University of Oregon Index of Economic Indicators™

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

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Analysis

The University of Oregon Index of Economic Indicators™ fell a sharp 0.9 percent in January, to 101.8 (1997=100). The six-month annualized decline of 3.7 percent exceeded the largest decline experienced during the 2001 recession. The index was adjusted to account for revisions to nonfarm payrolls; there were no qualitative impacts from the revisions. Oregon-specific components suffered the largest declines during the month. Improvements in nonfarm payrolls and consumer confidence were negligible. Remaining components declined.

The data reveals continued softening in the Oregon labor market, similar to the deterioration evident in national trends. Nonfarm payrolls gained a scant 500 jobs during January, declining from a 1,300-job gain the previous month. The drop in housing activity has precipitated a significant decline in construction jobs, down 7,300 since the July 2007 peak. A further rise in initial unemployment claims, coupled with another sharp decline in Oregon help-wanted advertising, suggests that labor market conditions are likely to deteriorate further in the months ahead.

Residential building permits sunk in January to a seasonally adjusted 1,012 units—the lowest level in the nearly twelve years covered by the UO Index. Similarly, Oregon's weight-distance tax, a measure of trucking activity, suffered a significant decline, suggesting a softening of economic activity. Consumer confidence edged upward in January, but remained at levels consistent with weak consumer spending; note that the recent rise in inflation is eroding real household income. New orders for nondefense nonaircraft capital goods declined moderately in January, but the overall stability of this indicator remains consistent with slow growth rather than recession. The yield spread—thedifference between short- and long-term interest rates—increased slightly as market participants increased their expectation for additional interest rate cuts by the Federal Reserve.

The significant and sustained decline among a wide range of cyclical indicators is consistent with recessionary conditions. Compared to six months ago, the UO Index slid 3.7 percent (annualized), while the six-month diffusion index, a measure of the proportion of components that are rising, stood at 31.3 (in other words, more than 50 percent of the components deteriorated over the past six months). As a general rule, a decline in the UO Index of greater than 2 percent over six months (annualized), coupled with a decline in more than half of its components, signals that a recession is likely imminent. If a recession is indeed underway, nonfarm payrolls would be expected to decline as mounting job losses in construction spreads to other sectors, with housing-related jobs the most vulnerable.

UO - Index of Economic Indicators

Index, 1997 = 100

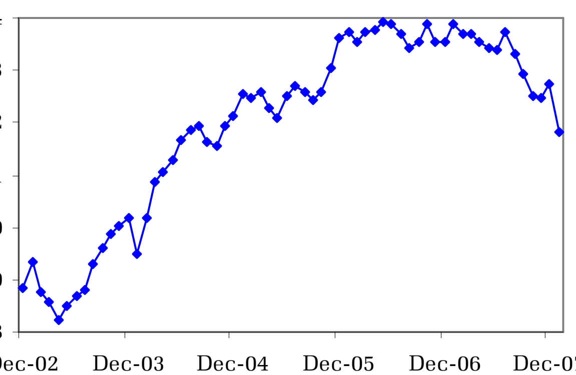

Table 1: Summary Measures

	2007					2008
	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.
University of Oregon Index of Economic Indicators™, 1997=100	103.3	102.9	102.5	102.5	102.7	101.8
Percentage Change	-0.4	-0.4	-0.4	0.0	0.2	-0.9
Diffusion Index	25	37.5	31.25	43.75	56.25	18.8
6-Month Percentage Change, Annualized	-0.7	-1.4	-1.9	-1.9	-1.3	-3.7
6-Month Diffusion Index	56.3	31.3	25.0	37.5	50.0	31.3

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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 constructed to have the properties of a leading indicator. As a general rule, a decline in the index of greater than 2 percent over six months, coupled with a decline in more than half of its components, signals that a recession is likely imminent. The 2 percent rule—which has since changed to 3.5 percent due to index revisions—was originally employed by The Conference Board for the U.S. Leading Indicators, and it appears appropriate for the UO Index.

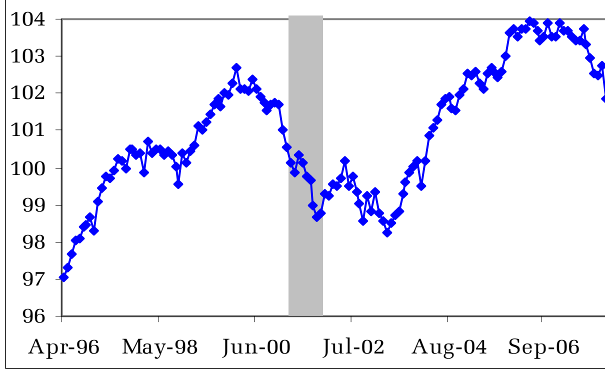
Using the rule, the index signaled an impending recession in January 2001; the National Bureau of Economic Research (NBER) dates the national recession from March to November 2001. The index did signal the so-called "jobless recovery" that followed the 2001 recession, and did, for a single month, register a decline greater than 2 percent during this period. No other recessions were signaled during the period for which data are available (beginning March 1996).

The general rule, however, should be used judiciously. The available data encompass only one recession, a very small sample from which to draw generalities. 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

Index, 1997 = 100, NBER Recession in Gray



UO - Index of Economic Indicators, % Change

Blue: 6-Month Percentage Change, Annualized
Red: 6-Month Diffusion Index Declines More Than 50%
NBER Recession in Gray

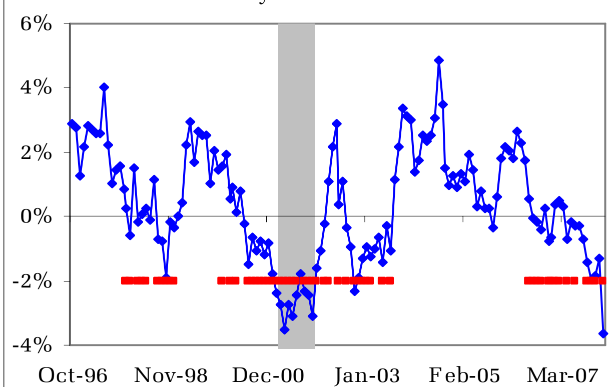


Table 2: Index Components

	2007					2008
	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.
Oregon Initial Unemployment Claims, SA*	6,480	6,806	7,082	7,672	8,059	8,135
Oregon Residential Building Permits, SA	1,684	1,527	1,418	1,457	1,440	1,012
Oregon Help-Wanted Advertising, SA	25,583	25,756	21,032	23,851	24,262	19,309
Oregon Weight Distance Tax, $ Thousands, SA	22,508	18,927	21,352	21,318	22,742	18,101
Oregon Total Nonfarm Payrolls, Thousands, SA	1735.4	1734.5	1735.1	1739.3	1740.6	1741.1
Univ. of Michigan U.S. Consumer Confidence	83.4	83.4	80.9	76.1	75.5	78.4
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, $ Millions, SA	41,813	42,436	41,205	41,004	43,113	42,345
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	-0.35	-0.42	-0.23	-0.34	-0.14	-0.20

** SA–seasonally adjusted*

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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.

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