

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

FOURTH QUARTER 2009

Analysis

The Central Oregon Business Index (COBI) was flat at 105.7 (1998 = 100) in the fourth quarter of 2009, down 16.4 percent compared to levels a year ago. This is the first time since the second quarter of 2006 that the COBI has not declined, signaling the economy likely hit bottom in late 2009 after a long and difficult recession. The index was updated to account for annual adjustments to seasonal factors and a revision of nonfarm payroll data. The latter revision shows a greater jobs decline than initially reported.

Labor market data was mixed during the quarter. Help-wanted advertising in *The Bulletin* continued to decline in the face of weak hiring demand and the transition to Internet-based job advertising. Initial jobless claims, however, fell again. Although initial claims remain elevated, the ongoing declines are a positive indication that labor markets are stabilizing. Likewise, nonfarm payrolls were unchanged. This is the first time since the third quarter of 2007 that payrolls have not declined. While hiring demand still appears to be weak, the stabilization in payrolls is a welcome development.

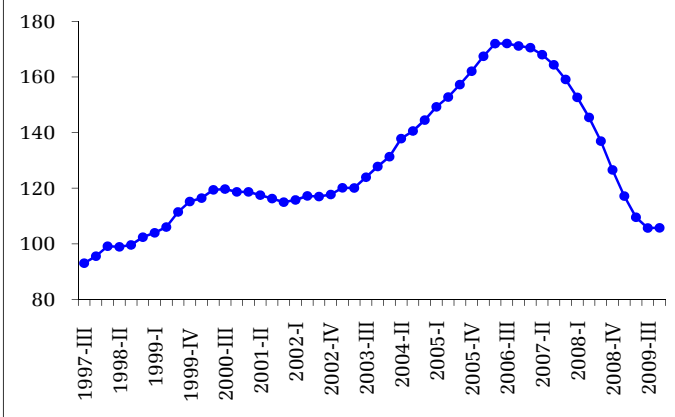
Measures of tourist-related activity improved moderately. Estimated lodging revenue, adjusted for inflation, rose after three flat quarters. In contrast, airline passenger traffic was essentially unchanged after rising in the third quarter of 2009. Both indicators suggest tourist-related activity is bouncing along a cyclical bottom. Housing markets improved dramatically, with sales reaching the highest level since the second quarter of 2006. This improvement, however, should be viewed cautiously. Activity spiked during the second half of 2009 as buyers sought to take advantage of homebuyer tax credits. This likely pulled momentum from future demand, suggesting that a portion of this gain is only temporary. Moreover, the sales burst has not yet translated into fresh construction activity. Residential building permits remain at very low levels, virtually nonexistent compared to the peak of the housing bubble.

This issue of the COBI sponsored by

The Bulletin

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



Strong national growth in the fourth quarter of 2009 indicates the economy is out of recession (although this has not yet been officially confirmed by the National Bureau of Economic Research). The stability of the COBI and the improvement in the year-over-year rate of decline are both signals that the local economy is also reaching a bottom. Concerns remain regarding the pace of the recovery given the current dependence on fiscal and monetary stimulus. Without sustained, rapid economic growth, job markets are likely to remain sluggish.

Table 1: Summary Measures

	1Q09	2Q09	3Q09	4Q09
University of Oregon Central Oregon Business Index, 1998 = 100	117.2	109.6	105.7	105.7
Percentage Change, Previous Quarter	-7.4	-6.5	-3.5	0.0
Percentage Change, Previous Two Quarters	-14.4	-13.4	-9.8	-3.5
Percentage Change, Year Ago	-23.3	-24.7	-22.8	-16.4

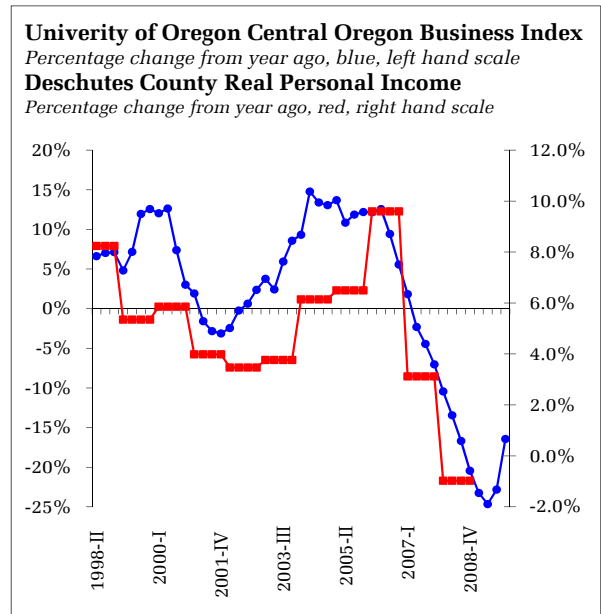


Methodology and Notes

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, nonprofit 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–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

	1Q09	2Q09	3Q09	4Q09
The <i>Bend Bulletin</i> Help Wanted Ads, SA*	2,311	1,650	1,160	971
Deschutes County Initial Unemployment Claims, SA	4,047	3,266	3,105	2,933
Bend MSA Nonfarm Payrolls, SA	63.3	61.6	61.2	61.2
University of Oregon Index of Economic Indicators™, 1997=100	85.5	84.6	84.1	85.9
Bend Lodging Revenue, Inflation Adjusted Dollars, SA	1,177,076	1,186,607	1,176,475	1,251,072
Redmond Municipal Airport Activity, Enplanements and Deplanements, SA	37,554	37,900	39,864	39,601
Central Oregon Housing Units Sold, SA	211	193	266	374
Central Oregon Median Housing Days on Market, SA	112	129	114	111
Deschutes County Building Permits, SA	50	40	32	29

* SA—seasonally adjusted

Author

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