5 MMA	61.3	60.9	58.1	58.0	60.0	61.7
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, \$ Millions, SA	35,485	30,978	32,242	31,840	30,935	32,456
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	2.26	2.37	2.65	2.64	2.78	3.11

* SA-seasonally adjusted; MMA-month moving average

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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.