

PORTLAND METRO BUSINESS INDEX™

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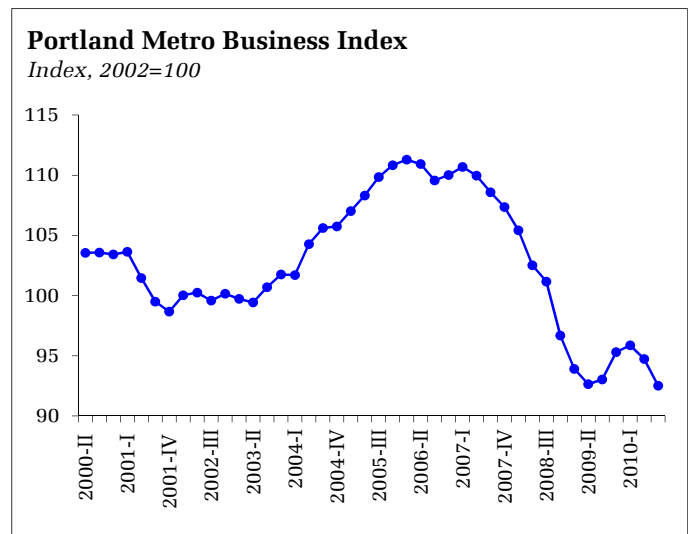
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THIRD QUARTER 2010

Analysis

The University of Oregon Portland Metro Business Index (PMBI) fell 2.3 percent to 92.5 (2002=100) in the third quarter of 2010. The PMBI is down slightly from last year. The PMBI was modified this quarter in response to the transition to Internet job advertising. As a consequence of this transition, the PMBI no longer incorporates help-wanted advertising in *The Oregonian* as an indicator. This series has been replaced with data on waste flows in the Portland metropolitan region. Waste flows tracked the business cycle closely this past decade, peaking in the first quarter of 2008 and subsequently dropping off sharply. We will still collect help-wanted advertising data and explore methods to combine newspaper and Internet data. Quantitatively, these modifications reduced the magnitude of the rise between 2003 and 2006 and reveal a stronger increase in late 2009 and early 2010 as the recession drew to a close. Qualitatively, the modified PMBI would have provided a somewhat timelier signal of the recession, as it turned negative on a year-over-year basis in the third quarter of 2006 rather than the first quarter of 2007.

Labor market data were weaker for the quarter. Initial unemployment claims backtracked, rising to their highest levels since the final quarter of last year. Although claims remain well below recession peaks, they remain consistent with a sluggish job market. Similarly, nonfarm payrolls for the region declined for the second consecutive quarter. A portion of the decline may be attributable to unusual seasonal patterns in which some education hiring was pushed from September to October. Also, there is a possibility of upward revisions as new data become available. Current data, however, indicate a challenging market for job seekers.



Measures of travel and tourism activity were mixed. Estimated lodging revenues, adjusted for inflation, fell, reversing the gains of the past two quarters. Still, lodging remains above recession levels. Moreover, the decline is likely temporary, as national evidence tends to point toward firming lodging data. Air passenger traffic at PDX International Airport improved, rising to its highest level since the third quarter of 2008. Housing markets were generally weaker. Following the expiration of home buyer tax credits, home sales plunged while days on market rose. Building permits rose slightly, but remain at very low levels.

Despite the decline over the past two quarters, recent PMBI trends indicate the regional economy maintains the stabilization that became evident at the end of 2009. The uneven pace of improvement can be attributed to the tax credit-induced gyrations in the housing market. With those tax credits now expired, the housing market should stabilize, albeit at a low level relative to the housing bubble period. Note that incoming data in recent weeks suggest a more consistent national recovery is underway, which should help bolster regional activity.

Table 1: Summary Measures

	4Q09	1Q10	2Q10	3Q10
Portland Metro Business Index, 2002 = 100	95.3	95.9	94.7	92.5
Percentage Change, Previous Quarter	2.4	0.6	-1.2	-2.3
Percentage Change, Previous Two Quarters	2.9	3.0	-0.6	-3.5
Percentage Change, Year Ago	-1.4	2.1	2.3	-0.6



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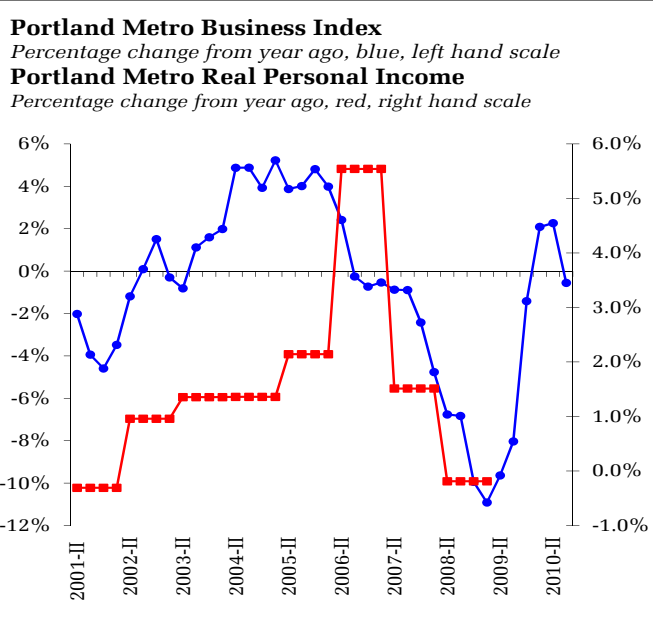
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Methodology and Notes

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 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 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: 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

	4Q09	1Q10	2Q10	3Q10
Core Waste, Metro Area, Tons, SA	93,684	92,372	90,940	93,330
Portland Office Initial Unemployment Claims, SA	10,828	10,194	9,430	10,217
Portland Metro Nonfarm Payrolls, SA	826,429	828,326	826,726	820,865
UO Index of Economic Indicators	86.0	88.8	88.4	86.2
Portland Lodging Revenue, Inflation Adjusted \$thousands, SA	11,349	11,760	12,466	11,733
PDX International Airport Passenger Activity, SA	1,067,394	1,084,877	1,074,060	1,108,255
Portland Metro Housing Units Sold, SA	1,941	1,716	1,703	1,073
Portland Metro Average Housing Days on Market, SA	81	80	75	86
Portland Metro Building Permits, SA	281	259	148	158

* SA—seasonally adjusted

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