

UNIVERSITY OF OREGON INDEX OF ECONOMIC INDICATORS™

oregon
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JULY 2009

Analysis

The University of Oregon Index of Economic Indicators™ fell 0.4 percentage points in July to 84.0 (1997=100). Declining residential building permits continue to weigh negatively on the UO Index, and for the last two months have been the primary source of weakness in the index. Still, the behavior of the UO Index over the past six months—including an improvement in more than half the index components over that period—remains consistent with improving economic conditions in the second half of this year.

Labor market data trended in a positive direction, but still point to the poor conditions facing job seekers. Initial jobless claims drifted down modestly; the pace of improvement has slowed markedly since April, highlighting the persistent softness in the labor market and consistent with concerns of a “jobless recovery.” Payrolls in the employment services sector—dominated by temporary help agencies—improved slightly, while the previous month’s figure

was revised upwards (a smaller decline than initially reported). Overall nonfarm payrolls (not included in the index) fell by just 700 in July while the previous month’s decline was revised significantly upward. Overall, conditions in the labor market remain weak, but are slowly improving with the end of the steep deterioration of late 2008 and early 2009.

Residential housing permits (smoothed) continued to decline, falling to just 411. Low interest rates, falling prices, and incentives for first time homebuyers combined to offer some support to the housing market this summer, and there are national indications that new home activity reached a bottom in recent months; if so, Oregon permit activity is likely to firm as well. The Oregon weight-distance tax (smoothed) and new orders for non-defense nonaircraft capital goods, adjusted for inflation, both fell modestly during July. Still, new capital goods orders for June was revised upward, and the upward trend over the last three months is consistent with modest improvements in business spending. U.S. consumer confidence (smoothed) rose in July; note that consumption spending, buoyed by the

“Cash for Clunkers” program, also gained during the month.

The UO Index is likely to be a coincident measure of activity at the end of the recession; it will rise as the Oregon economy exits the recession. The decline in July would thus be consistent with ongoing recession; the measure of recession probability developed by University of Oregon Associate Professor Jeremy Piger signals a 97% change of recession in July. Still the 6-month annualized change in the index remains well above its lows and, importantly, more than half the index components improved during that period. Similar improvement signaled an impending end to the 2001 recession.

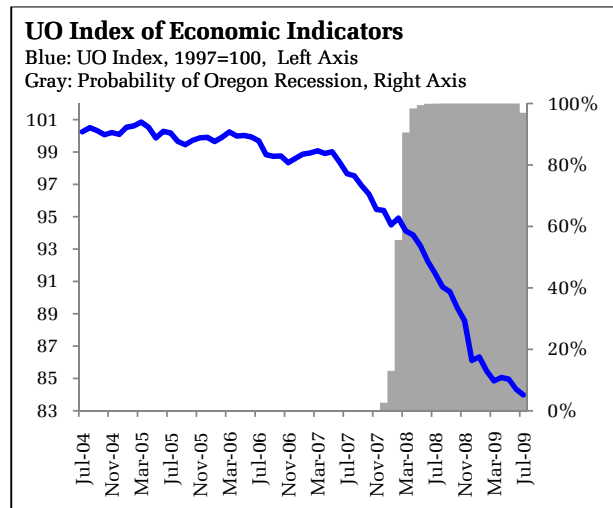


Table 1: Summary Measures

	2009					
	Feb.	Mar.	Apr.	May	Jun.	Jul.
University of Oregon Index of Economic Indicators™, 1997=100	85.5	84.8	85.1	85.0	84.3	84.0
Percentage Change	-1.0	-0.7	0.2	-0.1	-0.7	-0.4
Diffusion Index	28.6	28.6	57.1	64.3	71.4	42.9
6-Month Percentage Change, Annualized	-11.1	-11.8	-9.4	-8.0	-4.1	-5.4
6-Month Diffusion Index	14.3	14.3	0.0	21.4	42.9	57.1



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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 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.

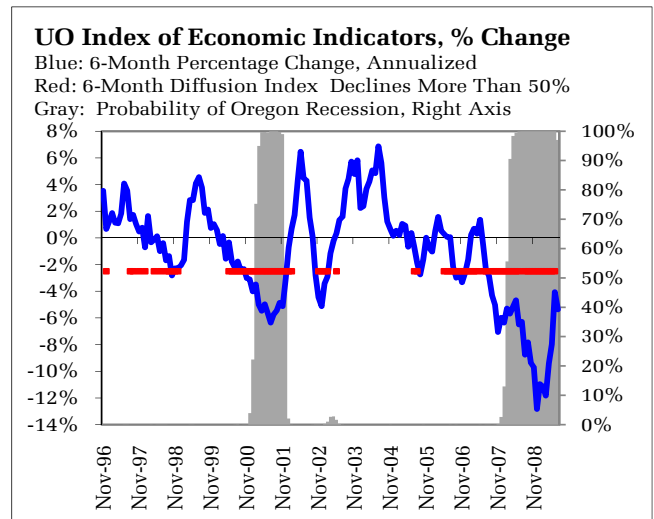
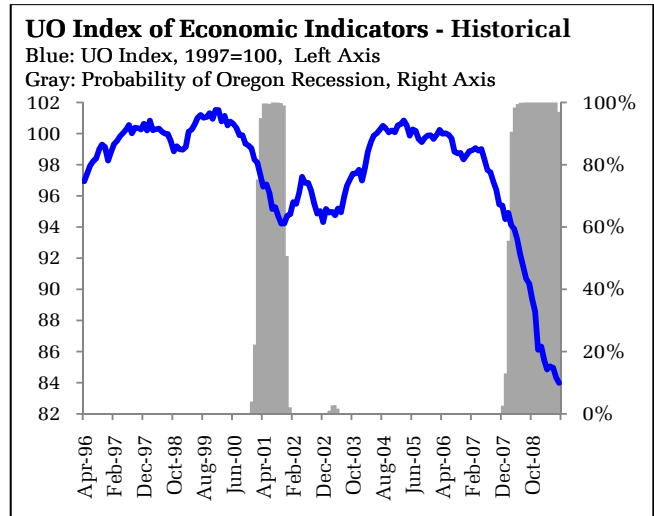


Table 2: Index Components

	2009					
	Feb.	Mar.	Apr.	May	Jun.	Jul.
Oregon Initial Unemployment Claims, SA*	14,679	13,820	12,564	12,308	11,915	11,793
Oregon Employment Services Payrolls, SA	28,809	27,870	27,134	26,936	26,269	26,361
Oregon Residential Building Permits, SA, 5 MMA*	918	836	766	672	469	411
Oregon Weight Distance Tax, \$ Thousands, SA, 3 MMA	17,747	17,424	18,285	17,441	17,966	17,376
Univ. of Michigan U.S. Consumer Confidence, 5 MMA	58.1	58.0	60.0	61.7	63.6	65.6
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, \$ Millions, SA	32,283	31,840	30,746	32,116	33,095	33,063
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	2.65	2.64	2.78	3.11	3.51	3.40

* 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.