

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

## THIRD QUARTER 2008

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### Analysis

The Central Oregon Business Index (COBI) edged down in the third quarter of 2008 to 147.7 (1998=100), a 0.3 percent decrease from the previous quarter. The COBI stands 7.8 percent lower than the year-ago level, compared to the 7.7 percent (revised) year-over-year decline reported in the previous quarter. Data were revised to account for an updated methodology for creating one of the index components, the University of Oregon Index of Economic Indicators™.

Ongoing economic weakness continues to weigh on labor markets. Initial jobless claims rose during the third quarter, indicating an increasing pace of layoffs. Moreover, help-wanted advertising in *The (Bend) Bulletin* registered further declines. And while the number of employees on nonfarm payrolls rose slightly, annual gains have decelerated to just 0.4 percent compared to last year. Ongoing deterioration in economic conditions suggests that payrolls will soon see year-over-year declines.

Tourism activity was mixed for the quarter. Estimated lodging revenues, adjusted for inflation, were up slightly while airline passenger activity declined as airlines limited flights to regional airports. The housing market continues to struggle. Although housing sales were stronger for the quarter, the figures are consistent with a monthly trend of roughly 200 home sales that has emerged over the past four quarters. This compares to a pre-bubble average of roughly 250 monthly sales; in other words, the current pace of sales is likely close to what would have been expected in the absence of the housing bubble. Housing permits rose slightly during the quarter, but remain at very depressed levels; there is not much room for further downside.

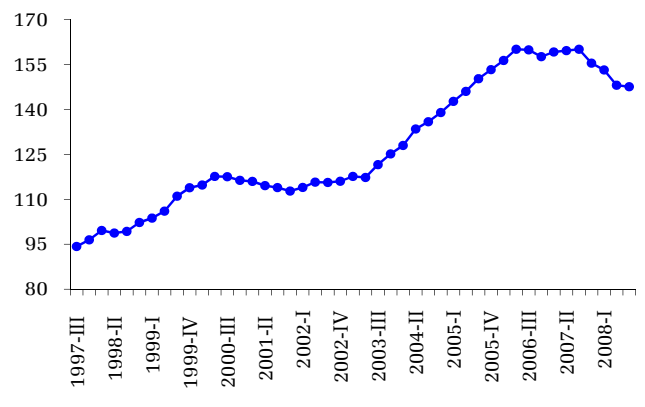
Note that the declines first registered in 2006 accurately predicted a sharp drop in real personal income growth from a rate of 7.4 percent

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# The Bulletin

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



in 2006 to 3.4 percent in 2007. The steady deterioration of the COBI suggests that real income growth continued to decline in 2008 and the decline is likely to extend into 2009. National economic conditions worsened significantly during the third quarter as the credit crisis intensified and reduced business access to working capital, dashing expectations for stabilization in the second half of 2008; the national economy is now undoubtedly in recession. Negative or near-negative growth is expected through the first half of 2009; the weak national conditions are another headwind to a return to growth for the local economy.

Table 1: Summary Measures

	4Q07	1Q08	2Q08	3Q08
Central Oregon Business Index, 1998 = 100	155.5	153.2	148.2	147.7
Percentage Change, Previous Quarter	-2.9	-1.5	-3.3	-0.3
Percentage Change, Previous Two Quarters	-2.6	-4.3	-4.7	-3.6
Percentage Change, Year Ago	-1.4	-3.8	-7.2	-7.8



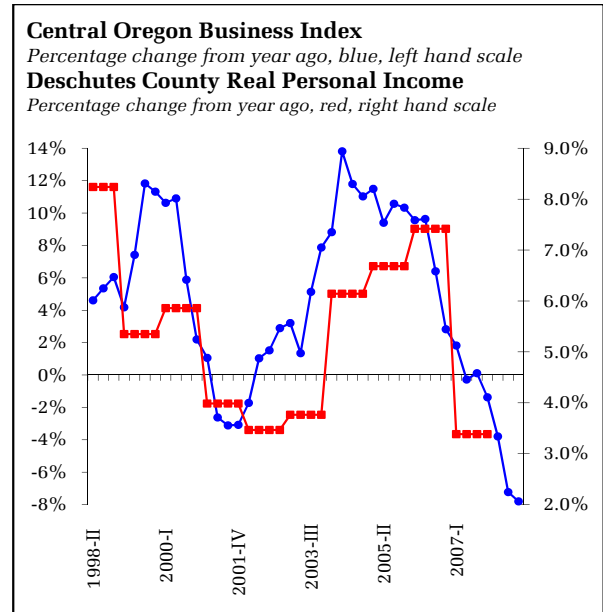
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**Methodology and Notes**

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

	4Q07	1Q08	2Q08	3Q08
The <i>Bend Bulletin</i> Help Wanted Ads, SA*	5,489	4,141	2,535	2,002
Deschutes County Initial Unemployment Claims, SA	2,900	3,344	2,716	3,011
Bend MSA Nonfarm Payrolls, SA	72.2	72.3	72.4	72.7
University of Oregon Index of Economic Indicators™, 1997=100	95.8	94.8	93.2	91.2
Bend Lodging Revenue, Inflation Adjusted Dollars, SA	1,371,424	1,344,571	1,363,017	1,410,912
Redmond Municipal Airport Activity, Enplanements and Deplanements, SA	42,765	43,195	42,329	40,838
Central Oregon Housing Units Sold, SA	205	262	164	218
Central Oregon Median Housing Days on Market, SA	143	159	151	147
Deschutes County Building Permits, SA	117	88	27	52

\* SA—seasonally adjusted