

UNIVERSITY OF OREGON INDEX OF ECONOMIC INDICATORS™

oregon
economic
forum

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

SPONSORED BY

KeyBank 
Unlock your possibilities

MARCH 2010

Analysis

The University of Oregon Index of Economic Indicators™ rose 0.2 percent in March to 88.9 (1997=100) from a revised February figure of 88.7. The pace of improvement slowed compared to the previous month. All indicators improved compared to six months ago, with the six-month annualized change falling slightly to a still very high 11.1%. Most index components were little changed compared to February, with the exception of solid gains in consumer sentiment and new orders for core capital goods.

Labor market indicators were largely unchanged during March. Initial unemployment claims and employment services payrolls—largely temporary employment firms—were both effectively steady during the month. Claims have improved dramatically since last year, but still remain elevated, while steady economic growth since last summer has had limited impact on new hiring. The combination leaves overall nonfarm pay-

rolls (not included in the UO Index) stagnant with a net loss of just 100 jobs for the first three months of 2010.

Residential building permits (smoothed) fell slightly, the first decline in five months as construction activity bounced from the very low levels last summer. Only moderate improvements are expected as tighter mortgage underwriting conditions and nonexistent job growth both continue to weigh on the outlook for residential housing activity. The Oregon weight-distance tax (smoothed)—a measure of trucking activity—rose slightly, partially offsetting a decline in February.

New orders for nondefense nonaircraft capital goods rose sharply, a signal of continuing improvement in business confidence that is supportive of manufacturing industries. Likewise, consumer confidence (smoothed) gained in March; gradual improvements in job markets is likely supporting some additional spending as layoff fears ebb. The interest rate spread between 10-Year Treasury Bonds and the Federal Funds was effectively

unchanged; the Federal Reserve continues to signal accommodative monetary policy for an “extend” period of time, likely into 2011.

The steady gains in the UO Index—especially the large gains compared to six months ago—signal sustained growth in Oregon. Still, labor market conditions remain challenging, as economic growth falls short of that necessary to generate solid gains in hiring intentions. Although hiring is expected to improve as ongoing recovery improves business confidence, the pace of growth looks consistent with only slow improvements in unemployment.

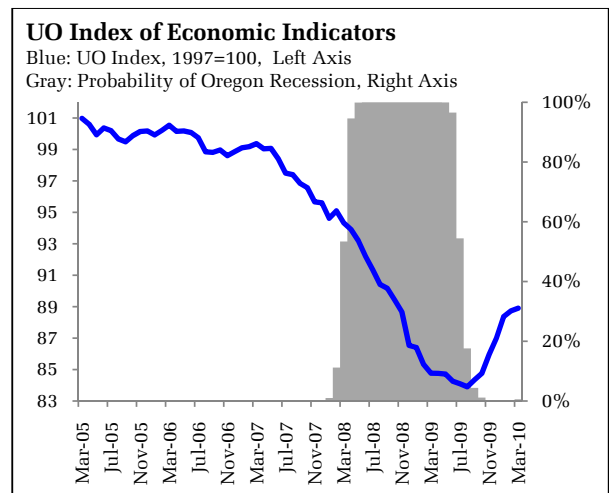


Table 1: Summary Measures

| | 2009 | | | 2010 | | |
|--|------|------|------|-------|------|-------|
| | Oct. | Nov. | Dec. | Jan. | Feb. | Mar. |
| University of Oregon Index of Economic Indicators™, 1997=100 | 84.8 | 86.0 | 87.0 | 88.4 | 88.7 | 88.9 |
| Percentage Change | 0.5 | 1.4 | 1.2 | 1.6 | 0.4 | 0.2 |
| Diffusion Index | 42.9 | 85.7 | 78.6 | 85.7 | 57.1 | 50.0 |
| 6-Month Percentage Change, Annualized | 0.0 | 3.0 | 6.6 | 10.4 | 11.8 | 11.1 |
| 6-Month Diffusion Index | 64.3 | 71.4 | 78.6 | 100.0 | 85.7 | 100.0 |



COLLEGE OF ARTS AND SCIENCES
University of Oregon

© 2010 University of Oregon. All rights reserved.
Released: May 5, 2010.

MARCH 2010

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 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.

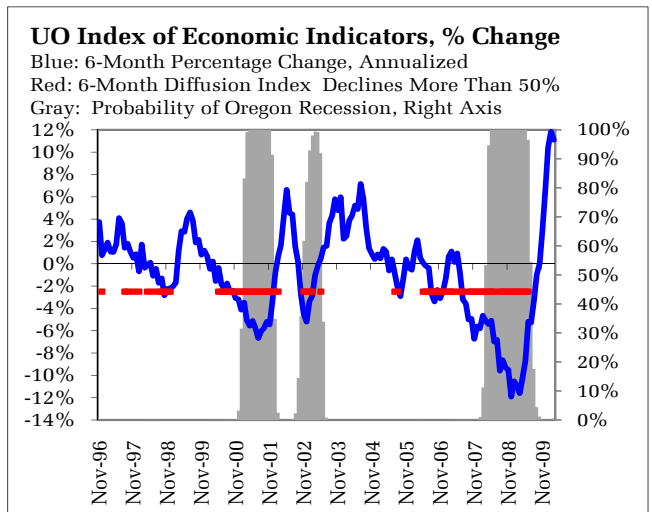
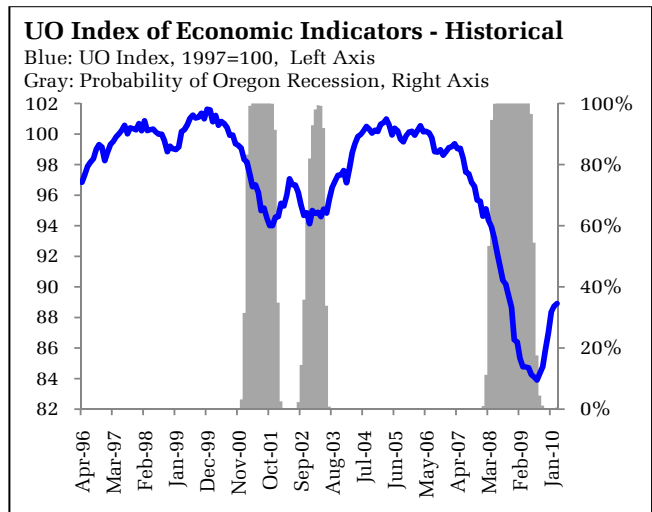


Table 2: Index Components

| | 2009 | | | 2010 | | |
|---|--------|--------|--------|--------|--------|--------|
| | Oct. | Nov. | Dec. | Jan. | Feb. | Mar. |
| Oregon Initial Unemployment Claims, SA* | 11,307 | 10,819 | 10,754 | 10,081 | 9,216 | 9,188 |
| Oregon Employment Services Payrolls, SA | 25,453 | 26,735 | 26,810 | 28,403 | 28,311 | 28,305 |
| Oregon Residential Building Permits, SA, 5 MMA* | 499 | 575 | 678 | 756 | 820 | 798 |
| Oregon Weight Distance Tax, \$ Thousands, SA, 3 MMA | 18,000 | 18,325 | 18,311 | 18,890 | 18,186 | 18,252 |
| Univ. of Michigan U.S. Consumer Confidence, 5 MMA | 69.3 | 68.6 | 69.9 | 71.7 | 71.7 | 72.3 |
| Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, \$ Millions, SA | 33,218 | 34,346 | 35,189 | 33,565 | 34,284 | 35,653 |
| Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate | 3.27 | 3.28 | 3.47 | 3.62 | 3.56 | 3.57 |

* 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.