UNIVERSITY OF OREGON INDEX OF ECONOMIC INDICATORS™

oregon economic forum

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

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APRIL 2009

Analysis

The University of Oregon Index of Economic Indicators™ rose 0.3 percentage points in April to 85.1 (1997=100). The slight gain was driven by improvements in four indicators—Oregon initial unemployment claims, the Oregon weight-distance tax, U.S. consumer confidence, and the interest rate spread. Remaining indicators deteriorated during the month, and all indicators are down compared to six months ago. While the increase is welcome, most indicators remain at levels consistent with ongoing recession in Oregon.

Similar to March 2009, Oregon labor market data were mixed. Initial jobless claims continued to decline as the pace of economic deterioration eases, and now stand at their lowest level since last October. While the trend is improving, the level of claims suggests that overall nonfarm payrolls will decline further. Indeed, employment services payrolls—largely temporary-help agencies—remain in decline, down 29.7 percent from the same month last year. Overall, nonfarm payrolls (not included in the index) fell by 9,500 jobs during April, while the unemployment rate rose to 12.0 percent, second highest in the nation.

Residential housing permits (smoothed) fell again to just 766 permits. The hoped-for stabilization in housing markets remains elusive; price declines have not been sufficient to compensate for tighter underwriting and an increased pace of foreclosure activity. The recent rebound in mortgage rates also threatens to slow the path to recovery. The Oregon weight- distance tax improved, suggesting that trucking activity stabilized during the month. In contrast, new orders for nondefense nonaircraft capital goods, adjusted for inflation, fell in April, indicating that spending on new investment remains anemic. U.S. consumer confidence (smoothed) rose in April, consistent with an end to the rapid decline in spending experienced last year. The yield spread—the difference between short- and long-term interest rates—improved; traditionally, this indicates improving economic conditions in the months ahead.

Persistent weakness in the UO Index indicates the Oregon economy is likely to remain in recession for the foreseeable future (three to six months). The pace of the deterioration appears to have lessened in April, with a six-month annualized decline of 9.4 percent compared to 11.8 percent for the previous month. The improvement is welcome, but falls short of a conclusive bottom, and there remains no indication the job market will improve significantly this year.

UO Index of Economic Indicators - Historical
Blue: UO Index, 1997=100, Left Axis
Gray: Probability of Oregon Recession, Right Axis

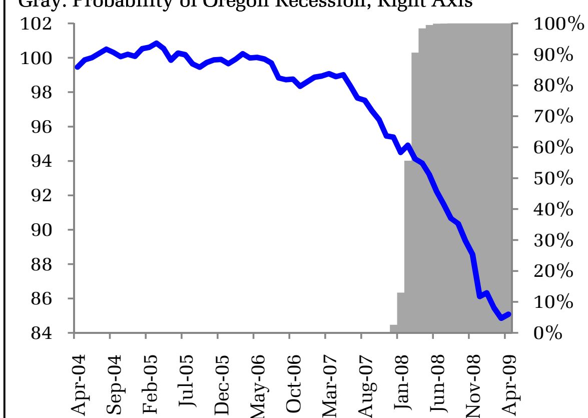

Table 1: Summary Measures

	2008		2009			
	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.
University of Oregon Index of Economic Indicators™, 1997=100	88.6	86.1	86.3	85.5	84.8	85.1
Percentage Change	-0.9	-2.8	0.2	-1.0	-0.7	0.3
Diffusion Index	50.0	7.1	64.3	28.6	28.6	57.1
6-Month Percentage Change, Annualized	-9.7	-12.8	-11.0	-11.1	-11.8	-9.4
6-Month Diffusion Index	14.3	14.3	14.3	14.3	14.3	0.0

COLLEGE OF ARTS AND SCIENCES
University of Oregon

Released: June 8, 2009.

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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.

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Blue: UO Index, 1997=100, Left Axis
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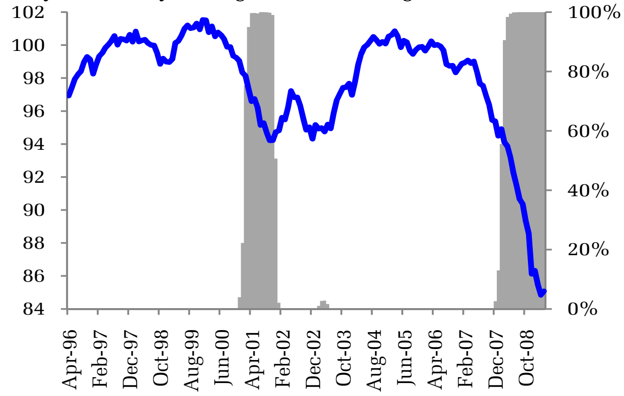

UO Index of Economic Indicators, % Change
Blue: 6-Month Percentage Change, Annualized
Red: 6-Month Diffusion Index Declines More Than 50%
Gray: Probability of Oregon Recession, Right Axis

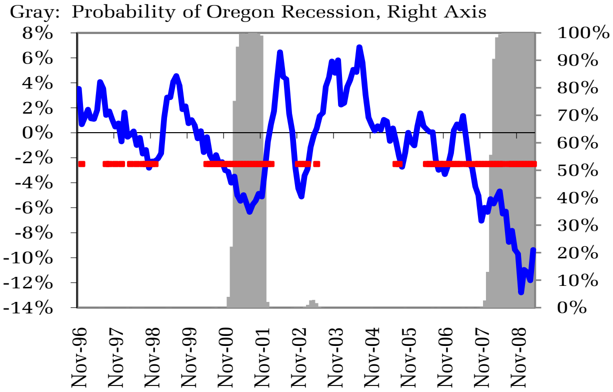

Table 2: Index Components

	2008		2009			
	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.
Oregon Initial Unemployment Claims, SA*	13,615	15,504	13,865	14,679	13,820	12,564
Oregon Employment Services Payrolls, SA	31,609	28,959	29,833	28,809	27,870	26,934
Oregon Residential Building Permits, SA, 5 MMA*	959	872	947	918	836	766
Oregon Weight Distance Tax, $ Thousands, SA, 3 MMA	19,748	18,661	18,387	17,747	17,424	18,285
Univ. of Michigan U.S. Consumer Confidence, 5 MMA	61.5	61.3	60.9	58.1	58.0	60.0
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, $ Millions, SA	37,745	35,485	30,978	32,242	31,855	31,402
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	3.14	2.26	2.37	2.65	2.64	2.78

***** *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.