

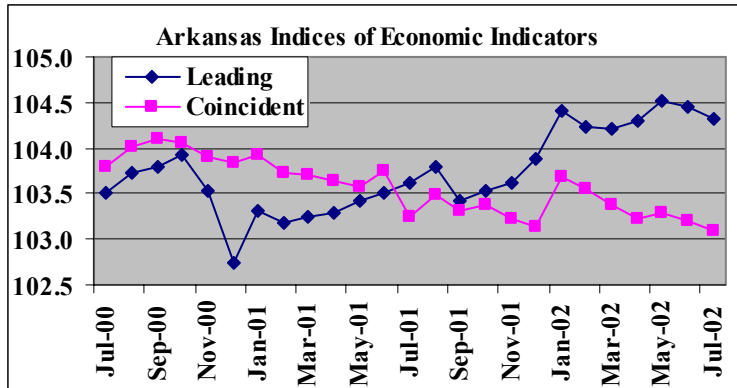


Forecasting Trends: Arkansas Indices of Economic Indicators, July 2002

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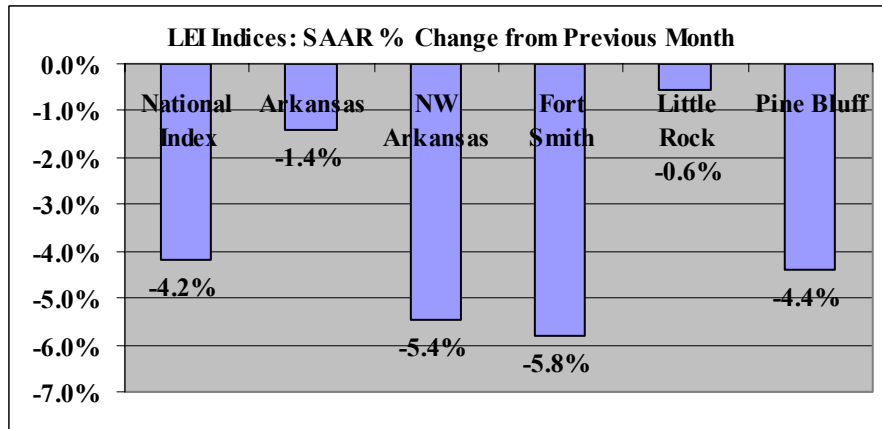
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After decreasing by a revised seasonally adjusted annual rate (SAAR) of 0.6 percent in June, the Arkansas Index of Leading Economic Indicators, which predicts economic conditions within the state six to nine months hence, decreased by a preliminary estimate of 1.4 percent



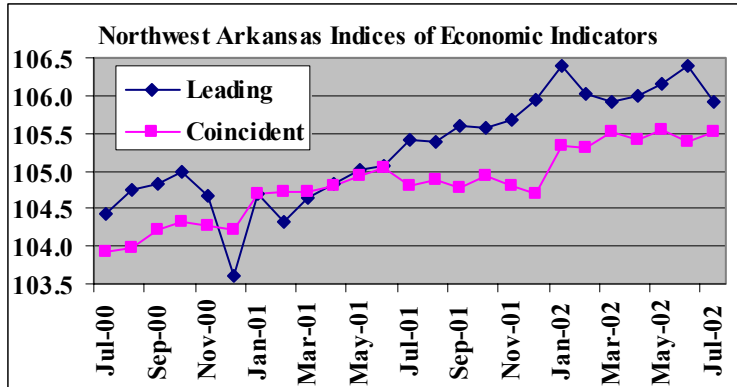
(SAAR) in July. The index's sole positive contributor was an 8.4 percent increase in the number of new incorporation registrations.¹ Construction employment in the state held steady in July at 55,300 persons.² Average weekly manufacturing hours (AWMH) for the state held steady at 39.8 hours in July. The index's negative contributors, from largest to smallest contribution, were an 18.3 percent decrease in the value of new privately-owned residential building permits,³ a 4.2 percent (SAAR) decline in the national index of leading economic indicators,⁴ and an 8.1 percent increase in the number of initial claims for unemployment insurance.⁵ The Arkansas leading index now stands at a preliminary estimate of 104.3, down from its revised level of 104.5 in June. Overall, the data suggest moderate economic decay will occur within Arkansas in the first quarter of 2003.

The leading indices for three of the four metropolitan statistical areas (MSAs) in Arkansas performed relatively worse than the state's leading index and the national



leading index in July. The Little Rock-North Little Rock index decreased by 0.6 percent (SAAR) for the month, compared to a 1.4 percent (SAAR) decline for the state's leading index. The Pine Bluff index, the Northwest Arkansas index (which incorporates data for the Fayetteville-Springdale-Rogers MSA), and the Fort Smith index performed relatively worse than the national leading index in July, which declined by 4.2 percent (SAAR); the MSA indices decreased by 4.4 percent (SAAR), 5.4 percent (SAAR), and 5.8 percent (SAAR), respectively, for the month.

The Northwest Arkansas Index of Leading Economic Indicators, after increasing by a revised 2.7 percent (SAAR) in June, decreased by a preliminary estimate of 5.4 percent (SAAR) in July. The index's sole positive contributor was a 1.1 percent increase in construction employment. The index's

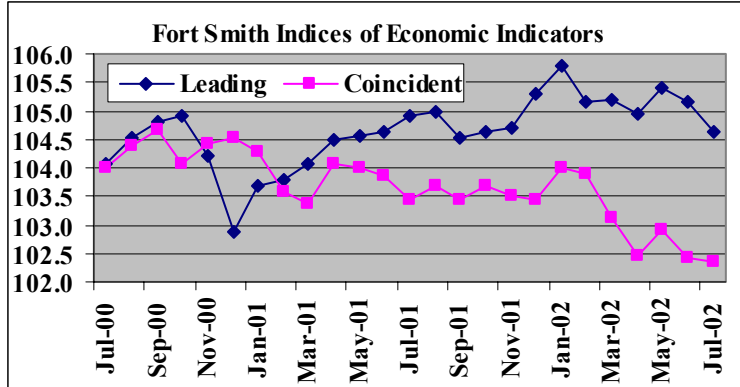


negative contributors, from largest to smallest contribution, were a 71.2 percent decrease in the value of new privately-owned residential building permits, the 1.4 percent (SAAR) decrease in the state's leading index, and a 0.2 percent decrease in AWMH from a revised 40.9 hours in June to 40.8 hours in July. The Northwest Arkansas leading index now stands at a preliminary estimate of 105.9, down from its revised level of 106.4 in June.

Nearly all (85.5 percent) of the decline in the index is due to the decrease in the value of new building permits. This is to be expected, as the value of new building permits posted an extraordinary and clearly non-sustainable 108.0 percent increase from May to June. On July 1, 2002, the City of Bentonville enacted a series of impact fees on building construction to support wastewater service, water service, and fire protection. Entities wishing to avoid paying the new impact fees had the opportunity to file building permits between January 1, 2002 and June 30, 2002; thereafter, building permits would be subject to the new impact fees. Homebuilders clearly reacted to this incentive, especially in the month of June. For the month, the number of single-family buildings for which permits were granted totaled 207 with aggregate construction costs of \$36.5 million, compared to 43 single-family buildings with construction costs of \$6.6 million in May and four single-family buildings with construction costs of \$434,000 in July.

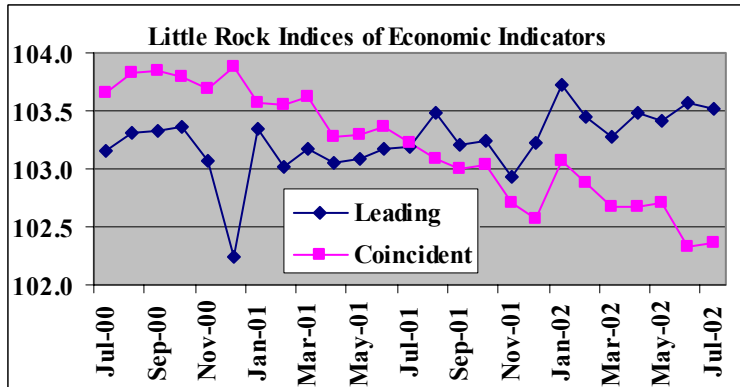
On the surface, the data suggest relatively strong economic decay will occur in Northwest Arkansas in the first quarter of 2003, but this appears to be a statistical anomaly strongly related to the powerful incentives created by the City of Bentonville that caused homebuilders to file permits in June to avoid paying the new impact fees. Therefore, this fact should temper the relatively poor outlook suggested by the leading index in July.

The Fort Smith Index of Leading Economic Indicators, after decreasing by a revised 2.9 percent (SAAR) in June, decreased by a preliminary estimate of 5.8 percent (SAAR) in July. The index's sole positive contributor was a 0.2 percent increase in construction employment. The index's



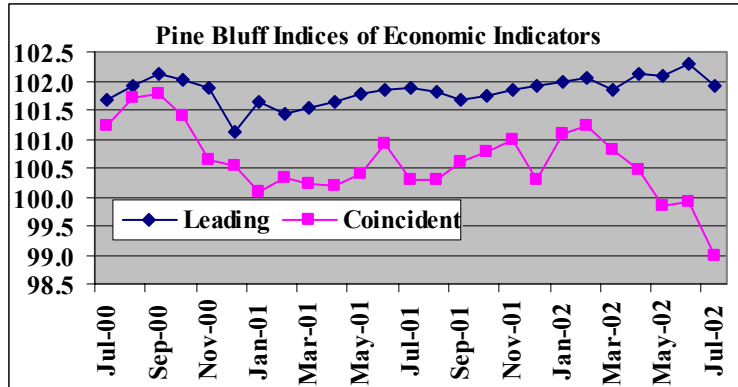
negative contributors, from largest to smallest contribution, were a 5.4 percent decrease in AWMH from a revised 39.0 hours in June to 36.9 hours in July, the 1.4 percent (SAAR) decrease in the state's leading index, and an 18.0 percent decrease in the value of new privately-owned residential building permits. The Fort Smith leading index now stands at a preliminary estimate of 104.6, down from its revised level of 105.1 in June. Overall, the data suggest relatively strong economic decay will occur in Fort Smith in the first quarter of 2003.

The Little Rock Index of Leading Economic Indicators, after increasing by a revised 1.8 percent (SAAR) in June, decreased by a preliminary estimate of 0.6 percent (SAAR) in July. The index's positive contributors, from larger to smaller contribution, were a 13.4 percent increase in the



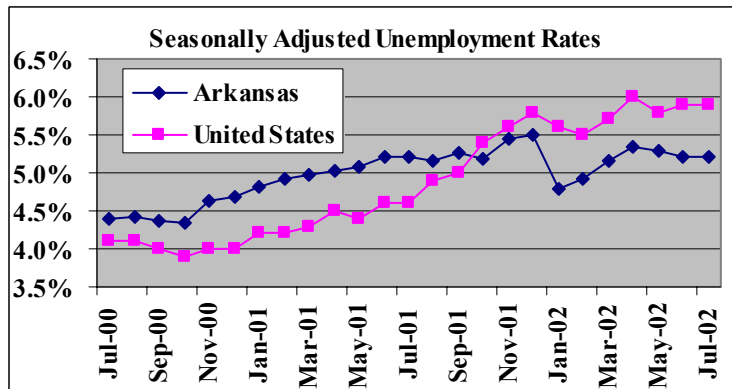
value of new privately-owned residential building permits and a 0.1 percent increase in construction employment. The index's negative contributors, from larger to smaller contribution, were a 1.5 percent decrease in AWMH from a revised 39.7 hours in June to 39.1 hours in July and the 1.4 percent (SAAR) decrease in the state's leading index. The Little Rock leading index now stands at a preliminary estimate of 103.5, down from its revised level of 103.6 in June. Overall, the data suggest that relatively weak economic decay will occur in the capital city in the first quarter of 2003.

The Pine Bluff Index of Leading Economic Indicators, after increasing by a revised 2.4 percent (SAAR) in June, decreased by a preliminary estimate of 4.4 percent (SAAR) in July. The index's sole positive contributor was a 31.0 percent increase in the value of new privately-owned



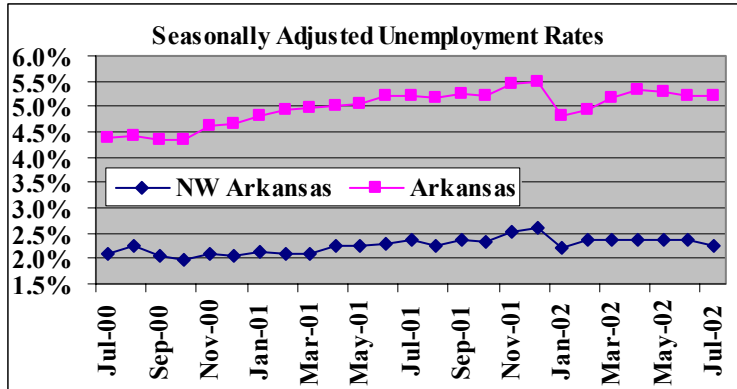
residential building permits. The index's negative contributors, from largest to smallest contribution, were a 30.4 percent decline in construction employment, a 1.5 percent decrease in AWMH from a revised 40.0 hours in June to 39.4 hours in July, and the 1.4 percent (SAAR) decrease in the state's leading index. The Pine Bluff leading index now stands at a preliminary estimate of 101.9, down from its revised level of 102.3 in June. Overall, the data suggest that relatively strong economic decay will occur in Pine Bluff in the first quarter of 2003.

The Arkansas Index of Coincident Economic Indicators, which gauges current economic conditions within the state, after decreasing by a revised 1.1 percent (SAAR) in June, decreased by a preliminary estimate of 1.1 percent (SAAR) in July. The unemployment rate in



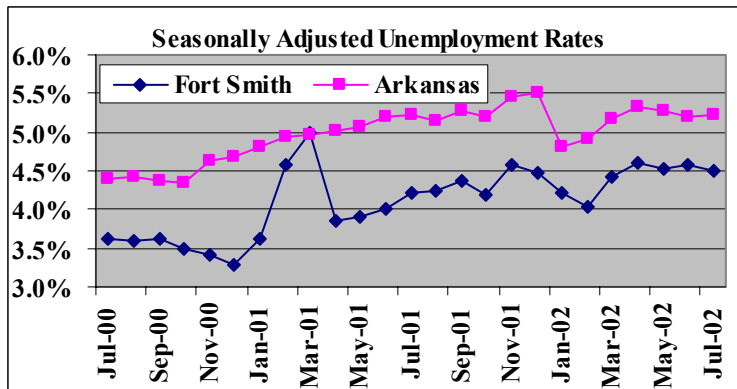
Arkansas held steady in July at 5.2 percent, equal to its level in July 2001; the U.S. unemployment rate stood at 5.9 percent in July, up 1.3 percent from July 2001. The index's negative contributors, from larger to smaller contribution, were a 0.2 percent decline in non-farm employment and a predicted 0.1 percent decrease in taxable sales.⁶ The Arkansas coincident index now stands at a preliminary estimate of 103.1, down from its revised level of 103.2 in June. Since January, the Arkansas coincident index has decreased 0.6 percent. Overall, the data suggest economic conditions in the state worsened in July.

The Northwest Arkansas Index of Coincident Economic Indicators, after decreasing by a revised 1.9 percent (SAAR) in June, increased by a preliminary estimate of 1.7 percent (SAAR) in July. All three of the index's components improved on a month-on-month basis in July. From



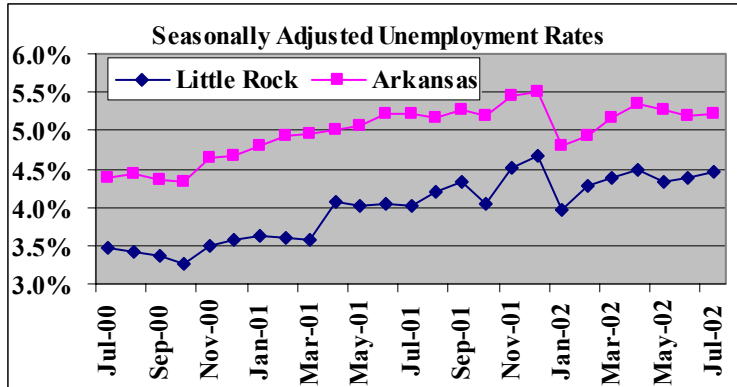
largest to smallest positive contribution, they were a 0.1 percent decrease in the MSA's unemployment rate, a 0.2 percent increase in non-farm employment, and a predicted 0.2 percent increase in taxable sales. The unemployment rate in the MSA was 2.3 percent in July, down 0.1 percent from July 2001. The Northwest Arkansas coincident index now stands at a preliminary estimate of 105.5, up from its revised level of 105.4 in June. Since January, the Northwest Arkansas coincident index has increased 0.2 percent. Overall, the data suggest economic conditions in Northwest Arkansas improved in July.

The Fort Smith Index of Coincident Economic Indicators, after decreasing by a revised 5.6 percent (SAAR) in June, decreased by a preliminary estimate of 0.8 percent (SAAR) in July. The index's positive contributors, from larger to smaller contribution, were a 0.1 percent decline in the

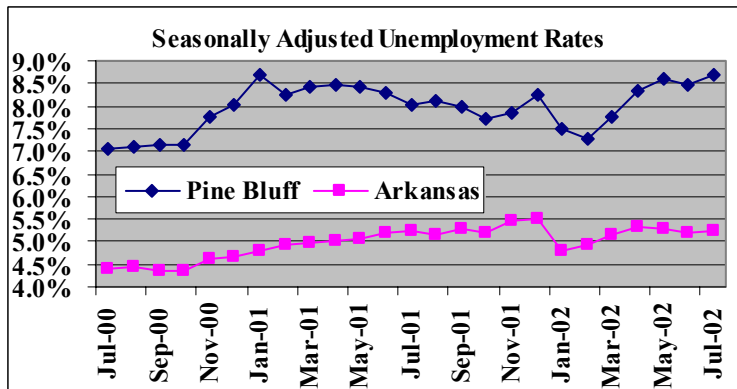


MSA's unemployment rate and a predicted 1.9 percent increase in taxable sales. The index's sole negative contributor was a 0.5 percent decline in non-farm employment. The unemployment rate in the MSA was 4.5 percent in July, up 0.3 percent from July 2001. The Fort Smith coincident index now stands at a preliminary estimate of 102.4, equal to its revised level in June. Since January, the Fort Smith coincident index has decreased 1.6 percent. Overall, the data suggest economic conditions in Fort Smith worsened moderately in July.

The Little Rock Index of Coincident Economic Indicators, after decreasing by a revised 4.3 percent (SAAR) in June, increased by a preliminary estimate of 0.3 percent (SAAR) in July. The index's positive contributors, from larger to smaller contribution, were a 0.2 percent increase in non-farm employment and a predicted 0.4 percent increase in taxable sales. The index's sole negative contributor was a 0.1 percent increase in the MSA's unemployment rate. The unemployment rate in the MSA was 4.5 percent in July, up 0.5 percent from July 2001. The Little Rock coincident index now stands at a preliminary estimate of 102.4, up from its revised level of 102.3 in June. Since January, the Little Rock coincident index has decreased 0.7 percent. Overall, the data suggest economic conditions in the capital city improved in July.



The Pine Bluff Index of Coincident Economic Indicators, after increasing by a revised 0.9 percent (SAAR) in June, decreased by a preliminary estimate of 10.8 percent (SAAR) in July. All three of the index's components worsened on a month-on-month basis. They were, from largest to smallest negative contribution, a 2.2 percent decline in non-farm employment, a 0.2 percent increase in the MSA's unemployment rate, and a predicted 4.4 percent decrease in taxable sales. The unemployment rate in the MSA was 8.7 percent in July, up 0.7 percent from July 2001. The Pine Bluff coincident index now stands at a preliminary estimate of 99.0, down from its revised level of 99.9 in June. Since January, the Pine Bluff coincident index has decreased 2.1 percent. Overall, the data suggest economic conditions in Pine Bluff worsened considerably in July.



Roughly 54 percent of the decline in non-farm employment (790 persons) was due to the employment declines in the construction sector (430 persons). The Washington Group is currently constructing a facility in Pine Bluff that will be used to decommission chemical weapons.⁷ In July, the project reached substantial completion, so a large number of construction workers (approximately 400) involved in building the facility are no longer employed for the project. This appears to be the primary cause for the decline in construction employment and total non-farm employment in Pine Bluff in July.

¹ Source: Information Network of Arkansas

² Source for employment data: U.S. Commerce Department, Bureau of Labor Statistics

³ Source: U.S. Census Bureau

⁴ Source: The Conference Board

Note: “In light of substantial data revisions announced by the Bureau of Economic Analysis (BEA) in July, The Conference Board decided to undertake a mid-year benchmark of its composite economic indexes...Due to these revisions, month-to-month changes in the composite [national] indexes are no longer comparable to those issued prior to this benchmark.”

<http://www.globalindicators.org/US/LatestReleases/2002/Jul02.pdf>

The revisions noted in the Conference Board’s press release for May and June have been incorporated in the construction of the Arkansas Index of Leading Economic Indicators.

⁵ Source: Arkansas Employment Security Department

⁶ Source: Author’s manipulation of data provided by the Arkansas Department of Finance and Administration

Data were seasonally adjusted using SAS ® Proc X11.

⁷ Source: Anne Rogers, Protocol Officer, Washington Group.