

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

FOURTH QUARTER 2010

Analysis

The Central Oregon Business Index rose 1.1 percent to 105.3 (1998=100) in the fourth quarter of 2010, the first increase since the first quarter of 2010. Compared to last year, the COBI is up 2.0 percent. The COBI was revised to reflect annual adjustment in seasonal adjustment factors and updated estimates of nonfarm payrolls. The results remain qualitatively unchanged; the regional economy continues to slowly improve despite the uneven pattern of recovery attributable to tax-induced gyrations in the housing market.

Labor market data were mixed during the quarter. Importantly, initial unemployment claims fell, reversing much of the increase experienced in the middle of the year. This indicates that companies were under less pressure to eliminate workers as economic conditions firmed. Still, employers were not ready to hire aggressively; nonfarm payrolls continue to trend slightly downward.

Measures of tourism- and travel-related activity were also mixed. Estimated lodging revenues slipped, but did not entirely reverse the previous quarter's gain. Lodging activity has been generally improving since hitting a recession low in the third quarter of 2009. Airport traffic activity was effectively flat for the quarter. The housing market rebounded from the third quarter decline, and will hopefully settle into a more consistent growth path in the absence of temporary tax credits. Still, permitting activity remains very low and a large stock of homes for sale constricts the need for new construction.

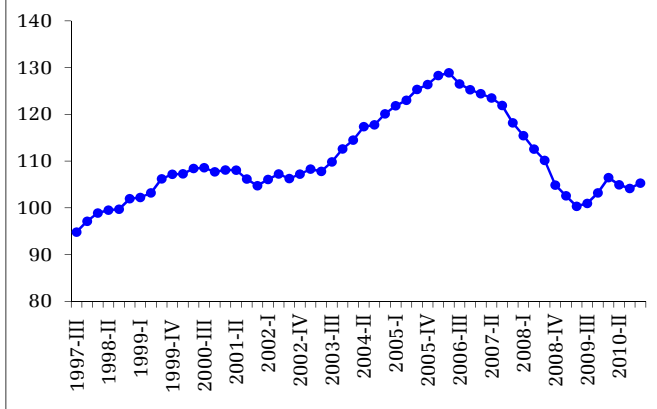
Overall, the COBI continues to suggest the regional economy is generally improving, albeit at a slow pace. Unfortunately, labor markets in the region continue to lag the overall

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



recovery—growth remains insufficient to generate strong hiring demand. National data at the end of 2010 and beginning of 2011 generally suggested a solid pace of growth likely this year, which would foster further improvement in the regional economy. Note, however, that the recent rise in commodity prices, particularly oil, is a cloud on the outlook. Price gains to date are likely to restrain the pace of recovery but not trigger a recession. Further rapid gains, however, would pose a greater challenge.

Table 1: Summary Measures

	1Q10	2Q10	3Q10	4Q10
University of Oregon Central Oregon Business Index, 1998 = 100	106.4	104.9	104.1	105.3
Percentage Change, Previous Quarter	3.2	-1.4	-0.7	1.1
Percentage Change, Previous Two Quarters	5.4	1.7	-2.2	0.4
Percentage Change, Year Ago	3.8	4.6	3.2	2.0

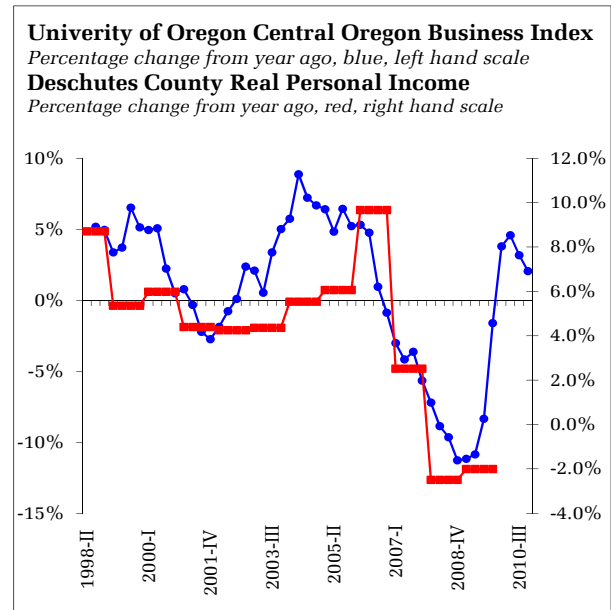


Methodology and Notes

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

	1Q10	2Q10	3Q10	4Q10
Deschutes County Solid Waste, Tons, SA	10,162	9,092	9,188	9,648
Deschutes County Initial Unemployment Claims, SA	2,576	2,788	2,939	2,727
Bend MSA Nonfarm Payrolls, SA	60.8	60.8	60.3	60.0
University of Oregon Index of Economic Indicators™, 1997=100	89.7	90.2	89.2	89.6
Bend Lodging Revenue, Inflation Adjusted Dollars, SA	1,258,078	1,312,786	1,411,252	1,342,602
Redmond Municipal Airport Activity, Enplanements and Deplanements, SA	37,992	39,000	40,126	40,201
Central Oregon Housing Units Sold, SA	312	316	265	313
Central Oregon Median Housing Days on Market, SA	90	107	111	107
Deschutes County Building Permits, SA	44	42	41	42

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

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