

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

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JULY 2010

Analysis

The economic situation appeared to worsen in July. The University of Oregon Index of Economic Indicators™ fell 2 percent to 86.4 (1997=100) from a revised June figure of 88.1. The decline initially reported for June was revised to a small increase following a revision by the Employment Department that substantially increased estimated employment services payrolls. Unfortunately, the June revisions were swamped by widespread deterioration across the variables tracked in the UO Index. Compared to six months ago, the UO Index declined 4.7 percent (annualized), and more than half the components have declined over the past six months. In the past, such declines have foreshadowed a decline in nonfarm payrolls.

Labor-market indicators were mixed in July. Initial unemployment claims rose, crossing the 10,000 mark for the first time since January. Claims—already elevated—

have risen slowly since March, and while claims remain well below the highs of late 2008 and early 2009, the upward drift is a discouraging indicator of persistent economic weakness. Employment services payrolls—largely temporary hiring—edged up, but remain below the recent high in April. Overall nonfarm payrolls (not included in the index) fell 3,000 compared to a revised 1,800 gain in June.

Residential building permits (smoothed) fell sharply in July, reverting to the lowest level since September 2009. Housing markets are once again struggling following the burst of activity induced by the now-expired home purchase tax credit. New orders for nondefense nonaircraft capital goods fell sharply in July, suggesting that the pace of the manufacturing recovery is waning. Likewise, the Oregon weight distance tax, a measure of trucking activity, fell during the month. Consumer confidence declined as well, indicating that household budgets remain under stress. The interest rate spread between ten-year treasury bonds and the federal funds rate dropped sharply for a third month as market participants again reassessed prospects for growth in the second half of 2010, concluding

that previous forecasts would prove to be optimistic.

The UO Index is currently following a pattern similar to that in the wake of the 2001 recession—a temporary improvement followed by renewed weakness, albeit of a lesser degree of the initial decline in nonfarm payrolls. This would be consistent with fears that the economic improvement beginning in the latter half of 2009 would reverse with the fading of the positive impetus of inventory correction and fiscal stimulus. Unless reversed quickly in the next month, recent behavior of the UO Index is consistent with renewed economic weakness again emerging in the next three to six months.

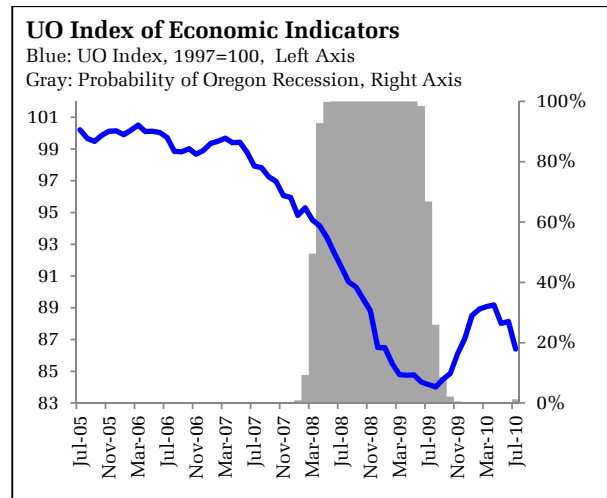


Table 1: Summary Measures

	2010					
	Feb.	Mar.	Apr.	May	Jun.	Jul.
University of Oregon Index of Economic Indicators™, 1997=100	88.9	89.1	89.2	88.0	88.1	86.4
Percentage Change	0.5	0.2	0.1	-1.3	0.1	-2.0
Diffusion Index	57.1	42.9	50.0	35.7	57.1	7.1
6-Month Percentage Change, Annualized	12.0	11.1	10.4	4.5	2.4	-4.7
6-Month Diffusion Index	85.7	100.0	100.0	85.7	71.4	28.6



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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 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.

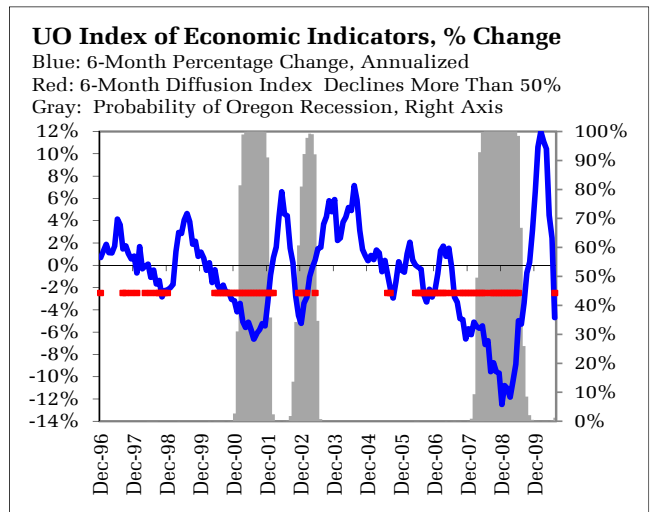
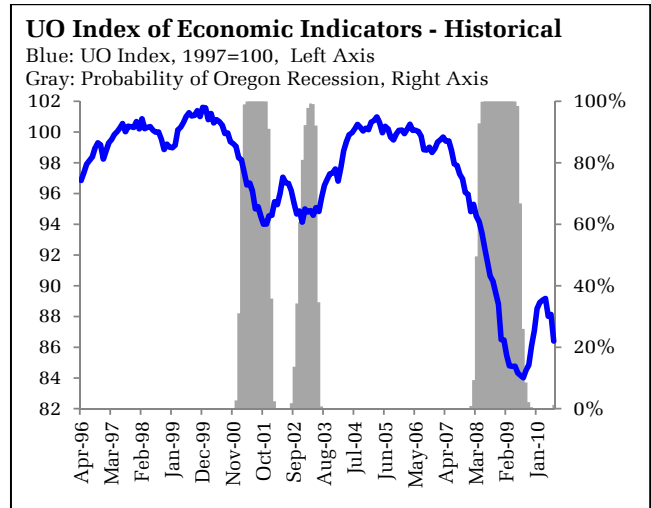


Table 2: Index Components

	2010					
	Feb.	Mar.	Apr.	May	Jun.	Jul.
Oregon Initial Unemployment Claims, SA*	9,216	9,188	9,656	9,794	9,688	10,163
Oregon Employment Services Payrolls, SA	28,311	27,905	28,862	27,431	27,602	27,877
Oregon Residential Building Permits, SA, 5 MMA*	820	798	769	630	606	480
Oregon Weight Distance Tax, \$ Thousands, SA, 3 MMA	18,186	18,252	18,371	18,692	19,013	18,341
Univ. of Michigan U.S. Consumer Confidence, 5 MMA	71.7	72.3	73.3	73.5	73.8	72.6
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, \$ Millions, SA	35,772	38,155	37,033	38,741	40,132	36,834
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	3.56	3.57	3.65	3.22	3.02	2.83

* 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.