UNIVERSITY OF OREGON INDEX OF ECONOMIC INDICATORS™

oregon economic forum

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Analysis

The University of Oregon Index of Economic Indicators™ rose 0.3 percent in February to 88.7 (1997=100) from a revised January figure of 88.4. The pace of improvement moderated compared to gains reported for the previous five months. Still, the recovery remains intact, with the six month annualized increase rising to 11.7 percent. This report includes new estimates of Oregon recession probabilities from Jeremy Piger, a University of Oregon associate professor. The new estimates include the downward revisions to nonfarm payrolls in Oregon, and suggest a more gradual exit from recession than previous estimates.

Labor market indicators were mixed for the month. February brought further declines in initial unemployment claims as the pace of layoff continues to moderate. Initial claims are down 35 percent compared to year ago levels. New hiring, however, remains tepid. Employment services payrolls—largely temporary employment firms—slipped after a significant January gain. Overall, nonfarm payrolls (not included in the UO Index) continue to move sideways; firms shed 1,200 employees in February, offsetting the January increase. Despite the rapid improvement in economic conditions, job growth remains elusive.

Residential building permits (smoothed) continued to rise as building activity bounces off the low reached during the fall of 2009. Although permits remains below year ago levels (and 70 percent below the bubble peak), the improvement is welcome. The Oregon weight-distance tax (smoothed)—a measure of trucking activity—fell back after three months of gains, but remains well above recession lows. New orders for nondefense nonaircraft capital goods rose, partially offsetting last month's decline. The overall steady uptrend in this indicator since last May signals still improving business confidence. Consumer confidence (smoothed) flattened out, although there are signs that national consumer spending accelerated in the first quarter of 2010. The interest rate spread between 10-Year Treasury Bonds and the Federal Funds rate fell back after last month's strong gain. The wide spread remains consistent with continued economic growth.

Ongoing increases in the UO Index signals the Oregon economy continues to pull out of the recession. It would be premature to conclude that the slower increase in the UO Index indicates the strength of the recovery is waning. The recovery increasingly looks sustainable, although the pace of growth in the absence of inventory correction and government stimulus may be insufficient to drive rapid improvement in the labor market.

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

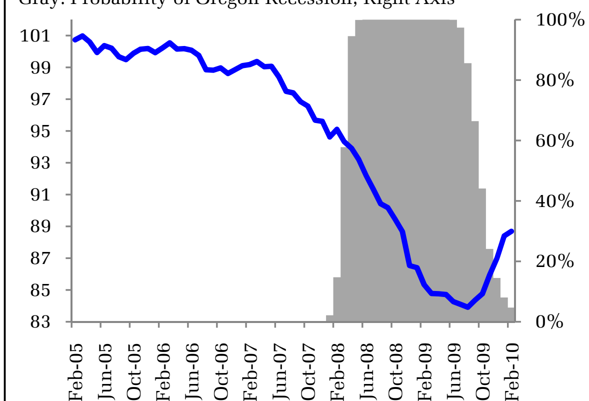

Table 1: Summary Measures

	2009				2010	
	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.
University of Oregon Index of Economic Indicators™, 1997=100	84.4	84.8	85.9	87.0	88.4	88.7
Percentage Change	0.5	0.5	1.4	1.2	1.6	0.3
Diffusion Index	57.1	42.9	85.7	78.6	85.7	57.1
6-Month Percentage Change, Annualized	-1.0	0.0	2.9	6.6	10.5	11.7
6-Month Diffusion Index	71.4	64.3	71.4	78.6	100.0	85.7

COLLEGE OF ARTS AND SCIENCES
University of Oregon

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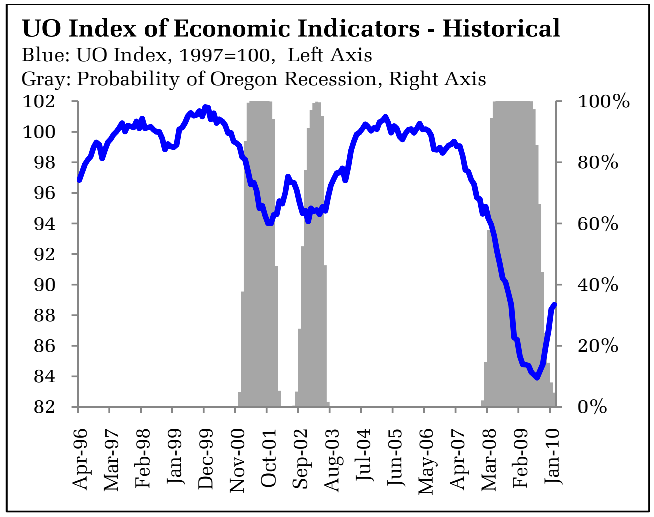
Methodology and Notes

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, 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 in 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.



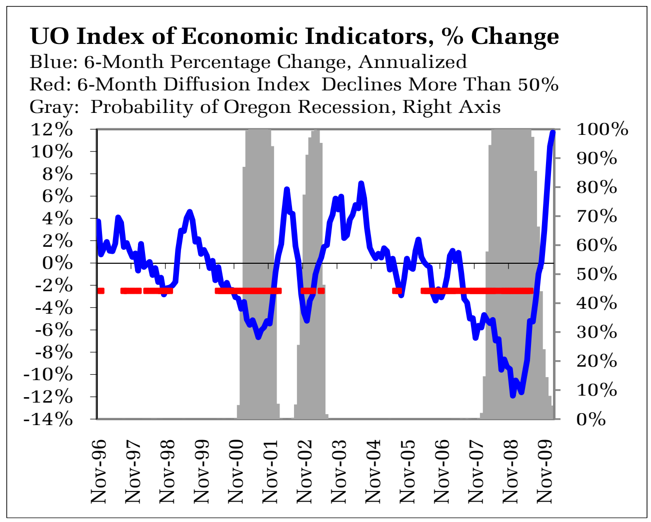


Table 2: Index Components

	2009				2010	
	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.
Oregon Initial Unemployment Claims, SA*	11,309	11,307	10,819	10,754	10,081	9,216
Oregon Employment Services Payrolls, SA	26,207	25,453	26,735	26,810	28,403	28,211
Oregon Residential Building Permits, SA, 5 MMA*	415	499	575	678	756	820
Oregon Weight Distance Tax, $ Thousands, SA, 3 MMA	18,116	18,000	18,325	18,311	18,890	18,186
Univ. of Michigan U.S. Consumer Confidence, 5 MMA	68.9	69.3	68.6	69.9	71.7	71.7
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, $ Millions, SA	33,629	33,218	34,127	35,189	33,726	34,130
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	3.25	3.27	3.28	3.47	3.62	3.56

* *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.