

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

SECOND QUARTER 2012

Analysis

The Central Oregon Business Index (COBI) gained 1.8 percent (1998 = 100) in the second quarter of 2012, extending the gains of the first quarter. Compared to the same quarter last year, the COBI is up 3.3 percent. While a new postrecession high for the COBI, note that an uptick in housing permits supported the increase. Because permits are rising from a low base, large quarter-to-quarter percentage gains, which induce an outsized gain in the COBI, are more common. This can induce some additional volatility in the COBI if permits fall in the next quarter.

Labor market data softened during the quarter; firming economic conditions have yet to translate into widespread job gains. Initial unemployment claims rose and remain elevated relative to the prerecession period. Unfortunately, nonfarm payrolls retreated, reversing half of the first-quarter gains. The decline in nonfarm payrolls is disappointing and illustrates the region's difficulties in recovering from the impact of the housing bubble and subsequent recession.

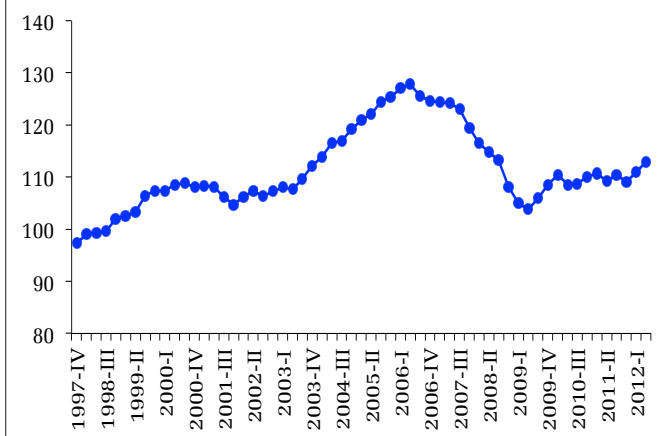
On a more positive note, measures of tourism- and travel-related activity were stronger. Estimated lodging revenue, adjusted for inflation, gained for the second consecutive quarter, continuing to make up lost ground from the decline in the final quarter of 2011. Airport passenger traffic also rose. Housing activity improved. Home sales edged up again, rising to the highest level since the first quarter of 2006. Building permits also rose, climbing from a monthly average of forty-six permits in the first quarter to fifty-eight in the second quarter. However, the increase was driven by a jump in June due to the permitting of a multiunit project. Consequently, permits may reverse their gains next quarter.

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The Bulletin

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University of Oregon Central Oregon Business Index
Index, 1998=100



Although the regional economy reached the bottom of the recession in 2009, the recovery continues to be slow and erratic. This is particularly evident in nonfarm payrolls—there is simply not enough economic growth to support widespread job gains. While the ongoing growth in the national economy should help support the region, forecasts generally do not see a change to the pattern of relatively tepid national growth. As noted last quarter, it remains important to monitor downside risks to the forecast, particularly the ongoing European financial crisis and the possibility of a sharp fiscal tightening in the U.S. at the beginning of 2013.

Table 1: Summary Measures

	3Q11	4Q11	1Q12	2Q12
University of Oregon Central Oregon Business Index, 1998 = 100	110.5	109.1	110.9	112.9
Percentage Change, Previous Quarter	1.1	-1.2	1.6	1.8
Percentage Change, Previous Two Quarters	-0.2	-0.1	0.4	3.5
Percentage Change, Year Ago	1.7	-0.8	0.1	3.3



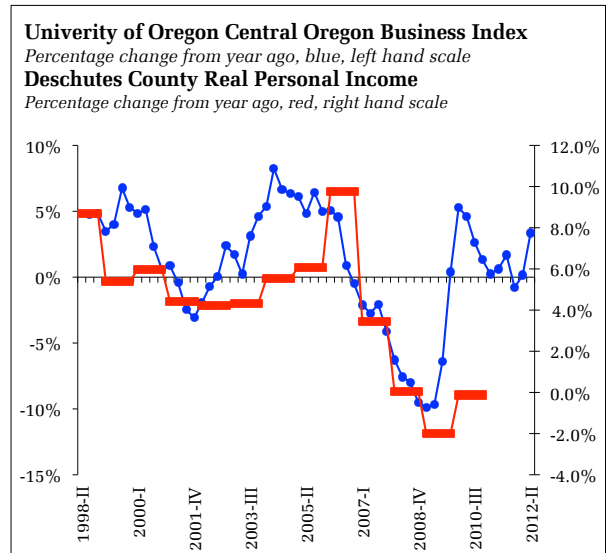
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Methodology and Notes

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, nonprofit 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 <http://www.globalindicators.com>.

The Central Oregon Business Index 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, waste generation, 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 ahead of both the 2001 and 2008 recessions. The COBI is also a leading indicator of personal income growth—data released only annually and with a substantial lag. Still, the available data encompasses only two national recessions, 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: Bureau of Labor Statistics, Oregon Employment Department, Oregon Secretary of State, Redmond Municipal Airport, Census Bureau, City of Bend, City of Redmond, Deschutes County Department of Solid Waste, 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

	3Q11	4Q11	1Q12	2Q12
Deschutes County Solid Waste, Tons, SA	9,115	9,218	9,252	9,434
Deschutes County Initial Unemployment Claims, SA	2,784	2,492	2,447	2,559
Bend MSA Nonfarm Payrolls, SA	61.0	60.7	61.7	61.2
University of Oregon Index of Economic Indicators™, 1997=100	89.3	88.9	90.1	91.5
Bend Lodging Revenue, Inflation Adjusted Dollars, SA	1,535,345	1,278,095	1,369,167	1,476,350
Redmond Municipal Airport Activity, Enplanements and Deplanements, SA	41,186	39,517	39,369	40,786
Central Oregon Housing Units Sold, SA	289	311	331	353
Central Oregon Median Housing Days on Market, SA	109	111	112	102
Deschutes County Building Permits, SA	48	40	46	58

* SA—seasonally adjusted (Building Permits are adjusted with a twelve month moving average).

Author

Timothy A. Duy
Director, Oregon Economic Forum
Department of Economics, University of Oregon
541-346-4660 • duy@uoregon.edu