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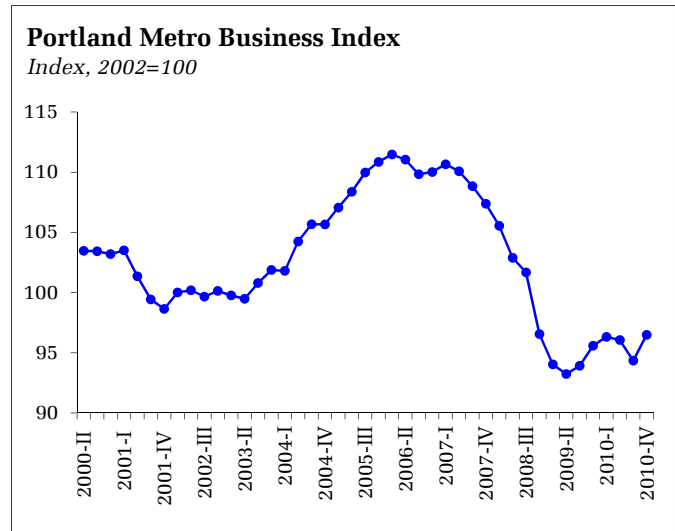
FOURTH QUARTER 2010

Analysis

The University of Oregon Portland Metro Business Index (PMBI) rose 2.3 percent to 96.5 (2002=100) in the fourth quarter of 2010. The PMBI is up 1 percent compared to the same quarter in 2009. The PMBI was revised to reflect annual changes to seasonal adjustment factors and updated estimates of nonfarm payrolls. The results remain qualitatively unchanged; the regional economy continues to slowly improve despite the uneven pattern of recovery attributable to tax-induced gyrations in the housing market.

Labor-market data were on average stronger during the quarter. Initial unemployment claims fell to the lowest level since the first quarter of 2008 as the pace of layoffs receded in response to firming economic activity. Nonfarm payrolls remained subdued during the quarter, suggesting that the economic strength fell short of that necessary to induce a faster pace of hiring.

Measures of travel and tourism activity improved. Estimated lodging revenues, adjusted for inflation, rose, more than offsetting the previous quarter's decline and returning lodging activity to the highest level since the final quarter of 2008. This is consistent with generally improving national indicators of lodging activity. Air passenger traffic at PDX International Airport improved slightly, but remained well below prerecession highs. Housing data continued to bounce along a bottom. Residential sales climbed after plunging in the



third quarter. Still, sales remained below the tax credit-induced levels of the first half of 2010. Days on market were essentially unchanged. Building permits again rose slightly, but remained at very low levels. The ongoing housing market challenges resulted in continued downward pressure on home prices.

Overall, the PMBI continued to suggest the regional economy is generally improving. National data at the end of 2010 and beginning of 2011 generally suggested a solid pace of growth likely this year, which would foster further improvement in the regional economy. Note, however, that the recent rise in commodity prices, particularly oil, is a cloud on the outlook. Price gains to date are likely to restrain the pace of recovery but not trigger a recession. Further rapid gains, however, would pose a greater challenge.

Table 1: Summary Measures

	1Q10	2Q10	3Q10	4Q10
Portland Metro Business Index, 2002 = 100	96.3	96.1	94.3	96.5
Percentage Change, Previous Quarter	0.8	-0.3	-1.8	2.3
Percentage Change, Previous Two Quarters	2.6	0.5	-2.1	0.5
Percentage Change, Year Ago	2.4	3.0	0.5	1.0



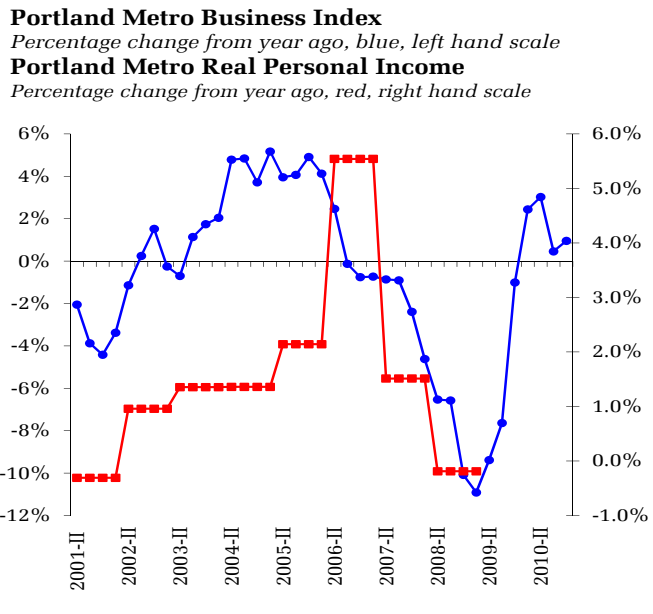
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Methodology and Notes

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

	1Q10	2Q10	3Q10	4Q10
Portland Office Initial Unemployment Claims, SA	9,898	9,682	10,312	9,409
Portland Metro Nonfarm Payrolls, SA	834,412	838,099	837,704	837,358
Portland Lodging Revenue, Inflation Adjusted \$thousands, SA	11,827	12,526	11,855	12,884
PDX International Airport Passenger Activity, SA	1,083,183	1,077,562	1,100,721	1,102,194
UO Index of Economic Indicators	89.7	90.2	89.2	89.6
Core Waste, Metro Area, Tons, SA	92,418	91,348	93,194	94,792
Portland Metro Housing Units Sold, SA	1,701	1,709	1,121	1,492
Portland Metro Average Housing Days on Market, SA	80	76	86	86
Portland Metro Building Permits, SA	252	167	173	226

* SA—seasonally adjusted

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