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 in September to 90.9 (1997=100), a 0.1 percent decline from the previous month. Compared to six months ago, the UO Index is down 7.4 percent (annualized).

The UO Index incorporates a number of design changes this month. To improve its efficiency as a leading indicator of recessions and to address concerns about the transition of help-wanted advertising from newspapers to the Internet, two indicators—nonfarm payrolls and help-wanted advertising in Oregon newspapers—were replaced with employment services payrolls. This sector is dominated by temporary-help agencies, which tend to be a leading indicator of future employment trends. Three indicators—the Oregon weight distance tax, Oregon building permits, and U.S. consumer confidence—were smoothed using moving averages to minimize volatility in these data. Finally, the national recession dates were replaced with Oregon recession probabilities developed by Jeremy Piger, University of Oregon associate professor of economics.

Oregon labor markets deteriorated in September. Payrolls at employment services agencies declined for the month and stand 5.4 percent lower than year-ago levels. Initial unemployment claims jumped to a weekly average of 9,641, the highest since December of 2001. The ongoing weakness indicated by the UO Index is confirmed by sharp declines in nonfarm payrolls, which fell by 7,300 during September. Note that the two-month decline of 17,300 is worse than any two-month period during the 2001–3 period of weakness.

Residential building permits (smoothed) still hover around 1,000 for the third consecutive month. Stability in this indicator, however, should not be interpreted as a housing market bottom; prices for existing homes are likely to decline further as the mortgage market adjusts to a return to traditional underwriting standards. New orders for nondefense, nonaircraft capital goods, adjusted for inflation, fell again in September, with further declines expected in October as firms delay capital spending in the face of an intensifying credit crunch. U.S. consumer confidence (smoothed) rose slightly, still indicating very weak consumer spending growth. The yield spread—the difference between short- and long-term interest rates—remains unchanged.

The UO Index continues to signal recessionary conditions in Oregon. Recent deterioration of credit markets promise to prolong the recession through at least the first half of 2009.

UO Index of Economic Indicators

Blue: UO Index, 1997=100, Left Axis

Gray: Probability of Oregon Recession, Right Axis

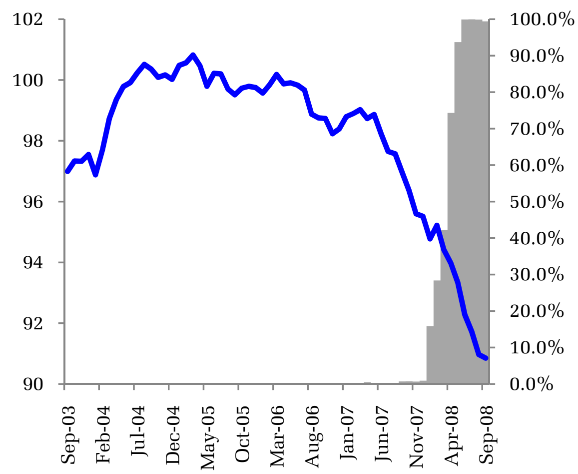

Table 1: Summary Measures

	2008					
	Apr.	May	Jun.	Jul.	Aug.	Sep.
University of Oregon Index of Economic Indicators™, 1997=100	94.0	93.3	92.3	91.7	91.0	90.9
Percentage Change	-0.5	-0.7	-1.1	-0.6	-0.8	-0.1
Diffusion Index	50.0	42.9	42.9	35.7	14.3	35.7
6-Month Percentage Change, Annualized	-4.9	-4.7	-6.7	-6.3	-8.7	-7.4
6-Month Diffusion Index	42.9	42.9	28.6	42.9	35.7	28.6

COLLEGE OF ARTS AND SCIENCES
University of Oregon

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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.

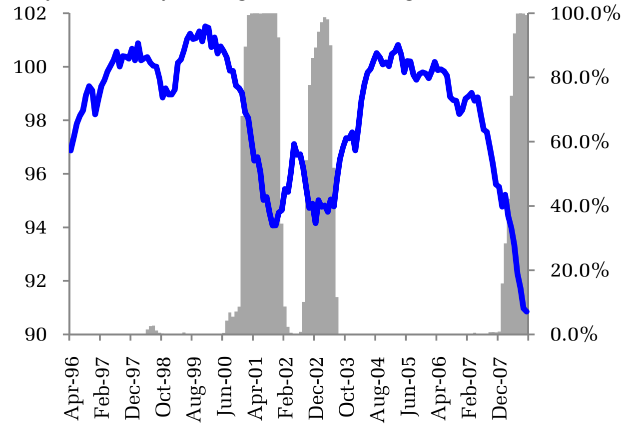
The UO Index is a leading indicator as the economy transitions from expansion to recession. Steep declines in the UO Index are recorded during periods of economic stress, signaling diminishing prospects for growth. Rising values of the UO Index tend to coincide with the end of a recession. As a general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

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

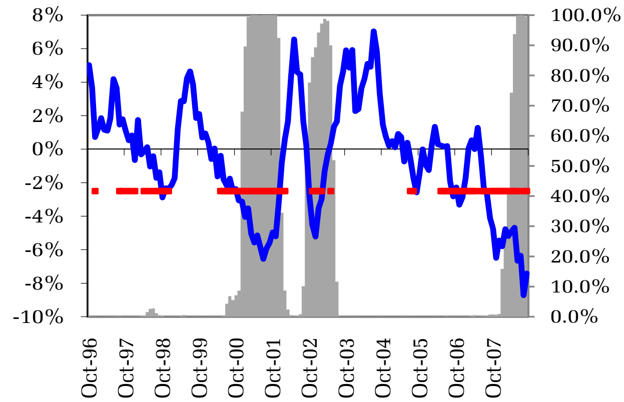


Table 2: Index Components

	2008					
	Apr.	May	Jun.	Jul.	Aug.	Sep.
Oregon Initial Unemployment Claims, SA*	8,005	7,993	8,088	8,166	8,833	9,641
Oregon Employment Services Payrolls, SA	40,984	41,028	39,027	39,059	38,868	38,192
Oregon Residential Building Permits, SA, 5 MMA*	1,217	1,110	1,103	1,002	994	1,000
Oregon Weight Distance Tax, $ Thousands, SA, 3 MMA	20,265	20,126	20,113	21,086	20,791	20,967
Univ. of Michigan U.S. Consumer Confidence, 5 MMA	71.4	68.2	63.8	61.9	60.6	62.1
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, $ Millions, SA	42,737	42,568	43,155	42,968	41,961	41,180
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	1.40	1.90	2.10	2.00	1.89	1.88

* *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.