UNIVERSITY OF OREGON INDEX OF ECONOMIC INDICATORS™

oregon economic forum

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

PROUDLY SPONSORED BY KeyBank

DECEMBER 2008

Analysis

The University of Oregon Index of Economic Indicators™ continued its slide in December, falling 2 percent to 87.7 (1997=100). Compared to six months ago, the UO Index is down 10.8 percent (annualized). Weakness was widespread; six of the seven components of the index deteriorated. The remaining indicator, U.S. consumer confidence, was effectively unchanged. Data were revised to reflect an annual update to seasonal adjustment factors. Also, revisions to employment services payrolls and core capital goods resulted in a weaker November statistic than originally reported. Overall, however, revisions did not change the qualitative assessment of the UO Index—Oregon's economy remains mired in a severe recession.

Oregon labor markets deteriorated in December. Initial jobless claims climbed even higher to a weekly average of more than 15,000 claims per month. Payrolls at employment services firms (largely temporary-help agencies) continued to fall and are now down 15.4 percent compared to year-ago levels. Total nonfarm payrolls (not included in the UO Index) fell by 9,700 jobs in December. Cumulative job loss since the February 2008 peak stands at 46,700; job losses will increase significantly in the first half of 2009.

Residential housing permits fell in December to below 900, breaking a period of relative stability. Like much of the nation, housing markets are under stress as expectations of future price declines and tighter underwriting conditions outweigh the positive factor of lower interest rates. New orders for nondefense nonaircraft capital goods, adjusted for inflation, fell in December, indicating falling business investment. Similarly, the Oregon weight distance tax, a measure of trucking activity, slid as shipping declined. U.S. consumer confidence (smoothed) continued to hold steady at a level that suggests continued declines in real household spending. The yield spread—the difference between short- and long-term interest rates—narrowed as interest rates on ten-year Treasuries declined in response to worsening financial conditions.

The Oregon recession began in March 2008 (as dated by the research of University of Oregon economist Jeremy Piger) and intensified significantly in the last quarter of 2008. The sharp deterioration suggests mounting job losses through at least the first half of 2009 should be expected. Economic activity will find support in the second half of the year as credit conditions moderate and an expected fiscal package of nearly $1 trillion begins to take effect.

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

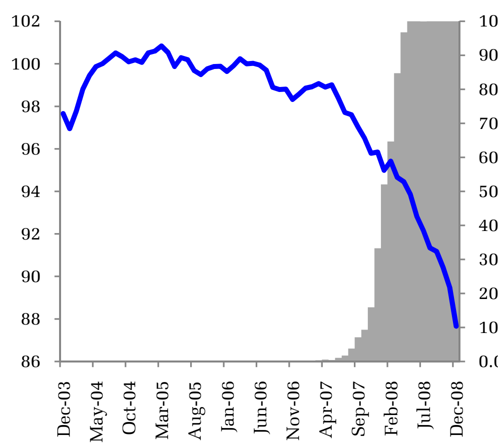


Table 1: Summary Measures

	2008					
	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
University of Oregon Index of Economic Indicators™, 1997=100	92.2	91.3	91.2	90.4	89.5	87.7
Percentage Change	-0.7	-0.9	-0.2	-0.8	-1.0	-2.0
Diffusion Index	35.7	0.0	35.7	21.4	50.0	7.1
6-Month Percentage Change, Annualized	-5.9	-8.4	-7.2	-8.3	-9.1	-10.8
6-Month Diffusion Index	42.9	28.6	28.6	14.3	14.3	14.3

COLLEGE OF ARTS AND SCIENCES
University of Oregon

Released: February 4, 2009.

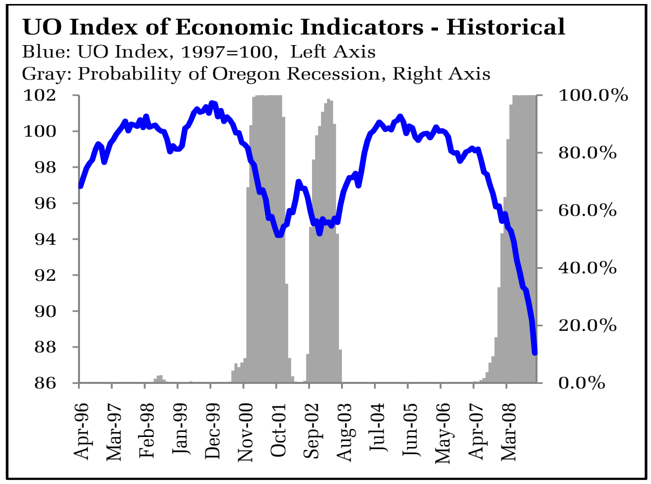
Methodology and Notes

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.



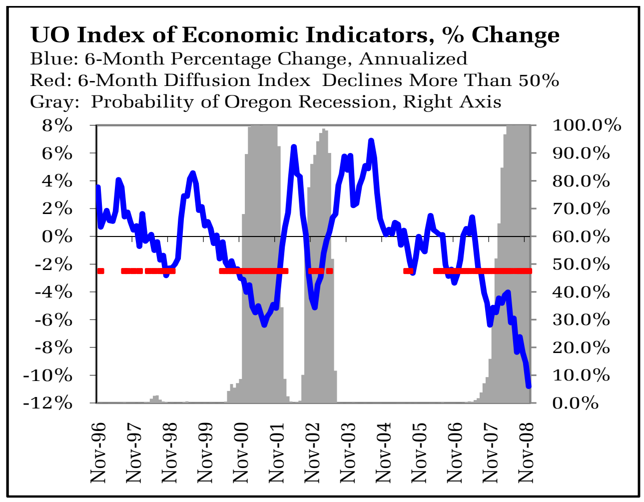


Table 2: Index Components

	2008					
	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
Oregon Initial Unemployment Claims, SA*	8,446	9,058	9,648	10,780	13,615	15,504
Oregon Employment Services Payrolls, SA	39,452	38,976	38,375	37,528	35,153	34,337
Oregon Residential Building Permits, SA, 5 MMA*	1,013	1,000	999	987	959	872
Oregon Weight Distance Tax, $ Thousands, SA, 3 MMA	20,857	20,534	20,730	19,304	19,748	18,661
Univ. of Michigan U.S. Consumer Confidence, 5 MMA	61.9	60.6	62.1	61.7	61.5	61.3
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, $ Millions, SA	42,968	41,925	40,301	37,443	38,071	36,935
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	2.00	1.89	1.88	2.84	3.14	2.26

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

Author
Timothy A. Duy
Director, Oregon Economic Forum
Department of Economics
University of Oregon

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.