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OCTOBER 2009 Analysis

The University of Oregon Index of Economic Indicators™ rose 0.6 percent in October to 85.0 (1997=100) from a revised September figure of 84.5. Interestingly, while the UO Index gained, most components were generally weaker. The overall improvement was driven by a jump in residential building permits and a smaller increase in consumer confidence. Still, the recent behavior of the UO Index remains consistent with the end of the recession in Oregon.

The conclusion of the recession has yet to translate into significant improvement in labor markets. Initial jobless claims rose in October, reversing the gains of the previous two months. More significant improvement in initial claims needs to occur before we see steady, consistent employment gains. Similar weakness is evident in employment services sector payrolls, which has been effectively flat for three months. While an improvement from recent declines, this indicator remains

suggestive of weak labor market conditions in the near term. Overall nonfarm payrolls declined by 1,900 employees in October.

Residential building permits (smoothed) rose to 496 from 398 in October, a 24.8 percent gain. These gains follow improvement in existing home sales this summer, a consequence of the homebuyer tax credit. These improvements, however, should be interpreted cautiously. Permits are rising off a very low base, such that relatively small increases can yield large percentage increases. Moreover, this summer's housing gains are tentative; note that Portland home prices decreased in September according to the Case-Shiller housing price index. Both the Oregon weight-distance tax (smoothed)—a measure of trucking activity—and new orders for nondefense nonaircraft capital goods fell in October. Both indicators have stabilized since the beginning of the year, but the lack of sustained improvements indicates that overall economic activity remains weak. Consumer confidence (smoothed) rose again as spending patterns stabilize. Still, conditions in job and credit markets

do not look conducive to a strong consumer rebound.

The UO Index has risen for three consecutive months and is up 1.2 percent compared to the July lows. Moreover, the UO Index is almost flat compared to 6 months ago. These improvements, combined with improvements in more than half the indicators over the past six months, indicate that the Oregon recession ended during the second half of 2009. The measure of Oregon recession probability developed by Jeremy Piger, a University of Oregon associate professor, fell to just 7.6 and 4.0 percent, respectively, in September and October, indicating that the last month of recession was in August.

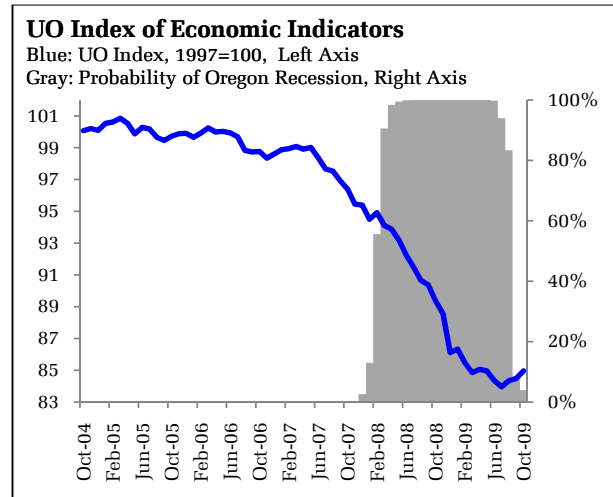


Table 1: Summary Measures

	2009					
	May	Jun.	Jul.	Aug.	Sep.	Oct.
University of Oregon Index of Economic Indicators™, 1997=100	85.0	84.3	84.0	84.3	84.5	85.0
Percentage Change	-0.1	-0.7	-0.5	0.5	0.2	0.6
Diffusion Index	64.3	71.4	35.7	50.0	57.1	35.7
6-Month Percentage Change, Annualized	-8.0	-4.0	-5.4	-2.6	-0.9	-0.2
6-Month Diffusion Index	21.4	42.9	57.1	64.3	71.4	57.1



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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.

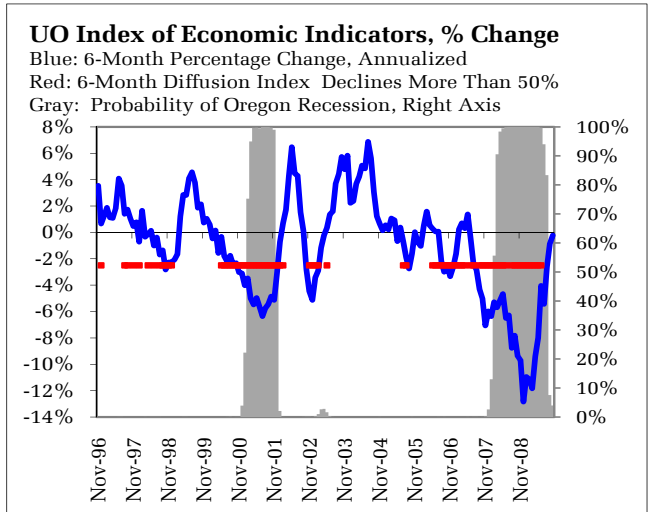
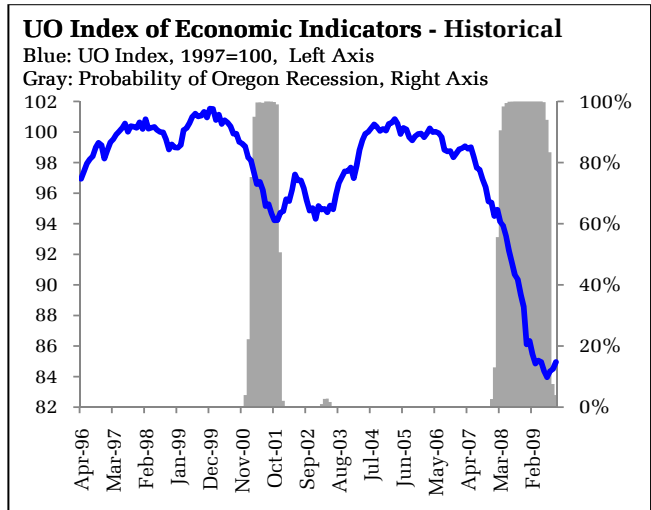


Table 2: Index Components

	2009					
	May	Jun.	Jul.	Aug.	Sep.	Oct.
Oregon Initial Unemployment Claims, SA *	12,308	11,915	11,793	11,288	10,954	11,361
Oregon Employment Services Payrolls, SA	26,936	26,269	26,361	25,559	25,723	25,623
Oregon Residential Building Permits, SA, 5 MMA *	672	469	411	401	398	496
Oregon Weight Distance Tax, \$ Thousands, SA, 3 MMA	17,441	17,966	17,376	18,831	18,116	17,526
Univ. of Michigan U.S. Consumer Confidence, 5 MMA	61.7	63.6	65.6	67.3	68.9	69.3
Real Manufacturers' New Orders for Nondefense, Nonaircraft Capital Goods, \$ Millions, SA	32,096	33,166	32,803	32,404	33,275	32,540
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	3.11	3.51	3.40	3.43	3.25	3.27

* 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.