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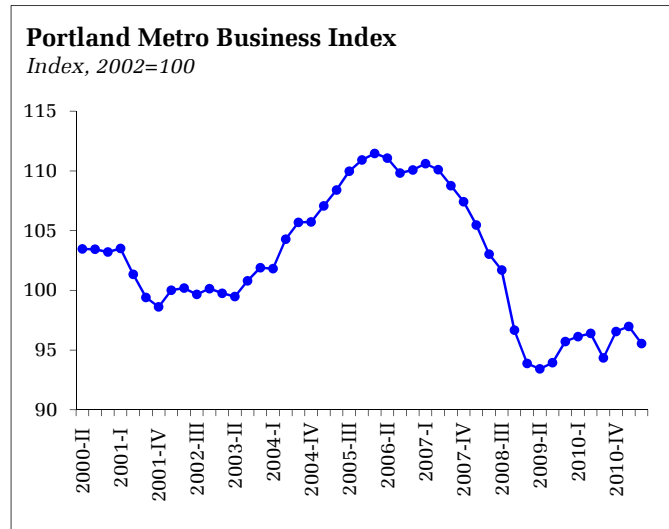
## SECOND QUARTER 2011

### Analysis

The University of Oregon Portland Metro Business Index (PMBI) fell 1.5 percent to 95.5 (2002=100) in the second quarter of 2011. The PMBI is down 1 percent compared to the same quarter in 2010. By itself, this decline does not disrupt the pattern of general improvement since the second half of 2009. Still, recent national weakness appears to be weighing on the local economy as well.

Labor market data was mixed during the quarter. Initial unemployment claims rose sharply to their highest level since the third quarter of 2010. While part of the increase can be attributed to state benefit extension in April, there also appears to be a more general softening in labor conditions. Note that nationally initial claims rose during the second quarter as well. While the number of employees on nonfarm payrolls continued to grow, the pace of improvement slowed from that of the previous quarter.

Measures of travel and tourism activity were mixed. Estimated lodging revenues, adjusted for inflation, rose, partially offsetting a decline the previous quarter. Air passenger traffic at PDX International Airport edged down, but remain above levels in the final quarter of 2010. Waste generated in the region rose slightly. Residential housing sales edged down, now trending essentially sideways for three quarters. Days on market rose and building



permits fell during the quarter. Simply put, the housing market remains weak.

The PMBI continues to tell a story of “two steps forward, one step back.” While generally improving, gains have been moderate and vulnerable to setbacks. The national economy is following a similar pattern; improvement at the end of 2010 gave way to sluggish growth in the first half of this year as the economy confronted a commodity price shock, tsunami-related supply disruptions, and the drag from state and local government spending cuts. Moreover, the housing market, traditionally a leading indicator, remains mired in the after effects of the housing bubble. Slow national growth looks set to continue into the second half of this year and will likely weigh on the regional economy.

Table 1: Summary Measures

	3Q10	4Q10	1Q11	2Q11
Portland Metro Business Index, 2002 = 100	94.3	96.6	97.0	95.5
Percentage Change, Previous Quarter	-2.1	2.3	0.4	-1.5
Percentage Change, Previous Two Quarters	-1.9	0.2	2.8	-1.0
Percentage Change, Year Ago	0.4	0.9	0.9	-0.9



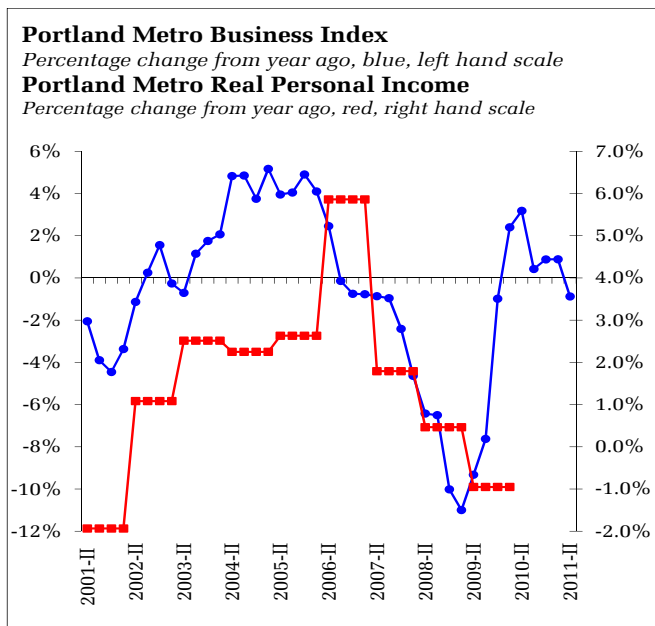
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**Methodology and Notes**

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 2002=100. Full details can be found at [www.globalindicators.com](http://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) 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 is seasonally adjusted.



The PMBI appears to be the leading indicator of personal income growth—data released only annually and with a substantial lag. Still, the available data encompasses 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

	3Q10	4Q10	1Q11	2Q11
Portland Office Initial Unemployment Claims, SA	10,348	9,322	8,206	9,855
Portland Metro Nonfarm Payrolls, SA	837,601	836,294	844,261	847,400
Portland Lodging Revenue, Inflation Adjusted \$thousands, SA	11,751	13,049	12,128	12,330
PDX International Airport Passenger Activity, SA	1,097,766	1,104,974	1,132,620	1,126,557
UO Index of Economic Indicators	89.3	89.5	91.2	90.8
Core Waste, Metro Area, Tons, SA	93,106	94,299	91,176	91,565
Portland Metro Housing Units Sold, SA	1,125	1,518	1,582	1,522
Portland Metro Average Housing Days on Market, SA	86	86	89	94
Portland Metro Building Permits, SA	175	224	219	150

\* SA—seasonally adjusted

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