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### JUNE 2010

#### Analysis

Oregon experienced continued economic headwinds in June. The University of Oregon Index of Economic Indicators™ fell 0.6 percent to 87.5 (1997=100) from a revised May figure of 88.0. This is the second consecutive decline. Further declines in Oregon employment services payrolls and the interest rate spread drove June's decline, with other indicators generally stronger. Compared to six months ago, the UO Index rose an annualized 0.9 percent, a substantial deceleration from the 10.4 percent rate of April.

Labor market weakness persisted in June. Initial unemployment claims drifted down, but remain above this year's low in March and continue to hover near a level consistent with weak job growth at best. Similarly, employment services payrolls—largely temporary hiring—dropped for a second month to the lowest level since the cyclical low last October. This drop

is discouraging as it suggests deterioration in hiring demand, which should be strengthening at this stage of the recovery. Overall nonfarm payrolls (not included in the index) fell 3,600 compared to a revised 2,600 gain in May. Payrolls have been essentially stagnant since last September.

Residential building permits (smoothed) fell again in June, although the pace of the decline moderated compared to the previous month. Interestingly, just 55 percent of units permitted were single family, in comparison to 77 percent in June 2009. This suggests that ongoing weakness in the single-family market—further exacerbated by the end of tax credits for homebuyers—is pushing builders into multifamily units. New orders for nondefense nonaircraft capital goods rose for a second month, sustaining the upward trend typically consistent with improving economic conditions and stands out against the generally softer tone of the UO Index in recent months. Likewise, the Oregon weight distance tax, a measure of trucking activity, edged up during the month. The interest rate spread between ten-year Treasury bonds and the Federal Funds rate dropped dramatically for

a second month as market participants continued to scramble for the safety of government debt amid concerns of a slowdown in the second half of this year.

Two consecutive falls in the UO Index is not sufficient to declare that the Oregon economy will experience a double-dip recession. Importantly, the UO Index is still positive relative to six months ago. Still, the decline is consistent with slowing growth as the impacts of inventory correction and fiscal stimulus lessen. For job seekers, this is not good news, as slower growth would delay the onset of a more rigorous labor market recovery.

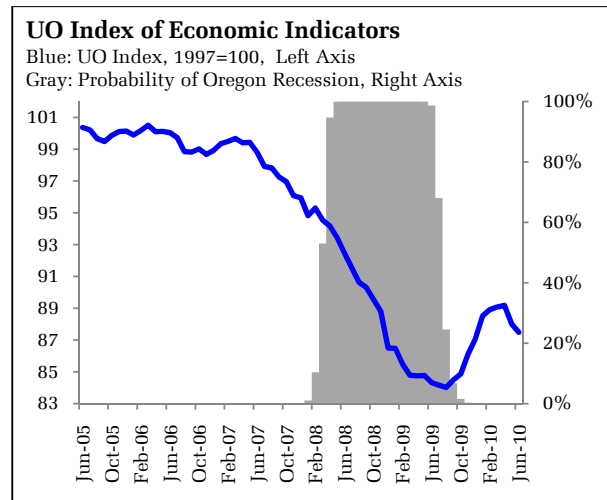


Table 1: Summary Measures

	2010					
	Jan.	Feb.	Mar.	Apr.	May	Jun.
University of Oregon Index of Economic Indicators™, 1997=100	88.5	88.9	89.1	89.2	88.0	87.5
Percentage Change	1.7	0.5	0.2	0.1	-1.3	-0.6
Diffusion Index	85.7	57.1	42.9	50.0	35.7	42.9
6-Month Percentage Change, Annualized	10.6	12.0	11.1	10.4	4.5	0.9
6-Month Diffusion Index	100.0	85.7	100.0	100.0	85.7	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](http://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 in 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.

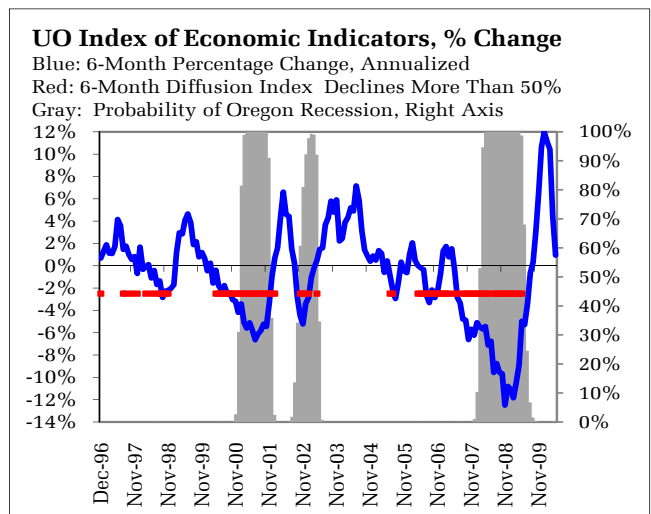
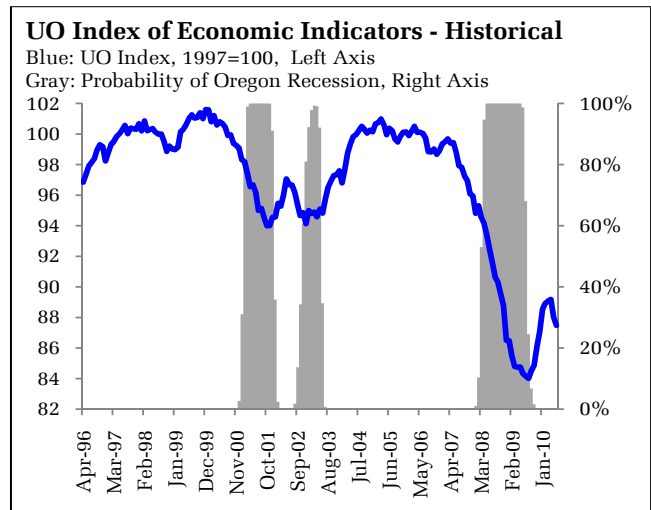


Table 2: Index Components

	2010					
	Jan.	Feb.	Mar.	Apr.	May	Jun.
Oregon Initial Unemployment Claims, SA*	10,081	9,216	9,188	9,656	9,794	9,688
Oregon Employment Services Payrolls, SA	28,403	28,311	27,905	28,862	27,431	26,002
Oregon Residential Building Permits, SA, 5 MMA*	756	820	798	769	630	606
Oregon Weight Distance Tax, \$ Thousands, SA, 3 MMA	18,890	18,186	18,252	18,371	18,692	19,013
Univ. of Michigan U.S. Consumer Confidence, 5 MMA	71.7	71.7	72.3	73.3	73.5	73.8
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, \$ Millions, SA	34,740	35,772	38,155	37,033	38,673	38,895
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	3.62	3.56	3.57	3.65	3.22	3.02

\* 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.