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OCTOBER 2008

Analysis

The University of Oregon Index of Economic Indicators™ fell sharply in October to 90.2 (1997=100), a 0.7 percent decline from the previous month. Compared to six months ago, the UO Index is down 8.0 percent (annualized). Indicators pointed to widespread weakness; five of the seven variables declined from the previous month, while only one, the interest rate spread, improved. The remaining indicator, Oregon building permits, remained unchanged. The UO Index indicates that, like the nation as a whole, recessionary conditions in Oregon intensified in October.

Oregon labor markets deteriorated significantly. Initial unemployment claims jumped to a weekly average of 10,805, exceeding the peak of 10,245 reached during the 2001 recession. Payrolls at employment services agencies declined again in October and stand 6.5 percent below October 2007 levels. This sector is dominated by temporary help agencies, whose employees are

often the first laid off by struggling firms. Nonfarm payrolls (not included in the UO Index) fell sharply during October as firms, on net, shed 14,100 workers. Declines were widespread; employment fell in virtually all major sectors of the economy.

Residential building permits (smoothed) continue to hover near 1,000, having stabilized at low levels for the past four months. Still, note that permits are below the levels of the 2001–3 period of weakness. New orders for nondefense, nonaircraft capital goods, adjusted for inflation, fell sharply in October as the intensifying credit crunch and signals of softer consumer demand prompted firms to delay capital spending.

This sharp shift in firm behavior will deepen and lengthen the recession. U.S. consumer confidence (smoothed) fell slightly, still indicating very weak consumer spending growth. While lower gasoline costs will support spending, the impact will be at least partially offset by rising joblessness. Oregon trucking activity, as measured by the weight-distance tax collected, fell in October, consistent with weakening demand. The yield spread—the difference between short- and long-term interest rates—rose as the

Federal Reserve cut its target for rates on overnight loans. Typically, a rising yield spread signals improving economic conditions. Impairment of the financial markets, however, is limiting the impact of monetary policy, suggesting that the yield spread has lost some effectiveness as an indicator during this recession.

The UO Index indicates that Oregon remains mired in recession with little chance of significant improvement in the near term (three to six months). Note that growing momentum for a federal stimulus package, if enacted quickly and of sufficient size, should offer support to economic activity by mid 2009.

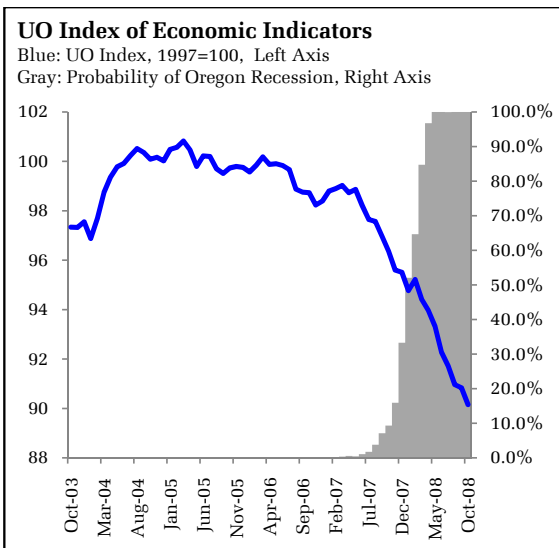


Table 1: Summary Measures

	2008					
	May	Jun.	Jul.	Aug.	Sep.	Oct.
University of Oregon Index of Economic Indicators™, 1997=100	93.3	92.3	91.7	91.0	90.8	90.2
Percentage Change	-0.7	-1.1	-0.6	-0.8	-0.1	-0.7
Diffusion Index	42.9	42.9	35.7	14.3	42.9	21.4
6-Month Percentage Change, Annualized	-4.7	-6.7	-6.3	-8.7	-7.4	-8.0
6-Month Diffusion Index	42.9	28.6	50.0	35.7	28.6	14.3



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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.

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 as Oregon reentered recession in 2003.

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 April 2008. 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.

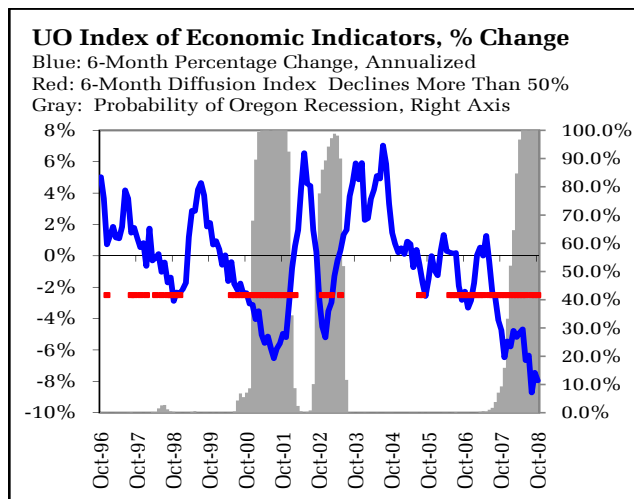
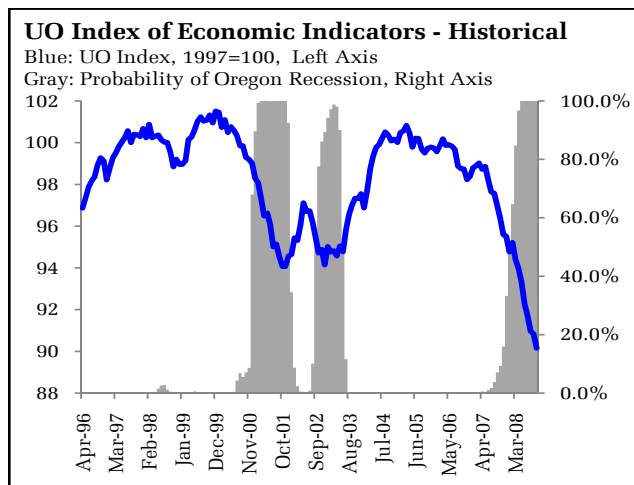


Table 2: Index Components

	2008					
	May	Jun.	Jul.	Aug.	Sep.	Oct.
Oregon Initial Unemployment Claims, SA*	7,993	8,088	8,166	8,833	9,641	10,805
Oregon Employment Services Payrolls, SA	41,028	39,027	39,059	38,868	38,492	37,656
Oregon Residential Building Permits, SA, 5 MMA*	1,110	1,103	1,002	994	1,000	989
Oregon Weight Distance Tax, \$ Thousands, SA, 3 MMA	20,126	20,113	21,086	20,791	20,967	19,416
Univ. of Michigan U.S. Consumer Confidence, 5 MMA	68.2	63.8	61.9	60.6	62.1	61.7
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, \$ Millions, SA	42,568	43,155	42,968	41,925	40,366	38,573
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	1.90	2.10	2.00	1.89	1.88	2.84

* 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.