

*A project of the College of Arts and Sciences and its Department of Economics*

## FIRST QUARTER 2008

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### Analysis

The Central Oregon Business Index (COBI) fell in the first quarter of 2008 to 158.6 (1998=100), a 1 percent decrease from the previous quarter. The COBI stands 2 percent lower than the year-ago level, compared to the 0.2 percent year-over-year decline reported in the previous quarter. This number also reflects a modification to the index: The new business filings component of the COBI was replaced with the University of Oregon Index of Economic Indicators™. Ongoing research revealed that the Secretary of State does not maintain consistent business filings data over time. We continue to collect new filings data to develop a consistent series for future use. The inclusion of the UO Index reflects the importance of state-level influences on the local economy. The revised COBI is qualitatively consistent with the previous version.

On average, labor market data worsened during the quarter. Help-wanted advertising in *The Bend Bulletin* continued to decline, and while some of the decline likely reflects migration to internet advertising, the trend is consistent with weak labor data in general. Initial unemployment claims rose sharply for a third consecutive quarterly increase, indicating an increased pace of layoffs. In addition, nonfarm payrolls also indicate a stagnant labor market; job growth in the first quarter continued to decelerate, up just 1.8 percent from a year earlier, compared to the 2.5 percent gain of the previous quarter.

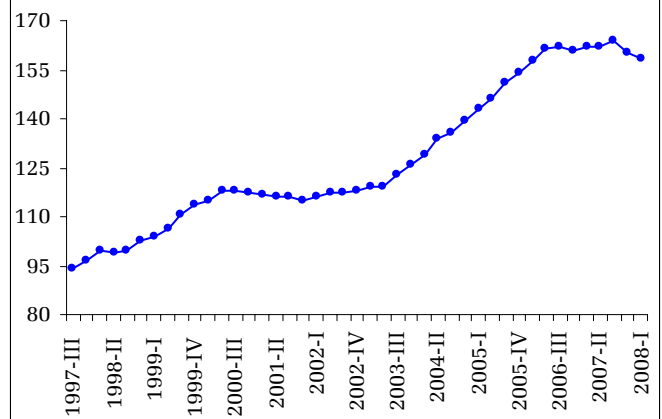
Tourism activity appears to be softening—airport activity stabilized during the past three quarters, while lodging revenues are on a downtrend (down 5.3 percent from last year). And the housing market continues to struggle. Although falling home prices supported a moderate sales increase during the first quarter, activity remains at a level consistent with the late 1990s. Moreover, the sales gain does not appear to indicate that activity has bottomed; houses are still taking longer to sell, and the median days on the market jumped from 143 to 159, the highest level since 1997. New construction activity slowed dramatically—an average of just ninety-one permits issued per month were issued during the quarter, and just forty-five in March. In comparison, the monthly average was 404 permits at the housing peak in the third quarter of 2005.

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# The Bulletin

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**Central Oregon Business Index**  
Index, 1998 = 100



The housing downturn remains a drag on activity, and the local economy is likely to soften further in the months ahead. Mortgage lending standards continue to tighten as credit markets force a return to traditional underwriting standards. This shift is likely to be cemented by federal regulators, and suggests sustained downward pressure on housing. On a more positive note, however, the housing market has not triggered an outright employment decline typically consistent with recessions. Still, the behavior of the COBI points to a significant deceleration in personal income growth in Deschutes County.

Table 1: Summary Measures

	2Q07	3Q07	4Q07	1Q08
Central Oregon Business Index, 1998 = 100	162.2	163.8	160.2	158.6
Percentage Change, Previous Quarter	0.2	1.0	-2.2	-1.0
Percentage Change, Previous Two Quarters	1.1	1.2	-1.2	-3.2
Percentage Change, Year Ago	0.4	1.2	-0.2	-2.0



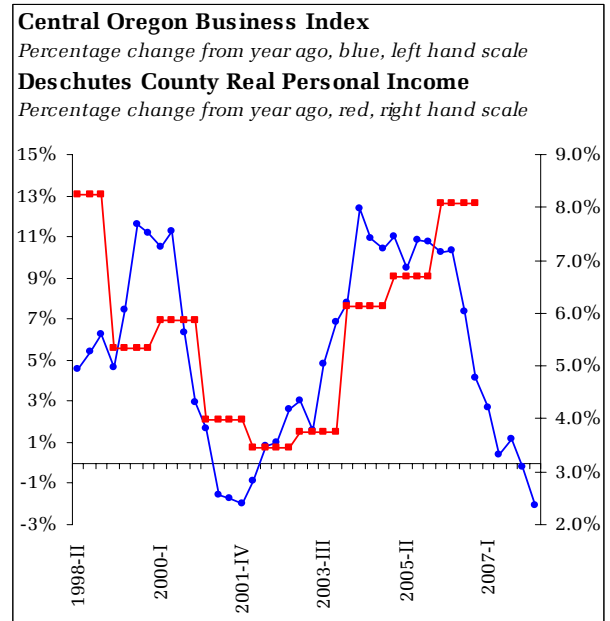
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**Methodology and Notes**

The methodology used to construct the Central Oregon Business Index is identical to that used by the University of Oregon Index of Economic Indicators. Both follow the approach developed by the Conference Board, an independent, not-for-profit research organization, to construct a U.S. Leading Index. Individual components are transformed into symmetric percentage changes, and the resultant series are adjusted to equalize the volatility of the components. This process ensures that a change in a high volatility component is weighted equally to a change in a low volatility component. The adjusted series are summed to create the index, which is rebased to set 1998=100. Full details can be found at [www.globalindicators.com](http://www.globalindicators.com).

The Central Oregon Business Index (COBI) provides a snapshot of business activity by aggregating nine often contradictory economic statistics into a single variable. The variables are chosen on the basis of economic relevance, timely availability, and sufficiently long history. The selected variables, measures of the labor market, tourism, housing markets, and the state economy, cover a wide swath of local economic activity.

The COBI as constructed mirrors other indicators of economic activity that are reported on a less timely basis. For instance, on a year-over-year basis, the COBI fell sharply heading into the 2001 recession and did not signal any other periods of weak economic activity during the covered period of 1997 to present. The COBI is also a leading indicator of personal income growth—data released only annually and with a substantial lag. Still, the available data encompass only one national recession, a very small sample from



which to draw generalities. Also note that no single variable is capable of decisively determining the state of the business cycle.

Sources: *Bend Bulletin*, Bureau of Labor Statistics, Oregon Employment Department, Oregon Secretary of State, Redmond Municipal Airport, Census Bureau, City of Bend, City of Redmond, Central Oregon Realtors Association, and the author's calculation. Initial research for this project was supported by a grant from the UO Williams Council.

Table 2: Index Components

	2Q07	3Q07	4Q07	1Q08
The <i>Bend Bulletin</i> Help Wanted Ads, SA*	8,634	7,382	5,489	4,141
Deschutes County Initial Unemployment Claims, SA	2,294	2,358	2,900	3,344
Bend MSA Nonfarm Payrolls, SA	71.4	72.4	72.2	72.4
University of Oregon Index of Economic Indicators™, 1997=100	103.5	103.3	102.6	102.1
Bend Lodging Revenue, Inflation Adjusted Dollars, SA	1,512,347	1,729,646	1,371,424	1,342,639
Redmond Municipal Airport Activity, Enplanements and Deplanements, SA	41,381	43,099	42,765	43,195
Central Oregon Housing Units Sold, SA	256	229	205	262
Central Oregon Median Housing Days on Market, SA	143	145	143	159
Deschutes County Building Permits, SA	133	97	119	91

\* SA—seasonally adjusted