

UNIVERSITY OF OREGON INDEX OF ECONOMIC INDICATORS™

oregon
economic
forum

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Analysis

The University of Oregon Index of Economic Indicators™ fell significantly in August to 100.3 (1997=100), a 0.8 percent decline from July. Compared to six months ago, the index is down 4.4 percent (annualized); sustained weakness in the UO Index is consistent with ongoing recession in Oregon. During August, only one indicator, U.S. consumer confidence, improved. All remaining indicators deteriorated.

The Oregon labor markets continued to weaken in August. Although nonfarm payrolls for July were revised substantially higher, the gains were offset in August as firms shed a net 7,400 employees. Note that a substantial government employment increase of 10,100 helped offset a 13,500 decline in private employment over the past year. Also, job growth weakness is spreading deeper into the trade, transportation, and utilities sector, largely due to declining employment at motor vehicle

and parts dealers. In August, initial unemployment claims rose while help-wanted advertising in Oregon newspapers declined, both of which suggest ongoing weak labor markets.

Residential building permits reversed July gains and stand 45 percent lower than August 2007. Permits have hovered roughly in the 900–1,000 range since March, less than half of the 2,500–2,600 range recorded during the 2005 peak. Residential housing markets will remain weak until adjustment to tighter credit conditions is complete. New orders for nondefense nonaircraft capital goods, adjusted for inflation, fell sharply in August. To date, this indicator has been a relative bright spot in the economic data, as steady capital goods orders have supported manufacturing activity; sustained declines in orders at this juncture would indicate a deepening of the current downturn. U.S. consumer confidence rose slightly in August as energy prices fell. Confidence, however, remains at levels consistent with very weak consumer spending growth. The yield spread—the difference between

short- and long-term interest rates—fell in response to growing concerns about the health of the U.S. economy in the second half of 2008.

The UO Index signals that conditions deteriorated in August after a period of relative stability between April and July of this year that coincided with the issuance of fiscal stimulus checks. With the impact of that stimulus fading, economic growth is set to slow in comparison to the first half of this year. Furthermore, the credit crunch engulfing financial markets will place additional downward pressure on national growth that will filter through to slower activity in Oregon. The economy will likely suffer from an extended period of weakness consistent with at least a mild recession.

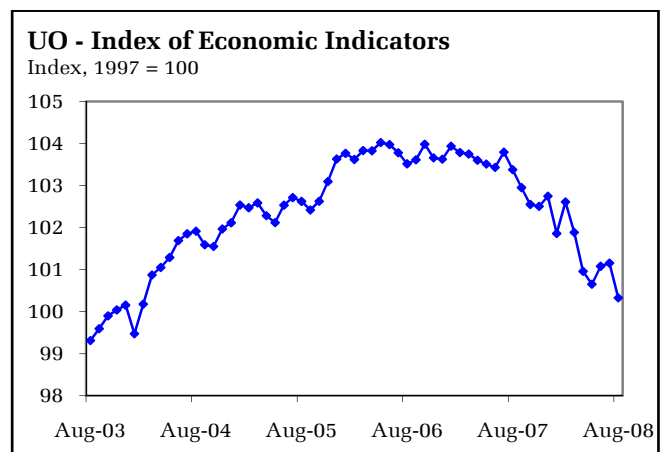


Table 1: Summary Measures

| | 2008 | | | | | |
|--|-------|-------|-------|-------|-------|-------|
| | Mar. | Apr. | May | Jun. | Jul. | Aug. |
| University of Oregon Index of Economic Indicators™, 1997=100 | 101.9 | 101.0 | 100.7 | 101.1 | 101.2 | 100.3 |
| Percentage Change | -0.7 | -0.9 | -0.3 | 0.4 | 0.1 | -0.8 |
| Diffusion Index | 31.25 | 43.75 | 56.25 | 68.75 | 43.75 | 18.8 |
| 6-Month Percentage Change, Annualized | -2.1 | -3.1 | -3.6 | -3.2 | -1.4 | -4.4 |
| 6-Month Diffusion Index | 31.3 | 31.3 | 31.3 | 31.3 | 62.5 | 18.8 |



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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.

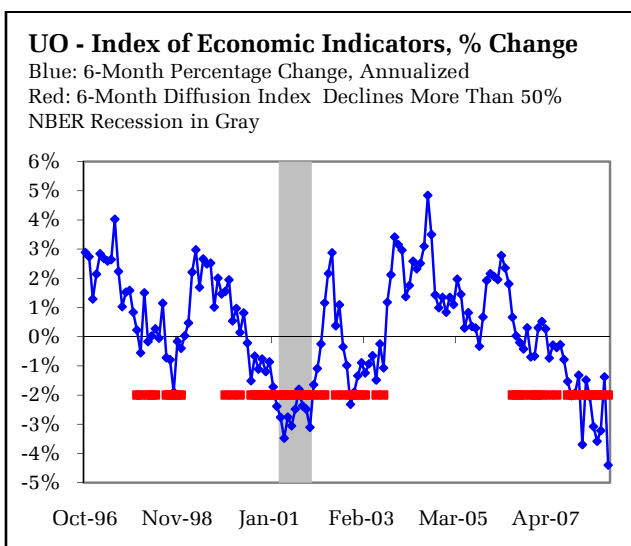
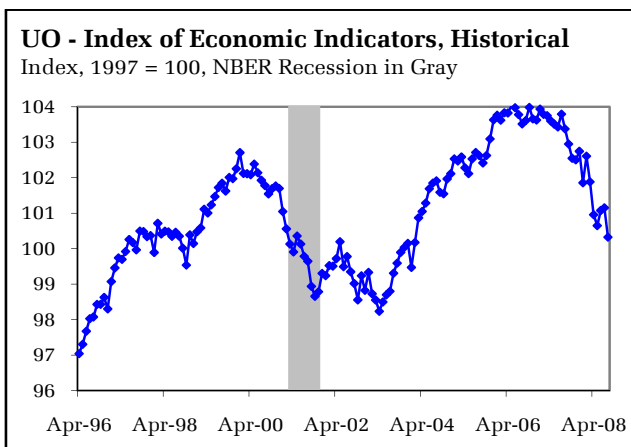


Table 2: Index Components

| | 2008 | | | | | |
|---|--------|--------|--------|--------|--------|--------|
| | Mar. | Apr. | May | Jun. | Jul. | Aug. |
| Oregon Initial Unemployment Claims, SA * | 8,076 | 8,005 | 7,993 | 8,088 | 8,166 | 8,775 |
| Oregon Residential Building Permits, SA | 975 | 807 | 908 | 977 | 1,345 | 932 |
| Oregon Help-Wanted Advertising, SA | 17,368 | 11,955 | 9,487 | 11,385 | 8,759 | 8,496 |
| Oregon Weight Distance Tax, \$ Thousands, SA | 21,641 | 18,649 | 20,089 | 21,600 | 21,568 | 19,205 |
| Oregon Total Nonfarm Payrolls, Thousands, SA | 1739.2 | 1738.9 | 1732.8 | 1734.2 | 1739.4 | 1732.0 |
| Univ. of Michigan U.S. Consumer Confidence | 69.5 | 62.6 | 59.8 | 56.4 | 61.2 | 63.0 |
| Real Manufacturers’ New Orders for Nondefense, Nonaircraft Capital Goods, \$ Millions, SA | 41,621 | 42,737 | 42,568 | 43,155 | 42,971 | 42,052 |
| Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate | 0.9 | 1.40 | 1.9 | 2.1 | 2.0 | 1.89 |

* 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.