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#### Analysis

The University of Oregon Index of Economic Indicators™ rose 0.5 percent in August to 84.4 (1997=100). This continues a pattern in recent months that suggests the Oregon recession will end during the second half of 2009. The rate of deterioration compared to six months ago has improved dramatically, and more than half of the indicators improved over that time frame. Still, ongoing job losses indicate that while the economy may be turning a corner, firms on average do not yet see sufficient growth to justify adding employees.

Labor market conditions remain challenging. Although initial jobless claims continue to drift down at a modest pace, indicating a slower rate of layoffs, claims remain well above levels consistent with sustained job growth. Employment services sector payrolls—dominated by temporary help agencies—declined, providing further evidence of the weak job market. A small job gain (500) in July was quickly reversed; overall nonfarm payroll (not included in the index) losses accelerated

in August as Oregon firms shed a net 6,600 employees.

Residential housing permits (smoothed) were effectively unchanged during the month, raising hopes that this summer marked the bottom of the residential construction market, albeit at very low levels of activity. Still, housing markets continue to face significant headwinds, notably the return to tighter underwriting conditions. Consistent with firming economic conditions, the Oregon weight-distance tax (smoothed)—a measure of trucking activity—rose to its highest level since last November. In contrast, new orders for nondefense nonaircraft capital goods, adjusted for inflation, fell for the second consecutive month in August. Recent trends in capital goods orders indicate stabilizing demand for new investment goods, but to date fall short of the consistent upward gains that would indicate strong economic growth. Consumer confidence (smoothed) rose, further evidence of stabilizing consumer spending. Note, however, that underlying spending patterns remain constrained by ongoing job losses, low wage growth, and less access to credit. The fragility of spending is illustrated by September's sharp reversal of the jump in car sales provided by the

“Cash for Clunkers” program.

The UO Index is likely to be a coincident measure of activity at the end of the recession; it will rise as the Oregon economy exits the recession. Although a one month gain is not by itself conclusive evidence that the recession has ended, it follows a pattern of improvement in the UO Index in recent months that is similar to the improvement that signaled an end to the 2001 recession. Still, the measure of Oregon recession probability, developed by University of Oregon Associate Professor Jeremy Piger, indicates a 100 percent chance of recession in August, a reflection of the weak labor market that plagues job seekers. This again raises the prospect of a jobless recovery, in which economic growth, while positive, is insufficient to support significant job growth.

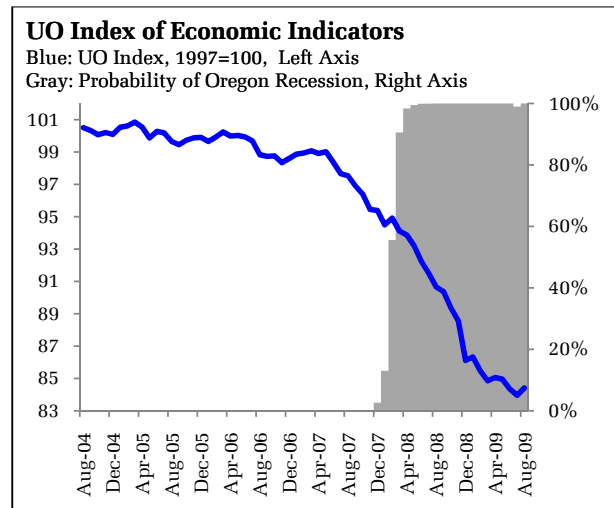


Table 1: Summary Measures

	2009					
	Mar.	Apr.	May	Jun.	Jul.	Aug.
University of Oregon Index of Economic Indicators™, 1997=100	84.8	85.1	85.0	84.3	84.0	84.4
Percentage Change	-0.7	0.2	-0.1	-0.7	-0.5	0.5
Diffusion Index	28.6	57.1	64.3	71.4	35.7	50.0
6-Month Percentage Change, Annualized	-11.8	-9.4	-8.0	-4.0	-5.4	-2.5
6-Month Diffusion Index	14.3	0.0	21.4	42.9	57.1	64.3



**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 University of Oregon Associate Professor Jeremy Piger 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.

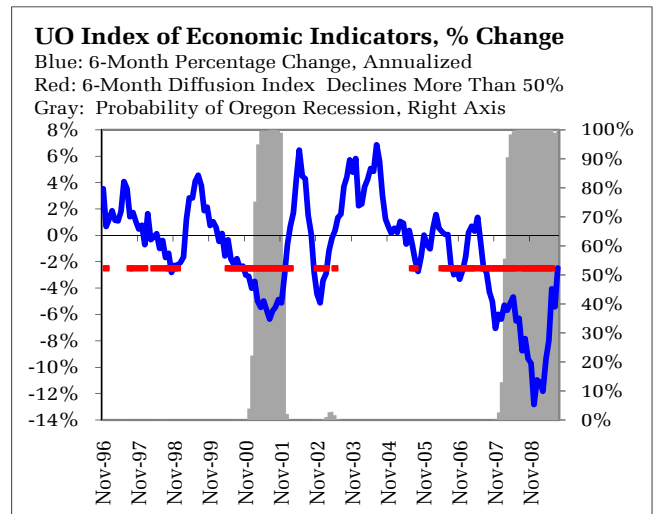
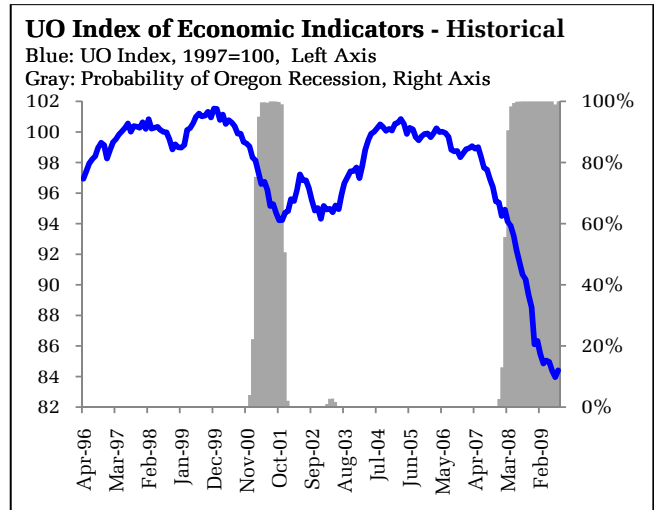


Table 2: Index Components

	2009					
	Mar.	Apr.	May	Jun.	Jul.	Aug.
Oregon Initial Unemployment Claims, SA*	13,820	12,564	12,308	11,915	11,793	11,288
Oregon Employment Services Payrolls, SA	27,870	27,134	26,936	26,269	26,361	25,759
Oregon Residential Building Permits, SA, 5 MMA*	836	766	672	469	411	401
Oregon Weight Distance Tax, \$ Thousands, SA, 3 MMA	17,424	18,285	17,441	17,966	17,376	18,831
Univ. of Michigan U.S. Consumer Confidence, 5 MMA	58.0	60.0	61.7	63.6	65.6	67.3
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, \$ Millions, SA	31,840	30,707	32,116	33,166	32,803	32,415
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	2.64	2.78	3.11	3.51	3.40	3.43

\* 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.*