

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

## SECOND QUARTER 2009

### Analysis

The University of Oregon Central Oregon Business Index (COBI) declined to 115.9 (1998=100) in the second quarter of 2009, 5.4 percent below the previous quarter's figure. Data challenges required a significant revision of the COBI. Two series, building permits and help wanted advertising, fell to such low levels that the seasonal adjustment procedure was no longer valid. Consequently, the data are now smoothed via a twelve month moving average. Qualitatively, this change resulted in little change in the interpretation of the index. Quantitatively, however, the magnitude of the cycle is amplified compared to the previous index construction. As the local economy normalizes in future years, typical seasonal fluctuations should again become evident.

Labor market data was mixed during the quarter. Help wanted advertising in the Bulletin continued to decline, consistent with weak hiring demand. The decline is enhanced by a transition to internet job advertising. It will not be known if the data still contains a cyclical trend (increases in response to improving economic conditions) until the recovery is underway. Initial jobless claims, however, fell to the lowest level since the third quarter of last year, indicating an improvement in the pace of deterioration. Nonfarm payrolls continued to decline during the quarter.

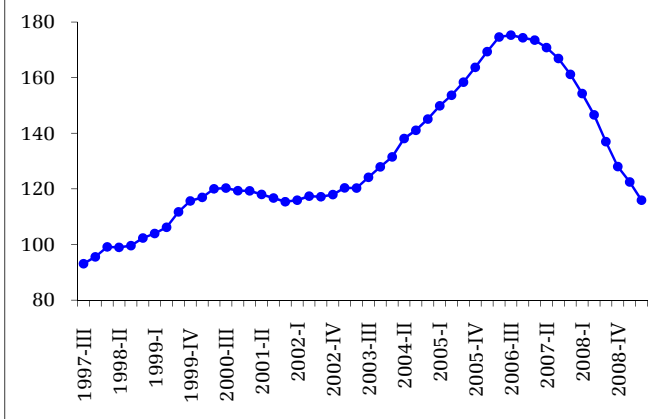
Measures of tourist related activity firmed in the second quarter. Estimated lodging, adjusted for inflation, rose slightly, a welcome gain after the sharp declines recorded the previous quarters. Passenger traffic at the Redmond Municipal Airport was effectively unchanged for the second consecutive quarter. Housing markets remained weak, with average monthly sales (seasonally adjusted) continuing to hover near 200 while median days on market rose. Like the previous quarter, residential housing permits remain at very depressed levels with the absence of the usual seasonal acceleration.

*This issue of the COBI sponsored by*

# The Bulletin

*Serving Central Oregon since 1903*

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



Some positive signs of stability are emerging within the data (initial claims, lodging, air travel), suggesting promise of a bottoming out of activity in the months ahead. Still, the continuing declines in the COBI reveal that economic challenges remain pervasive in the region as the economy continues to adjust away from the housing-led growth dynamic of recent years.

Table 1: Summary Measures

	3Q08	4Q08	1Q09	2Q09
University of Oregon Central Oregon Business Index, 1998 = 100	137.0	128.0	122.5	115.9
Percentage Change, Previous Quarter	-6.6	-6.6	-4.3	-5.4
Percentage Change, Previous Two Quarters	-11.2	-12.7	-10.6	-9.4
Percentage Change, Year Ago	-17.9	-20.6	-20.6	-20.9



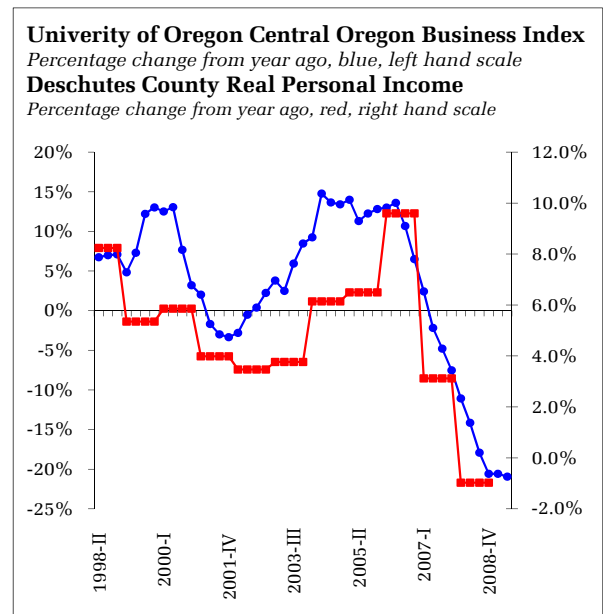
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**Methodology and Notes**

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: *The (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

	3Q08	4Q08	1Q09	2Q09
The <i>Bend Bulletin</i> Help Wanted Ads, SA*	3,954	2,981	2,311	1,650
Deschutes County Initial Unemployment Claims, SA	3,108	4,093	4,047	3,266
Bend MSA Nonfarm Payrolls, SA	68.1	67.2	67.0	66.5
University of Oregon Index of Economic Indicators™, 1997=100	90.8	88.0	85.5	84.7
Bend Lodging Revenue, Inflation Adjusted Dollars, SA	1,325,297	1,244,186	1,177,076	1,186,607
Redmond Municipal Airport Activity, Enplanements and Deplanements, SA	39,871	37,640	37,554	37,900
Central Oregon Housing Units Sold, SA	228	194	211	193
Central Oregon Median Housing Days on Market, SA	149	130	112	129
Deschutes County Building Permits, SA	74	61	50	40

\* SA—seasonally adjusted

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