

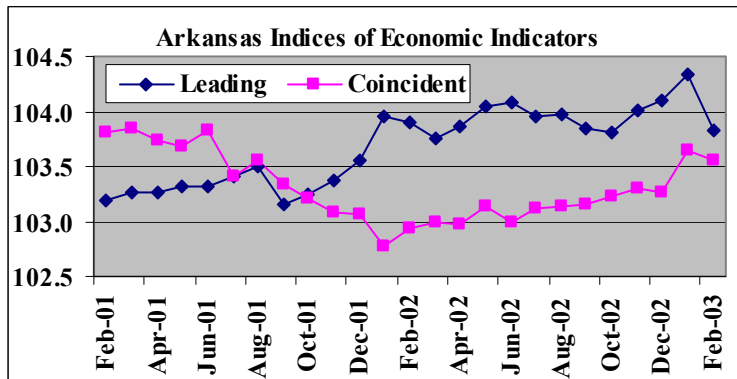


Forecasting Trends: Arkansas Indices of Economic Indicators, February 2003

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After increasing by a revised seasonally adjusted annual rate (SAAR) of 2.6 percent in January, 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 5.7 percent (SAAR) in February.



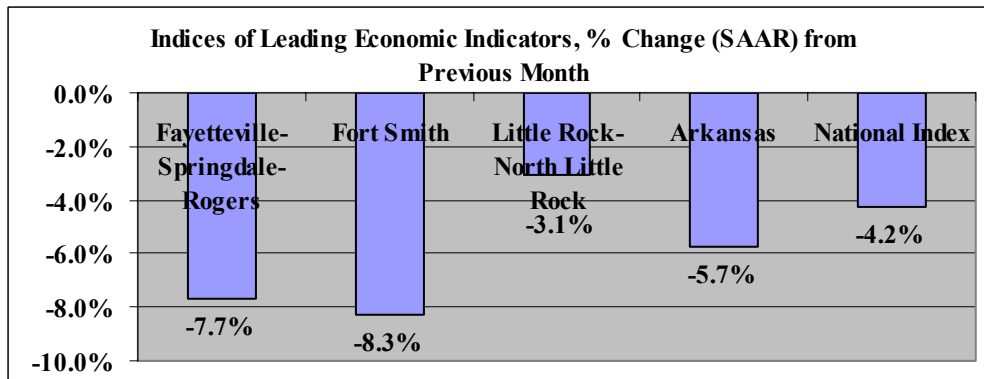
The index's sole positive contributor for the month was a 2.1 percent increase in the number of new incorporation registrations.¹ The index's negative contributors were, from largest to smallest contribution, a 4.4 percent decrease in construction employment,^{2,3} a 16.8 percent decrease in the value of new, privately-owned residential building permits,⁴ a 4.2 percent (SAAR) decrease in the national index of leading economic indicators,⁵ a 0.6 percent decrease in average weekly manufacturing hours (AWMH) from a revised 39.6 hours in January to 39.4 hours in February, and an 8.6 percent increase in the number of initial claims for unemployment insurance.⁶ The Arkansas leading index now stands at a preliminary estimate of 103.8, down from its revised level of 104.3 in January. Overall, the data suggest relatively strong economic decay will occur in Arkansas in the third quarter of 2003.

The primary driver behind the decline in the state's leading index, as mentioned above, was a 4.4 percent decrease in construction employment. This corresponds roughly to 2,500 construction workers leaving the sector either from shifting from construction work to other work or by becoming unemployed. This is at odds with the construction employment data at the MSA level. The net change in construction employment within the Fayetteville-Springdale-Rogers MSA, the Fort Smith MSA, and the Little Rock-North Little Rock MSA was a decrease of 100 workers from January to February. Further, the Nestlé plant in Jonesboro became substantially completed in February, which caused several hundred construction workers to be displaced.⁷ We found no anecdotal evidence of completion of other major construction projects or evidence of mass layoffs in the construction industry in Arkansas in February. This suggests that the declines in construction employment and the state's leading index for February are overstated. Further, because the state's leading index is the most heavily weighted component of the MSA-level leading indices, the declines in those indices (discussed below) are likely overstated as well. As more data become available, greater light will be shed on the situation, and the data issues will be ameliorated.

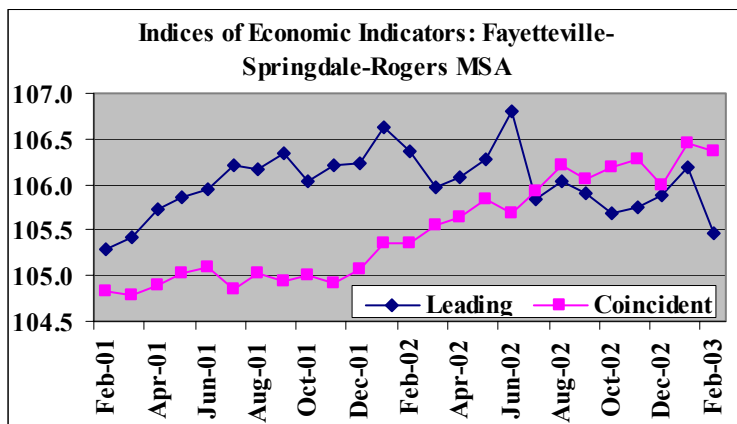
Along these lines, the data for average weekly manufacturing hours for the Pine Bluff MSA no longer meet the disclosure requirements of the Bureau of Labor Statistics (BLS) or the Arkansas Employment Security Department and are thus no longer being reported. Regrettably, therefore, we are discontinuing the leading index and coincident index series

for the Pine Bluff MSA. At such time that the BLS resumes reporting this statistic, we will begin a new series for the leading index and the coincident index for the Pine Bluff MSA. People with questions regarding data for the other variables comprising the Pine Bluff indices are invited to contact the Center for Business and Economic Research at 479.575.4151 or e-mail the Center at cberinfo@cavern.uark.edu.

The leading index for the Little Rock-North Little Rock metropolitan statistical area (MSA) performed relatively better than the state and national leading indices in February. The former decreased by 3.1 percent (SAAR), compared to decreases of 5.7 percent (SAAR) for the state's leading index and 4.2 percent (SAAR) for the national leading index. The leading index for Northwest Arkansas, defined to be the Fayetteville-Springdale-Rogers MSA, and the leading index for the Fort Smith MSA performed relatively worse than the state and national leading indices in February. The Northwest Arkansas leading index decreased by 7.7 percent (SAAR), and the Fort Smith leading index decreased by 8.3 percent (SAAR) for the month.



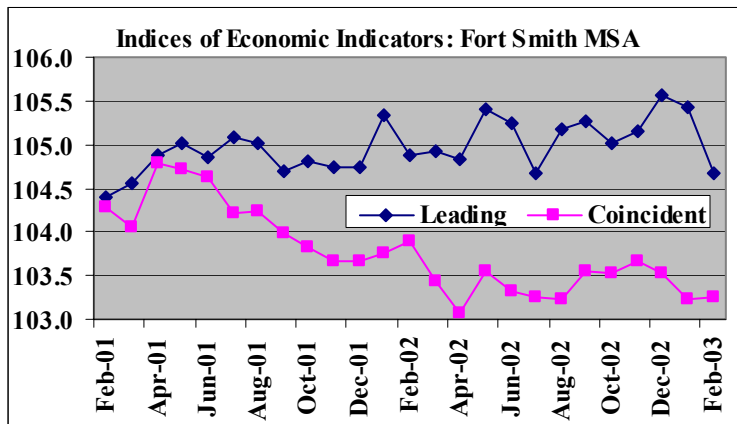
The Northwest Arkansas Index of Leading Economic Indicators, after increasing by a revised 3.6 percent (SAAR) in January, decreased by a preliminary estimate of 7.7 percent (SAAR) in February. All four of the index's components worsened on a month-on-month basis from January to February. From



largest to smallest negative contribution, they were the 5.7 percent (SAAR) decrease in the state's leading index, a 26.2 percent decrease in the value of new, privately-owned residential building permits, a 1.5 percent decrease in AWMH from a revised 38.5 hours in January to 37.9 hours in February, and a 0.2 percent decrease in construction employment. The Northwest Arkansas leading index now stands at a preliminary estimate of 105.5, down from its revised level of 106.2 in January. Overall, the data

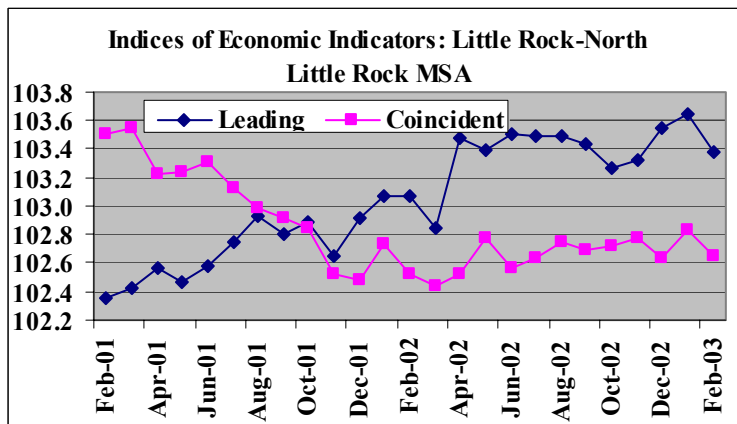
suggest relatively strong economic decay will occur within Northwest Arkansas in the third quarter of 2003.

The Fort Smith Index of Leading Economic Indicators, after decreasing by a revised 1.5 percent (SAAR) in January, decreased by a preliminary estimate of 8.3 percent (SAAR) in February. The index's sole positive contributor was a 0.4 percent increase in construction employment. The index's



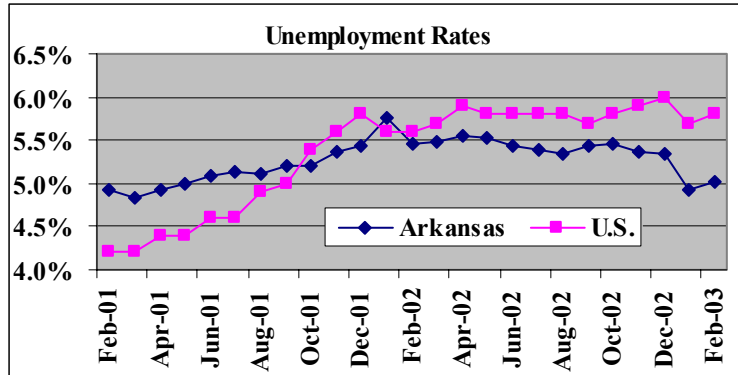
negative contributors were, from largest to smallest contribution, the 5.7 percent (SAAR) decrease in the state's leading index, a 6.1 percent decrease in AWMH from a revised 40.7 hours in January to 38.2 hours in February, and a 6.4 percent decrease in the value of new, privately-owned residential building permits. The Fort Smith leading index now stands at a preliminary estimate of 104.7, down from its revised level of 105.4 in January. Overall, the data suggest relatively strong economic decay will occur in the Fort Smith MSA in the third quarter of 2003.

The Little Rock Index of Leading Economic Indicators, after increasing by a revised 1.2 percent (SAAR) in January, decreased by a preliminary estimate of 3.1 percent (SAAR) in February. The index's sole positive contributor was a 3.0 percent increase in AWMH from a revised 41.2 hours in



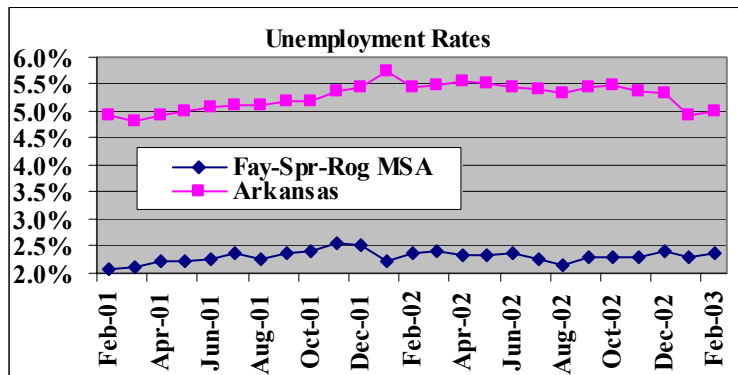
January to 42.4 hours in February. The index's negative contributors were, from largest to smallest contribution, the 5.7 percent (SAAR) decrease in the state's leading index, a 33.4 percent decrease in the value of new, privately-owned residential building permits, and a 0.6 percent decrease in construction employment. The Little Rock leading index now stands at a preliminary estimate of 103.4, down from its revised level of 103.6 in January. Overall, the data suggest relatively strong economic decay will occur in the Little Rock-North Little Rock MSA in the third quarter of 2003.

The Arkansas Index of Coincident Economic Indicators, which gauges current economic conditions within the state, after increasing by a revised 4.4 percent (SAAR) in January, decreased by a preliminary estimate of 0.9 percent (SAAR) in February. The index's sole positive



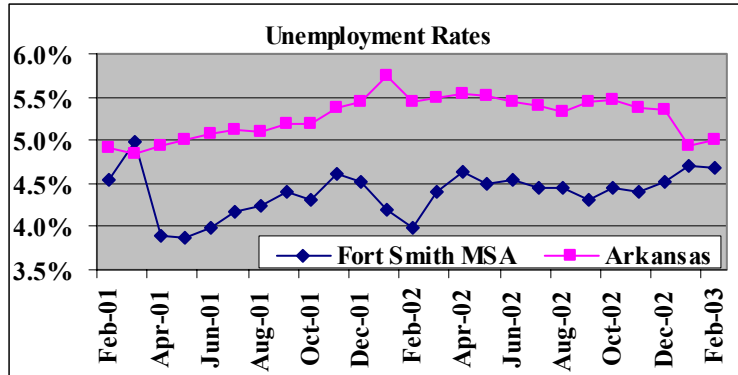
contributor for the month was a predicted 5.1 percent increase in taxable sales.⁸ The index's negative contributors were, from larger to smaller contribution, a 0.3 percent decrease in non-farm employment and a 0.1 percent increase in the state's unemployment rate to 5.0 percent in February.⁹ In February 2002, the unemployment rate in Arkansas was 5.4 percent. The national unemployment rate increased 0.1 percent in February to 5.8 percent; in February 2002, the national unemployment rate was 5.6 percent. The Arkansas coincident index now stands at a preliminary estimate of 103.6, equal to its revised level in January. Since February 2002, the Arkansas coincident index has increased 0.6 percent. Overall, the data suggest economic conditions in the state worsened moderately in February.

The Northwest Arkansas Index of Coincident Economic Indicators, after increasing by a revised 5.4 percent (SAAR) in January, decreased by a preliminary estimate of 1.1 percent (SAAR) in February. The index's sole positive contributor was a predicted 3.5 percent increase in

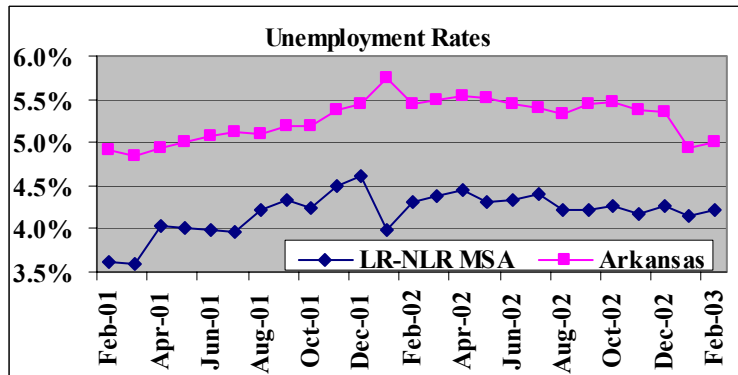


taxable sales. The index's negative contributors were, from larger to smaller contribution, a 0.4 percent decrease in non-farm employment and a 0.1 percent increase in the MSA's unemployment rate to 2.4 percent in February, equal to its level in February 2002. The Northwest Arkansas coincident index now stands at a preliminary estimate of 106.4, down from its revised level of 106.5 in January. Since February 2002, the Northwest Arkansas coincident index has increased 1.0 percent. Overall, the data suggest economic conditions in Northwest Arkansas worsened moderately in February.

The Fort Smith Index of Coincident Economic Indicators, after decreasing by a revised 3.3 percent (SAAR) in January, increased by a preliminary estimate of 0.3 percent (SAAR) in February. The index's sole positive contributor was a predicted 4.9 percent increase in taxable sales. The MSA's unemployment rate held steady in February at 4.7 percent; in February 2002, the unemployment rate in the Fort Smith MSA was 4.0 percent. The index's sole negative contributor was a 0.2 percent decrease in non-farm employment. The Fort Smith coincident index now stands at a preliminary estimate of 103.2, equal to its revised level in January. Since February 2002, the Fort Smith coincident index has decreased 0.6 percent. Overall, the data suggest economic conditions in the Fort Smith MSA improved marginally in February.



The Little Rock Index of Coincident Economic Indicators, after increasing by a revised 2.2 percent (SAAR) in January, decreased by a preliminary estimate of 2.0 percent (SAAR) in February. The index's sole positive contributor was a predicted 2.3 percent increase in taxable sales. The MSA's unemployment rate held steady in February at 4.2 percent; in February 2002, the unemployment rate in the Little Rock-North Little Rock MSA was 4.3 percent. The index's sole negative contributor was a 0.5 percent decrease in non-farm employment. The Little Rock coincident index now stands at a preliminary estimate of 102.7, down from its revised level of 102.8 in January. Since February 2002, the Little Rock coincident index has increased 0.1 percent. Overall, the data suggest economic conditions in the Little Rock-North Little Rock MSA worsened in February.



¹ Source: Information Network of Arkansas
² Source for employment data: U.S. Commerce Department, Bureau of Labor Statistics (BLS)
³ Beginning with the January 2003 data, the BLS has converted the non-farm payroll data series for states and metropolitan areas from the 1987 Standard Industrial Classification (SIC) basis to the 2002 North American Industry Classification System basis. Moreover, the data now reflect March 2002 benchmark levels. To read more about these issues, go to <http://www.bls.gov/sae/saenaiics.htm> and <http://www.bls.gov/sae/790notes.htm>.
⁴ Source: U.S. Census Bureau
⁵ Source: The Conference Board
⁶ Source: Arkansas Employment Security Department

⁷ Howard Anderson, Construction Manager, Nestlé USA, Jonesboro, Arkansas plant.

⁸ Source: Author's manipulation of data provided by the Arkansas Department of Finance and Administration

⁹ "Labor force estimates for all states... have been revised to incorporate population controls reflecting the results of Census 2000, reestimation of models, and benchmarking to Current Population Survey annual averages. Labor force estimates for the remaining metropolitan areas have been revised to reflect updated inputs and the new statewide estimates. Data back to 2000 are subject to revision. Questions about these changes to the labor force data series can be directed to the Division of Local Area Unemployment Statistics at 202-691-6392." (BLS, <http://www.bls.gov/news.release/metro.nr0.htm>)

Note: Data were seasonally adjusted using SAS ® Proc X11.