

Forecasting Trends: Arkansas Economic Indicators, May 2001

Adam Cole
Center for Business and Economic Research
Sam M. Walton College of Business
University of Arkansas

The Arkansas index of leading economic indicators recouped its April losses, ending the month of May up a seasonally adjusted annualized rate (SAAR) of 1.75%. This increase can be traced to month-on-month improvements in three of the **index's components**. First, the national index of leading economic indicators increased by a SAAR of 6.85%, its largest gain since December 1999. Second, average weekly manufacturing hours (AWMH) bucked its three-month downward trend, increasing from a revised 39.01 hours in April to 39.29 in May, a SAAR increase of 0.71%. The data seem to be consistent with a Commerce Department report outlining that orders for durable goods increased by 2.9% in May. Given the troubles faced by the manufacturing sector, this increase in AWMH is certainly good news. However, this indicator still warrants close inspection in the following months to see if the trend indeed has been broken or if the increase in AWMH in May is just an anomaly. Lastly, the number of Arkansans employed in construction jobs edged upward in May by a SAAR of 0.21%. The balance of the index's six components fell on month-on-month bases in May. The value of new building permits and the number of filings for new incorporations fell by SAARs of 1.55% and 1.52%, respectively, for the month. More vexing, though, is the 5.56% SAAR increase in the number of initial filings for unemployment insurance, perhaps indicative of a slackening labor market. Despite this, the **Arkansas index of leading economic indicators** increased from a revised 104.21 in April to 104.36 in May, suggesting generally favorable economic conditions in the middle of the fourth quarter.

The **leading indices** for the Fayetteville-Springdale-Rogers (Northwest Arkansas), Fort Smith, and Pine Bluff metropolitan statistical areas (MSAs) experienced month-on-month SAAR increases of 0.67%, 1.72%, and 1.01%, respectively, though none bested the state index's increase of 1.75%. The leading index for the Little Rock MSA declined for the month of May, down a SAAR of 0.69%.

The **Northwest Arkansas index** of leading economic indicators edged upward from a revised 105.50 in April to 105.56 in May. Two **factors** contributed to this increase: the increase in the national index and a 24.86% SAAR increase in the value of building permits. Construction employment for the month of May fell by 0.54%, but given the building permit data, one would expect an increase in construction employment in the coming months. In addition to the decline in construction employment, a 2.08% SAAR decline in AWMH, from a revised 39.62 hours in April to 38.80 in May, depressed the performance of the Northwest Arkansas index. Overall, though, the data point to marginally better economic conditions for Northwest Arkansas in the fourth quarter.

The leading index for the **Fort Smith** MSA increased from a revised 104.78 in April to 104.93 in May. A 21.31% SAAR decline in the value of building permits did not overshadow the gains made by the balance of the **index's components**. AWMH improved substantially in Fort Smith, up a SAAR of 1.72% from a revised 38.7 hours in April to 39.4 in May. A modest SAAR increase in construction employment, 0.10%, and the increase in the national index also contributed to the improved performance of the Fort Smith index. According to the data, Fort Smith should experience relatively more favorable economic conditions come November than its three in-state peer MSAs.

The index of leading economic indicators for the **Little Rock** MSA fell in May from a revised 103.43 to 103.37, this despite an increase in the national leading index and a 0.99% SAAR increase in AWMH from a revised 39.60 hours in April to 40.02 in May. A 31.57% SAAR decline in the value of building permits and a 0.20% SAAR drop in construction employment proved overwhelming. The **data** suggest, therefore, that economic conditions for the capital city will be relatively less favorable in the fourth quarter than for the state as a whole.

The **Pine Bluff** index of leading economic indicators scored its best performance since January of this year, up from a revised 101.80 in April to 101.88 in May. An increase in the national leading index and a massive SAAR increase in the value of new building permits of 92.60% both contributed to the rise in the index. Since there is only a modest upward trend in the nominal value of building permits in Pine Bluff over time, May's building permit figures are most likely anomalous. Indeed, the City Planner's Office granted permission for AT&T to construct a new switching station in Pine Bluff; it also granted permits for the construction of a 14-unit apartment complex and for a substantial addition to the Express Security Storage facility. One would predict then that next month's building permit figures will be considerably lower, perhaps leading to a decline in the performance of the Pine Bluff index in June. The good news gleaned from building permit data is that one would anticipate increases in construction employment in Pine Bluff in the near future; for the month of May, however, construction employment fell by a SAAR of 1.53%. A 0.94% SAAR decline in AWMH from a revised 38.96 hours in April to 38.59 in May also mitigated gains made by the Pine Bluff index. Overall, the **data** suggest favorable economic conditions for Pine Bluff in the fourth quarter of 2001.

The Arkansas index of coincident economic indicators, which paints a picture of the state's current economic landscape, declined from a revised 104.44 in April to 104.28 in May, a SAAR decline of 1.82%. All three of the index's **constituent parts** worsened on month-on-month bases. The state's **unemployment rate** rose 0.20% to 4.66% in May, its highest level since February 2000; this is the second consecutive month in which the unemployment rate has risen. In addition, non-farm employment and taxable sales declined by SAARs of 0.05% and 1.39%, respectively, both contributing to the decline in the index. If consumers continue to curtail their spending, which shows up in the index in declines taxable sales, the state's economy could be in for a rough go in the upcoming months. Therefore, this indicator merits close attention. The data, taken in aggregate, suggest that the Arkansas economy is slowing in the second quarter.

The Northwest Arkansas index of coincident economic indicators fell by a SAAR of 1.07% in May, from a revised 105.22 in April to 105.13. The **unemployment rate** for the Fayetteville-Springdale-Rogers MSA crept upward by 0.08% to end the month at 2.02%, still near its historical low in March. For the month, non-farm employment in Northwest Arkansas increased by a SAAR of 0.11%; to reconcile this with the increase in the unemployment rate, one must conclude that the increase in the labor force outpaced the increase in total employment, comprised of both farm and non-farm employment. Lastly, taxable sales in Northwest Arkansas declined by a SAAR of 4.93%, the largest drop among the state's MSAs. The figures suggest that the economy in Northwest Arkansas is slowing, albeit to a lesser degree than the state as a whole.

The index of coincident economic indicators for the Fort Smith MSA held steady in May at 105.08. The **unemployment rate** rose 0.06% to 3.37% for the month, and the number of Fort Smith citizens employed in non-farm ventures declined by a SAAR of 0.02%. An increase in taxable sales of 2.73% (SAAR) offset the effects of the employment figures, however. The data suggest that the current economic conditions in the Fort Smith MSA are relatively better than the state's as a whole.

The Little Rock index of coincident economic indicators fell in May from a revised 103.64 in April to 103.59, down a SAAR of 0.54%. Taxable sales and non-farm employment fell by SAARs of 1.03% and 0.09%, respectively. Despite the decline in non-farm employment, the **unemployment rate** in the capital city inched downward by 0.01% to 3.63%. This is the fifth consecutive month in which the coincident index for Little Rock has fallen; its performance suggests less favorable economic conditions in the capital city relative to its peer MSAs.

The coincident index of economic indicators for the Pine Bluff MSA fell by a SAAR of 2.48% in May, from a revised 100.80 in April to 100.58. A 3.35% SAAR decline in taxable sales contributed to the index's fall. Non-farm employment increased by 0.03% (SAAR), but a larger percentage increase in the labor force caused the **unemployment rate** in Pine Bluff to increase by 0.22% to 7.82% in May. The data provide further evidence that Pine Bluff is more susceptible to cyclical fluctuations than its peer MSAs and the state as a whole.