University of Oregon Index of Economic Indicators™

oregon economic forum

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

January 2010

Analysis

The University of Oregon Index of Economic Indicators™ jumped 1.7 percent in January to 88.5 (1997=100) from a revised December figure of 87.0. This is the third consecutive month of gains in excess of 1 percent. These values reflect an annual revision of state employment data, which enter the UO Index via employment services payrolls. Note also that over the past six months the index has risen 10.7 percent, and all indicators have shown improvement over that period. While the UO Index is consistent with solid economic growth, that growth has yet to translate into significant overall job gains.

Labor market indicators are showing improvement. The pace of layoffs is clearly moderating; initial unemployment claims declined again, finally slipping below the highs reached in the 2001 recession. Moreover, there is some evidence that firms are looking to expand hiring. Employment services payrolls—largely temporary employment firms—rose to their highest levels since February 2009. Still, the overall labor market improvements remain meager. The initially reported December nonfarm payrolls gain was revised to a loss, while January 2010 saw a rise of just 1,100 jobs. The revisions also revealed that job losses during the recession of 146,800 were deeper than the originally reported loss of 120,000 jobs.

Residential building permits (smoothed) rose again, bringing activity to the level of April 2009. Note that the pace of improvement slowed in January. The Oregon weight-distance tax (smoothed)—a measure of trucking activity—climbed as a firming economy and ongoing inventory correction necessitated more shipping activity. New orders for nondefense nonaircraft capital goods slipped, but this can be a volatile series; the overall upward trend in recent months remains consistent with improving economic conditions. The interest rate spread between ten-year treasury bonds and the federal funds rate rose sharply as investors grew more confident about the prospects for economic growth.

Like the U.S. economy, the Oregon economy is bouncing off the recession lows of last summer. The strength of the initial phase of the recovery has been boosted by fiscal and monetary stimulus and a solid inventory correction that has boosted orders throughout the manufacturing sector. The labor market response to improving conditions, however, has been tepid at best. While overall job losses have largely ended, concerns about the sustainability of growth appears to be leaving firms cautious about hiring; rising activity at temporary employment firms is a hopeful sign this caution is easing. Still, stronger, sustained growth will be required to significantly replace the jobs lost during the recession.

UO Index of Economic Indicators

Blue: UO Index, 1997=100, Left Axis

Gray: Probability of Oregon Recession, Right Axis

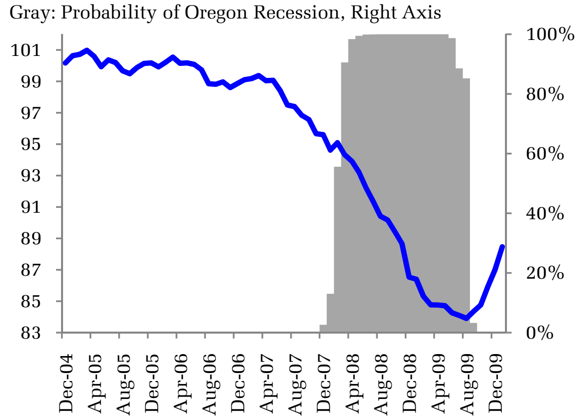


Table 1: Summary Measures

	2009					2010
	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.
University of Oregon Index of Economic Indicators™, 1997=100	83.9	84.4	84.8	85.9	87.0	88.5
Percentage Change	-0.2	0.5	0.5	1.4	1.2	1.7
Diffusion Index	50.0	57.1	42.9	85.7	78.6	85.7
6-Month Percentage Change, Annualized	-3.3	-1.0	0.0	2.9	6.6	10.7
6-Month Diffusion Index	71.4	71.4	64.3	71.4	78.6	100.0

Released: March 8, 2010.

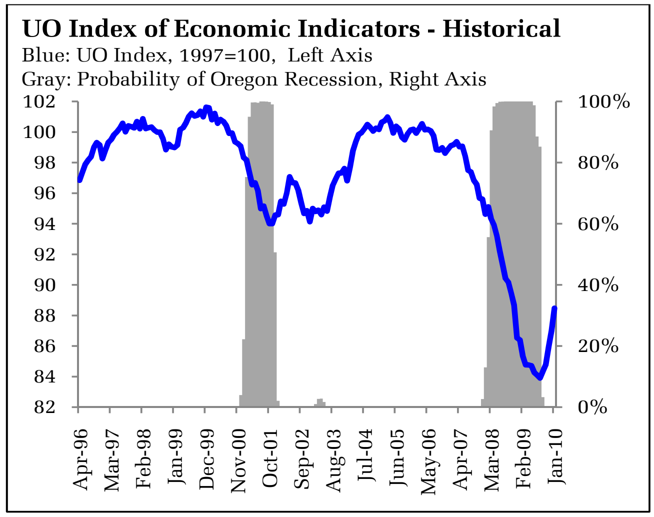
Methodology and Notes

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 of economics, 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.



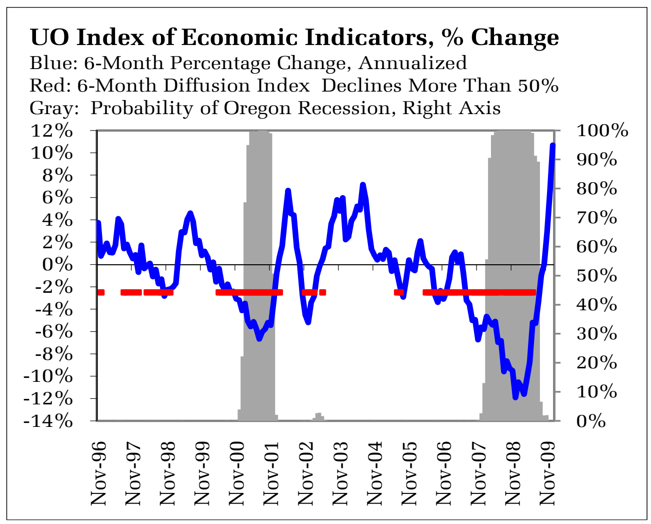


Table 2: Index Components

	2009					2010
	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.
Oregon Initial Unemployment Claims, SA*	11,729	11,309	11,307	10,819	10,754	10,081
Oregon Employment Services Payrolls, SA	25,522	26,207	25,453	26,735	26,810	28,503
Oregon Residential Building Permits, SA, 5 MMA*	425	415	499	575	678	756
Oregon Weight Distance Tax, $ Thousands, SA, 3 MMA	18,312	18,116	18,000	18,325	18,311	18,890
Univ. of Michigan U.S. Consumer Confidence, 5 MMA	67.3	68.9	69.3	68.6	69.9	71.7
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, $ Millions, SA	32,415	33,629	33,197	34,127	35,272	34,158
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	3.43	3.25	3.27	3.28	3.47	3.62

* *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.