# University of Oregon Index of Economic Indicators™

oregon economic forum

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



## July 2011

### Analysis

Economic data continue to deteriorate. The University of Oregon Index of Economic Indicators™ fell 0.5 percent to 90.2 (1997=100) in July 2011, compared to a revised 90.7 the previous month. This is the fourth consecutive monthly decline. Indicators were generally weaker to flat during the month; only initial unemployment claims improved measurably. Compared to six months ago, the UO Index has fallen 0.9 percent (annualized) and less than half the components have improved or held steady over that period. The downward trend of the past three months still falls short of the more severe declines that typically precede recessions.

Labor markets data was on average weak in July. Initial unemployment claims fell back to their lowest level since March of this year. Note that claims remain about 50 percent higher than levels consistent with solid economic performance in the past. Employment services payrolls—largely temporary employment—fell, suggesting that employers turned cautious during the month. Overall nonfarm payrolls (not included in the index) continue to move mostly sideways since February. In July, the private sector added 1,200 jobs, just barely offsetting the loss of 900 government jobs.

Residential building permits (smoothed) remained steady during the month, continuing their sideways move at relatively low levels. Adjusted for inflation, nondefense, nonaircraft capital goods orders again slipped during July. Similarly, Oregon weight distance revenue—a measure of trucking activity—fell for the second consecutive month. Both indicators indicate that underlying growth is tepid. Consumer confidence (smoothed with a five-month moving average) fell in July, suggesting caution on the part of households. Still, July figures for personal consumption expenditures reveal a solid gain in the wake of a decline in the second quarter. The interest rate spread remained unchanged.

The recovery that began in the second half of 2009 slowed to a crawl in the first half of this year, leaving both Oregon and the nation with historically high unemployment.

While some of the temporary factors weighing on the economy, notably the rapid rise in commodity prices and the Japanese supply disruption, are easing, growth in the second half of this year is expected to remain subpar. Moreover, absent additional action by Congress and the Obama Administration, fiscal policy is poised to become increasingly contractionary by next year. Also note that the debt-ceiling debate and possible government shutdown triggered caution on the part of consumers and firms, further exacerbating the slowdown. While incoming data remain consistent with disappointingly slow growth rather than recession, the expansion is clearly fragile at this juncture.

**UO Index of Economic Indicators**

Blue: UO Index, 1997=100, Left Axis

Gray: Probability of Oregon Recession, Right Axis

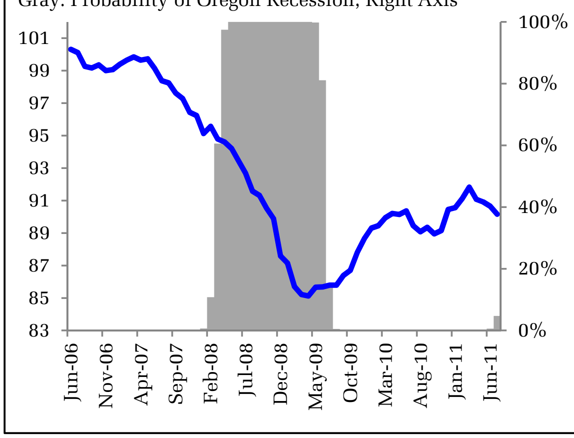


Table 1: Summary Measures

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Feb. | Mar. | Apr. | May | Jun. | Jul. |
| University of Oregon Index of Economic Indicators™, 1997=100 | 91.1 | 91.8 | 91.1 | 90.9 | 90.7 | 90.2 |
| Percentage Change | 0.6 | 0.8 | -0.8 | -0.2 | -0.3 | -0.5 |
| Diffusion Index | 71.4 | 64.3 | 35.7 | 42.9 | 28.6 | 33.3 |
| Six Month Percentage Change, Annualized | 4.6 | 5.6 | 4.9 | 4.0 | 0.4 | -0.9 |
| Six Month Diffusion Index | 78.6 | 100.0 | 85.7 | 100.0 | 64.3 | 28.6 |





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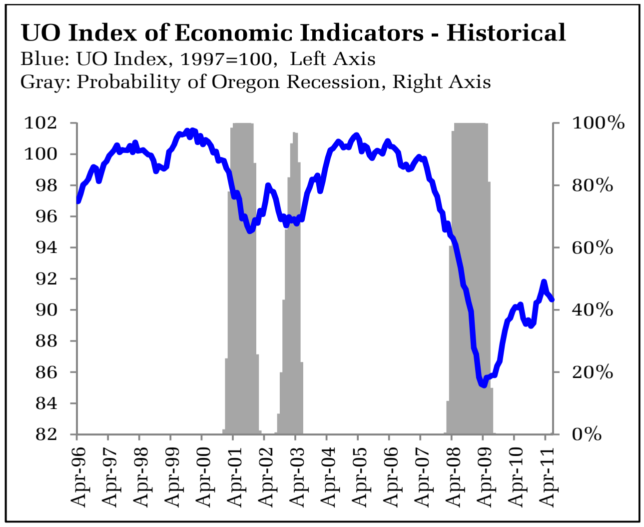
## Methodology and Notes

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 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.



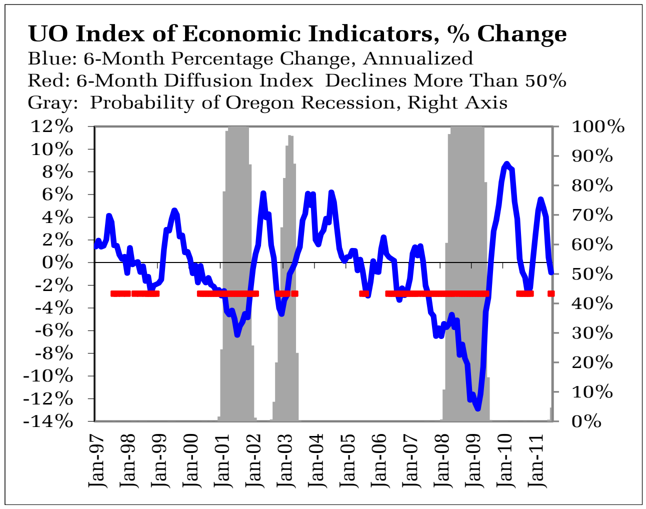




Table 2: Index Components

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Feb. | Mar. | Apr. | May | Jun. | Jul. |
| Oregon Initial Unemployment Claims, SA* | 8,672 | 8,408 | 9,149 | 9,133 | 9,281 | 9,030 |
| Oregon Employment Services Payrolls, SA | 32,558 | 32,742 | 32,293 | 31,501 | 31,582 | 30,879 |
| Oregon Residential Building Permits, SA, 5 MMA* | 621 | 711 | 710 | 665 | 659 | 671 |
| Oregon Weight Distance Tax, SA, Index, 1998=100, 3 MMA | 106.77 | 106.07 | 100.30 | 106.26 | 105.08 | 104.34 |
| Univ. of Michigan U.S. Consumer Confidence, 5 MMA | 73.1 | 73.1 | 72.7 | 72.7 | 72.1 | 69.4 |
| Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, $ Millions, SA | 39,245 | 41,266 | 41,004 | 41,692 | 41,909 | 41,376 |
| Interest Rate Spread, Ten-Year Treasury Bonds Less Federal Funds Rate | 3.42 | 3.27 | 3.36 | 3.08 | 2.91 | 2.93 |

** SA–seasonally adjusted; MMA–month moving average*

**Author**
Timothy A. Duy
Director, Oregon Economic Forum
Department of Economics, University of Oregon
**541-346-4660 · duy@uoregon.edu**

*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.*