University of Oregon Index of Economic Indicators™

oregon economic forum

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

May 2010

Analysis

The Oregon recovery experienced headwinds in May. The University of Oregon Index of Economic Indicators™ fell 1.4 percent to 87.9 (1997=100) from a revised April figure of 89. Significant deterioration in Oregon employment services payrolls, Oregon residential building permits, and the interest rate spread contributed to the decline. Compared to six months ago, the UO Index rose an annualized 4.3 percent, a substantial drop from the 10.4 percent rate of the previous month.

Labor market components were generally weak in May. Initial unemployment claims rose again, mimicking national data by hovering near a level consistent with weak job growth at best. Moreover, employment services payrolls—largely temporary hiring—dropped to the lowest level since last December, signaling deterioration in hiring demand. Overall, nonfarm payrolls (not included in the index) were flat compared to a 5,500 gain in April. The increase since April was driven by rising government employment, largely a consequence of temporary U.S. Census Bureau hiring that will be reversed later this year. In short, while the large job declines associated with the recession are over, the recovery still lacks sufficient momentum to boost employment. Labor markets remain challenging for job seekers.

Residential building permits (smoothed) fell to the lowest level since December. Not seasonally adjusted, permits declined in May, a month normally associated with a seasonal increase in permits, to a level below that of the same month last year. The decline is expected given the expiration of tax credits for homebuyers, a policy that merely pulls demand from future months. New orders for nondefense, nonaircraft capital goods rose, rebounding from April's decline. The upward trend of this indicator typically suggests improving economic conditions and stands out against other, generally softer components of the UO Index. The interest rate spread between Ten-Year Treasury Bonds and the Federal Funds dropped dramatically during May as market participants—increasingly concerned with the pace of economic growth in the second half of 2010 as well as with the European debt crisis—rushed to the safety of government debt.

It would be premature to conclude that a "double-dip" recession is imminent on the basis of a single-month decline in the UO Index. The decline, however, is consistent with concerns that the pace of recovery would falter in the second half of 2010 after the impetus of inventory correction and fiscal stimulus waned. Faltering growth as the year progresses may not trigger another technical recession, but would delay the onset of a more rigorous labor market recovery.

UO Index of Economic Indicators

Blue: UO Index, 1997=100, Left Axis

Gray: Probability of Oregon Recession, Right Axis

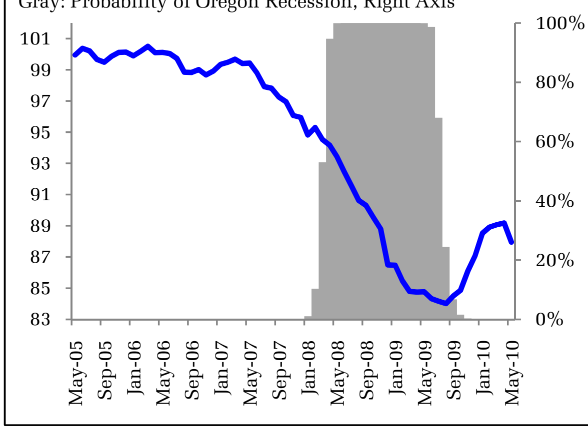

Table 1: Summary Measures

	2009	2010				
	Dec.	Jan.	Feb.	Mar.	Apr.	May
University of Oregon Index of Economic Indicators™, 1997=100	87.1	88.5	88.9	89.1	89.2	87.9
Percentage Change	1.1	1.7	0.5	0.2	0.1	-1.4
Diffusion Index	71.4	85.7	57.1	42.9	50.0	35.7
6-Month Percentage Change, Annualized	6.6	10.6	12.0	11.1	10.4	4.3
6-Month Diffusion Index	78.6	100.0	85.7	100.0	100.0	85.7

COLLEGE OF ARTS AND SCIENCES

University of Oregon

Released: July 8, 2010.

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MAY 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.

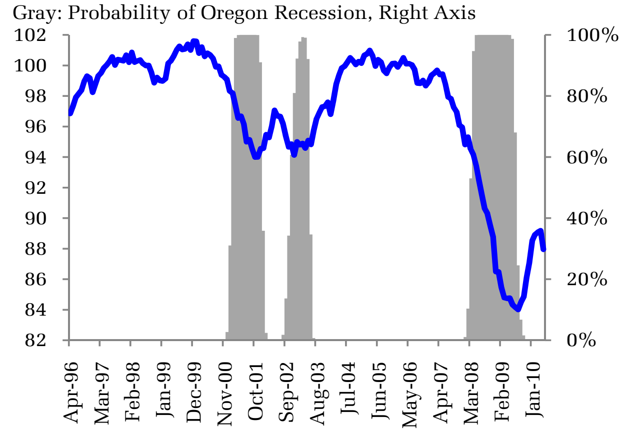
The UO Index is a leading indicator as the economy transitions from expansion to recession. Steep declines in the UO Index are recorded during periods of economic stress, signaling diminishing prospects for growth. Rising values of the UO Index tend to coincide with the end of a recession. As a general 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 of economics, indicates Oregon entered recession in November of 2000. Similarly, the UO Index suffered a sharp drop in 2007 ahead of the recession.

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.

UO Index of Economic Indicators - Historical

Blue: UO Index, 1997=100, Left Axis
Gray: Probability of Oregon Recession, Right Axis



UO Index of Economic Indicators, % Change

Blue: 6-Month Percentage Change, Annualized
Red: 6-Month Diffusion Index Declines More Than 50%
Gray: Probability of Oregon Recession, Right Axis

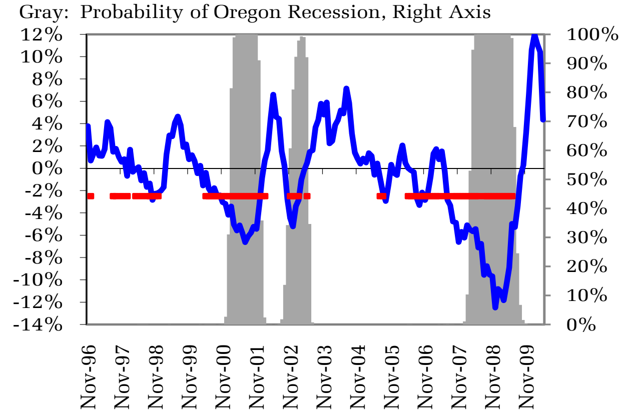


Table 2: Index Components

	2009	2010				
	Dec.	Jan.	Feb.	Mar.	Apr.	May
Oregon Initial Unemployment Claims, SA*	10,754	10,081	9,216	9,188	9,656	9,794
Oregon Employment Services Payrolls, SA	26,810	28,403	28,311	27,905	28,862	27,331
Oregon Residential Building Permits, SA, 5 MMA*	678	756	820	798	769	630
Oregon Weight Distance Tax, $ Thousands, SA, 3 MMA	18,311	18,890	18,186	18,252	18,371	18,692
Univ. of Michigan U.S. Consumer Confidence, 5 MMA	69.9	71.7	71.7	72.3	73.3	73.5
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, $ Millions, SA	35,854	34,740	35,772	38,155	37,033	38,424
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	3.47	3.62	3.56	3.57	3.65	3.22

* *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.