



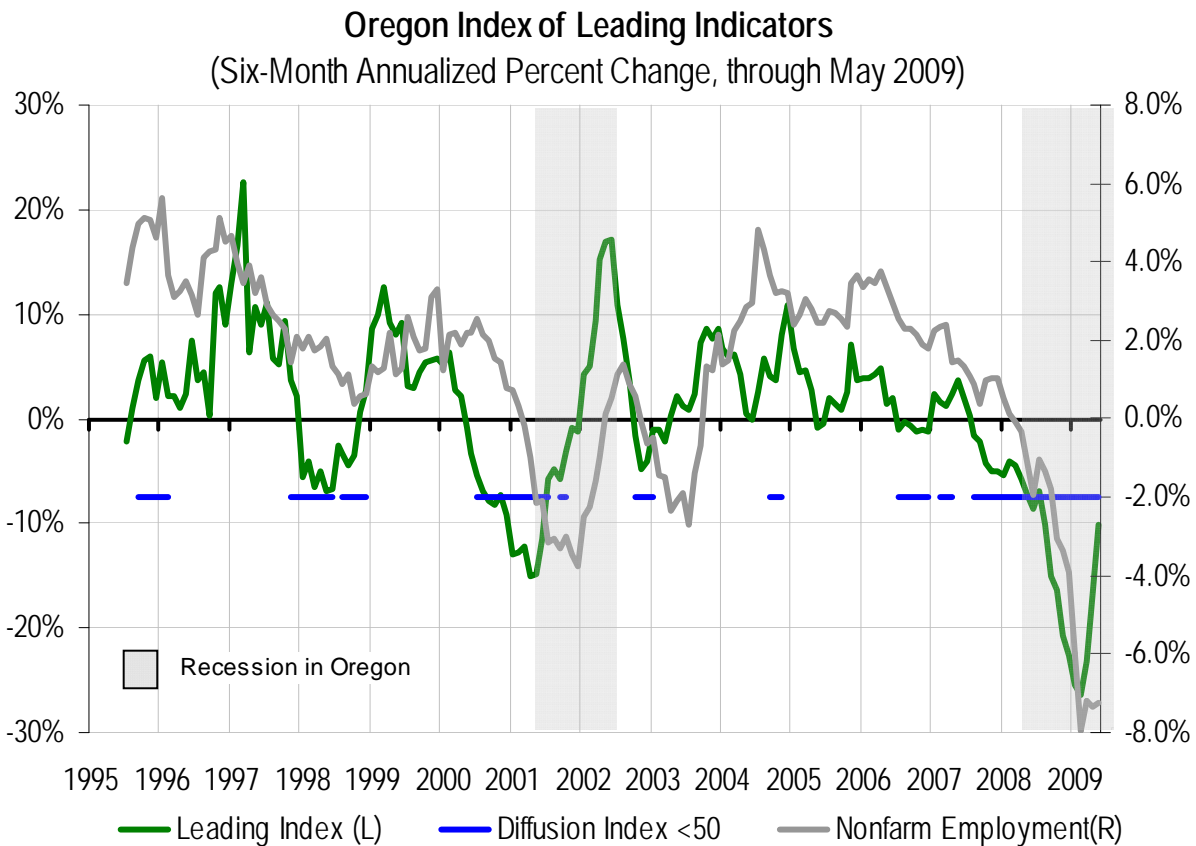
Index of Leading Indicators

May 2009

Office of Economic Analysis

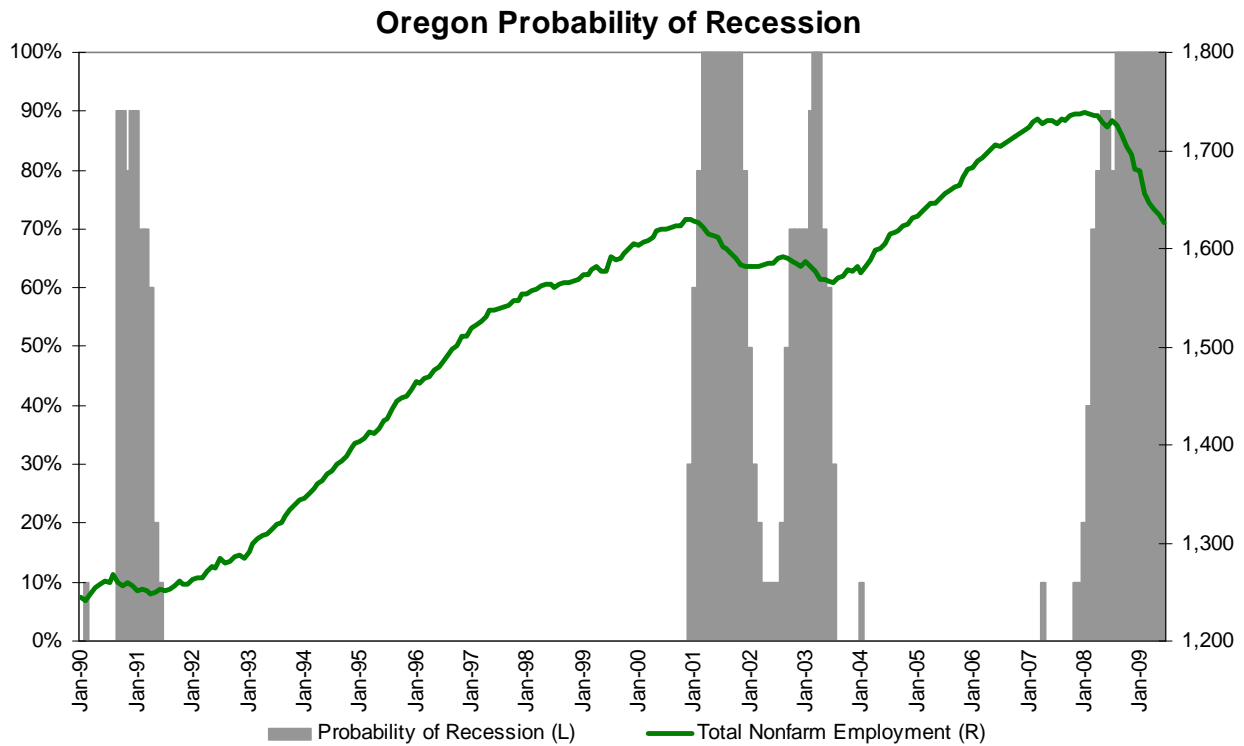
July 16, 2009

For the six months ending in May 2009, the Oregon Index of Leading Indicators¹ decreased an annualized 10.2 percent, following a revised 16.8 percent decline the prior month. This represents the 22nd consecutive month that the index has been negative, but for the third month in a row the index improved. After averaging only one positive indicator over the first four months of 2009, four indicators are registering positive values in May: the Oregon trade-weighted dollar index, consumer sentiment, new Oregon incorporations and the purchasing managers' index. All other indicators are negative; however, each one is either unchanged or indicating less bad news, which helps to improve the overall landscape for future economic activity. With the Index still in negative territory, a continuation of the recession is expected in the coming months; however, it is clear that the economy is no longer in a free fall and the sustained improvement in the Index may provide renewed optimism that the Oregon economy is near the turning point.



¹ The OILI applies the Conference Board's methodology for the U.S. National Leading Index to Oregon-specific components. The eleven components incorporated in the OILI include: Semiconductor book-to-bill ratio, Oregon housing permits, Institute for Supply Management's purchasing managers index, University of Michigan consumer sentiment index, Oregon withholding, new Oregon incorporations, Oregonian help-wanted index, Portland International Airport air freight tonnage, Oregon trade-weighted dollar index, Industrial Production Index, and initial Oregon unemployment claims.

While the Oregon Index of Leading Indicators is a useful tool to gauge the health of the economy in the coming three to six months, it is also important to determine if and when the Oregon economy experiences a recession. Jeremy Piger, an associate professor of economics at the University of Oregon, specializes in regional and local business cycles. Prof. Piger has developed a Markov regime-switching model² which dates business cycle turning points in Oregon based on changes in the growth rate of economic variables over time. The Office of Economic Analysis broadly defines recessions and expansions in terms of statewide employment. Applying Prof. Piger's model to the monthly Oregon employment report generates a recession probability in real time. For May 2009 there is a 100 percent probability that Oregon is experiencing a recession.



² For more information on Prof. Piger's model, please see: Owyang, M.T., Piger, J.M. and Howard J. Wall, (2005), "[Business Cycle Phases in U.S. States](#)," *Review of Economics and Statistics*, 87(4), pp. 604-16.