oregon economic forum

University of Oregon Index of Economic Indicators™

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

August 2010

Analysis

The University of Oregon Index of Economic Indicators™ edged down 0.2 percent to 86.3 (1997=100) in August. Compared to six months ago, more than half the index components declined while the UO Index fell 5.9 percent (annualized). In the past, declines of this magnitude signaled impending weakness in Oregon nonfarm payrolls. Three indicators—Oregon initial unemployment claims, U.S. consumer sentiment, and the interest rate spread—posted declines in August. One indicator, core capital goods orders, rose. The remaining indicators were essentially unchanged.

Weak economic conditions continue to weigh on labor markets. Initial unemployment claims rose again, continuing the upward drift that began in April. Employment services payrolls—largely temporary hiring—were essentially unchanged. Both trends are disappointing and signal that despite being in a recovery phase, the pace of economic activity continues to fall short of that necessary to generate solid job growth. Overall nonfarm payrolls for Oregon (not included in the index) fell 1,500 compared to a revised loss of 2,100 in July, while the unemployment rate held at 10.6 percent.

Both residential building permits (smoothed) and the Oregon weight distance tax (smoothed), a measure of trucking activity, were effectively unchanged compared to July. New orders for nondefense, nonaircraft capital goods rebounded, largely offsetting a worrisome decline in July. This is a hopeful sign that the pace of manufacturing activity will not falter abruptly in the near future. Consumer confidence continued to decline. Although household spending is growing, weak job growth tempers the pace of gains. The interest rate spread between ten-year treasury bonds and the federal funds rate dropped for the fourth consecutive month as the deteriorating economic outlook prompted market participants to anticipate an expansion of monetary easing.

The UO Index continues to follow a pattern similar to its behavior in the 2001–3 period. The 2001 recession was followed by a sharp but temporary upturn in the UO Index. A subsequent reversal of gains signaled renewed economic weakness. The resulting "echo" recession triggered a renewal of job losses, albeit the declines were not as severe as those of the 2001 recession. Assuming the pattern is repeating itself now and is not reversed soon, the UO Index signals that, at a minimum, sustained labor market recovery will be delayed until next year with actual job losses possible over the next three to six months.

UO Index of Economic Indicators

Blue: UO Index, 1997=100, Left Axis

Gray: Probability of Oregon Recession, Right Axis

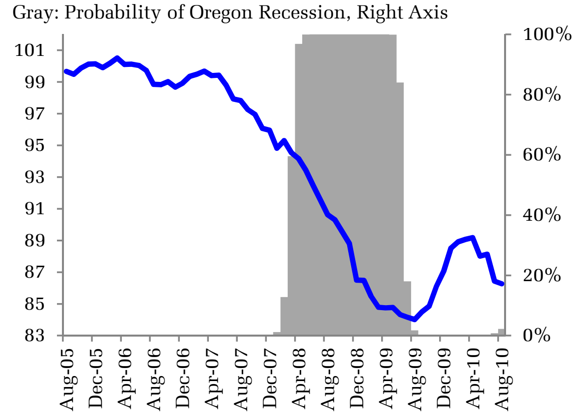

Table 1: Summary Measures

	2010					
	Mar.	Apr.	May	Jun.	Jul.	Aug.
University of Oregon Index of Economic Indicators™, 1997=100	89.1	89.2	88.0	88.1	86.4	86.3
Percentage Change	0.2	0.1	-1.3	0.1	-1.9	-0.2
Diffusion Index	42.9	50.0	35.7	57.1	7.1	42.9
Six Month Percentage Change, Annualized	11.1	10.4	4.5	2.4	-4.7	-5.9
Six Month Diffusion Index	100.0	100.0	85.7	71.4	28.6	35.7

COLLEGE OF ARTS AND SCIENCES

University of Oregon

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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.

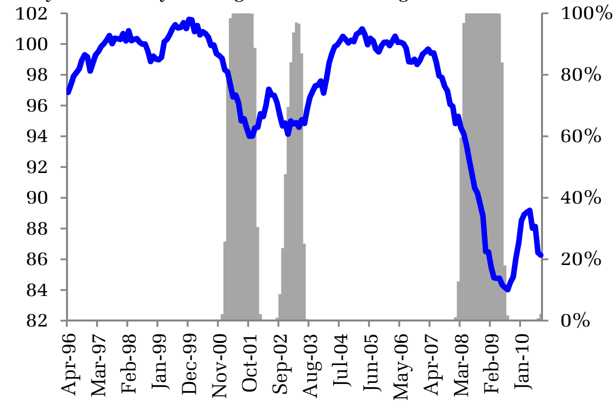
The UO Index is a leading indicator as the economy transitions from expansion to recession. Steep declines in the UO Index are recorded during periods of economic stress, signaling diminishing prospects for growth. Rising values of the UO Index tend to coincide with the end of a recession. As a general 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 of economics, indicates Oregon entered recession in November of 2000. Similarly, the UO Index suffered a sharp drop ahead of the recession in 2007.

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 at the end of 2007. 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.

UO Index of Economic Indicators - Historical

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



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

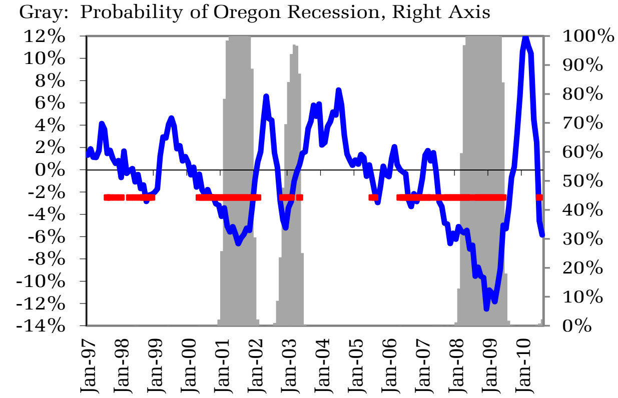


Table 2: Index Components

	2010					
	Mar.	Apr.	May	Jun.	Jul.	Aug.
Oregon Initial Unemployment Claims, SA*	9,188	9,656	9,794	9,688	10,163	10,447
Oregon Employment Services Payrolls, SA	27,905	28,862	27,431	27,602	27,577	27,499
Oregon Residential Building Permits, SA, 5 MMA*	798	769	630	606	480	488
Oregon Weight Distance Tax, $ Thousands, SA, 3 MMA	18,252	18,371	18,692	19,013	18,341	18,324
Univ. of Michigan U.S. Consumer Confidence, 5 MMA	72.3	73.3	73.5	73.8	72.6	71.7
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, $ Millions, SA	38,155	37,080	38,741	40,126	37,910	39,445
Interest Rate Spread, Ten-Year Treasury Bonds Less Federal Funds Rate	3.57	3.65	3.22	3.02	2.83	2.51

* *SA–seasonally adjusted; MMA–month moving average*

Author
Timothy A. Duy
Director, Oregon Economic Forum
Department of Economics, University of Oregon
541-346-4660 · duy@uoregon.edu

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.