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SECOND QUARTER 2008

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Analysis

The Central Oregon Business Index (COBI) fell in the second quarter of 2008 to 154.1 (1998=100), a 2.7 percent decrease from the previous quarter. The COBI stands 5.1 percent lower than the year-ago level, compared to the 2.3 percent (revised) year-over-year decline reported in the previous quarter. Data were revised to account for updated seasonal adjustment factors for building permits.

Labor market data were generally weak during the second quarter. On a positive note, initial unemployment claims fell to their lowest level since the third quarter of 2007. This indicates the pace of layoffs eased during the quarter, although initial claims remains at an elevated level consistent with soft labor markets. Nonfarm payrolls remained steady for the fourth consecutive quarter and are up just 1.4 percent from a year ago. At the height of the recent expansion, payrolls grew at an annual rate of 8 percent. Help-wanted advertising in *The (Bend) Bulletin* extended its recent decline.

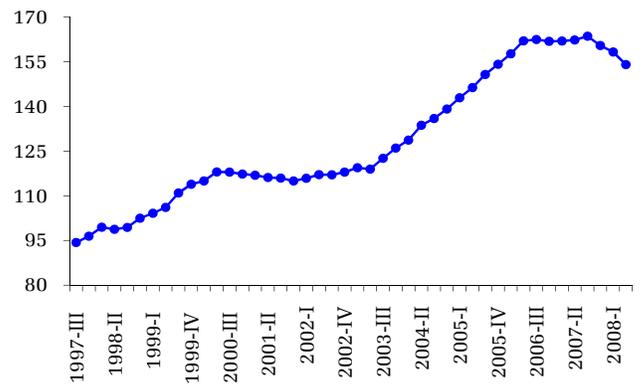
Tourism activity softened further during the quarter. Estimated lodging revenues, adjusted for inflation, were up slightly but year to date are 7.6 percent lower than the same period in 2007. Airline activity declined to its lowest level since the second quarter of last year; further declines in activity are anticipated as airlines reduce capacity at smaller, regional airports. Housing activity continues to soften on a seasonally adjusted basis. Home sales declined to a monthly average of 164 during the quarter, although median days on market fell slightly, partially reversing a sharp gain in the first quarter. New construction slowed sharply from already low levels. An average of just twenty-seven permits per month (again, seasonally adjusted) were issued during the quarter. At the peak in the third quarter of 2005, just over 400 permits were issued, on average, each month.

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Central Oregon Business Index
Index, 1998=100



The declining housing market remains the dominant negative force in the local economy. Moreover, soft national economic conditions and rising prices, particularly for food and energy, also weigh on local activity. While the national economy is expected to stabilize in the second half of this year, subpar growth is likely to persist into 2009. The ongoing credit crunch, illustrated by tighter underwriting conditions and, more recently, higher mortgage rates, will result in ongoing weakness in housing markets. The housing sector overall needs to adjust to an environment characterized by reduced access to financial capital. The behavior of the COBI points to a significant deceleration in personal income growth in Deschutes County.

Table 1: Summary Measures

	3Q07	4Q07	1Q08	2Q08
Central Oregon Business Index, 1998 = 100	163.6	160.5	158.3	154.1
Percentage Change, Previous Quarter	0.8	-1.9	-1.4	-2.7
Percentage Change, Previous Two Quarters	1.0	-1.1	-3.2	-4.0
Percentage Change, Year Ago	0.7	-0.9	-2.3	-5.1

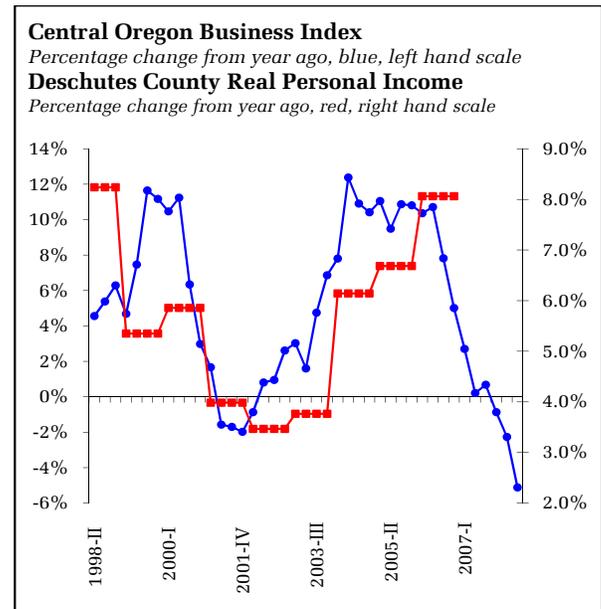


Methodology and Notes

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 encompass 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

	3Q07	4Q07	1Q08	2Q08
The <i>Bend Bulletin</i> Help Wanted Ads, SA*	7,382	5,489	4,141	2,535
Deschutes County Initial Unemployment Claims, SA	2,358	2,900	3,344	2,716
Bend MSA Nonfarm Payrolls, SA	72.3	72.4	72.3	72.5
University of Oregon Index of Economic Indicators™, 1997=100	103.4	102.6	102.1	100.9
Bend Lodging Revenue, Inflation Adjusted Dollars, SA	1,729,646	1,371,424	1,344,571	1,363,017
Redmond Municipal Airport Activity, Enplanements and Deplanements, SA	43,099	42,765	43,195	42,329
Central Oregon Housing Units Sold, SA	229	205	262	164
Central Oregon Median Housing Days on Market, SA	145	143	159	151
Deschutes County Building Permits, SA	98	117	88	27

* SA—seasonally adjusted