

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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MARCH 2008

Analysis

The University of Oregon Index of Economic Indicators™ dropped sharply in March, falling 0.7 percent to 101.9 (1997=100). Only two indicators—the interest rate spread and the weight-distance tax collected—improved. Remaining indicators held roughly steady or deteriorated. The index continues to decline at a rate consistent with weak economic growth and a high possibility of recession. Still, even if a technical recession is avoided, continued strains on household finances suggest a prolonged period of economic weakness.

Generally soft conditions pervaded the March labor statistics. Nonfarm payrolls fell by 2,700 employees during the month, although the February loss was revised to show a slight gain of 900 employees for that month. Despite the revision, the employment trend is clear; job growth has decelerated to a 0.5 percent annual rate. Note also that of the 8,000 jobs added to nonfarm payrolls

in the past year, 7,400 were attributable to government employment. The private sector accounted for just 600 jobs. Initial jobless claims edged up, hovering around the 8,000 mark consistent with the beginning of the 2001 recession, while Oregon help-wanted advertising fell significantly.

Residential permits plunged to just 975 units authorized (seasonally adjusted), a 50 percent decline from year-ago levels. The residential housing market is likely to remain challenged for the foreseeable future, as tighter credit conditions and home prices deter potential buyers. With market forces and regulatory pressures moving the mortgage industry toward a return to traditional underwriting standards, tight mortgage conditions are likely to persist even after the broader credit markets return to a state of normality.

Both consumer confidence and new orders for nondefense, nonaircraft capital goods—an important indicator of business investment plans—stabilized in March, the former at levels consistent with recession, the latter at levels consistent with weak growth. The

yield spread—the difference between short- and long-term interest rates—rose again to positive 90 basis points (a “basis point” is 1/100 of a percentage point). This indicates a stimulative monetary policy environment supportive of stronger economic activity later this year. Note, however, that stabilizing economic conditions in 2001 did not yield substantial improvement in job markets until 2004.

The UO Index declined at an annualized 2.1 percent rate over the past six months, indicating a period of slow economic activity with a significant chance of tipping into an actual recession. Confirmation of a recession requires a substantial worsening of the Oregon labor market in the months ahead.

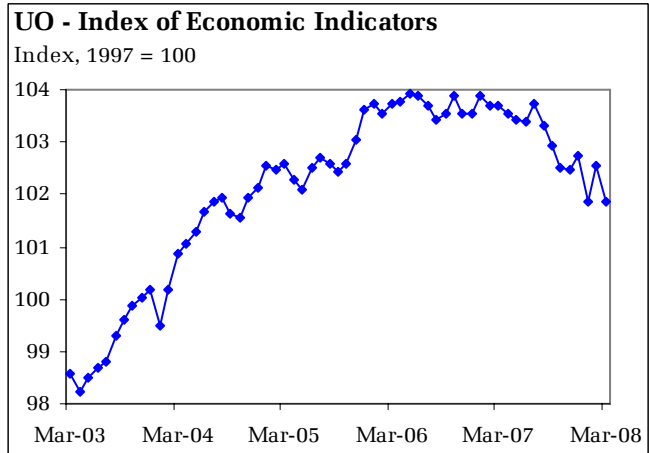


Table 1: Summary Measures

	2007			2008		
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
University of Oregon Index of Economic Indicators™, 1997=100	102.5	102.5	102.7	101.8	102.6	101.9
Percentage Change	-0.4	0.0	0.3	-0.9	0.7	-0.7
Diffusion Index	31.25	43.75	56.25	18.75	62.5	37.5
6-Month Percentage Change, Annualized	-2.0	-1.9	-1.3	-3.6	-1.5	-2.1
6-Month Diffusion Index	25.0	37.5	50.0	31.3	31.3	31.3



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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 constructed to have the properties of a leading indicator. As a general rule, a decline in the index of greater than 2 percent over six months, coupled with a decline in more than half of its components, signals that a recession is likely imminent. The 2 percent rule—which has since changed to 3.5 percent due to index revisions—was originally employed by The Conference Board for the U.S. Leading Indicators, and it appears appropriate for the UO Index.

Using the rule, the index signaled an impending recession in January 2001; the National Bureau of Economic Research (NBER) dates the national recession from March to November 2001. The index did signal the so-called “jobless recovery” that followed the 2001 recession, and did, for a single month, register a decline greater than 2 percent during this period. No other recessions were signaled during the period for which data are available (beginning March 1996).

The general rule, however, should be used judiciously. The available data encompass only one recession, a very small sample from which to draw generalities. 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.

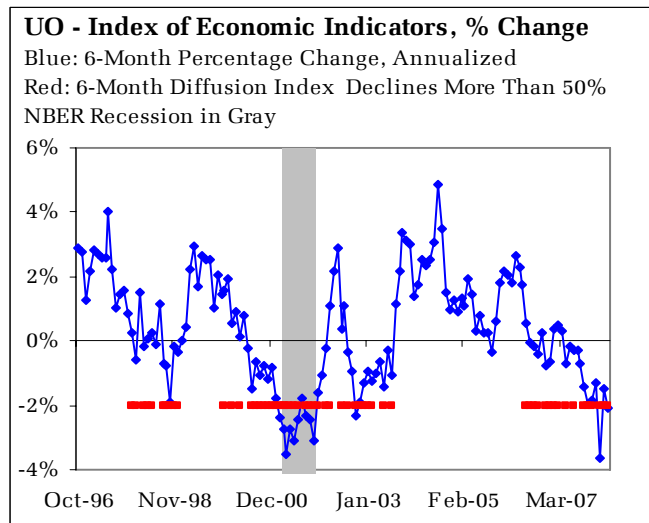
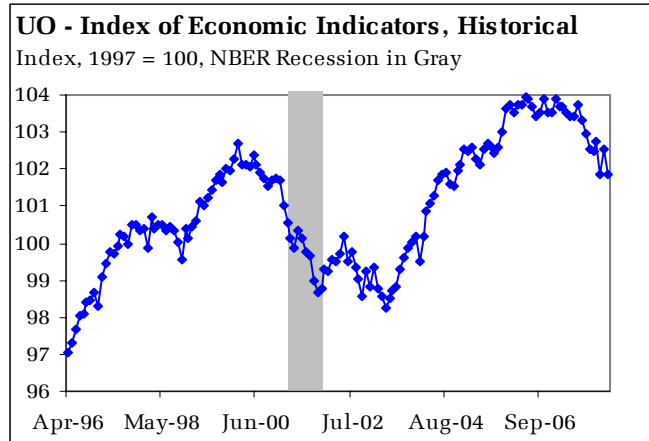


Table 2: Index Components

	2007			2008		
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Oregon Initial Unemployment Claims, SA*	7,082	7,672	8,059	8,135	7,885	8,076
Oregon Residential Building Permits, SA	1,418	1,457	1,440	1,012	1,850	975
Oregon Help-Wanted Advertising, SA	21,032	23,851	24,262	19,309	19,354	17,368
Oregon Weight Distance Tax, \$ Thousands, SA	21,352	21,318	22,742	18,101	20,504	21,641
Oregon Total Nonfarm Payrolls, Thousands, SA	1,735.1	1,739.3	1,740.6	1,741.0	1,741.9	1,739.2
Univ. of Michigan U.S. Consumer Confidence	80.9	76.1	75.5	78.4	70.8	69.5
Real Manufacturers’ New Orders for Nondefense, Nonaircraft Capital Goods, \$ Millions, SA	41,150	40,949	43,092	42,508	41,440	41,406
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	-0.23	-0.34	-0.14	-0.20	0.76	0.90

* SA—seasonally adjusted

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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.