

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

THIRD QUARTER 2010

Analysis

The Central Oregon Business Index (COBI) incorporates two modifications this quarter. First, in response to the transition to Internet job advertising, the COBI no longer uses *The (Bend) Bulletin* help-wanted advertising. This series has been replaced with data on solid waste flows in Deschutes County. Solid waste tracked the business cycle closely this past decade, peaking in 2006 along with the housing bubble. A second modification relates to the computation of the COBI. The COBI was initially constructed as a monthly index, and the resulting data converted to quarterly figures. Data limitations in other regions of the state prevent a similar computation. The computation of the COBI is now done on a quarterly basis directly, making it more methodologically comparable to other regional indexes. Quantitatively, these modifications reduced the magnitude of the rise in the COBI between 2003 and 2006 and reveal a stronger increase in late 2009 and early 2010 as the recession drew to a close. Qualitatively, the modified COBI would have provided a somewhat timelier signal of the recession, as it turned negative on a year-over-year basis in the fourth quarter of 2006 rather than the first quarter of 2007.

The Central Oregon Business Index extended its decline for a second quarter, slipping to 102.4 (1998=100) in the third quarter of 2010, a 1.3 percent decrease. Still, compared to last year, the COBI is up 2.1 percent. Overall, incoming data paint a picture of an uneven recovery as earlier gains in housing-related indicators faded while measures of tourism and travel improved.

Labor market data was generally softer during the quarter. Initial unemployment claims reversed some of their early improvement and rose to the highest level since the end of 2009. While still well below recession peaks, rising initial claims point to ongoing stress in labor markets. Similarly, nonfarm payrolls continued to decline as firming economic activity has yet to be sufficient to induce firms to hire aggressively.

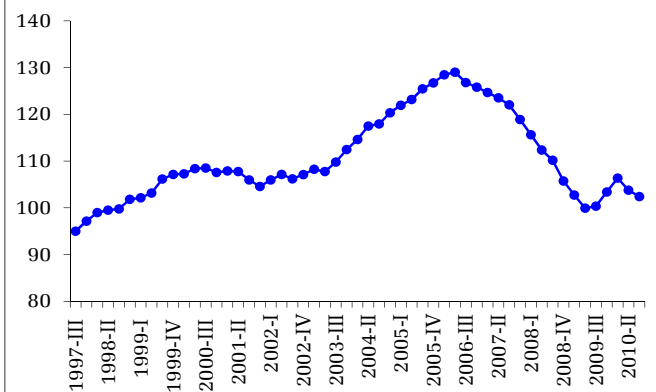
In contrast, measures of tourism and travel-related activity improved. Estimated lodging revenues posted another solid increase, rising to the highest level since the third quarter of 2007. National indicators suggest that this trend is widespread. Airport traffic activity rose to its highest level since the second quarter of 2008. The housing market softened again during the quarter, with sales down and days on market

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



up while residential building permits continue to bounce along at very low levels.

Overall, the COBI continues to suggest the regional economy is generally improving, albeit at an uneven pace largely attributable to now-expired tax credits that temporarily boosted housing activity. Note also that despite the decline of the past two quarters, the index remains above year-ago levels. The disappointingly slow response of the job market to solidifying economic conditions, however, reflects the relatively tepid pace of recovery in comparison to previous recoveries from deep recessions. On a more positive note, stronger U.S. data in recent weeks erase concerns of a double-dip recession nationally. Solid national growth should provide additional support to the local economy.

Table 1: Summary Measures

	4Q09	1Q10	2Q10	3Q10
University of Oregon Central Oregon Business Index, 1998 = 100	103.4	106.3	103.8	102.4
Percentage Change, Previous Quarter	3.1	2.9	-2.4	-1.3
Percentage Change, Previous Two Quarters	3.5	6.0	0.4	-3.7
Percentage Change, Year Ago	-2.2	3.5	3.8	2.1



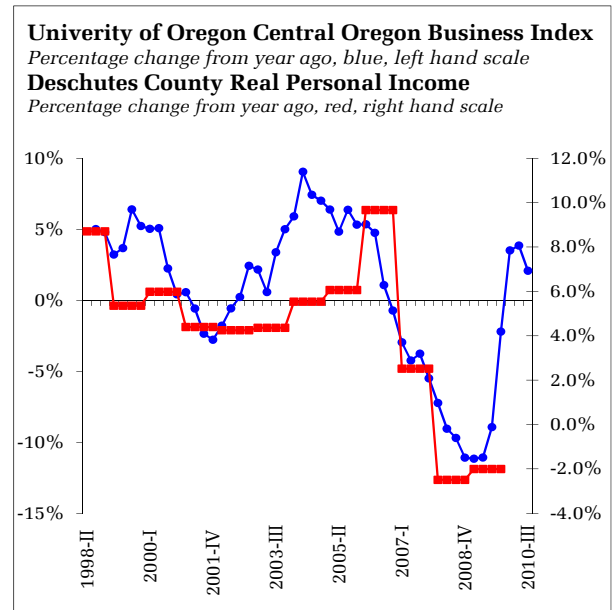
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Methodology and Notes

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: 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

	4Q09	1Q10	2Q10	3Q10
Deschutes County Solid Waste, Tons, SA	9,899	10,291	8,962	8,914
Deschutes County Initial Unemployment Claims, SA	2,915	2,704	2,659	2,887
Bend MSA Nonfarm Payrolls, SA	61.4	61.1	60.0	59.2
University of Oregon Index of Economic Indicators™, 1997=100	86.0	88.8	88.4	86.2
Bend Lodging Revenue, Inflation Adjusted Dollars, SA	1,253,584	1,241,097	1,313,235	1,418,790
Redmond Municipal Airport Activity, Enplanements and Deplanements, SA	40,268	37,305	38,911	40,470
Central Oregon Housing Units Sold, SA	376	315	287	264
Central Oregon Median Housing Days on Market, SA	112	87	107	115
Deschutes County Building Permits, SA	29	44	42	41

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

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