# 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 2011

### Analysis

The University of Oregon Index of Economic Indicators™ was flat in January at 90.6 (1997=100) after a revised 1.5 percent gain in December. A sharp decline in core manufacturing orders offset otherwise generally positive indicators. The UO Index was revised to update seasonal adjustment methodology and factors and to adjust the measure of trucking activity to take into account recent changes in tax rates. The weight-distance tax revenue is now reported as an index, with 1998=100. The seasonal-adjustment updates smoothed the impact of fluctuations in building permits and initial unemployment claims, which in turn limited the extent of the UO Index's decline during the summer and fall of 2010.

Initial unemployment claims and employment services payrolls—largely temporary-help workers—were generally steady during January, retaining improvements evident in recent months. As expected, these improvements are visible in the broader labor market, with job growth accelerating in the final months of 2010 and the beginning of 2011. Overall nonfarm payrolls (not included in the index) rose a total of 10,300 employees in December and January, a very positive development indicative of significant improvement in the economic environment.

Residential building permits (smoothed) remained effectively flat as this sector continues to lag the overall recovery. Improving job markets will eventually provide additional support for housing, although potential buyers are expected to face continued tight underwriting conditions relative to what became the norm during the last decade. Core manufacturing orders declined sharply, entirely reversing December's gain. This series, however, has been very volatile in the last year. It would be premature to read much into the decline given other signs of improving manufacturing activity, notably recent reports from the Institute of Supply Management. Consumer confidence continues to improve, consistent with accelerating household spending in recent months.

The UO Index suggests ongoing improvement in economic activity in Oregon, consistent with signals of building momentum in the national economy. Strength in the final quarter of 2010 looks to have carried forward into 2011, suggesting a more consistent pattern of growth this year. The recent rise in commodity prices, however, is something of a cloud on the outlook. The gains to date do not appear to be sufficient to derail the recovery, but this would likely change should commodity prices continue to rise at the rapid pace of recent months.

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

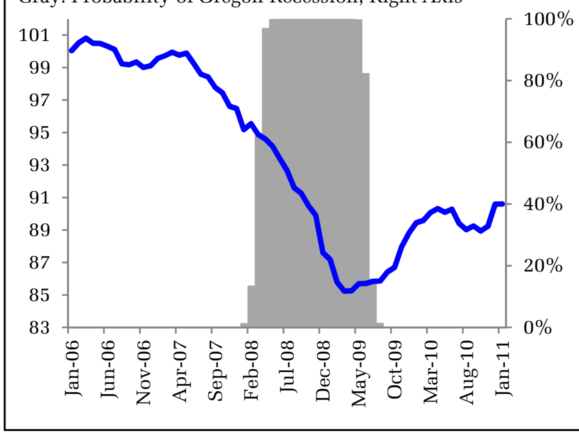


Table 1: Summary Measures

| | 2010 | | | | | 2011 |
|---|---|---|---|---|---|---|
| | Aug. | Sep. | Oct. | Nov. | Dec. | Jan. |
| University of Oregon Index of Economic Indicators™, 1997=100 | 89.0 | 89.2 | 88.9 | 89.2 | 90.6 | 90.6 |
| Percentage Change | -0.4 | 0.3 | -0.3 | 0.3 | 1.5 | 0.0 |
| Diffusion Index | 35.7 | 50.0 | 28.6 | 64.3 | 85.7 | 50.0 |
| Six Month Percentage Change, Annualized | -1.3 | -1.8 | -3.0 | -1.9 | 0.7 | 2.7 |
| Six Month Diffusion Index | 35.7 | 35.7 | 21.4 | 42.9 | 64.3 | 85.7 |




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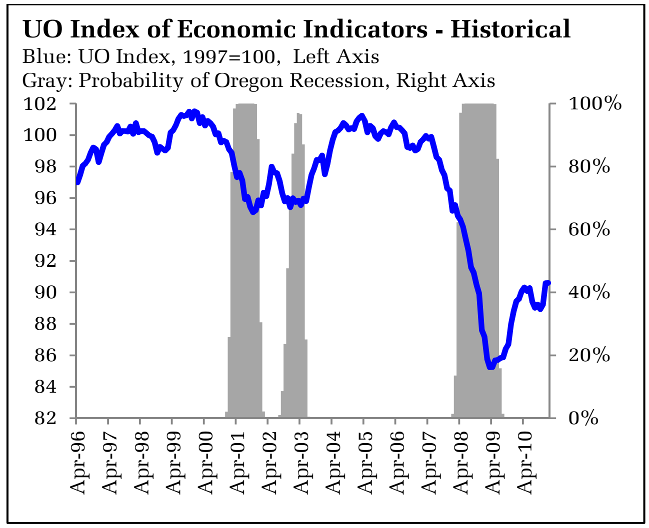
## Methodology and Notes

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 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.



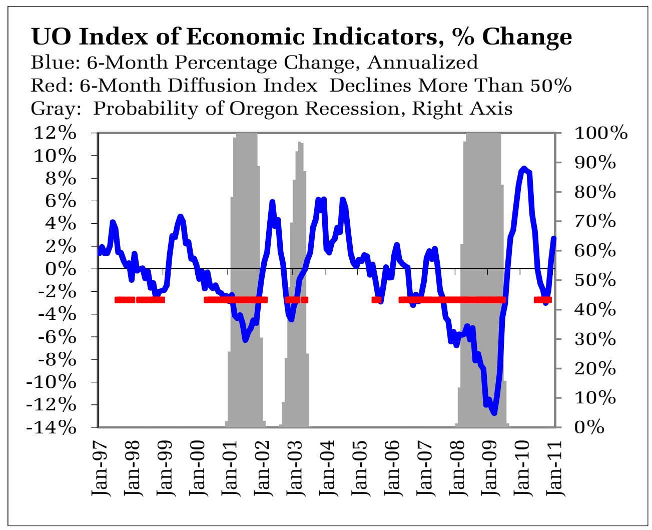




Table 2: Index Components

| | 2010 | | | | | 2011 |
|---|---|---|---|---|---|---|
| | Aug. | Sep. | Oct. | Nov. | Dec. | Jan. |
| Oregon Initial Unemployment Claims, SA* | 10,888 | 9,879 | 9,843 | 9,433 | 8,231 | 8,452 |
| Oregon Employment Services Payrolls, SA | 30,660 | 30,739 | 30,708 | 31,192 | 31,677 | 31,624 |
| Oregon Residential Building Permits, SA, 5 MMA* | 625 | 607 | 610 | 592 | 654 | 631 |
| Oregon Weight Distance Tax, SA, Index, 1998=100, 3 MMA | 101.83 | 102.95 | 103.04 | 103.06 | 100.10 | 106.15 |
| Univ. of Michigan U.S. Consumer Confidence, 5 MMA | 71.7 | 70.9 | 69.7 | 68.8 | 70.2 | 71.2 |
| Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, $ Millions, SA | 39,855 | 40,566 | 39,487 | 40,775 | 42,465 | 39,395 |
| Interest Rate Spread, Ten-Year Treasury Bonds Less Federal Funds Rate | 2.51 | 2.46 | 2.35 | 2.57 | 3.11 | 3.22 |

* *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.*