

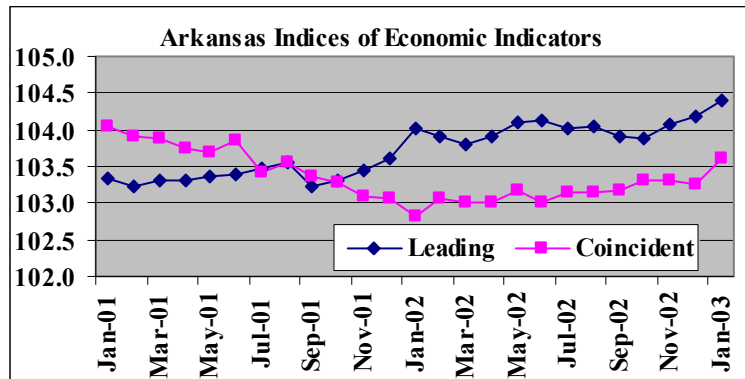


Forecasting Trends: Arkansas Indices of Economic Indicators, January 2003

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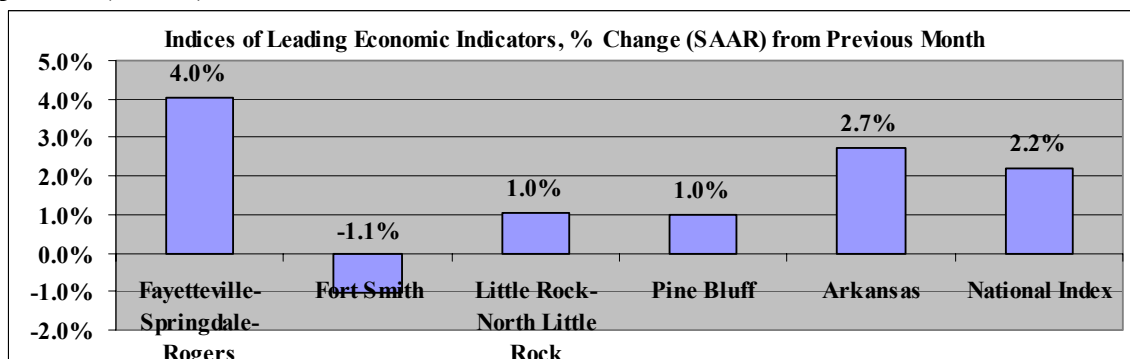
Forecasting Trends: Arkansas Indices of Economic Indicators, January 2003

After increasing by a revised seasonally adjusted annual rate (SAAR) of 1.2 percent in December 2002, the Arkansas Index of Leading Economic Indicators, which predicts economic conditions within the state six to nine months hence, increased by a preliminary estimate of 2.7

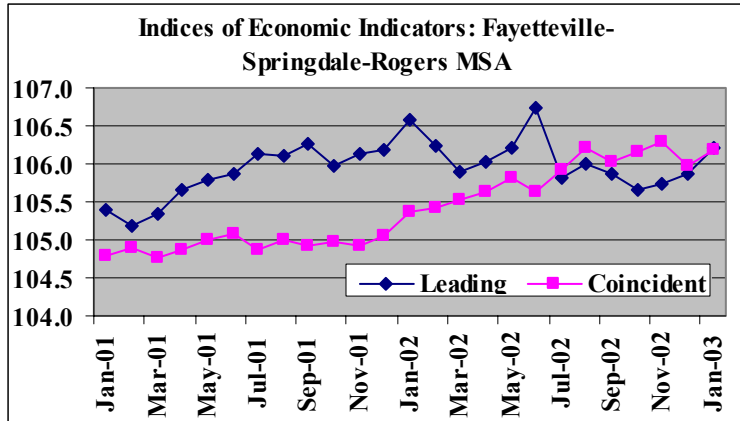


percent (SAAR) in January 2003. The index's positive contributors were, from largest to smallest contribution, a 2.0 percent increase in construction employment,^{1,2} a 15.5 percent decrease in the number of initial claims for unemployment insurance,³ a 2.2 percent (SAAR) increase in the national index of leading economic indicators,⁴ a 0.1 percent increase in average weekly manufacturing hours (AWMH) from a revised 39.6 hours in December 2002 to 39.7 hours in January 2003, and a 0.8 percent increase in the number of new incorporation registrations.⁵ The index's sole negative contributor in January was a 0.5 percent decrease in the value of new, privately-owned residential building permits.⁶ The Arkansas leading index now stands at a preliminary estimate of 104.4, up from its revised level of 104.2 in December 2002. Overall, the data suggest relatively strong economic growth will occur in Arkansas in the third quarter of 2003.

The leading index for Northwest Arkansas, defined to be the Fayetteville-Springdale-Rogers metropolitan statistical area (MSA), performed relatively better than the national and state leading indices in January. The Northwest Arkansas leading index increased by 4.0 percent (SAAR), compared to the 2.2 percent (SAAR) and the 2.7 percent (SAAR) increases for the national index and the state index, respectively. The leading indices for the Little Rock – North Little Rock MSA and the Pine Bluff MSA both increased by 1.0 percent (SAAR) in January. The leading index for the Fort Smith MSA decreased by 1.1 percent (SAAR) for the month.

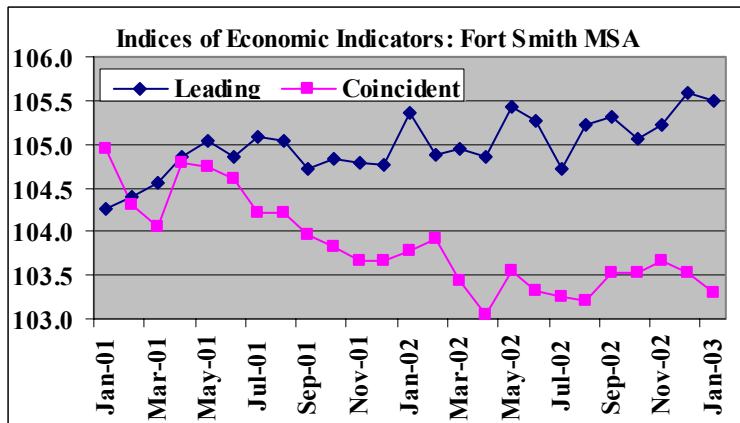


The Northwest Arkansas Index of Leading Economic Indicators, after increasing by a revised 1.5 percent (SAAR) in December 2002, increased by a preliminary estimate of 4.0 percent (SAAR) in January 2003. The index's positive contributors were, from largest to smallest contribution, the 2.7 percent



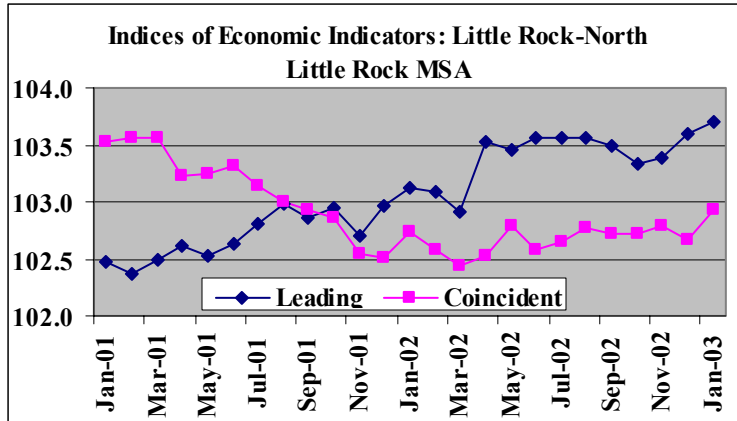
(SAAR) increase in the state's leading index, a 32.9 percent increase in the value of new, privately-owned residential building permits, and a 0.5 percent increase in construction employment. The index's sole negative contributor was a 0.9 percent decrease in AWMH from a revised 39.0 hours in December 2002 to 38.7 hours in January 2003. The Northwest Arkansas leading index now stands at a preliminary estimate of 106.2, up from its revised level of 105.9 in December 2002. Overall, the data suggest relatively strong economic growth will occur within Northwest Arkansas in the third quarter of 2003.

The Fort Smith Index of Leading Economic Indicators, after increasing by a revised 4.2 percent (SAAR) in December 2002, decreased by a preliminary estimate of 1.1 percent (SAAR) in January 2003. The index's positive contributors were, from larger to smaller contribution, the 2.7 percent



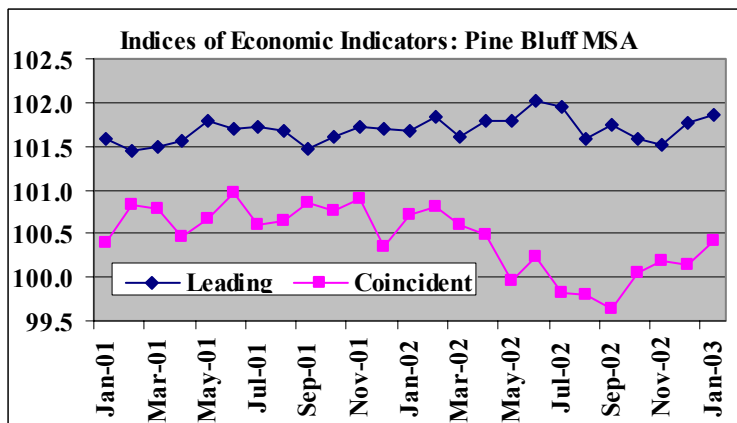
(SAAR) increase in the state's leading index and an 8.1 percent increase in the value of new, privately-owned residential building permits. The index's negative contributors were, from larger to smaller contribution, a 3.6 percent decrease in AWMH from a revised 42.2 hours in December 2002 to 40.7 hours in January 2003 and a 1.1 percent decrease in construction employment. The Fort Smith leading index now stands at a preliminary estimate of 105.5, down from its revised level of 105.6 in December 2002. Overall, the data suggest moderate 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 2.6 percent (SAAR) in December 2002, increased by a preliminary estimate of 1.0 percent (SAAR) in January 2003. The index's positive contributors were, from largest to smallest contribution, the 2.7 percent



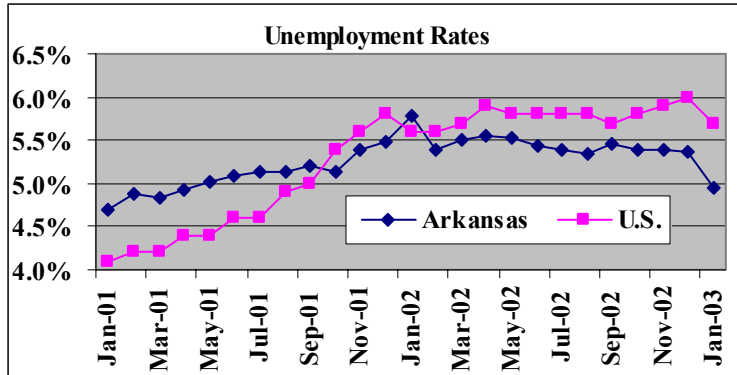
(SAAR) increase in the state's leading index, a 0.4 percent increase in AWMH from a revised 40.7 hours in December 2002 to 40.9 hours in January 2003, and a 0.1 percent increase in construction employment. The index's sole negative contributor was a 6.9 percent decrease in the value of new, privately-owned residential building permits. The Little Rock leading index now stands at a preliminary estimate of 103.7, up from its revised level of 103.6 in December 2002. Overall, the data suggest moderate economic growth will occur in the Little Rock-North Little Rock MSA in the third quarter of 2003.

The Pine Bluff Index of Leading Economic Indicators, after increasing by a revised 3.0 percent (SAAR) in December 2002, increased by a preliminary estimate of 1.0 percent (SAAR) in January 2003. The index's positive contributors, from largest to smallest contribution, were the 2.7 percent (SAAR)



increase in the state's leading index, a predicted 0.7 percent increase in AWMH from a revised 39.1 hours in December 2002 to a 39.3 hours in January 2003, and a 7.8 percent increase in the value of new, privately-owned residential building permits. The index's sole negative contributor was a 3.8 percent decrease in construction employment. The Pine Bluff leading index now stands at a preliminary estimate of 101.9, up from its revised level of 101.8 in December 2002. Overall, the data suggest moderate economic growth will occur in the Pine Bluff MSA in the third quarter of 2003.

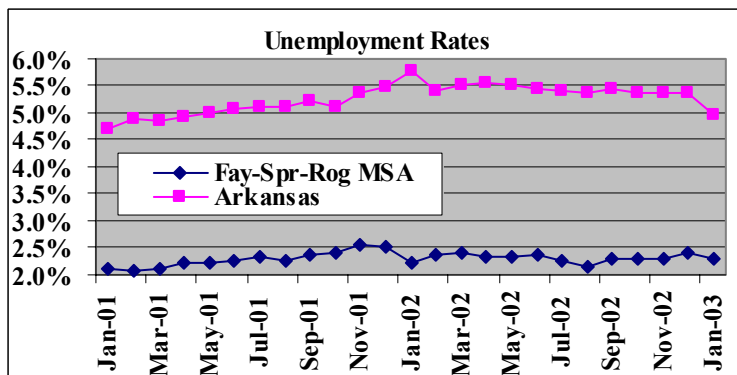
The Arkansas Index of Coincident Economic Indicators, which gauges current economic conditions within the state, after decreasing by a revised 0.6 percent (SAAR) in December 2002, increased by a preliminary estimate of 4.1 percent (SAAR) in January 2003. All three of



the index's components improved on a month-on-month basis in January. From largest to smallest positive contribution, they were a 0.4 percent decrease in the state's unemployment rate to 5.0 percent in January,⁷ a 0.2 percent increase in non-farm employment, and a predicted 0.4 percent increase in taxable sales.⁸ In January 2002, the unemployment rate in Arkansas was 5.8 percent. The national unemployment rate decreased 0.3 percent in January to 5.7 percent; in January 2002, the national unemployment rate was 5.6 percent. After holding steady at 103.3 since October 2002, the Arkansas coincident index now stands at a preliminary estimate of 103.6 in January 2003. Since January 2002, the Arkansas coincident index has increased 0.8 percent. Overall, the data suggest economic conditions in the state improved markedly in January 2003.

The 0.4 percent decrease in the state's unemployment rate (which corresponds roughly to a 5,100-person decrease in the number of unemployed persons) is anomalous and, we believe, is not an accurate description of the current economic climate in the state of Arkansas. The anomaly may be due in part to the benchmarking procedure undertaken by the U.S. Commerce Department, Bureau of Labor Statistics (BLS). All labor force data (as far back as 2000) for the state and the MSAs are now benchmarked to their March 2002 levels. Without additional information, we cannot correct for the anomaly in the data at this time. As such, the results and inferences drawn from the data in this issue are not entirely robust. As more data become available, greater light will be shed on the situation, and the data issues will be ameliorated.

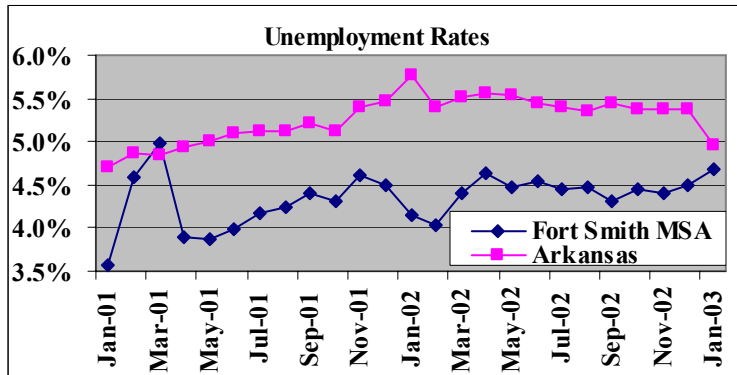
The Northwest Arkansas Index of Coincident Economic Indicators, after decreasing by a revised 3.3 percent (SAAR) in December 2002, increased by a preliminary estimate of 2.2 percent (SAAR) in January 2003. The index's positive contributors were, from larger to smaller



contribution, a 0.5 percent increase in non-farm employment and a 0.1 percent decrease

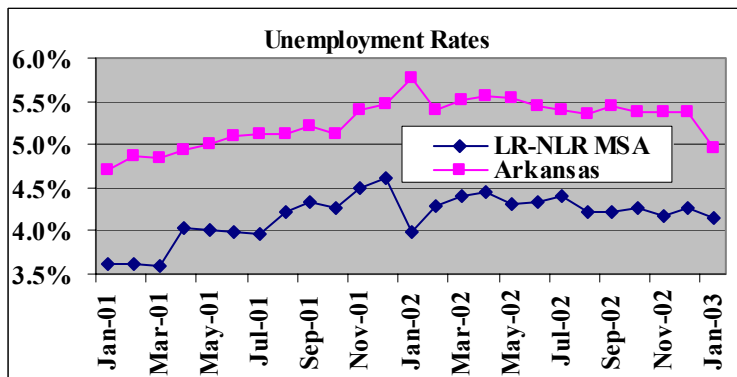
in the MSA's unemployment rate to 2.3 percent in January 2003. The unemployment rate in the MSA was 2.2 percent in January 2002. The index's sole negative contributor was a predicted 1.4 percent decrease in taxable sales. The Northwest Arkansas coincident index now stands at a preliminary estimate of 106.2, up from its revised level of 106.0 in December 2002. Since January 2002, the Northwest Arkansas coincident index has increased 0.8 percent. Overall, the data suggest economic conditions in Northwest Arkansas improved in January 2003.

The Fort Smith Index of Coincident Economic Indicators, after decreasing by a revised 1.6 percent (SAAR) in December 2002, decreased by a preliminary estimate of 2.6 percent (SAAR) in January 2003. All three of the index's components worsened on a month-on-month basis in



January. From largest to smallest negative contribution, they were a 0.1 percent decrease in non-farm employment, a predicted 4.4 percent decrease in taxable sales, and a 0.2 percent increase in the MSA's unemployment rate to 4.7 percent in January 2003. The unemployment rate in the MSA was 4.2 percent in January 2002. The Fort Smith coincident index now stands at a preliminary estimate of 103.3, down from its revised level of 103.5 in December 2002. Since January 2002, the Fort Smith coincident index has decreased 0.5 percent. Overall, the data suggest economic conditions in the Fort Smith MSA worsened in January 2003.

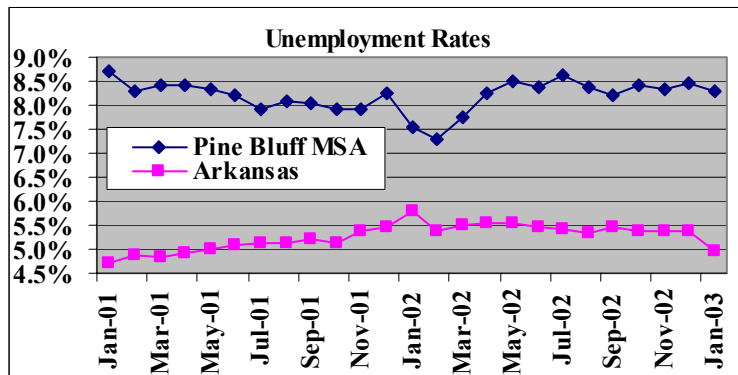
The Little Rock Index of Coincident Economic Indicators, after decreasing by a revised 1.4 percent (SAAR) in December 2002, increased by a preliminary estimate of 3.1 percent (SAAR) in January 2003. All three of the index's components improved on a month-on-month basis in



January. From largest to smallest positive contribution, they were a 0.5 percent increase in non-farm employment, a 0.1 percent decrease in the MSA's unemployment rate to 4.2 percent in January, and a predicted 1.1 percent increase in taxable sales. The unemployment rate in the MSA was 4.0 percent in January 2002. The Little Rock coincident index now stands at a preliminary estimate of 102.9, up from its revised level of 102.7 in December 2002. Since January 2002, the Little Rock coincident index has

increased 0.2 percent. Overall, the data suggest economic conditions in the Little Rock-North Little Rock MSA improved markedly in January 2003.

The Pine Bluff Index of Coincident Economic Indicators, after decreasing by a revised 0.5 percent (SAAR) in December 2002, increased by a preliminary estimate of 3.3 percent (SAAR) in January 2003. All three of the index's components improved on a month-on-month basis in



January. From largest to smallest contribution, they were a 0.1 percent decrease in the MSA's unemployment rate to 8.3 percent in January, a 0.3 percent increase in non-farm employment, and a predicted 3.0 percent increase in taxable sales. In January 2002, the unemployment rate for the MSA was 7.5 percent. The Pine Bluff coincident index now stands at a preliminary estimate of 100.4, up from its revised level of 100.1 in December 2002. Since January 2002, the Pine Bluff coincident index has decreased 0.3 percent. Overall, the data suggest economic conditions in the Pine Bluff MSA improved markedly in January 2003.

¹ Source for employment data: U.S. Commerce Department, Bureau of Labor Statistics (BLS)

² 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/saenaics.htm> and <http://www.bls.gov/sae/790notes.htm>.

³ Source: Arkansas Employment Security Department

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: Information Network of Arkansas

⁶ Source: U.S. Census Bureau

⁷ "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>)

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

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