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THIRD QUARTER 2010

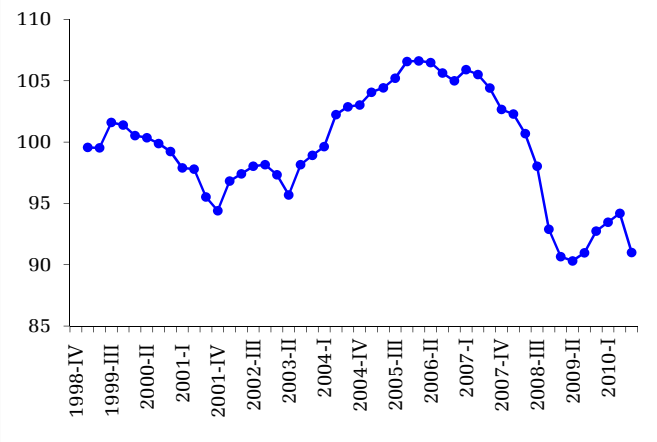
Analysis

The University of Oregon Lane County Business Index (LCBI) fell 3.4 percent to 91.0 (2000=100) in the third quarter of 2010. The LCBI was flat compared to the same period last year. The LCBI was modified this quarter in response to the transition to Internet job advertising. As a consequence of this transition, the LCBI no longer incorporates help-wanted advertising in *The Register-Guard* as an indicator. This series has been replaced with data on solid waste flows in Lane County. Waste flows tracked the business cycle closely this past decade, plateauing in 2006 and subsequently dropping off sharply. We will still collect help-wanted advertising data and explore methods to combine newspaper and Internet data. A second modification relates to the computation of the LCBI. The LCBI was initially constructed as a monthly index, and the resulting data were converted to quarterly figures. Data limitations in other regions of the state prevent a similar computation. The computation of the LCBI is now done on a quarterly basis directly, making it more methodologically comparable to other regional indexes. The modifications also required a shift in the base year of the index to 2000. The revised LCBI, however, is qualitatively identical.

Labor market data were on average weaker for the quarter. Initial unemployment claims were effectively unchanged, holding at somewhat elevated levels consistent with a sluggish job market. Similarly, nonfarm payrolls for the region declined for the second consecutive quarter. A portion of the decline may be attributable to unusual seasonal patterns in which some education hiring was pushed from September to October. Also, there is a possibility of upward

Lane County Business Index

Index, 2000 = 100



revisions as new data become available. Current data, however, indicate a challenging market for job seekers.

Measures of tourism and travel were mixed. Estimated lodging fell, largely reversing the previous quarter's gain. The decline, it is hoped, is temporary, as national evidence tends to point toward firming lodging data. In contrast, air passenger traffic gained sharply. Housing markets were much weaker. Housing sales plunged, consistent with expectations that the tax credit-induced gains in housing activity late last year would prove to be short-lived. Similarly, days on market jumped higher. Residential building permits fell.

Despite the decline over the past two quarters, recent LCBI trends indicate the regional economy maintains the stabilization that became evident at the end of 2009. The uneven pace of improvement can be attributed to the tax credit-induced gyrations in the housing market. With those tax credits now expired, the housing market should stabilize, albeit at a low level relative to the housing bubble period. Note that incoming data in recent weeks suggest a more consistent national recovery is underway, which should help bolster regional activity.

Table 1: Summary Measures

	4Q09	1Q10	2Q10	3Q10
Lane County Business Index, 2000 = 100	92.7	93.5	94.2	91.0
Percentage Change, Previous Quarter	2.0	0.8	0.8	-3.4
Percentage Change, Previous Two Quarters	2.7	2.8	1.6	-2.6
Percentage Change, Year Ago	-0.2	3.1	4.3	0.0

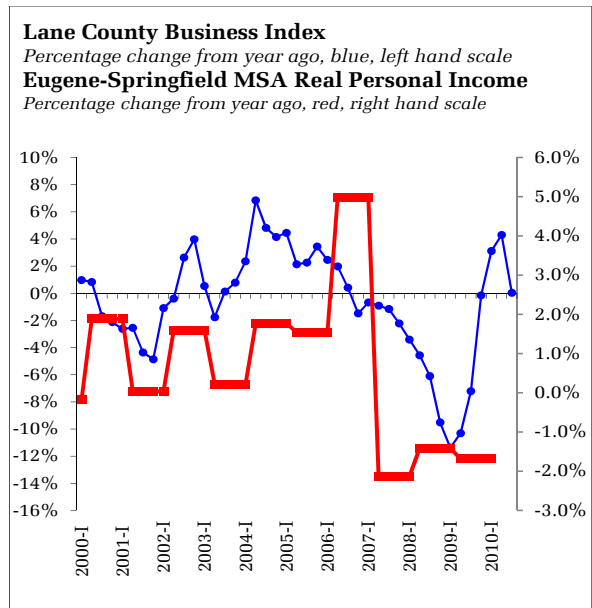


Methodology and Notes

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 2000=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 2000–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: Bureau of Labor Statistics, Oregon Employment Department, Oregon Secretary of State, Eugene Municipal Airport, Census Bureau, City of Eugene, Realtors Association, Oregon Department of Environmental Quality, and the author's calculation. Initial research for this project was supported by a grant from the UO Williams Council.

Table 2: Index Components

	4Q09	1Q10	2Q10	3Q10
Lane County Solid Waste, tons, SA*	53,446	54,641	54,895	53,264
Eugene Center Initial Unemployment Claims, SA	5,143	5,576	5,414	5,410
Lane County Nonfarm Payrolls, SA	140.1	141.5	141.5	140.7
UO Index of Economic Indicators	87	89	89	87
Lane County Lodging Revenue, Inflation Adjusted \$s, SA	2,636,144	2,557,152	2,713,415	2,593,689
Eugene Municipal Airport Activity, Enplanements and Deplanements, SA	58,017	58,107	59,427	64,355
Lane County Housing Units Sold, SA	290	274	282	181
Lane County Average Housing Days on Market, SA	100	93	93	113
Lane County Building Permits, SA	68	53	61	42

* SA—seasonally adjusted

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