

# UNIVERSITY OF OREGON INDEX OF ECONOMIC INDICATORS™

oregon  
economic  
forum

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## Analysis

The University of Oregon Index of Economic Indicators™ slipped in July, falling 0.1 percent to 100.9 (1997=100). Three indicators—Oregon residential building permits, U.S. consumer confidence, and core manufacturing orders—improved in July, while labor market data and the interest rate spread all deteriorated. The Oregon weight-distance tax collected remained effectively unchanged.

Oregon's labor market worsened in July. Nonfarm payrolls declined 3,600, bringing total job losses over the past five months to 11,300. Job growth turned negative as well, with nonfarm payrolls down 0.2 percent compared to July 2007. Sectors most affected during this downturn include construction, manufacturing, and financial activities, all of which have close ties to housing activity. Initial unemployment claims rose in July while help-wanted advertising in Oregon newspapers declined

significantly, both of which suggest ongoing weak job growth.

Residential building permits rose to their highest level since December 2007, but are down 28.9 percent since last July. Although this indicator tends to be volatile, recent data indicates new residential building activity may be reaching a bottom, albeit at levels well below the recent peak. Ongoing weakness in housing markets overall, however, suggests a sustained rebound is unlikely through at least next year. The Oregon weight-distance tax collected, a measure of trucking activity, held steady in July. New orders for nondefense nonaircraft capital goods, adjusted for inflation, rose in July, continuing a trend of relative strength inconsistent with a typical recession. U.S. consumer confidence rose for the first time since last January, partly in reaction to stabilizing energy costs. Still, confidence remains depressed, indicating continued challenges to household budgets that restrain spending growth. The yield spread—the difference between short- and long-term interest rates—slipped to 189 basis points

(a “basis point” is 1/100 of a percentage point) as bond market participants reacted to ongoing weakness in the national economy and reduced prospects for an interest rate hike.

Compared to six months ago, the UO Index is down 1.8 percent on an annualized basis, while the diffusion index over that period rose to 56.3, with readings above 50 indicating an increase in more than half the indicators. This suggests some stabilization after a downward shift in the pace of growth that began at the end of 2007. Still, overall conditions remain consistent with at least a mild recession, and labor market conditions are likely to remain soft for a protracted period as the economy restructures away from housing-dependent growth.

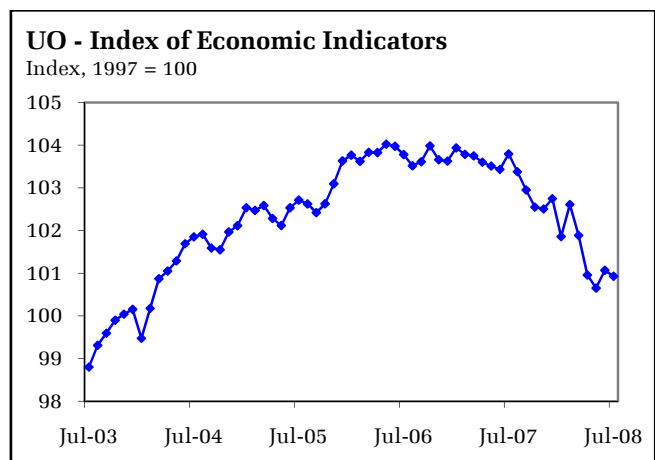


Table 1: Summary Measures

	2008					
	Feb.	Mar.	Apr.	May	Jun.	Jul.
University of Oregon Index of Economic Indicators™, 1997=100	102.6	101.9	101.0	100.7	101.1	100.9
Percentage Change	0.7	-0.7	-0.9	-0.3	0.4	-0.1
Diffusion Index	62.5	31.25	43.75	56.25	68.75	50.0
6-Month Percentage Change, Annualized	-1.5	-2.1	-3.1	-3.6	-3.2	-1.8
6-Month Diffusion Index	43.8	31.3	31.3	31.3	25.0	56.3



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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](http://www.globalindicators.org).

The UO Index is constructed to have the properties of a leading indicator. As a general rule, a decline in the index of greater than 2 percent over six months, coupled with a decline in more than half of its components, signals that a recession is likely imminent. The 2 percent rule—which has since changed to 3.5 percent due to index revisions—was originally employed by The Conference Board for the U.S. Leading Indicators, and it appears appropriate for the UO Index.

Using the rule, the index signaled an impending recession in January 2001; the National Bureau of Economic Research (NBER) dates the national recession from March to November 2001. The index did signal the so-called “jobless recovery” that followed the 2001 recession, and did, for a single month, register a decline greater than 2 percent during this period. No other recessions were signaled during the period for which data are available (beginning March 1996).

The general rule, however, should be used judiciously. The available data encompass only one recession, a very small sample from which to draw generalities. 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.

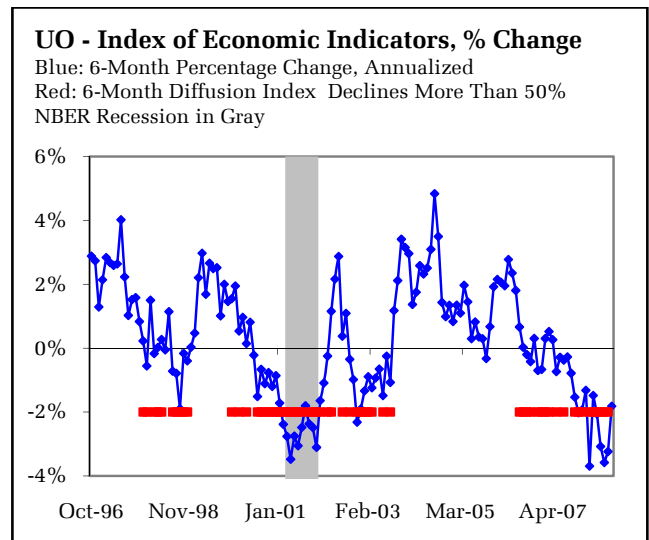
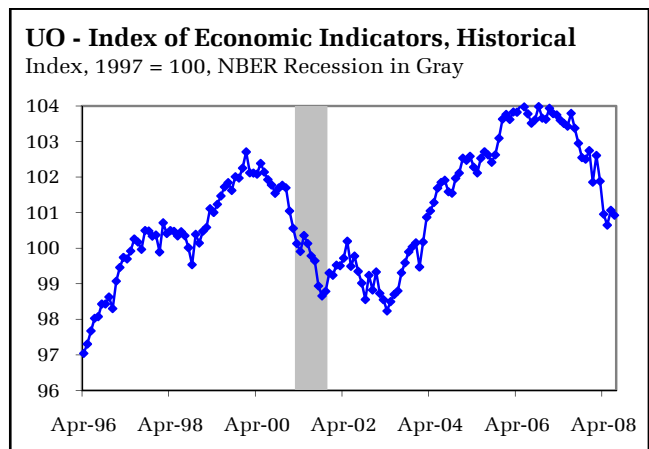


Table 2: Index Components

	2008					
	Feb.	Mar.	Apr.	May	Jun.	Jul.
Oregon Initial Unemployment Claims, SA*	7,885	8,076	8,005	7,993	8,088	8,166
Oregon Residential Building Permits, SA	1,850	975	807	908	977	1,345
Oregon Help-Wanted Advertising, SA	19,354	17,368	11,955	9,487	11,385	8,759
Oregon Weight Distance Tax, \$ Thousands, SA	20,504	21,641	18,649	20,089	21,600	21,568
Oregon Total Nonfarm Payrolls, Thousands, SA	1741.9	1739.2	1738.9	1732.8	1734.2	1730.6
Univ. of Michigan U.S. Consumer Confidence	70.8	69.5	62.6	59.8	56.4	61.2
Real Manufacturers’ New Orders for Nondefense, Nonaircraft Capital Goods, \$ Millions, SA	42,096	41,621	42,737	42,568	43,013	43,792
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	0.76	0.90	1.40	1.90	2.10	1.89

\* SA—seasonally adjusted

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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.