

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

First Quarter 2016

**Analysis**

The regional economy started 2016 on a strong note. The Central Oregon Business Index rose to 137.7 (1998=100) in the fourth quarter compared to a 135.9 (revised) in the final quarter of last year. Components generally improved during the quarter. Compared to the same quarter last year, the COBI is up a 5.2 percent.

The regional labor market remains very strong. Employment in the area jumped by 1,200 to 76,400, 5.9 percent higher than the first quarter of 2015 and 6.4 percent greater than the 2007 peak prior to the recession. Following state and national trends, initial unemployment claims remain at historically low levels. Traditionally such low levels indicate continued job gains are likely.

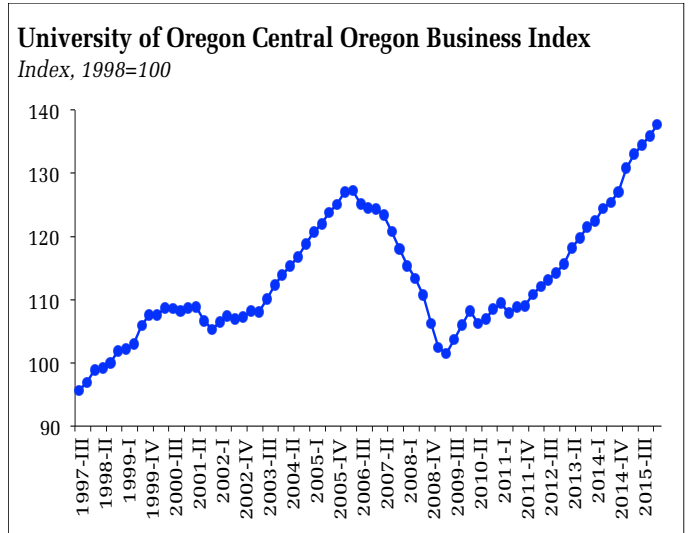
Measures of travel and tourism rose higher. The industry has been strong throughout the state, and the Central Oregon region is no exception. Estimated lodging revenues (inflation adjusted) rose to a new high after a drop last quarter. Similarly, airline passenger activity also edged up to a new high.

Solid waste collection rose, continuing a trend that began in 2011 as the economy began accelerating. The increasing trend is likely being driven by a combination of new residents and increasing economic activity (including more construction).

Residential sales are maintaining a healthy pace at a monthly average of 456 sales during the quarter. Current levels were eclipsed only during the highest points of the housing bubble and remain well above the 1997–2001 average monthly pace of 259. Homes are selling quickly as well, similar to the pace of the 2006 market. Strong demand is leading builders to increase the pace of production. Although residential building permits slipped somewhat during the quarter (after a boost in the final quarter of 2015 driven by a multifamily project), they are holding in a

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range roughly consistent with the 1997–2001 period. The rebound, however, has not kept pace with demand—consequently, home prices are rising.

The COBI points toward sustained economic growth in Central Oregon region. Note that the direction of the COBI is more important than the level; falling numbers indicate economic conditions are deteriorating. Expect continued improvement in the region’s economy on the back of ongoing growth in the national and state economies and solid local fundamentals that are driving population growth.

Table 1: Summary Measures

	2Q15	3Q15	4Q15	1Q16
University of Oregon Central Oregon Business Index, 1998 = 100	133.0	134.5	135.9	137.7
Percentage Change, Previous Quarter	1.7	1.1	1.1	1.3
Percentage Change, Previous Two Quarters	4.7	2.8	2.2	2.3
Percentage Change, Year Ago	6.9	7.3	7.0	5.2

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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](http://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.

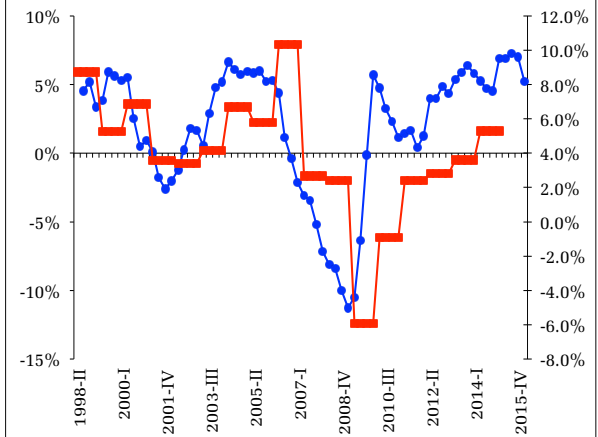
The COBI, as constructed, mirrors other indicators of economic activity that are reported on a less timely basis. For instance, on a year-over-year basis, the COBI fell ahead of both the 2001 and 2008 recessions. The COBI is also a leading indicator of personal income growth—data released only annually and with a substantial lag. Still, the available data encompasses only two

### University of Oregon Central Oregon Business Index

Percentage change from year ago, blue, left hand scale

### Deschutes County Real Personal Income

Percentage change from year ago, red, right hand scale



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

	2Q15	3Q15	4Q15	1Q16
Deschutes County Solid Waste, Tons, SA	12,148	12,054	12,159	12,866
Deschutes County Initial Unemployment Claims, SA	1,925	1,950	1,728	1,765
Bend MSA Nonfarm Payrolls, SA	73.5	74.6	75.2	76.4
University of Oregon Index of Economic Indicators™, 1997=100	99.3	99.5	100.4	100.6
Bend Lodging Revenue, Inflation Adjusted Dollars, SA	2,392,521	2,447,665	2,359,533	2,451,232
Redmond Municipal Airport Activity, Enplanements and Deplanements, SA	46,430	50,504	49,871	51,400
Central Oregon Housing Units Sold, SA	460	472	471	456
Central Oregon Average Housing Days on Market, SA	131	131	130	124
Deschutes County Building Permits, SA	140	142	206	165

\* SA—seasonally adjusted.

#### Author

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



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