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™ edged up 0.1 percent in September to 84.4 (1997=100) from a revised August figure of 84.3. General improvement or stability was widespread, with over half the components of the index improving during the month. Overall, the pattern in recent months (notably, the improvement in the six month change in the UO Index) is consistent with the Oregon recession ending during the second half of 2009, but activity remains too weak to support job growth, suggesting that another jobless recovery is evolving.

Initial jobless claims edged downward for the seventh consecutive month, but the pace of improvement is anemic. Jobless claims remain well above levels that in the past have been consistent with job growth. Similar weakness is evident in employment services sector payrolls, which was effectively unchanged in September. While an improvement from recent declines, this indicator remains suggestive of weak labor market conditions in the near term. Indeed, nonfarm payrolls continued to decline as firms shed a net 10,300 workers, bringing payrolls to just above the level of April 2000—prior to the 2001 recession.

Similar to national trends, new residential construction entered a period of relative stability this summer, with permits (smoothed) holding relatively steady during the third quarter. Still, activity in this sector remains at a very depressed level; recovery is likely to be subdued due to stricter underwriting conditions. The Oregon weight-distance tax (smoothed)—a measure of trucking activity—fell after the strong gains posted in August. In contrast, new orders for nondefense nonaircraft capital goods, adjusted for inflation, rose in September, reversing losses of the previous two months. Stability in this indicator suggests sustained firming of investment plans. Consumer confidence (smoothed) rose again, further evidence of stabilization in household spending compared to the lows reached at the end of 2008. Still, confidence remains well below its pre-recession high, an indication that household budgets remain under pressure.

The UO Index is likely to be a coincident measure of activity at the end of the recession; it will rise as the Oregon economy exits the recession. The UO Index continues to follow a pattern of improvement in similar to the improvement that preceded an end to the 2001 recession. Note that the measure of Oregon recession probability developed by University of Oregon Associate Professor Jeremy Piger decreased in September, showing a 76 percent chance of recession compared to a revised 97.5 percent probability in August, consistent with the improving economic conditions forecast by the UO Index.

UO Index of Economic Indicators

Blue: UO Index, 1997=100, Left Axis

Gray: Probability of Oregon Recession, Right Axis

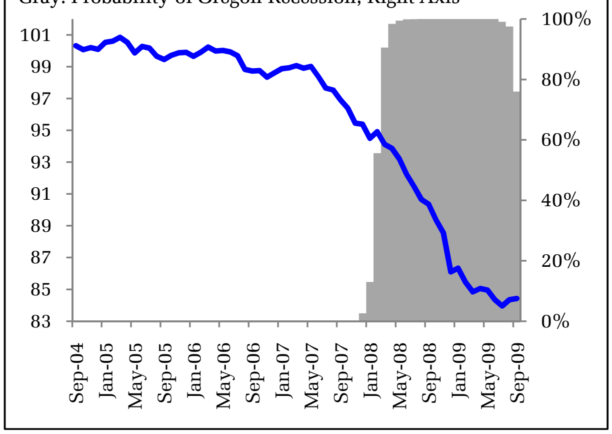

Table 1: Summary Measures

	2009					
	Apr.	May	Jun.	Jul.	Aug.	Sep.
University of Oregon Index of Economic Indicators™, 1997=100	85.1	85.0	84.3	84.0	84.3	84.4
Percentage Change	0.2	-0.1	-0.7	-0.5	0.5	0.1
Diffusion Index	57.1	64.3	71.4	35.7	50.0	57.1
6-Month Percentage Change, Annualized	-9.4	-8.0	-4.0	-5.4	-2.6	-1.0
6-Month Diffusion Index	0.0	21.4	42.9	57.1	71.4	71.4

COLLEGE OF ARTS AND SCIENCES

University of Oregon

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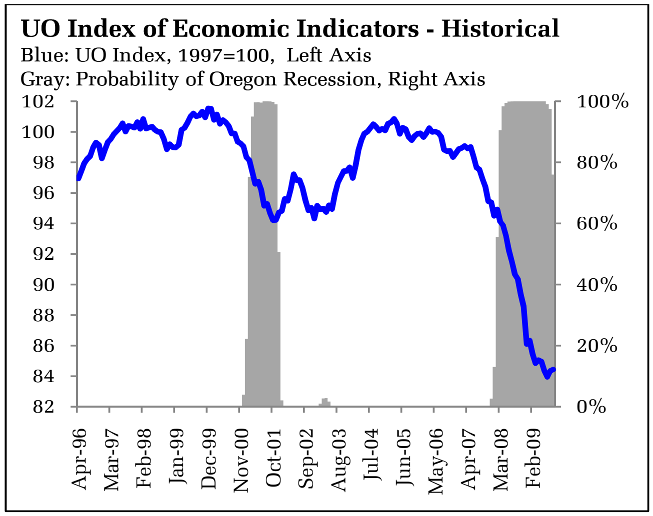
Methodology and Notes

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 the rule, the index signaled an impending recession in October 2000; a business cycle dating procedure developed by University of Oregon Associate Professor Jeremy Piger 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.



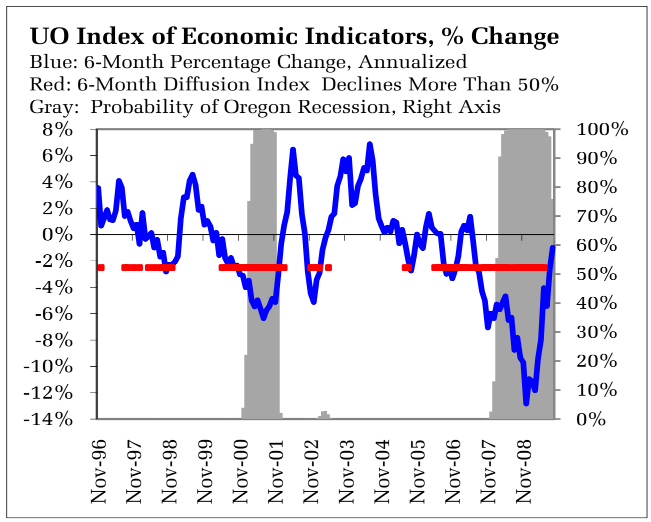


Table 2: Index Components

	2009					
	Apr.	May	Jun.	Jul.	Aug.	Sep.
Oregon Initial Unemployment Claims, SA*	12,564	12,308	11,915	11,793	11,288	10,954
Oregon Employment Services Payrolls, SA	27,134	26,936	26,269	26,361	25,559	25,623
Oregon Residential Building Permits, SA, 5 MMA*	766	672	469	411	401	398
Oregon Weight Distance Tax, $ Thousands, SA, 3 MMA	18,285	17,441	17,966	17,376	18,831	18,116
Univ. of Michigan U.S. Consumer Confidence, 5 MMA	60.0	61.7	63.6	65.6	67.3	68.9
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, $ Millions, SA	30,707	32,096	33,166	32,803	32,446	33,107
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	2.78	3.11	3.51	3.40	3.43	3.25

** 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.