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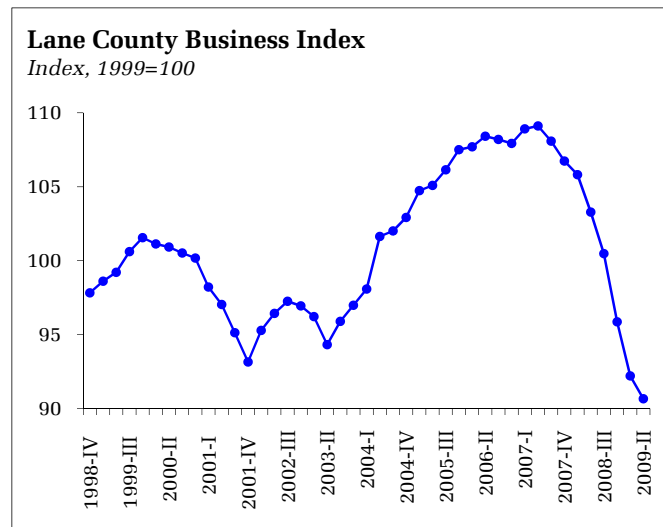
SECOND QUARTER 2009

Analysis

The University of Oregon Lane County Business Index (LCBI) fell 1.7 percent to 90.7 (1999=100) in the second quarter of 2009. The pace of decline has eased markedly since the 4.6 percent decline in the final quarter of last year. Similarly, compared to last year, the LCBI is down 12.2 percent, compared to a 12.9 percent year-over-year decline in the first quarter. Overall, the behavior of the index suggests that the local economic activity is nearing a bottom. The strength, however, of the subsequent recovery remains in doubt.

Overall, indicators signal persistent labor market weakness in the region. Help wanted advertising in the Register Guard continued to trend downward as new hiring slowed. In contrast, initial unemployment claims fell, reverting to their lowest level since the third quarter of last year. While still high, the declining level of initial claims suggests an end to the rapid deterioration in the labor market of the past few quarters. Still, weak hiring continues to weigh on employment; nonfarm payrolls declined for the sixth consecutive quarter, falling 6.2 percent from the peak in 2007.

Inflation adjusted lodging revenues and airport passenger traffic both rose compared to the first quarter; this is the second quarter of relative stability or improvement for both measures. In contrast, housing markets remained weak, as residential units sold



fell, while days on market crept upward slightly. On a brighter note, building permits rose, albeit the level of residential construction activity remains at historically low levels. Also, note that residential sales showed improvement heading into the third quarter, with low interest rates, falling prices, and government incentives supporting sales at the lower priced end of the housing market.

The slowing pace of decline in the LCBI is a welcome signal of impending stability following the rapid deterioration experienced since the end of 2007. Combined with evidence of further stability on the national and state levels—including signs that the national recession may have ended in June or July of this year—the behavior of the LCBI is consistent with the final stages of the local economic contraction. That said, there is a risk of sustained economic weakness, including a jobless recovery, similar to that experienced at the official end of the 2001 recession, as household spending looks to remain constrained by weak income growth, significant debt burdens, and stricter credit underwriting standards.

Table 1: Summary Measures

	3Q08	4Q08	1Q09	2Q09
Lane County Business Index, 1999 = 100	100.5	95.9	92.2	90.7
Percentage Change, Previous Quarter	-2.7	-4.6	-3.8	-1.7
Percentage Change, Previous Two Quarters	-5.0	-7.2	-8.2	-5.4
Percentage Change, Year Ago	-7.0	-10.2	-12.9	-12.2

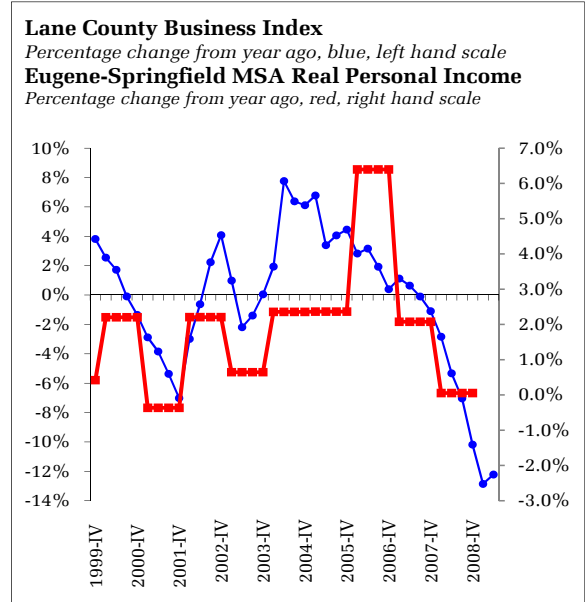


Methodology and Notes

The methodology used to construct the Lane County 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 Lane County Business Index (LCBI) 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, new business incorporations, tourism, and housing markets, cover a wide swath of local economic activity.

The LCBI 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 LCBI fell sharply heading into the 2001 recession and did not signal any other periods of weak economic activity during the covered period of 1998 to present. The LCBI is 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 Register-Guard*, Bureau of Labor Statistics, Oregon Employment Department, Oregon Secretary of State, Eugene Municipal Airport, Census Bureau, City of Eugene, 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

	3Q08	4Q08	1Q09	2Q09
The <i>Register Guard</i> Help Wanted Ads, SA*	3,413	3,092	2,113	1,140
Eugene Center Initial Unemployment Claims, SA	5,991	9,311	8,118	6,171
Lane County Nonfarm Payrolls, SA	154.2	152.0	148.7	147.5
UO Index of Economic Indicators	91	88	86	85
Lane County Lodging Revenue, Inflation Adjusted \$s, SA	3,256,353	2,608,407	2,604,808	2,661,817
Eugene Municipal Airport Activity, Enplanements and Deplanements, SA	58,643	53,069	53,859	54,320
Lane County Housing Units Sold, SA	229	227	225	197
Lane County Average Housing Days on Market, SA	96	97	106	107
Lane County Building Permits, SA	74	34	32	55

* SA—seasonally adjusted

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