

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

THIRD QUARTER 2009

Analysis

The Central Oregon Business Index (COBI) declined to 110.3 (1998=100) in the third quarter of 2009, 4.9 percent below the previous quarter's figure, and 19.5 percent below year ago levels. While some indicators improved during the quarter, ongoing weakness in the labor market and residential construction activity continue to weigh on the overall index.

Labor market data was mixed during the quarter. Help wanted advertising in *The (Bend) 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 again, although the improvement was modest compared to the second quarter improvement. Claims still remain roughly 50 percent above pre-recession levels, indicating layoffs continued at an elevated rate during the quarter. Ongoing layoffs and weak hiring demand resulted in continued losses in overall nonfarm payrolls, down 3.3 percent from a year ago. Still, this is an improvement from the 4.2 percent year-over-year decline the previous quarter.

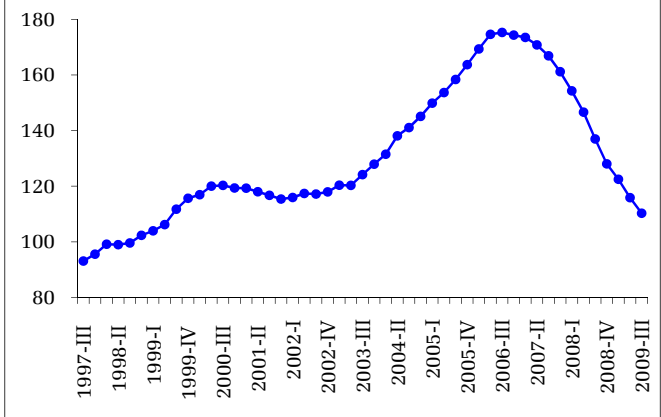
Measures of tourist related activity were mixed in the third quarter. Estimated lodging revenue, adjusted for inflation, fell, reversing gains of the second quarter. Passenger traffic at the Redmond Municipal Airport rose as airline traffic firmed. Housing markets improved during the quarter, with sales reaching the highest level since the second quarter of 2007. The improvement, however, should be viewed cautiously. Sales are now at pre-bubble levels, suggesting limited upside. Moreover, activity this summer spiked as buyers sought to take advantage of homebuyer tax credits. This likely pulled from future demand, suggesting that a portion of the gains are only temporary. And similar to recent quarters, residential housing permits remain at very depressed levels; the burst in home sales has not been sufficient to provide a lift to new construction activity.

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The Bulletin

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



The national and state economies likely exited recession during the second half of this year (although this has not yet been officially confirmed by the National Bureau of Economic Research). The moderating pace of declines in the COBI is consistent with an easing of economic stress in the region. Still, even as national activity recovers, the Central Oregon region is likely to remain challenged by the ongoing transition away from its recent dependence on a debt-fueled housing market to fuel economic growth.

Table 1: Summary Measures

	4Q08	1Q09	2Q09	3Q09
University of Oregon Central Oregon Business Index, 1998 = 100	128.0	122.5	115.9	110.3
Percentage Change, Previous Quarter	-6.6	-4.3	-5.4	-4.9
Percentage Change, Previous Two Quarters	-12.7	-10.6	-9.5	-10.0
Percentage Change, Year Ago	-20.6	-20.6	-21.0	-19.5

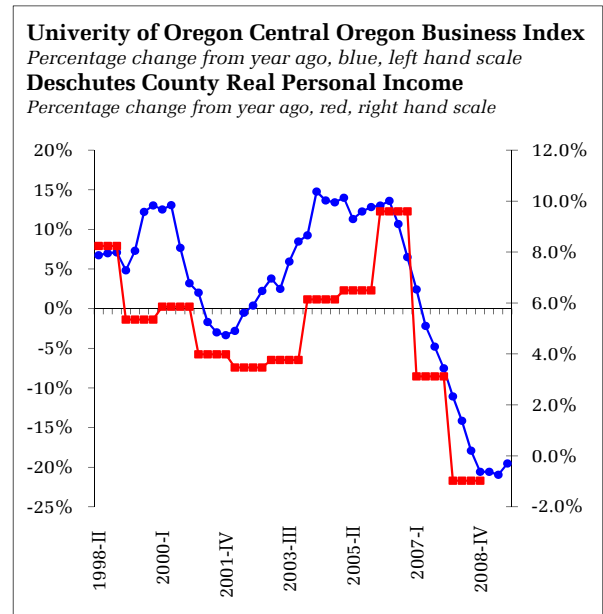


Methodology and Notes

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, 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 encompasses 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

	4Q08	1Q09	2Q09	3Q09
The <i>Bend Bulletin</i> Help Wanted Ads, SA*	2,981	2,311	1,650	1,160
Deschutes County Initial Unemployment Claims, SA	4,093	4,047	3,266	3,105
Bend MSA Nonfarm Payrolls, SA	67.2	67.0	66.5	65.8
University of Oregon Index of Economic Indicators™, 1997=100	88.0	85.5	84.8	84.2
Bend Lodging Revenue, Inflation Adjusted Dollars, SA	1,244,186	1,177,076	1,186,607	1,162,900
Redmond Municipal Airport Activity, Enplanements and Deplanements, SA	37,640	37,554	37,900	39,864
Central Oregon Housing Units Sold, SA	194	211	193	266
Central Oregon Median Housing Days on Market, SA	130	112	129	114
Deschutes County Building Permits, SA	61	50	40	32

* SA—seasonally adjusted

Author

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