

PORTLAND METRO BUSINESS INDEX™

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FOURTH QUARTER 2009

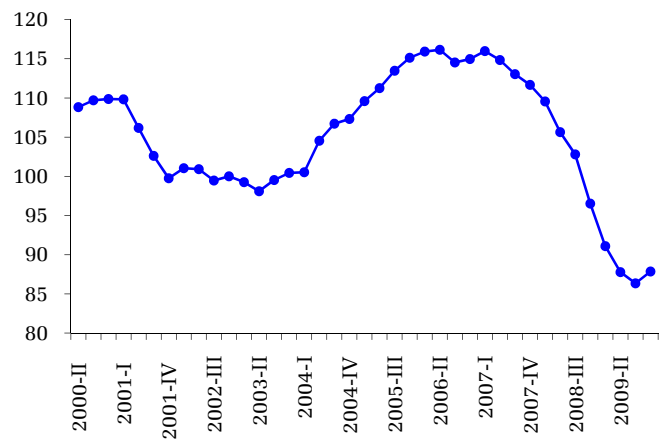
Analysis

The University of Oregon Portland Metro Business Index (PMBI) rose 1.8 percent to 87.9 (2002=100) in the fourth quarter of 2009. Compared to year-ago levels, the PMBI is down 9.0 percent, a significantly slower pace of decline than the third quarter's fall of 16 percent. The PMBI was revised to account for annual updates of seasonal adjustment and standardization factors and revised nonfarm payroll estimates. The revision resulted in minor quantitative changes.

Labor market trends continue to be generally weak. Help-wanted advertising in *The Oregonian* continued to decline in the face of weak hiring demand and transition to Internet-based job advertising. Initial unemployment claims continued to decline, although the pace of improvement slowed compared to the previous quarter, and the level of claims remains elevated and consistent with a decline in overall jobs, as evidenced by the ongoing drop in nonfarm payrolls.

Measures of tourism-related activity were weaker. Estimated lodging revenues, adjusted for inflation, continued to decline. Likewise, airport passenger traffic fell, reversing the previous quarter's gain. Housing markets were generally stronger during the quarter, boosted by buyers rushing to take advantage of a tax credit for new homebuyers. Housing sales jumped to their highest level since the third quarter of 2007. Still, sales were

Portland Metro Business Index
Index, 2002=100



37 percent below the peak reached in the third quarter of 2005. Residential building activity also experienced a boost at the end of 2009 as permits rose to their highest level since the first quarter of 2008, but, like home sales, permits stand well below the peak levels of 2005. Note that the sustainability of housing market improvements remains in question; early 2010 data suggest the pace of sales slowed—not unexpected given that the homebuyers' tax credit likely pulled demand forward into 2009 from 2010.

The increase in the PMBI is a welcome development after the ten quarters of consecutive decline that began in 2007. The improvement is consistent with firming economic activity on both state and national levels as the recession drew to a close in the middle of 2009. Still, note that the improvement this quarter was driven by outsized gains in housing activity. Continuous improvements in this sector are likely to be limited by waning federal support.

Table 1: Summary Measures

| | 1Q09 | 2Q09 | 3Q09 | 4Q09 |
|---|-------|-------|-------|------|
| Portland Metro Business Index, 2002 = 100 | 91.1 | 87.8 | 86.4 | 87.9 |
| Percentage Change, Previous Quarter | -5.6 | -3.6 | -1.6 | 1.8 |
| Percentage Change, Previous Two Quarters | -11.4 | -9.1 | -5.2 | 0.1 |
| Percentage Change, Year Ago | -16.8 | -16.9 | -16.0 | -9.0 |



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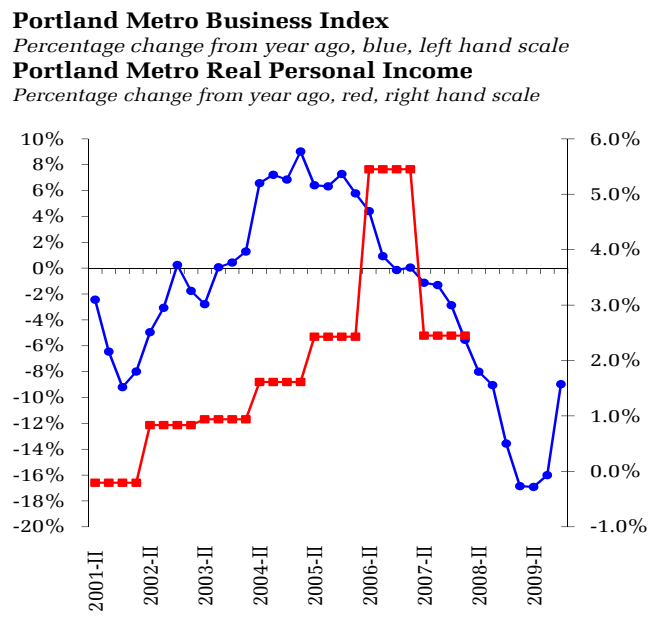
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Methodology and Notes

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) 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.

| | 1Q09 | 2Q09 | 3Q09 | 4Q09 |
|--|-----------|-----------|-----------|-----------|
| <i>The Oregonian</i> Help-Wanted Ads, SA* | 4,126 | 2,876 | 2,015 | 1,698 |
| Portland Office Initial Unemployment Claims, SA | 16,346 | 13,748 | 11,833 | 10,828 |
| Portland Metro Nonfarm Payrolls, SA | 861,342 | 845,187 | 832,719 | 827,135 |
| UO Index of Economic Indicators | 85.4 | 84.6 | 84.0 | 85.9 |
| Portland Lodging Revenue, Inflation Adjusted \$thousands, SA | 114,139 | 110,403 | 108,367 | 107,256 |
| PDX International Airport Passenger Activity, SA | 1,084,028 | 1,071,999 | 1,087,414 | 1,067,394 |
| Portland Metro Housing Units Sold, SA | 1,344 | 1,202 | 1,584 | 1,941 |
| Portland Metro Average Housing Days on Market, SA | 84 | 86 | 85 | 81 |
| Portland Metro Building Permits, SA | 174 | 174 | 164 | 281 |

* SA—seasonally adjusted

Author

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