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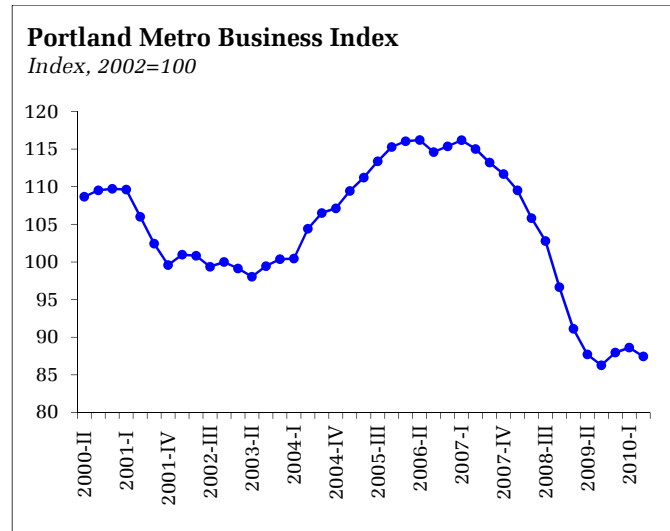
SECOND QUARTER 2010

Analysis

The University of Oregon Portland Metro Business Index (PMBI) fell 1.3 percent to 87.4 (2002=100) in the second quarter of 2010. The PMBI is effectively unchanged from last year, down a scant 0.3 percent; this compares with the 17.1 percent year-over-year decline registered in the second quarter of 2009. Although the PMBI fell slightly in the second quarter, the overall trend of recent quarters indicates general stability in the regional economy, a welcome relief compared to the steep declines of 2008 and 2009. Still, stronger labor markets remained elusive. Moreover, a slowing national economy in the second half of 2010 suggests additional delays to the onset of solid job gains.

Labor market data were mixed during the quarter. Help-wanted advertising in *The Oregonian* was effectively unchanged, while initial unemployment claims continued to decline. The latter indicates the pace of layoffs improved further as the economy stabilized, but employers still appear hesitant to add labor, as indicated by the slight decline in nonfarm payrolls during the quarter. Overall, the labor market has been moving sideways for three quarters.

Measures of tourism-related activity were also mixed. Estimated lodging revenues, adjusted for inflation, rebounded strongly, rising to the highest level since the fourth quarter of 2008. National measures of lodging activity show similar trends. In contrast, air



passenger traffic at Portland International Airport (PDX) declined. Housing markets also sent mixed signals. Home sales were effectively unchanged compared to the first quarter, while days on market dropped measurably as buyers rushed to beat the expiration of tax credits. Incoming data for the third quarter indicate that home sales dropped sharply in the absence of those credits. Building permits dropped sharply, too, a reminder of the ongoing challenges in the housing sector.

Recent PMBI trends indicate the regional economy maintains the stabilization that became evident at the end of 2009. The pace of economic activity, however, remains insufficient to generate solid job growth. Note that incoming data suggest a softer national economy in the second half of 2010. Weaker national conditions would likely delay the return to sustained job growth in the region.

Table 1: Summary Measures

	3Q09	4Q09	1Q10	2Q10
Portland Metro Business Index, 2002 = 100	86.3	88.0	88.6	87.4
Percentage Change, Previous Quarter	-1.6	1.9	0.8	-1.3
Percentage Change, Previous Two Quarters	-5.3	0.3	2.7	-0.6
Percentage Change, Year Ago	-16.1	-9.0	-2.7	-0.3



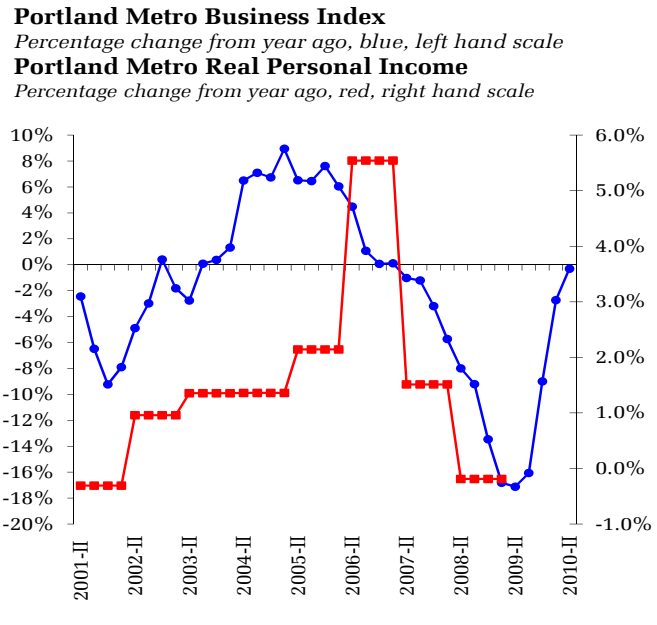
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Methodology and Notes

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) are 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 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

	2Q09	3Q09	4Q09	1Q10
<i>The Oregonian</i> Help-Wanted Ads, SA*	2,876	2,015	1,698	1,594
Portland Office Initial Unemployment Claims, SA	13,748	11,833	10,828	9,346
Portland Metro Nonfarm Payrolls, SA	845,202	832,277	826,355	829,560
UO Index of Economic Indicators	84.6	84.1	85.9	88.7
Portland Lodging Revenue, Inflation Adjusted \$thousands, SA	110,296	108,324	108,014	112,593
PDX International Airport Passenger Activity, SA	1,071,999	1,087,414	1,067,394	1,084,877
Portland Metro Housing Units Sold, SA	1,202	1,584	1,941	1,716
Portland Metro Average Housing Days on Market, SA	86	85	81	80
Portland Metro Building Permits, SA	174	164	281	259

* SA—seasonally adjusted

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