University of Oregon Index of Economic Indicators™

oregon economic forum

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

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Analysis

The University of Oregon Index of Economic Indicators™ fell 0.2 percent to 91.0 (1997=100) in May 2011, compared to a revised 91.2 the previous month. This is the second consecutive monthly decline. Deterioration in building permits, employment services payrolls, and the interest rate spread drove the decline. Similar to last month, however, the decline does not signal that Oregon's recovery will soon end. Compared to six months ago, the UO Index is up 4.1 percent (annualized), and all indicators show improvement over that period. Still, the decline is consistent with national data indicating economic activity slowed in the first half of 2011.

Labor markets were generally soft. Initial unemployment claims remained unexpectedly high considering that last month's gain was attributed to special factors. The higher level, however, is consistent with a backup in claims in the national economy. Employment services payrolls—largely temporary employment—fell from an upwardly revised April figure. Despite the revision, this indicator is down for two consecutive months, consistent with a weak overall labor market. Overall nonfarm payrolls (not included in the index) continue to reflect soft underlying economic activity. Employers added just 1,300 jobs in May, after a revised gain of 1,100 jobs in April. Including the 2,000 jobs lost in March, the Oregon economy has added just 400 jobs in the past three months.

Residential building permits (smoothed) declined as the state and national economies continue to struggle with persistently weak housing markets. On a positive note, core manufacturing orders gained, while the April figure was revised higher. Still, orders adjusted for inflation are flat compared to December; this indicator has certainly lost the momentum seen for much of 2010. Consumer confidence (smoothed with a five-month moving average) was flat in April. The rise in commodity prices, particularly for oil, became a significant drag on consumers in the second quarter, with inflation-adjusted personal consumption spending negative in both April and May. The interest rate spread narrowed sharply as increasing economic uncertainty drove market participants into U.S. Treasuries, pushing down interest rates.

Rising commodity prices combined with the underlying drag of a weak housing market, spending weakness on the part of state and local governments, and the Japanese tsunami-related disruptions to slow the pace of economic growth in the first half of this year. This slowdown is reflected in Oregon data, notably employment indicators. While the weaker data is not consistent with an impending recession, it is certainly a disappointment considering the stronger momentum evident at the end of 2010 and serves as a reminder that the pace of recovery has proven to be relatively slow.

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

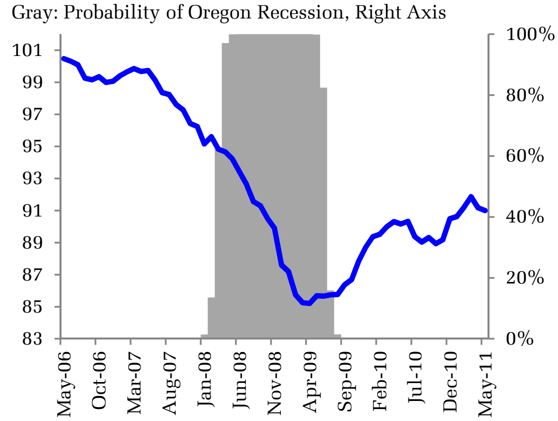


Table 1: Summary Measures

	2010	2011				
	Dec.	Jan.	Feb.	Mar.	Apr.	May
University of Oregon Index of Economic Indicators™, 1997=100	90.5	90.6	91.2	91.9	91.2	91.0
Percentage Change	1.5	0.2	0.6	0.7	-0.8	-0.2
Diffusion Index	85.7	50.0	64.3	64.3	35.7	50.0
Six Month Percentage Change, Annualized	0.4	2.8	4.9	5.8	5.1	4.1
Six Month Diffusion Index	57.1	85.7	92.9	100.0	85.7	100.0

Released: July 5, 2011.

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.

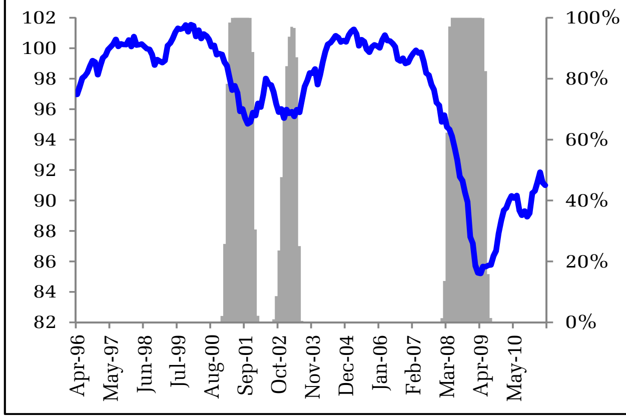
The UO Index is a leading indicator as the economy transitions from expansion to recession. Steep declines in the UO Index are recorded during periods of economic stress, signaling diminishing prospects for growth. Rising values of the UO Index tend to coincide with the end of a recession. As a general 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.

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

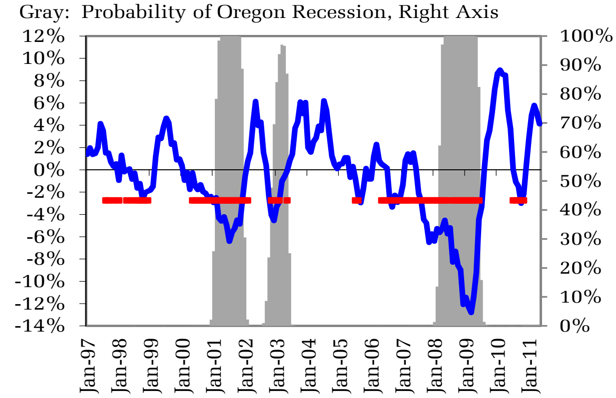


Table 2: Index Components

	2010	2011				
	Dec.	Jan.	Feb.	Mar.	Apr.	May
Oregon Initial Unemployment Claims, SA*	8,211	8,526	8,618	8,420	9,155	9,129
Oregon Employment Services Payrolls, SA	31,704	31,773	32,554	32,714	32,479	31,865
Oregon Residential Building Permits, SA, 5 MMA*	647	623	626	714	710	663
Oregon Weight Distance Tax, SA, Index, 1998=100, 3 MMA	99.37	106.23	106.92	106.42	101.04	106.46
Univ. of Michigan U.S. Consumer Confidence, 5 MMA	70.2	71.2	73.1	73.1	72.7	72.7
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, $ Millions, SA	41,518	39,396	39,270	41,292	40,841	41,429
Interest Rate Spread, Ten-Year Treasury Bonds Less Federal Funds Rate	3.11	3.22	3.42	3.27	3.36	3.08

***** *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.