

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

FOURTH QUARTER 2012

Analysis

The Central Oregon Business Index edged down 0.4 percent (1998=100) in the final quarter of 2012. Compared to the same quarter last year, the COBI is up 2.9 percent. Declines in the sometimes-volatile travel and tourism components weighed on the overall index. In contrast, employment and construction measures were generally positive. Overall, while activity improved in 2012, the pace of growth remained muted. It is likely this trend will continue in 2013.

Labor market data improved during the quarter. Initial unemployment claims continued to decline. With improving economic conditions, firms are less likely to lay off workers. Employees on nonfarm payrolls grew from a monthly average of 60.3 thousand in the third quarter to 61.4 thousand in the fourth. Note that employment data has been volatile in recent months and will be subject to revisions. Overall, the region's labor market continues to gradually improve.

Measures of tourism softened. Both estimated lodging revenue, adjusted for inflation, and airport passenger traffic declined during the quarter. Note these sectors can be volatile; for example, lodging revenue spiked in the third quarter, but the gains were not fully reversed in the fourth quarter. Housing data was generally positive. The pace of home sales held near the levels of the previous three quarters, although estimated days on market climbed. Home sales are well off the bottom reached in the final quarter of 2008, and are currently above the pre-boom level. Residential housing permits rose. While still far below boom-level activity, the gains indicate ongoing, albeit slow, improvement in the sector.

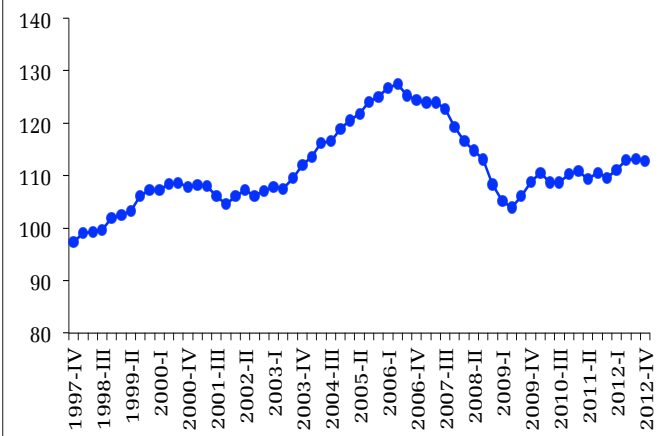
Despite some fits and starts in the underlying indicators, the regional economy continues to slowly improve, supported

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The Bulletin

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



by improving conditions both nationally and at the statewide level. As the national recovery continues to broaden and deepen, local economies will receive further support. That said, national growth is projected to remain subdued through much of 2013 as the economy adjusts to tighter fiscal policy and slower growth in some of our trading partners, notably Europe. Excessive fiscal contraction remains a risk to the 2013 outlook. The baseline forecast, however, still anticipates another year of slow and steady growth.

Table 1: Summary Measures

	1Q12	2Q12	3Q12	4Q12
University of Oregon Central Oregon Business Index, 1998 = 100	111.1	112.9	113.3	112.8
Percentage Change, Previous Quarter	1.3	1.6	0.3	-0.4
Percentage Change, Previous Two Quarters	0.4	2.9	2.0	0.0
Percentage Change, Year Ago	0.2	3.3	2.4	2.9

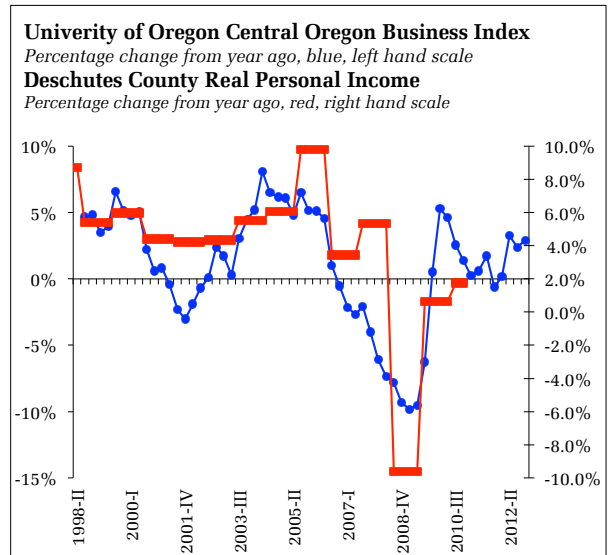


Methodology and Notes

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

	1Q12	2Q12	3Q12	4Q12
Deschutes County Solid Waste, Tons, SA	9,257	9,363	9,341	9,648
Deschutes County Initial Unemployment Claims, SA	2,468	2,559	2,497	2,281
Bend MSA Nonfarm Payrolls, SA	61.7	61.1	60.3	61.4
University of Oregon Index of Economic Indicators™, 1997=100	91.0	92.1	91.9	92.6
Bend Lodging Revenue, Inflation Adjusted Dollars, SA	1,373,769	1,480,663	1,577,082	1,426,688
Redmond Municipal Airport Activity, Enplanements and Deplanements, SA	39,426	40,769	41,098	37,789
Central Oregon Housing Units Sold, SA	329	350	358	340
Central Oregon Median Housing Days on Market, SA	112	102	102	116
Deschutes County Building Permits, SA	45	57	68	88

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

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