

UNIVERSITY OF OREGON INDEX OF ECONOMIC INDICATORS™

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AUGUST 2011

Analysis

The University of Oregon Index of Economic Indicators™ fell 1.3 percent to 89.0 (1997=100) in August 2011, a fifth consecutive monthly decline. Particularly sharp falls in U.S. consumer sentiment, the interest rate spread, and the measure of Oregon trucking activity contributed to the decline. Compared to six months ago, the UO Index has fallen 4.4 percent (annualized) and less than half the components have improved or held steady over that period. In the past, sustained declines of this magnitude foreshadowed labor market recessions in Oregon.

Labor market data was mixed in August. The two indicators included in the UO Index—initial unemployment claims and employment services payrolls (largely temporary employment)—both improved. Still, initial claims remain at high levels consistent with a weak labor market. In contrast, overall nonfarm payrolls (not included in the index) continue to move sideways since the beginning of the year. The July gain was subsequently revised

downward to a loss of 3,300 jobs, while only 800 jobs were added in August.

Residential building permits (smoothed) fell below 600 for the first time since November of last year. On a positive note, nondefense, nonaircraft capital goods orders, adjusted for inflation, rose during August, suggesting firms continue to invest in new plant and equipment. In contrast, Oregon weight distance revenue—a measure of trucking activity—fell again. Consumer confidence (smoothed with a five-month moving average) dropped sharply in August as households turned cautious amid weaker job prospects and the protracted debt debate in Washington. Financial market participants also turned more cautious, bidding down longer-term interest rates in the face of weak economic data and ongoing financial challenges in Europe.

The six-month decline in the UO Index, if sustained, is consistent with at least a labor-market recession in the Oregon economy. A similar pattern took hold after the 2001 recession, as the slow pace of the national recovery weighed more heavily on Oregon, dragging down nonfarm payrolls. Also

note the measure of Oregon recession probability computed by Jeremy Piger, a University of Oregon associate professor of economics, rose significantly in the past three months from essentially zero to 8.6 percent. Finally, note that the recent weakness in Oregon labor markets is also consistent with impending recession. It is possible, however, that the UO Index is overstating household weakness—consumer sentiment has been lower than expected given the growth in consumer spending. That said, the economy is clearly very fragile and vulnerable to further negative shocks such as financial market disruption as a consequence of the European debt crisis.

UO Index of Economic Indicators

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

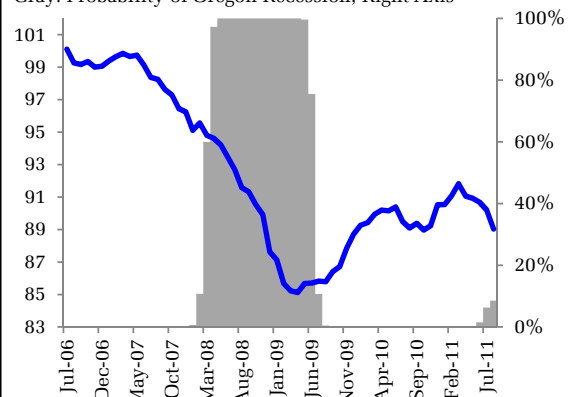


Table 1: Summary Measures

| | 2011 | | | | | |
|--|-------|------|-------|------|------|------|
| | Mar. | Apr. | May | Jun. | Jul. | Aug. |
| University of Oregon Index of Economic Indicators™, 1997=100 | 91.8 | 91.1 | 90.9 | 90.7 | 90.2 | 89.0 |
| Percentage Change | 0.8 | -0.8 | -0.2 | -0.3 | -0.5 | -1.3 |
| Diffusion Index | 64.3 | 35.7 | 42.9 | 28.6 | 50.0 | 42.9 |
| Six Month Percentage Change, Annualized | 5.5 | 4.8 | 3.8 | 0.4 | -0.7 | -4.4 |
| Six Month Diffusion Index | 100.0 | 85.7 | 100.0 | 57.1 | 28.6 | 14.3 |



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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 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 sustained decline in the index of greater than 2.75 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 of economics Jeremy Piger 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.

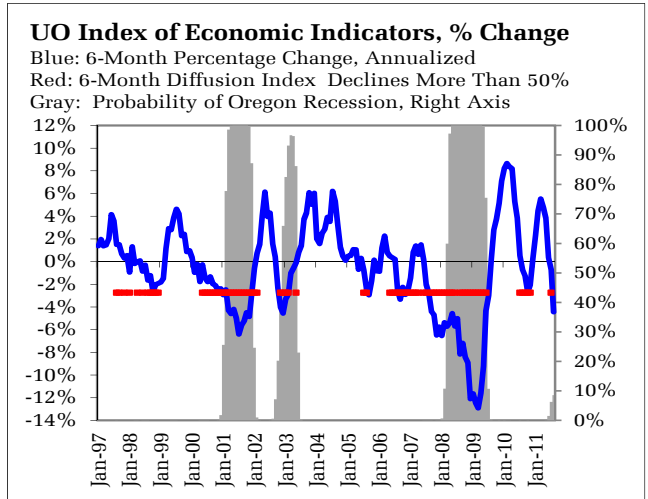
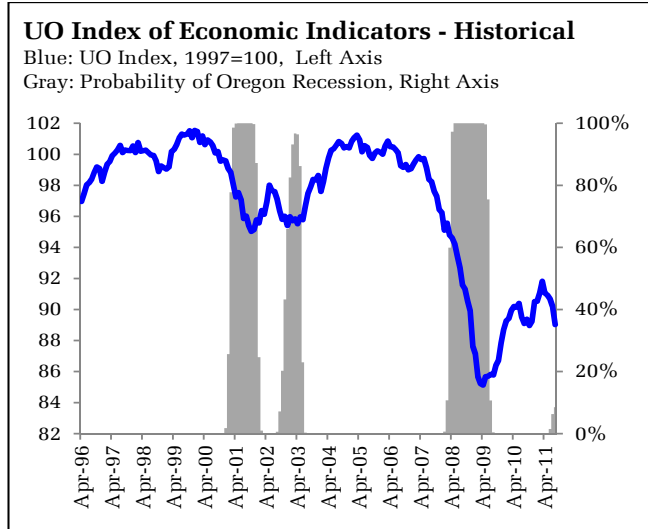


Table 2: Index Components

| | 2011 | | | | | |
|---|--------|--------|--------|--------|--------|--------|
| | Mar. | Apr. | May | Jun. | Jul. | Aug. |
| Oregon Initial Unemployment Claims, SA* | 8,423 | 9,175 | 9,136 | 9,254 | 8,940 | 8,763 |
| Oregon Employment Services Payrolls, SA | 32,759 | 32,264 | 31,508 | 31,660 | 30,884 | 31,859 |
| Oregon Residential Building Permits, SA, 5 MMA* | 708 | 707 | 663 | 655 | 662 | 576 |
| Oregon Weight Distance Tax, SA, Index, 1998=100, 3 MMA | 106.07 | 100.39 | 106.45 | 105.39 | 104.80 | 98.83 |
| Univ. of Michigan U.S. Consumer Confidence, 5 MMA | 73.1 | 72.7 | 72.7 | 72.1 | 69.4 | 67.0 |
| Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, \$ Millions, SA | 41,266 | 40,978 | 41,692 | 41,909 | 41,660 | 42,148 |
| Interest Rate Spread, Ten-Year Treasury Bonds Less Federal Funds Rate | 3.27 | 3.36 | 3.08 | 2.91 | 2.93 | 2.20 |

* 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.