

# PORTLAND METRO BUSINESS INDEX™

oregon  
economic  
forum

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

SPONSORED BY



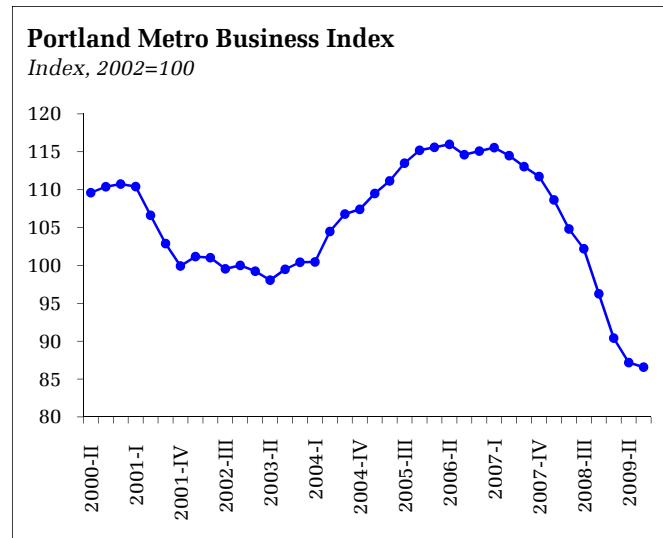
## THIRD QUARTER 2009

### Analysis

The University of Oregon Portland Metro Business Index (PMBI) fell 3.6 percent to 86.6 (2002=100) in the third quarter of 2009. Compared to year ago levels, the PMBI is down 15.3 percent, a slower pace of decline than the second quarter's fall of 16.8 percent. Help wanted advertising fell to such low levels that the seasonal adjustment procedure was no longer valid. Consequently, the help-wanted data are now smoothed via a twelve month moving average, and the PMBI was revised to reflect this change. This revision lessened the degree of deterioration in the overall index in the second quarter of this year.

Labor market trends were mixed. 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 continued to decline, a significant improvement compared to the rapid pace of layoffs last winter. Still, claims remain elevated and overall hiring is weak. Nonfarm payrolls continued to decline, and are down 5.8 percent compared to the third quarter of last year.

Lodging revenue, adjusted for inflation, fell for the third consecutive quarter, although the pace of decline slowed, suggesting that lodging activity will soon stabilize. Also note that airline passenger traffic improved to its highest level since the third quarter of last year. Housing



markets were mixed. Housing sales jumped to their highest level since the first quarter of 2008 as buyers rushed to take advantage of low interest rates, lower prices, and the expected expiration of a tax credit for homebuyers. The credit (now extended) likely shifted demand from future quarters into the second half of 2009, suggesting the some of the sales increase will fade in the months ahead. Note too, that despite the rise in sales, Portland area home prices, as measured by the Case-Shiller Index, resumed their decline in September. The rise in sales has not yet translated into an increase in building activity; residential permits were flat during the quarter.

Although the PMBI continues to decline, signs of stabilization are evident. Notably, the pace of deterioration has improved for two consecutive quarters; such improvement typically presages the end of a period of economic contraction. The dependence of activity on fiscal and monetary stimulus suggests that the sustainability of subsequent recovery is at risk as the impact of stimulus fades in 2010.

Table 1: Summary Measures

	4Q08	1Q09	2Q09	3Q09
Portland Metro Business Index, 2002 = 100	96.3	90.4	87.2	86.6
Percentage Change, Previous Quarter	-5.8	-6.1	-3.6	-0.7
Percentage Change, Previous Two Quarters	-8.2	-11.5	-9.4	-4.3
Percentage Change, Year Ago	-13.9	-16.8	-16.8	-15.3



COLLEGE OF ARTS AND SCIENCES  
University of Oregon

© 2009 University of Oregon. All rights reserved.  
Released: December 16, 2009.

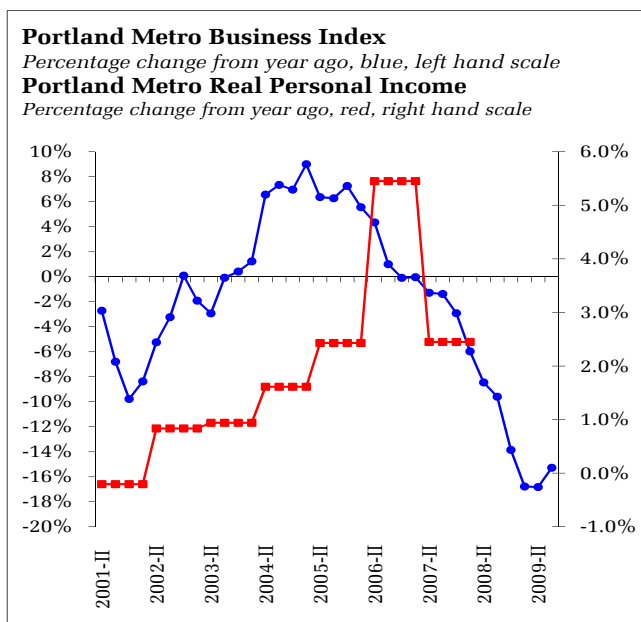
THIRD QUARTER 2009

**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](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, 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

	4Q08	1Q09	2Q09	3Q09
<i>The Oregonian</i> Help-Wanted Ads, SA*	5,635	4,126	2,876	2,015
Portland Office Initial Unemployment Claims, SA	15,521	16,819	13,619	11,461
Portland Metro Nonfarm Payrolls, SA	885,328	868,357	854,172	847,617
UO Index of Economic Indicators	88.0	85.5	84.8	84.2
Portland Lodging Revenue, Inflation Adjusted \$thousands, SA	134,365	113,714	109,292	108,392
PDX International Airport Passenger Activity, SA	1,077,101	1,083,852	1,072,570	1,093,349
Portland Metro Housing Units Sold, SA	1,370	1,345	1,158	1,593
Portland Metro Average Housing Days on Market, SA	85	86	86	85
Portland Metro Building Permits, SA	246	165	161	159

\* SA—seasonally adjusted

**Author**

Timothy A. Duy  
Director, Oregon Economic Forum  
Department of Economics, University of Oregon  
(541) 346-4660 • [duy@uoregon.edu](mailto:duy@uoregon.edu)