

PORTLAND METRO BUSINESS INDEX™

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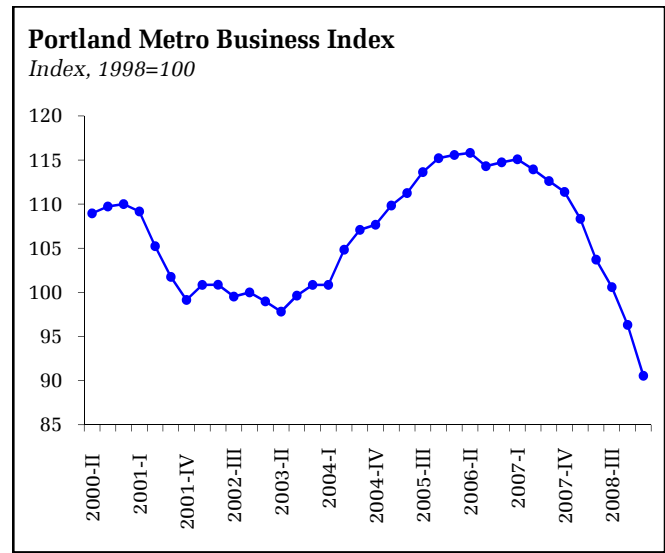
FIRST QUARTER 2009

Analysis

The University of Oregon Portland Metro Business Index (PMBI) fell 6 percent to 90.6 (2002=100) in the first quarter of 2009. Compared to year-ago levels, the PMBI is down 16.4 percent, an accelerating decline compared to the 13.5 percent (revised) drop in the fourth quarter of 2008. Of the nine indicators included in the PMBI, six declined significantly.

Labor market trends continue to deteriorate. Help-wanted advertising in *The Oregonian* fell during the quarter, consistent with a decrease in hiring demand. Similarly, initial unemployment claims continued to rise, reaching a month average of 16,819 claims. Non-farm payrolls continue to fall as under the dual forces of increased layoffs and slack hiring demand; payrolls stand 3.9 percent lower than year-ago levels.

The expected slowdown in lodging activity finally came to pass, with estimated lodging revenue (seasonally and inflation adjusted) down 15.4 percent from the fourth quarter. Passenger traffic at Portland International Airport was effectively unchanged from the previous quarter. Housing markets were generally weaker. Housing sales were effectively unchanged, while average days-on-market fell, partially offsetting a particularly sharp rise in the fourth quarter



of 2008 (attributable to the intensification of the financial crisis and unusual weather conditions).

Ongoing declines in the PMBI point to continued economic deterioration in the Portland region. Signs of stabilization are difficult to find; expectations for a firming of economic activity in the second half of 2009 are largely based on some tentative signs of stability in the national economy. Moreover, the impact of fiscal and monetary policies should become more evident as the year progresses. Still, the pace of the recovery is expected to be subdued as the economy adjusts to an environment less dependent on debt-supported consumer spending growth.

Table 1: Summary Measures

	2Q08	3Q08	4Q08	1Q09
Portland Metro Business Index, 2002 = 100	103.7	100.6	96.3	90.6
Percentage Change, Previous Quarter	-4.3	-3.0	-4.3	-6.0
Percentage Change, Previous Two Quarters	-6.9	-7.1	-7.1	-10.0
Percentage Change, Year Ago	-9.0	-10.7	-13.5	-16.4



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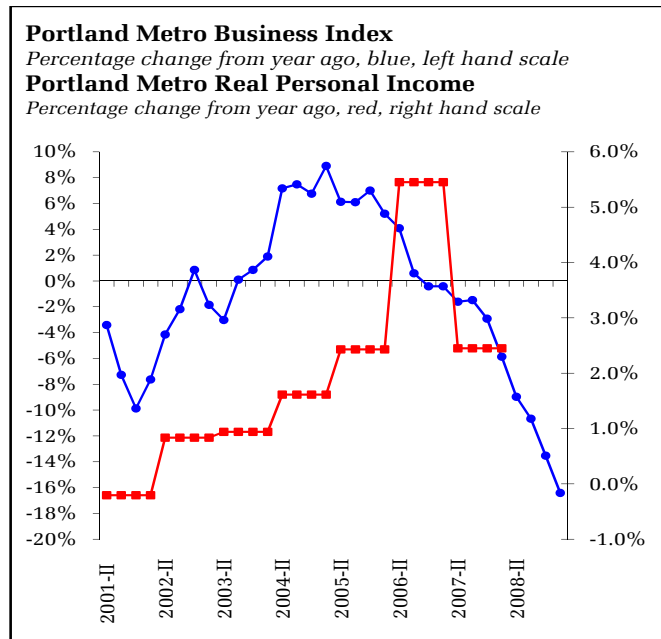
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Methodology and Notes

The methodology used to construct the Portland Metro 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 Portland Metro Business Index (PMBI) provides a snapshot of business activity by aggregating nine possibly contradictory economic statistics into a single variable. The variables are chosen on the basis of economic relevance, timely availability, and sufficiently long history to capture at least one business cycle. The selected variables—measures of the labor market, tourism, and housing markets—cover a wide swath of local economic activity.

The region covered by the PMBI is Multnomah, Clackamas, Washington, Columbia, and Yamhill counties. Data for building permits and nonfarm payrolls (via the Oregon Employment Department) is aggregated for these five counties. Housing sales and days-on-market are for the Portland Metro region as defined by Regional Multiple Listing Service (RMLS). Estimated lodging revenues are for the City of Portland only. Note that all data are seasonally adjusted.



The PMBI appears to be 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 Oregonian, U.S. Bureau of Economic Analysis, Oregon Employment Department, Port of Portland, U.S. Census Bureau, City of Portland, Realtors Association, and the author's calculations.

Table 2: Index Components

	2Q08	3Q08	4Q08	1Q09
<i>The Oregonian</i> Help-Wanted Ads, SA*	5,441	3,385	4,660	2,969
Portland Office Initial Unemployment Claims, SA	9,412	10,097	15,521	16,819
Portland Metro Nonfarm Payrolls, SA	902,351	899,712	885,328	868,390
UO Index of Economic Indicators	93	91	88	86
Portland Lodging Revenue, Inflation Adjusted \$thousands, SA	124,161	130,746	135,343	114,542
PDX International Airport Passenger Activity, SA	1,232,868	1,200,070	1,077,101	1,083,852
Portland Metro Housing Units Sold, SA	1,431	1,461	1,370	1,345
Portland Metro Average Housing Days on Market, SA	77	81	92	86
Portland Metro Building Permits, SA	259	240	246	165

* SA—seasonally adjusted

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