

# UNIVERSITY OF OREGON INDEX OF ECONOMIC INDICATORS™

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forum

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## Analysis

The University of Oregon Index of Economic Indicators™ fell again in November to 89.6 (1997=100), a 0.5 percent decline from the previous month. Compared to six months ago, the UO Index is down 7.9 percent (annualized). Deteriorating labor market conditions, as measured by initial jobless claims and payrolls at employment service agencies, drove index weakness during November. Remaining indicators were either unchanged or improved slightly. Overall, the UO Index indicates that Oregon remains in recession.

The recession continues to weigh heavily on Oregon labor markets. Initial jobless claims spiked higher in November to a weekly average of almost 14,000, well above the peak of 10,245 reached during the 2001 recession. Payrolls at employment services firms (largely temporary help agencies) fell for the fourth consecutive month and are down 8.6 percent compared to year-ago levels. Total nonfarm

payrolls (not included in the UO Index) indicate that firms shed 6,300 employees in November and 34,900 employees since February of 2008. The Oregon unemployment rate climbed to 8.1 percent, the highest since September 2003. The depth of the downturn in the Oregon labor market will almost certainly exceed that of the 2001 recession.

For the fifth consecutive month, residential building permits (smoothed) remain near a monthly level of 1,000. Recent stabilization in this indicator is a hopeful sign that new residential construction activity has bottomed. Still, permit activity remains very low, housing markets deteriorated further in November, and there is little to indicate that an upturn is near. New orders for non-defense nonaircraft capital goods, adjusted for inflation, rose in November, partially offsetting weakness the previous month. This indicator, however, can be volatile, and ongoing manufacturing weakness suggests declines will resume in the months ahead. U.S. consumer confidence (smoothed) held steady, as lower energy costs are insufficient to offset the impact of rising joblessness. The yield spread—the difference between short- and long-term interest rates—rose, which is

normally a signal of improving economic conditions. The financial crisis, however, appears to be limiting the effectiveness of this indicator. Note that the Federal Reserve has cut its target interest rate to a range of 0 to 0.25 percent. There is no room left for additional easing through this policy channel.

Economic conditions are likely to deteriorate through the first half of 2009; anticipated fiscal stimulus should help support growth in the second half of the year. Still, lacking a housing bubble to propel growth, the rebound—similar to the labor market weakness during the period of 2001–3—may be too tepid to support job growth.

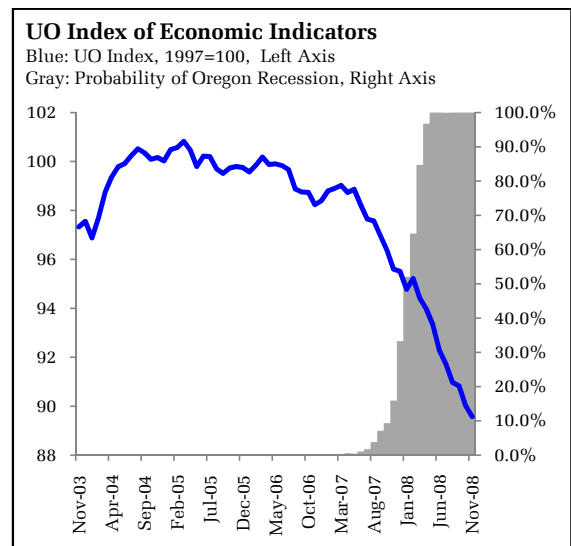


Table 1: Summary Measures

	2008					
	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
University of Oregon Index of Economic Indicators™, 1997=100	92.3	91.7	91.0	90.8	90.0	89.6
Percentage Change	-1.1	-0.6	-0.8	-0.2	-0.9	-0.5
Diffusion Index	42.9	35.7	14.3	42.9	21.4	57.1
6-Month Percentage Change, Annualized	-6.7	-6.3	-8.7	-7.4	-8.2	-7.9
6-Month Diffusion Index	28.6	50.0	35.7	28.6	14.3	14.3



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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 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.

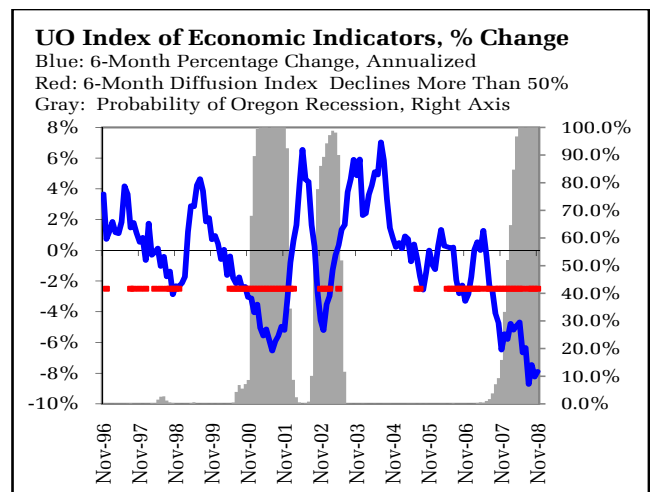
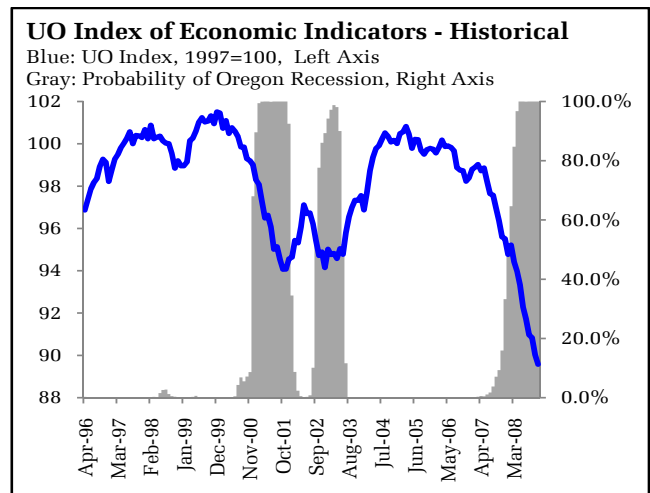


Table 2: Index Components

	2008					
	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
Oregon Initial Unemployment Claims, SA *	8,088	8,166	8,833	9,641	10,805	13,929
Oregon Employment Services Payrolls, SA	39,027	39,059	38,868	38,492	37,556	36,480
Oregon Residential Building Permits, SA, 5 MMA *	1,103	1,002	994	1,000	989	985
Oregon Weight Distance Tax, \$ Thousands, SA, 3 MMA	20,113	21,086	20,791	20,967	19,416	20,005
Univ. of Michigan U.S. Consumer Confidence, 5 MMA	63.8	61.9	60.6	62.1	61.7	61.5
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, \$ Millions, SA	43,155	42,968	41,925	40,301	37,464	39,204
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	2.10	2.00	1.89	1.88	2.84	3.14

\* SA—seasonally adjusted; MMA—month moving average

**Author**

Timothy A. Duy  
 Director, Oregon Economic Forum  
 Department of Economics  
 University of Oregon

*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.*