

PORTLAND METRO BUSINESS INDEX™

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SECOND QUARTER 2009

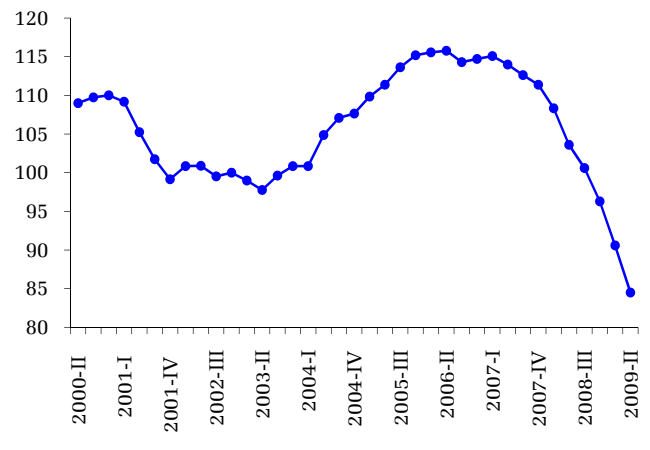
Analysis

The University of Oregon Portland Metro Business Index (PMBI) fell 6.7 percent to 84.5 (2002=100) in the second quarter of 2009. Compared to year ago levels, the PMBI is down 18.4 percent, a faster pace of decline than the first quarter's fall of 16.4 percent. Of the nine indicators included in the PMBI, only one—initial unemployment claims—improved.

Labor market trends continue to deteriorate. Help wanted advertising in *The Oregonian* fell again during the quarter, consistent with a decrease in hiring demand. The decline is enhanced by a transition to internet job advertising. It will not be known if the data still contains a cyclical trend (increases in response to improving economic conditions) until the recovery is underway. Initial unemployment claims fell back to the lowest levels since the third quarter of 2008, indicating that the most rapid pace of labor market deterioration has ended. Still, hiring activity remains weak; nonfarm payrolls continue to fall and stand 5.3 percent lower than year ago levels. Nonfarm payrolls in the five county region are now lower than the fourth quarter of 2000—the peak of the last expansion.

The slowdown in lodging activity continued, with estimated lodging revenue (seasonally and inflation adjusted) down for a second consecutive quarter. Likewise, passenger traffic at the Portland International Airport declined during the quarter, down 13 percent compared to the same quarter last year. Housing markets were generally weaker, with housing

Portland Metro Business Index
Index, 2002=100



sales falling while average days on market edged upward. July data suggests that housing sales rose heading into the third quarter as low interest rates, falling prices, and government incentives provided support in lower price ranges.

In the face of continuing declines in the PMBI, it is difficult to find signs of economic stabilization. As noted earlier, there is some evidence of stabilizing home sales early in the third quarter, as well as indications that the national recession may have ended in June or July of this year. A resumption of economic growth would help support state and local economies as well. Note, however, that the end of the recession does not necessarily translate into a strong recovery; lacking a strong consumer dynamic, the risk remains of a “jobless recovery,” similar to that experienced in the 2001–2003 period.

Table 1: Summary Measures

	3Q08	4Q08	1Q09	2Q09
Portland Metro Business Index, 2002 = 100	100.6	96.3	90.6	84.5
Percentage Change, Previous Quarter	-2.9	-4.3	-5.9	-6.7
Percentage Change, Previous Two Quarters	-7.1	-7.1	-10.0	-12.3
Percentage Change, Year Ago	-10.7	-13.5	-16.4	-18.4



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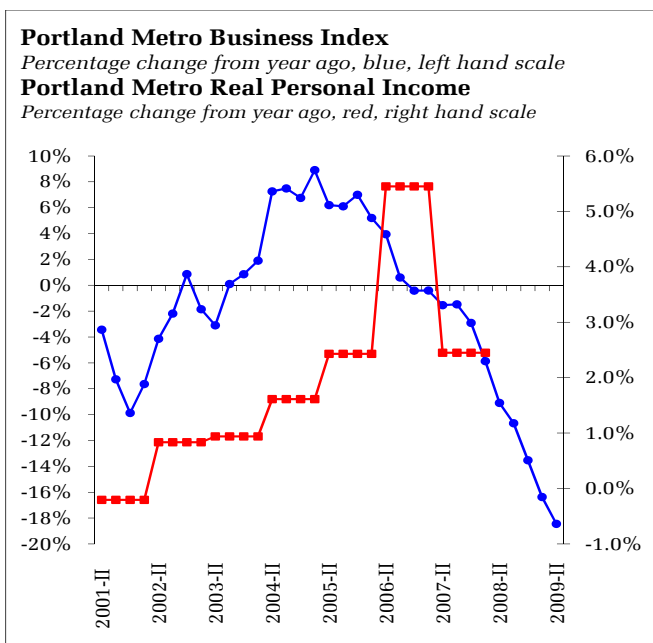
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Methodology and Notes

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

	3Q08	4Q08	1Q09	2Q09
<i>The Oregonian</i> Help-Wanted Ads, SA*	3,385	4,660	2,969	466
Portland Office Initial Unemployment Claims, SA	10,097	15,521	16,819	13,619
Portland Metro Nonfarm Payrolls, SA	899,712	885,328	868,357	854,172
UO Index of Economic Indicators	91	88	86	85
Portland Lodging Revenue, Inflation Adjusted \$thousands, SA	130,534	134,055	113,759	109,503
PDX International Airport Passenger Activity, SA	1,200,070	1,077,101	1,083,852	1,072,570
Portland Metro Housing Units Sold, SA	1,461	1,370	1,345	1,158
Portland Metro Average Housing Days on Market, SA	81	92	85	86
Portland Metro Building Permits, SA	240	246	165	161

* SA—seasonally adjusted

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