

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

SPONSORED BY



Unlock your possibilities

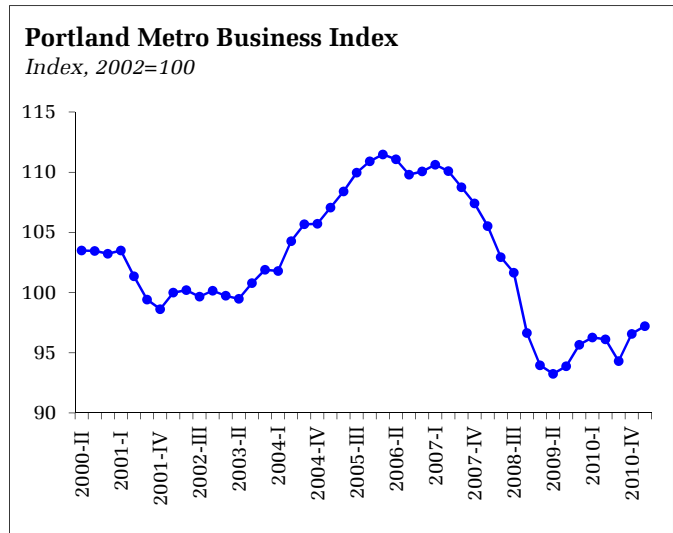
FIRST QUARTER 2011

Analysis

The University of Oregon Portland Metro Business Index (PMBI) rose 0.7 percent to 97.2 (2002=100) in the first quarter of 2011. The PMBI is up 1 percent compared to the same quarter in 2010. The region continues to show signs of steady economic improvement.

Labor market data were generally stronger during the quarter. Initial unemployment claims fell again, trending down to levels last seen in the first quarter of 2007, prior to the most recent recession. This indicates a significant improvement in labor markets, as firming demand brings the pace of layoffs to more normal level. The improvement is also seen in aggregate hiring activity, with payrolls growing 1 percent during the quarter.

Measures of travel and tourism activity were mixed. Estimated lodging revenues, adjusted for inflation, declined after a solid gain in the fourth quarter of last year. Lodging activity has been generally improving since the end of 2009, although it remains below prerecession highs. Air passenger traffic at PDX International Airport improved, extending an upward trend that began in the third quarter of 2010. Residential housing sales edged up, but remain below the



tax credit-induced levels of the first half of 2010. Days on market were essentially unchanged. Area housing prices, as measured by the S&P Case-Schiller index, continued to decline during the quarter. Building permits remained unchanged.

The PMBI continues to suggest the regional economy is generally improving. National data turned softer during the quarter, as the recent rise in commodity prices, particularly oil, tempered the pace of growth. While oil prices have come down recently, they remain high and present an ongoing challenge to the pace of the recovery. Sluggish national growth would be a damper on local activity as well in the months ahead.

Table 1: Summary Measures

	2Q10	3Q10	4Q10	1Q11
Portland Metro Business Index, 2002 = 100	96.1	94.3	96.6	97.2
Percentage Change, Previous Quarter	-0.2	-1.9	2.4	0.7
Percentage Change, Previous Two Quarters	0.5	-2.0	0.5	3.1
Percentage Change, Year Ago	3.1	0.5	0.9	1.0



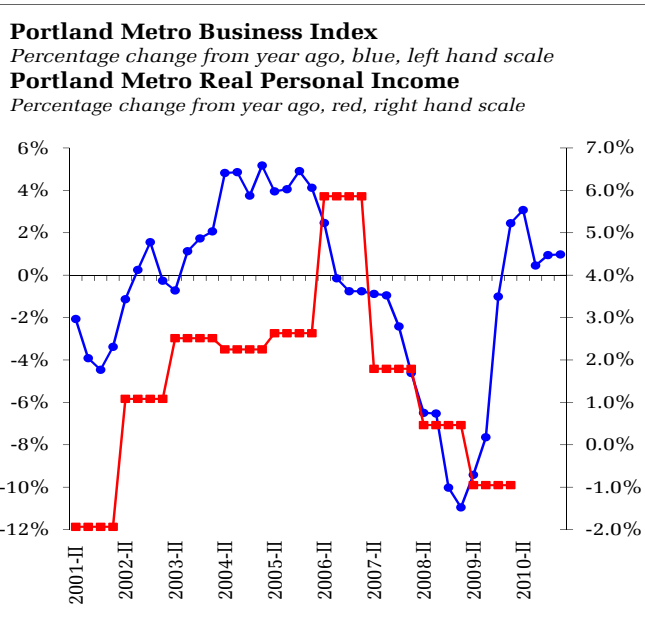
FIRST QUARTER 2011

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 2002=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, waste generation, 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) are aggregated for these five counties. Housing sales and days on market are for the Portland Metro region as defined by the 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, Metro, and the author's calculations.

Table 2: Index Components

	2Q10	3Q10	4Q10	1Q11
Portland Office Initial Unemployment Claims, SA	9,721	10,371	9,349	8,023
Portland Metro Nonfarm Payrolls, SA	838,585	837,647	837,159	845,780
Portland Lodging Revenue, Inflation Adjusted \$thousands, SA	12,520	11,779	12,965	12,125
PDX International Airport Passenger Activity, SA	1,078,202	1,098,095	1,104,187	1,134,668
UO Index of Economic Indicators	90.3	89.2	89.5	91.2
Core Waste, Metro Area, Tons, SA	91,330	93,187	94,379	91,202
Portland Metro Housing Units Sold, SA	1,709	1,113	1,529	1,619
Portland Metro Average Housing Days on Market, SA	76	86	86	89
Portland Metro Building Permits, SA	168	177	226	226

* SA—seasonally adjusted

Author

Timothy A. Duy
Director, Oregon Economic Forum
Department of Economics, University of Oregon
541-346-4660 • duy@uoregon.edu