UNIVERSITY OF OREGON INDEX OF ECONOMIC INDICATORS™

oregon economic forum

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

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FEBRUARY 2011

Analysis

The University of Oregon Index of Economic Indicators™ rose 0.7 percent to 91.3 in February 2011. Of the seven indicators that comprise the UO Index, three—Oregon employment services payrolls, U.S. consumer sentiment, and the interest rate spread—showed significant improvement. Remaining indicators were essentially unchanged or deteriorated slightly. Overall, the UO Index suggests the economic recovery in Oregon continues to build momentum. The rapid rise in commodity prices, however, remains a risk to the outlook.

Labor markets were generally stronger during the month. Initial unemployment claims edged up, but remain well below 2010 levels. The drop in initial claims, particularly at the end of last year, is increasingly positively reflected in other labor-market data. Employment services payrolls—largely temporary employment—rose 3.2 percent during the month. Overall nonfarm payrolls (not included in the index) continued to rise, with firms adding a net 9,800 employees in February. Since October 2010, the Oregon economy has added an average of 5,900 jobs per month.

Residential building permits (smoothed) again remained effectively flat as this sector continues to lag the overall recovery. Note that according to the Case-Shiller price index, housing prices in the Portland region continue to decline; improving economic conditions are as of yet insufficient to offset the combination of overbuilding during the boom, foreclosures, and tighter underwriting conditions. Core manufacturing orders declined again, and appear inconsistent with other manufacturing data that are generally solid. Although this is a volatile series, recent declines are disappointing and bear further watching. Consumer confidence improved during February, but note that this was not the case in March as higher gasoline and food costs weighed on household budgets. The interest rate spread again increased, indicating improving national economic activity.

The UO Index suggests ongoing improvement in economic activity in Oregon, consistent with signals of building momentum in the national economy evident at the end of 2010 and beginning of 2011. The recent rise in commodity prices, however, remains a cloud on the outlook. The gains to date are arguably consistent with improving global activity, which raises the demand for commodities. Ongoing sharp commodity price gains, however, could threaten consumer spending, a pattern evident in recent national personal spending data.

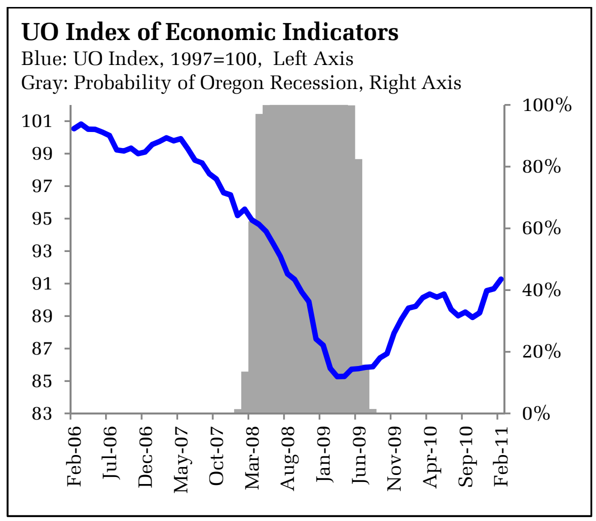

Table 1: Summary Measures

	2010				2011	
	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.
University of Oregon Index of Economic Indicators™, 1997=100	89.2	88.9	89.2	90.6	90.7	91.3
Percentage Change	0.2	-0.4	0.3	1.5	0.1	0.7
Diffusion Index	50.0	28.6	64.3	85.7	50.0	71.4
Six Month Percentage Change, Annualized	-2.0	-3.2	-2.1	0.5	2.9	5.1
Six Month Diffusion Index	35.7	28.6	42.9	57.1	85.7	85.7

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Released: April 6, 2011.

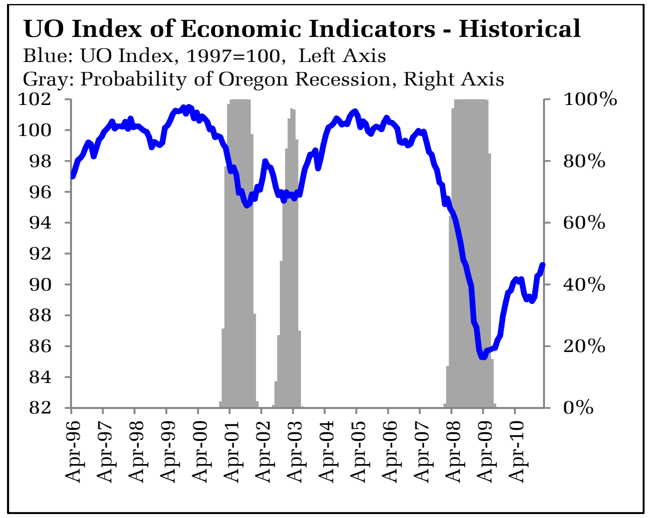
Methodology and Notes

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 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.



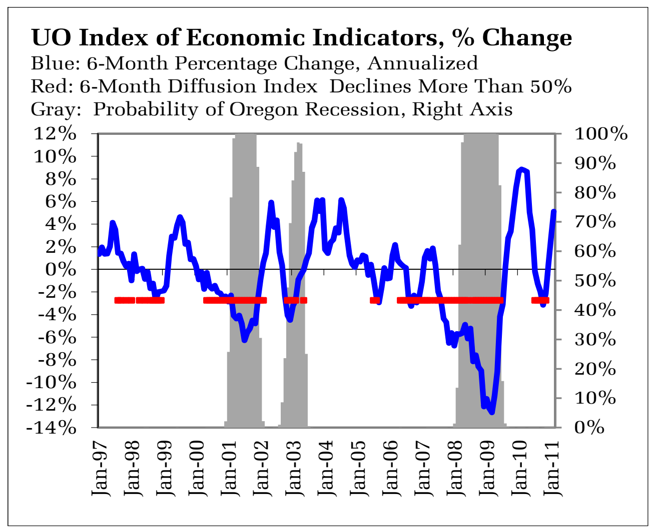


Table 2: Index Components

	2010				2011	
	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.
Oregon Initial Unemployment Claims, SA*	9,839	9,813	9,419	8,224	8,487	8,551
Oregon Employment Services Payrolls, SA	30,762	30,687	31,171	31,695	31,822	32,846
Oregon Residential Building Permits, SA, 5 MMA*	601	604	586	648	627	629
Oregon Weight Distance Tax, SA, Index, 1998=100, 3 MMA	102.93	102.98	102.87	99.87	106.40	106.83
Univ. of Michigan U.S. Consumer Confidence, 5 MMA	70.9	69.7	68.8	70.2	71.2	73.1
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, $ Millions, SA	40,566	39,462	40,775	42,344	39,728	39,402
Interest Rate Spread, Ten-Year Treasury Bonds Less Federal Funds Rate	2.46	2.35	2.57	3.11	3.22	3.42

* *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.