

## Forecasting Trends: Arkansas Economic Indicators, March 2001

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The index of leading economic indicators (LEI) for the state of Arkansas rebounded slightly in March, increasing by a seasonally adjusted annualized rate (SAAR) of 0.70%. **Month-on-month increases** in construction employment and the value of building permits, 0.81% and 15.40%, respectively, and a month-on-month decline in initial claims for unemployment insurance of 3.85% bolstered the index. However, the balance of the index's components experienced month-on-month declines. The national index of leading economic indicators declined by a SAAR of 2.18% for the month of March, placing significant downward pressure on the Arkansas index. In addition, average weekly manufacturing hours (AWMH) waned slightly, from 39.78 to 39.65 (0.33%) in March. Lastly, the number of filings for new incorporations fell by 2.05%. The decline in initial claims and the increases in construction employment and the value of building permits were enough to outweigh these negative factors, however, causing **the index** to edge upward for March, ending at 104.25, up from 104.19 in February. The data suggest, therefore, that the economic outlook for the state at summer's end will be better for Arkansas relative to the nation as a whole.

For the month of March, all of the **metropolitan statistical areas** (MSAs) bested the national index of leading economic indicators. Whereas the national index fell by a SAAR of 2.18%, the Northwest Arkansas, Fort Smith, and Pine Bluff indices increased by a SAAR of 1.53%, 2.81%, and 0.35%, respectively. Little Rock is the only MSA whose leading index fell for the month of March, declining by a SAAR of 0.76%.

The increase in the leading index for **Northwest Arkansas** (Fayetteville-Springdale-Rogers) by a SAAR of 1.53% can be traced to three of the four components of its index. First, the value of building permits rose substantially in March, up 18.83% from February. Second, AWMH increased from 38.32 in February to 38.98 in March (1.73%). Lastly, an increase in the Arkansas leading index contributed to the increase in the Northwest Arkansas index. The only component that experienced a month-on-month decline is construction employment, falling by 1.13% in March. This was not enough to overcome the gains made by the other indicators, though; for the month of March, the leading index for Northwest Arkansas increased from 105.2 to 105.3. The data paint a favorable economic picture for Northwest Arkansas compared to the state as a whole and to the nation as a whole at the end of summer.

The index of leading economic indicators for the **Fort Smith** MSA experienced the largest increase (a SAAR of 2.81%) of the four MSA indices. Two factors contributed to this increase: a 3.22% month-on-month increase in construction employment and the increase in the state index of leading economic indicators. The remaining two components of the Fort Smith index declined on a month-on-month basis; the value of building permits fell by 8.29% in March, while AWMH declined from 39.34 to 38.96 (0.96%). In the end, however, the leading index for Fort

Smith increased from its level of 104.5 in February to 104.7 in March, suggesting an increase in economic activity in late August and early September.

As stated above, the index of leading economic indicators for the **Little Rock** MSA fell by a SAAR of 0.76%. Month-on-month declines in construction employment and AWMH of 0.22% and 2.17%, respectively, contributed to the index's weakening performance; AWMH fell from 40.74 in February to 39.86 in March. A month-on-month increase in the value of new building permits of 5.14% and a SAAR increase in the state index of 0.70% were unable to push the index upward for the month of March; the index declined from 103.34 in February to 103.28 in March, which suggests that Little Rock will experience less favorable economic conditions than the state as a whole later this summer.

The leading index for the **Pine Bluff** MSA recouped a slight portion of its February losses in March, up a SAAR of 0.35%. The primary motivator for this increased performance is a 50.67% increase in the value of new building permits, followed closely by the 0.70% SAAR increase in the state's leading index. Two constituents of the index declined on a month-on-month basis in March, however; construction employment fell by 0.68% while AWMH declined from 39.72 to 39.32 hours, or 1.03%. The increases in the state index and the value of building permits overwhelmed these two indicators, however; the index increased from 101.79 in February to 101.82 in March, suggesting slightly improving economic conditions in Pine Bluff in the latter portions of this summer.

The Arkansas index of coincident economic indicators, which depicts the current state of economic affairs, edged downward in March by a SAAR of 0.40%. Two of the three components declined on a month-on-month basis. Taxable sales fell precipitously in March, decaying from \$2.30 million to \$2.18 million, a decline of 5.37%, perhaps reflective of a drop in consumer confidence. In addition, non-farm employment shrank by 1,780 people (0.15%) in March from 1.169 million persons to 1.167 million persons. Despite the decline in non-farm employment, Arkansas' unemployment rate fell from 4.43% to 4.20% during the same period. *Prima facie*, these two figures seem incongruous; how can one have declining non-farm employment *and* a decrease in the unemployment rate in the same month? To answer this question, one must look at the percentage change in the labor force and the percentage change in the level of *total* employment, composed of both farm and non-farm employment. The difference between the percentage change in the labor force and the percentage change in total employment is equal to the percentage change in the unemployment rate. If the decline in the labor force is greater than the decline in total employment, the unemployment rate will fall. Such is the case for Arkansas in March 2001. While non-farm employment fell by 0.15%, farm employment increased by 0.069%, suggesting that nearly 30 people shifted to agrarian production; the remaining 1,750 people, approximately 0.38% of the labor force, dropped out of the labor force. Therefore, total employment fell by nearly 0.15% in March; the unemployment rate consequently dropped by 0.23% for the month of March. Despite lower levels of unemployment, the index fell from its 104.65 level for February to 104.61 for March.

The unemployment rate for the Northwest Arkansas MSA fell to a new record low in March, from 1.865% to 1.846%, while the number of persons employed in non-farm positions increased by 0.22% for the month. Despite this good economic news, taxable sales fell by 6.45% for the

month of March, which caused the index of coincident economic indicators for Northwest Arkansas to decrease by a SAAR of 0.14% (from 105.29 to 105.27), compared to a SAAR decline of 0.40% in the state index, suggesting slightly less favorable current economic conditions in Northwest Arkansas.

The index of coincident economic indicators for Fort Smith increased by a SAAR of 2.16% in March. Two factors contributed to this increase: non-farm employment and taxable sales rose by 0.52% and 5.73%, respectively. However, the unemployment rate in the Fort Smith MSA rose from 4.06% to 4.23% in March. This did not, however, lead to a decline in the index; the index rose from 104.5 in February to 104.6 in March, suggesting generally favorable current economic conditions in Fort Smith.

Little Rock, like Northwest Arkansas, experienced its lowest recorded level of unemployment in March; the unemployment rate for the capital city fell from 3.21% to 3.04%. The decline in unemployment, combined with a 0.37% increase in taxable sales, however, were not enough to prop up the index of coincident economic indicators. A 0.38% decline in non-farm employment contributed to the index's declining from 103.90 to 103.86, a SAAR of 0.51%, suggesting less favorable current economic conditions in Little Rock.

All three indicators contributed to a SAAR decline of 2.62% in the index of coincident economic indicators for Pine Bluff. Unemployment increased from 7.43% to 7.52%, while non-farm employment declined by 0.35% for the month of March. These, combined with a 1.48% decrease in taxable sales, caused the index to fall from 101.3 in February to 101.1 in March, suggesting less favorable current economic conditions in Pine Bluff.