

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

FOURTH QUARTER 2008

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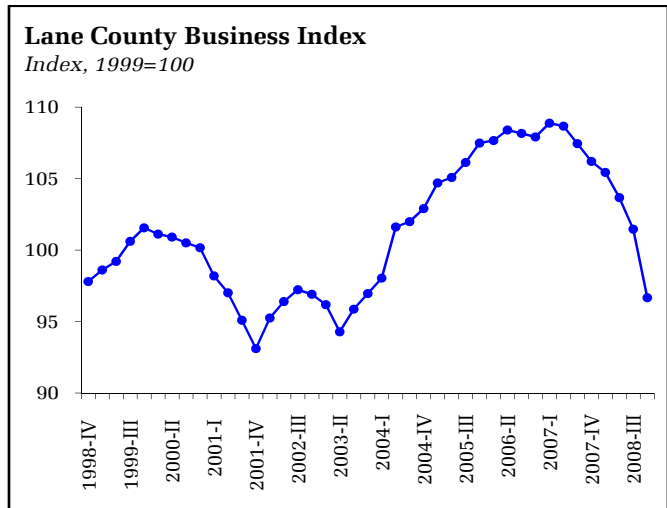
Analysis

The University of Oregon Lane County Business Index (LCBI) fell 4.7 percent to 96.7 (1999=100) in the fourth quarter of 2008. The LCBI stands 9.0 percent lower than year-ago levels, a decrease from the third quarter growth rate of -5.6 percent. Eight of the nine variables tracked by the LCBI deteriorated while housing units sold remained effectively unchanged.

Labor market indicators continued to deteriorate in the fourth quarter. Help-wanted advertising in *The Register-Guard* continued to trend downward as new hiring slowed. Employees on nonfarm payrolls fell during the quarter and stand 2.3 percent lower than the same quarter last year. Further declines are expected; initial unemployment claims jumped significantly during the quarter as firms shed employees in response to a rapid worsening of the economic environment.

Inflation-adjusted lodging revenues fell substantially to the lowest level since 2005, reflecting a decline in tourism activity as consumers retrenched. Likewise, airport passenger traffic extended its decline for the fourth consecutive quarter. Housing market activity continued to contract by most measures. While housing sales have stabilized at low levels for the past three quarters, the average days on market continued its steady climb. The reduced pace of sales is placing significant downward pressure on pricing—median home prices in January 2009 stood at \$187,500, compared to \$225,000 for January 2008. Builders are responding to the slow housing market with a sharp reduction in new construction; the level of permit activity is so low that limited downside remains.

This issue of the LCBI sponsored by



The sharp drop in the LCBI indicates a significant deceleration of economic growth in Lane County. The intensification of the financial crisis last fall, and the resulting credit crunch, are weighing heavily on local economic activity. Supported by fiscal stimulus, growth may stabilize in the second half of the year, but job markets will likely remain depressed well into 2010.

Table 1: Summary Measures

	1Q08	2Q08	3Q08	4Q08
Lane County Business Index, 1999 = 100	105.4	103.7	101.5	96.7
Percentage Change, Previous Quarter	-0.7	-1.7	-2.1	-4.7
Percentage Change, Previous Two Quarters	-1.9	-2.4	-3.8	-6.8
Percentage Change, Year Ago	-3.2	-4.6	-5.6	-9.0



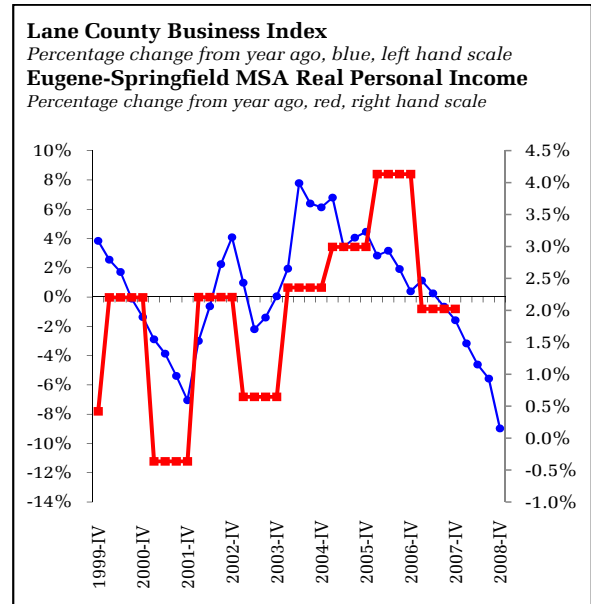
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Methodology and Notes

The methodology used to construct the Lane County 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 Lane County Business Index (LCBI) provides a snapshot of business activity by aggregating nine often contradictory economic statistics into a single variable. The variables are chosen on the basis of economic relevance, timely availability, and sufficiently long history. The selected variables—measures of the labor market, new business incorporations, tourism, and housing markets—cover a wide swath of local economic activity.

The LCBI as constructed mirrors other indicators of economic activity that are reported on a less timely basis. For instance, on a year-over-year basis, the LCBI fell sharply heading into the 2001 recession and did not signal any other periods of weak economic activity during the covered period of 1998 to present. The LCBI is 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 Register-Guard*, Bureau of Labor Statistics, Oregon Employment Department, Oregon Department of State, Eugene Airport, Census Bureau, City of Eugene, Eugene Realtors Association, and the author's calculation. Initial research for this project was supported by a grant from the UO Williams Council.

Table 2: Index Components

	1Q08	2Q08	3Q08	4Q08
The <i>Register Guard</i> Help Wanted Ads, SA*	5,385	3,808	3,413	3,092
Eugene Center Initial Unemployment Claims, SA	5,526	5,412	5,991	9,311
Lane County Nonfarm Payrolls, SA	156.3	156.1	155.4	152.8
UO Index of Economic Indicators	95	94	92	89
Lane County Lodging Revenue, Inflation Adjusted \$s, SA	2,942,711	3,418,965	3,256,353	2,608,407
Eugene Municipal Airport Activity, Enplanements and Deplanements, SA	65,441	61,938	58,643	53,069
Lane County Housing Units Sold, SA	292	231	229	227
Lane County Average Housing Days on Market, SA	81	86	99	104
Lane County Building Permits, SA	82	70	74	34

* SA—seasonally adjusted