

PORTLAND METRO BUSINESS INDEX™

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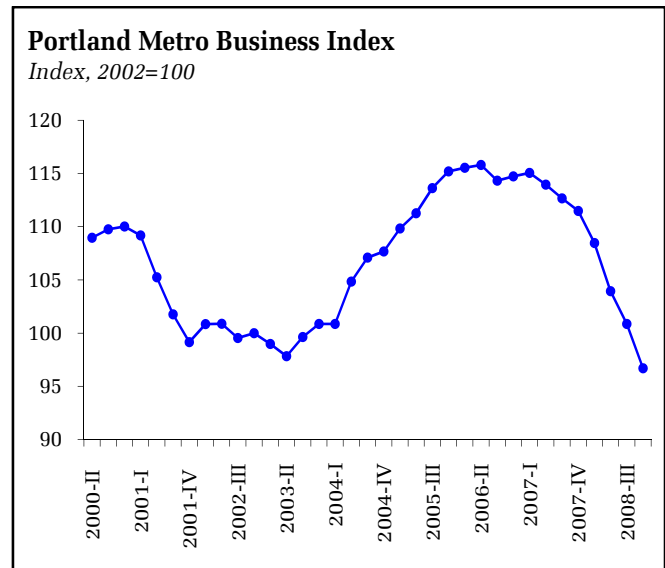
FOURTH QUARTER 2008

Analysis

The University of Oregon Portland Metro Business Index (PMBI) fell 4.1 percent to 96.7 (2002=100) in the fourth quarter of 2008. The PMBI stands 13.3 percent lower than year-ago levels, a decrease from the third quarter growth rate of -10.5 percent. Seven of the nine variables tracked by the PMBI deteriorated or remained effectively unchanged.

Labor market data were generally weaker during the quarter. Help-wanted advertising in *The Oregonian* rose during the quarter. Note that this increase largely reflects an adjustment from very weak second and third quarters, and should not be viewed as a signal that labor markets are improving; the overall trend is weak. The number of employees on nonfarm payrolls fell during the quarter and stand 2 percent lower than the same quarter last year. Further declines are expected; similar to other regions in the state, initial unemployment claims jumped significantly during the quarter.

Tighter household budgets and reduced business travel are weighing on airport passenger traffic, which extended its decline for the third consecutive quarter. This slowdown, however, is not yet reflected in the estimated lodging revenues for the City of Portland, which rose in the fourth quarter. Housing market activity continues to contract by most measures. While housing sales have



stabilized at low levels for the past three quarters, the average days on market continues its steady climb. Builders are responding to the slow housing market with a sharp reduction in new construction as indicated by ongoing drops in permits.

The drop in the PMBI indicates a sharp deterioration in economic activity during the course of 2008. Local activity continues to be heavily impacted by national trends. Stabilized conditions in financial markets and fiscal stimulus at the national level should help support economic activity in the latter half of 2009, but the quality and durability of the following expansion, compared to recent years, is likely to be negatively impacted by tighter underwriting conditions, particularly for mortgage lending.

Table 1: Summary Measures

| | 1Q08 | 2Q08 | 3Q08 | 4Q08 |
|---|-------|-------|-------|-------|
| Portland Metro Business Index, 2002 = 100 | 108.5 | 103.9 | 100.9 | 96.7 |
| Percentage Change, Previous Quarter | -2.7 | -4.2 | -3.0 | -4.1 |
| Percentage Change, Previous Two Quarters | -3.7 | -6.8 | -7.0 | -7.0 |
| Percentage Change, Year Ago | -5.7 | -8.8 | -10.5 | -13.3 |



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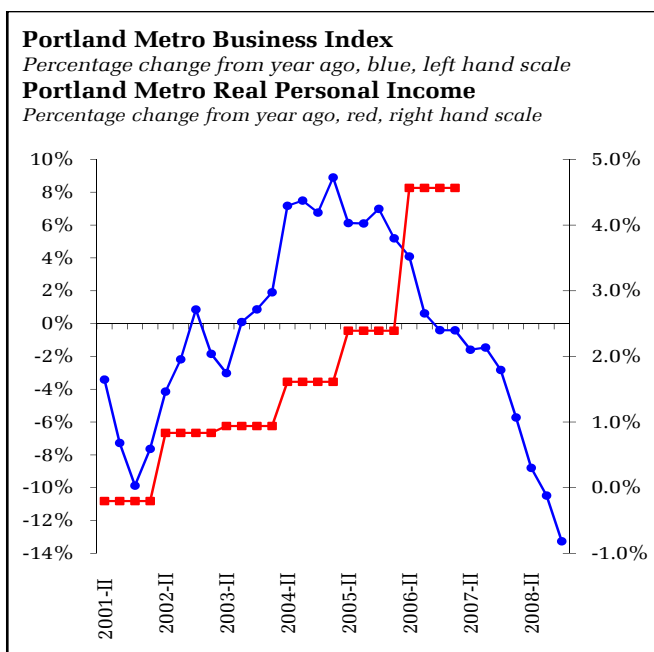
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Methodology and Notes

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 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: 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

| | 1Q08 | 2Q08 | 3Q08 | 4Q08 |
|--|-----------|-----------|-----------|-----------|
| <i>The Oregonian</i> Help-Wanted Ads, SA* | 9,013 | 5,441 | 3,385 | 4,660 |
| Portland Office Initial Unemployment Claims, SA | 8,759 | 9,412 | 10,097 | 15,521 |
| Portland Metro Nonfarm Payrolls, SA | 903,414 | 902,351 | 899,712 | 885,328 |
| UO Index of Economic Indicators | 95 | 94 | 92 | 89 |
| Portland Lodging Revenue, Inflation Adjusted \$thousands, SA | 127,077 | 124,354 | 131,514 | 135,816 |
| PDX International Airport Passenger Activity, SA | 1,256,965 | 1,232,868 | 1,200,070 | 1,077,101 |
| Portland Metro Housing Units Sold, SA | 1,810 | 1,431 | 1,461 | 1,370 |
| Portland Metro Median Housing Days on Market, SA | 75 | 77 | 81 | 92 |
| Portland Metro Building Permits, SA | 329 | 259 | 240 | 246 |

* SA—seasonally adjusted

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