

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

THIRD QUARTER 2012

Analysis

Regional economic activity continues to improve. The Central Oregon Business Index gained 0.5 percent (1998=100) in the third quarter of 2012. Compared to the same quarter last year, the COBI is up 2.4 percent. Despite some disappointing jobs numbers, the general tenor of the data suggests the region's economy will show additional gains as we head into 2013.

Labor market data was mixed for the quarter. Initial unemployment claims edged down, but like the state as a whole they remain somewhat elevated compared to the prerecession period. Nonfarm payrolls slipped for the second consecutive quarter, suggesting ongoing hesitation on the part of firms to hire new employees. Employment data, however, has been unusually volatile in recent months due to a change in procedures for constructing the data. The softness of nonfarm payrolls does not seem consistent with general improvement in unemployment claims; I believe regional jobs estimates are likely to be revised upward.

Measures of tourism continue to improve. Estimated lodging revenue, adjusted for inflation, gained for the third consecutive quarter, reaching its highest level since the third quarter of 2007. Airport passenger traffic also rose again. The housing market continues to see signs of improvement. Homes sales gained only slightly, but residential building permits climbed for the third consecutive quarter. Although permits are coming off a very low base, and at a monthly average of sixty-nine permits during the quarter, they remain well below the average of 411 permits at the height of the housing boom. The improvement is a promising indication of a budding recovery in residential construction activity.

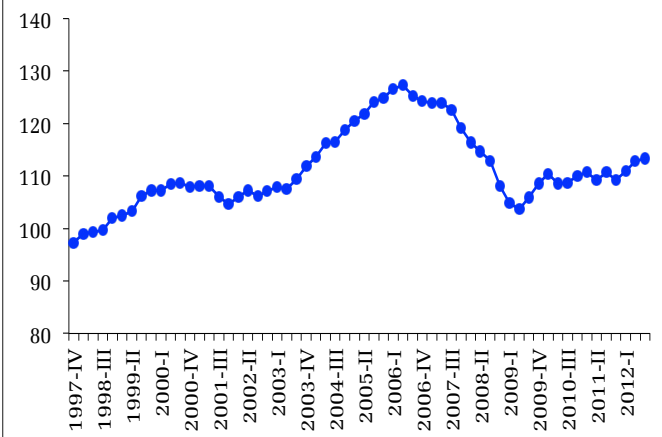
The region's economy is slowly gaining traction as the recovery progresses. While recent jobs numbers have been disappointing, I anticipate we will see the jobs data revised upward and expect

This issue of the COBI sponsored by

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



further improvement in the months ahead. The national economy continues to grow at the slow and steady pace that has characterized this recovery, and sustained improvement looks likely. To be sure, the economy still faces headwinds. Weak global growth is sapping some demand for exports, and uncertainty over the path of fiscal policy is believed to be causing some firms to limit capital spending. If fiscal policy turns abruptly tighter—the so-called fiscal cliff—the U.S. economy could slip into recession in the first half of 2013. The global economy and fiscal policy remain risks to the baseline scenario of continued slow and steady growth.

Table 1: Summary Measures

	4Q11	1Q12	2Q12	3Q12
University of Oregon Central Oregon Business Index, 1998 = 100	109.3	110.9	112.8	113.3
Percentage Change, Previous Quarter	-1.3	1.5	1.7	0.5
Percentage Change, Previous Two Quarters	0.1	0.2	3.2	2.2
Percentage Change, Year Ago	-0.7	0.2	3.3	2.4



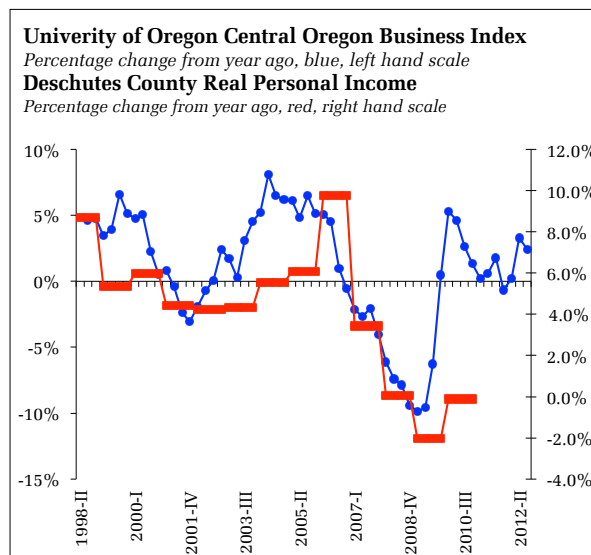
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Methodology and Notes

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.

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, 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 encompass 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: *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, 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

	4Q11	1Q12	2Q12	3Q12
Deschutes County Solid Waste, Tons, SA	9,221	9,220	9,382	9,325
Deschutes County Initial Unemployment Claims, SA	2,501	2,467	2,571	2,514
Bend MSA Nonfarm Payrolls, SA	60.7	61.7	61.0	60.3
University of Oregon Index of Economic Indicators™, 1997=100	89.9	90.9	92.1	91.9
Bend Lodging Revenue, Inflation Adjusted Dollars, SA	1,280,930	1,375,167	1,485,147	1,596,772
Redmond Municipal Airport Activity, Enplanements and Deplanements, SA	39,565	39,440	40,832	41,244
Central Oregon Housing Units Sold, SA	309	328	350	361
Central Oregon Median Housing Days on Market, SA	111	112	102	100
Deschutes County Building Permits, SA	40	46	58	69

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

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