

UNIVERSITY OF OREGON INDEX OF ECONOMIC INDICATORS™

oregon
economic
forum

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Analysis

The University of Oregon Index of Economic Indicators™ extended its decline in April, falling 0.9 percent to 101.0 (1997=100). Only two indicators—the interest rate spread and core manufacturing orders—improved. Remaining indicators held roughly steady or deteriorated. Compared to six months ago, the index declined at an annualized 3.1 percent rate, the third decline greater than 2 percent in the past four months. Such persistent weakness is consistent with at least a mild recession.

Labor markets softened further in April. Notably, firms shed 1,600 employees in April, extending March's 2,700 decline. The last time the Oregon economy lost jobs for two or more consecutive months was April 2003, at the end of the period of weakness following the 2001 recession. Moreover, initial unemployment claims continue to hover around a weekly average of 8,000, indicating continuing weakness in labor markets. Oregon help-wanted advertising fell significantly, partially

reflecting a shift to internet job postings. Still, falling newspaper advertising coincides with the decline in job growth since 2006, indicating it still tracks the business cycle.

Housing markets continued to weigh on economic activity, with residential building permits falling to just 807 units authorized (seasonal adjusted), down 53 percent from 1,702 in April 2007. In comparison, the monthly average in 2005 was 2,605 permits. The sharp decline in building activity clearly indicates that Oregon is not immune to national trends, and it suggests further job losses in the construction industry in the months ahead. Moreover, declining home prices in many parts of the state will place downward pressure on consumer spending as households become deprived of home equity as a source of spending power.

Consumer confidence fell sharply in April, indicating the potential for further sharp declines in consumer spending. Rising inflation expectations contributed to the decline, underscoring the impact of higher food and energy prices on household budgets. New orders for nondefense nonaircraft capital goods, an important indicator of business investment

plans, rose in April. Strength in orders for these core manufactured goods, partially reflecting export growth, is supporting manufacturing activity and helping to minimize job losses in that sector. The yield spread—the difference between short- and long-term interest rates—rose again to 140 basis points (a “basis point” is 1/100th of a percentage point) indicating a stimulative monetary policy environment.

The two consecutive months of declining nonfarm payrolls, if not soon reversed, suggest that Oregon tipped into recession territory in March. If the economy is in recession, we would expect to see additional job declines in the months ahead. While monetary and fiscal policy is supportive of firming economic activity by the end of this year, labor markets could remain weak for a protracted period, similar to 2001–3.

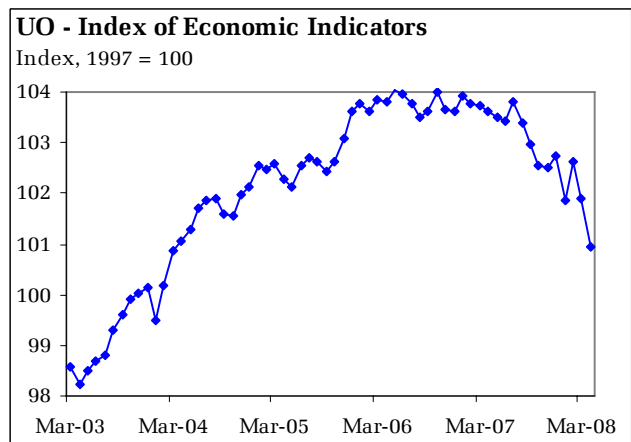


Table 1: Summary Measures

	2007		2008			
	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.
University of Oregon Index of Economic Indicators™, 1997=100	102.5	102.7	101.9	102.6	101.9	101.0
Percentage Change	0.0	0.2	-0.9	0.7	-0.7	-0.9
Diffusion Index	31.25	43.75	56.25	18.75	62.5	37.5
6-Month Percentage Change, Annualized	-1.9	-1.3	-3.7	-1.5	-2.1	-3.1
6-Month Diffusion Index	37.5	50.0	31.3	43.8	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.

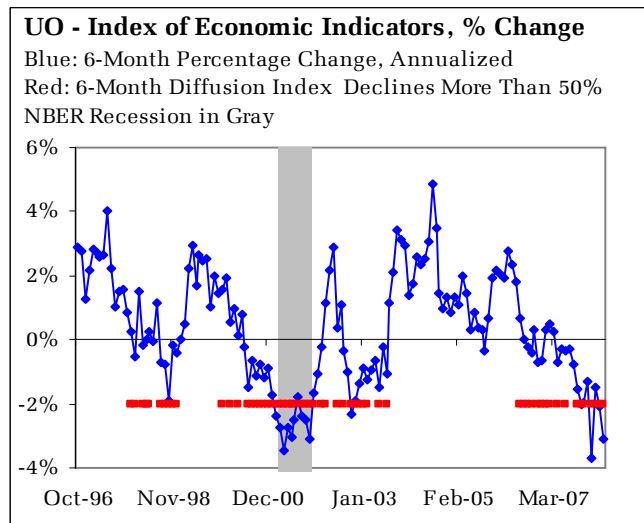
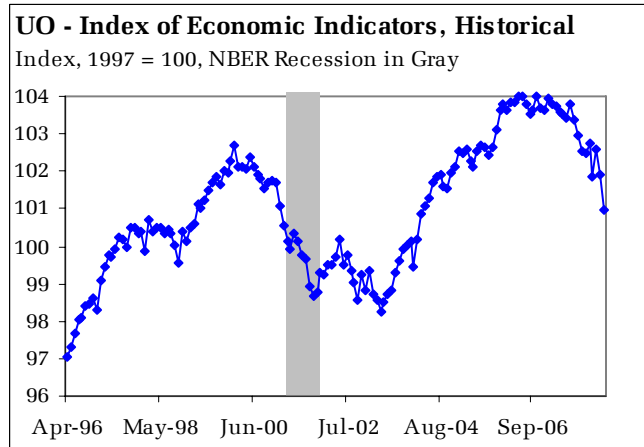


Table 2: Index Components

	2007		2008			
	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.
Oregon Initial Unemployment Claims, SA*	7,672	8,059	8,135	7,885	8,076	8,005
Oregon Residential Building Permits, SA	1,457	1,440	1,012	1,850	975	807
Oregon Help-Wanted Advertising, SA	23,851	24,262	19,309	19,354	17,368	11,955
Oregon Weight Distance Tax, \$ Thousands, SA	21,318	22,742	18,101	20,504	21,641	18,649
Oregon Total Nonfarm Payrolls, Thousands, SA	1739.3	1740.6	1741.0	1741.9	1739.2	1737.6
Univ. of Michigan U.S. Consumer Confidence	76.1	75.5	78.4	70.8	69.5	62.6
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, \$ Millions, SA	41,349	43,245	42,716	42,096	41,626	43,202
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	-0.34	-0.14	-0.20	0.76	0.90	1.40

* 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.