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Metropolitan Report - July 1986

Division of Business and Economic Research, College of Business Administration, University of New Orleans

The 1986 Leading Indicators and the Local Economy

Of the five economic indicators reported by the Division of Business and Economic Research at the University of New Orleans, four display consistent monthly upward movement during the third quarter of 1986. The steady increases in these four indicators lead us to predict that the local economy will bottom out in the first or second quarter of 1987, although there is still no sign of a return to higher levels of employment. Employment will continue to fall throughout 1986, and will probably remain steady in the first six months of 1987. These predictions are based on the assumption of no major decline in oil prices in the near future.

The general metropolitan leading indicator increased in each month from June through August, 1986 (see Table I and Graph I). However, it dropped to 89.8 in September, the lowest recorded value since 1976. We believe that this reflects a statistical discrepancy in one of the variables used to construct the general indicator, the help-wanted index value.

September's reported value of 69 for the Conference Board's help wanted index is at an all time low, deviating by 36 percent from the average value of 108 for the past twenty-four months. For comparative purposes, an additional computer run was made with September's Conference Board index value set at 96 (a value more in line with those from previous months, taking seasonal factors into consideration). The general indicator value resulting from this substitution is 92.4, continuing the upward trend begun in June.

The petroleum indicator continued to fall throughout the first half of 1986 and reached a ten-year low of 85.2 in July (see Table I).

Fortunately, crude oil prices and futures prices rose during August and September, resulting in a rebound of the indicator for these months. The higher indicator value for the end of the third quarter of 1986 is reflected by the upward trend displayed in Graph II for the petroleum indicator curve. A continued increase in oil prices throughout the remaining months of 1986 and early 1987 should lead to a leveling of employment in the petroleum sector, although we do not expect to see major increases in drilling activity.

The port indicator has steadily increased since February, 1985, dropping in value only once during the month of April, 1986, (see Table I). The port indicator of 99.0 for September, 1986, is the highest recorded value in several years, reflecting the favorable trend in the exchange rate for the dollar. Continued depreciation of the dollar, which started in April of 1985, is the main cause for increases in this indicator value.

Tourism-related employment data do not exist for the local tourism industry and this precludes the use of a graph for indicator/employment data comparisons. Table I, however, shows that the tourism indicator has continued its steady upward movement through the third quarter of 1986. We expect tourism to grow in 1987, and become an even greater source of employment for the metropolitan area. Construction is the most volatile of the indicators; it dropped to 83.7 in July, 1986 (see Table I). While this indicator showed consecutive increases for August and September, it has not rebounded to the June level. Hence, we predict further declines in construction employment in the first half of 1987. This is in spite of the fact that mortgage rates have dropped below 10 percent for the first time

since November, 1978. Residential housing demand is unlikely to respond to easier credit conditions until out-migration from the metropolitan area is reversed.

Performance of the 1985 Leading Indicators.

The Group I (general) metropolitan leading indicator showed a negative trend throughout 1985. At the time of our last report, this decline in the general indicator was interpreted as a sign of a further deterioration of total metropolitan employment in 1986. As indicated in Table II, the rate of job loss did increase in the first half of 1986 over the 1985 rate. From 1985:2 through 1986:1, the average rate of job loss was 2,500 jobs per quarter. However, the New Orleans metro area lost 11,800 jobs in the second quarter of 1986 alone - more than in the three previous quarters combined. The total employment base in 1986:3 was 4.8% lower than one year earlier.

It should be noted, however, that in all employment sectors except mining and durable goods the rate of job loss has declined in the third quarter. For example, the rate of decline in total employment was 33% lower in the third quarter than in the second.

This decline in employment affected every sector in the local economy, although the deterioration in the employment base was most pronounced in the construction and mining sectors, which experienced 11.2 and 16.0 percent job losses, respectively, over this period of time. Employment declines in both of these sectors were predicted by downward tendencies in the 1985 Group II (petroleum mining) and Group V (construction) indicators.

Manufacturing employment continued its downward trend, decreasing

5.5% since last year, with most of the decrease being accounted for by lower durable goods employment. After posting an increase in 1985:4 and 1986:1, employment in wholesale and retail trade turned down in the following two quarters.

A significant depreciation of the dollar in terms of ten major currencies translated into steady monthly increases in the 1985 Group III (port) indicator. However, the seasonally adjusted Port of New Orleans cargo volume actually decreased significantly over the period 1985:3 to 1986:3, and water transportation employment has continued to fall as well Although historically the time lag between a turn in the port indicator and a similar turn in port-related employment has been a little over a year, it appears that we may have to wait somewhat longer for the benefit of a cheaper dollar to appear in increased tonnage and employment. This reflects a phenomenon occurring in the U.S. at large; in spite of the substantially lower value of the dollar, the U.S. trade imbalance has yet to diminish.

Table I shows that the Group IV (tourism) indicator rose steadily in 1985. Because data are not available for tourism-related employment, hotel and motel occupancy rates are used to gauge changes in tourism. Data from the accounting firm of Pannel, Kerr, and Forster, not reported here, show that in general, occupancy rates for 1986 are higher for the metropolitan area taken as a whole in comparison with last year.

Estimated personal income for the New Orleans metropolitan area fell 0.3% from 1985:2 to 1986:2. However, inflation reduced the real value of personal income even futher. The CPI increased 1.9% over the same period resulting in a drop in real personal income of about 2.2%.

Construction of the Metro Area Leading Indicator.

The Spring 1986 issue of the Louisiana Business Survey, published by the Division of Business and Economic Research of the University of New Orleans, introduced leading economic indicators constructed specifically for the local economy. Our first leading indicators were for 1985.

Leading economic indicators are composed of variables which are sensitive to changing economic conditions. Ideally, a leading indicator should give advance notice of upturns and downturns in economic activity. The indicators presented in Table I are designed specifically to predict changes in the course of economic activity in the New Orleans metropolitan area. Since no statistical concept such as GNP exists for the city, economic activity is measured by changes in employment (except for tourism for which our measure of activity is hotel occupancy).

There are five separate leading indicators: the Group I (general) Indicator is intended to signal future trends in total local employment. This indicator is composed of three variables: the average prime interest rate, an index of local help-wanted ads, and the Louisiana rig count.

The Group II (petroleum mining industry) indicator is composed of two variables: crude oil prices and six-month futures oil prices, and provides information on future trends in petroleum employment. The Group III (port) indicator currently has only one variable: an index of exchange rates for the dollar. The value of the dollar relative to other currencies partially determines the international competitiveness of U.S. goods and therefore is influential in determining port activity.

Since vacation travel fluctuates with changes in income, real gross national product, a broad measure of aggregate private plus public purchasing power, has been selected as the basis for the Group IV (tourism)

indicator. The Group V (Construction) indicator consists of mortgage interest rates and construction contracts.

TABLE I. NEW ORLEANS METROPOLITAN LEADING INDICATORS, 1985-1986.

MONTH	I GENERAL	II PETROLEUM	III PORT	IV TOURISM (Quarterly)	V CONSTRUCTION
January	97.4	105.7	76.5	.	90.5
February	96.9	105.9	74.9	117.5	86.9
March	96.4	106.6	75.0	.	89.0
April	96.3	107.3	77.1	.	89.5
May	96.5	106.2	77.3	117.7	88.7
June	97.1	104.7	78.4	.	87.3
July	96.5	104.7	80.8	.	94.3
August	96.5	105.7	82.0	118.6	94.0
September	96.1	104.7	82.3	.	88.8
October	95.3	105.4	84.9	.	85.3
November	94.9	105.5	85.7	119.0	84.5
December	95.1	103.1	87.2	.	89.3
January	93.4	101.4	88.4	.	86.4
February	93.1	94.5	91.0	120.2	90.3
March	92.5	90.5	92.5	.	87.3
April	91.2	88.9	91.8	.	88.8
May	90.3	89.2	93.6	121.2	87.1
June	90.7	88.3	93.8	.	87.2
July	91.0	85.2	95.6	.	83.7
August	91.5	89.6	97.3	121.9	85.0
September	89.8	90.2	99.0	.	85.9

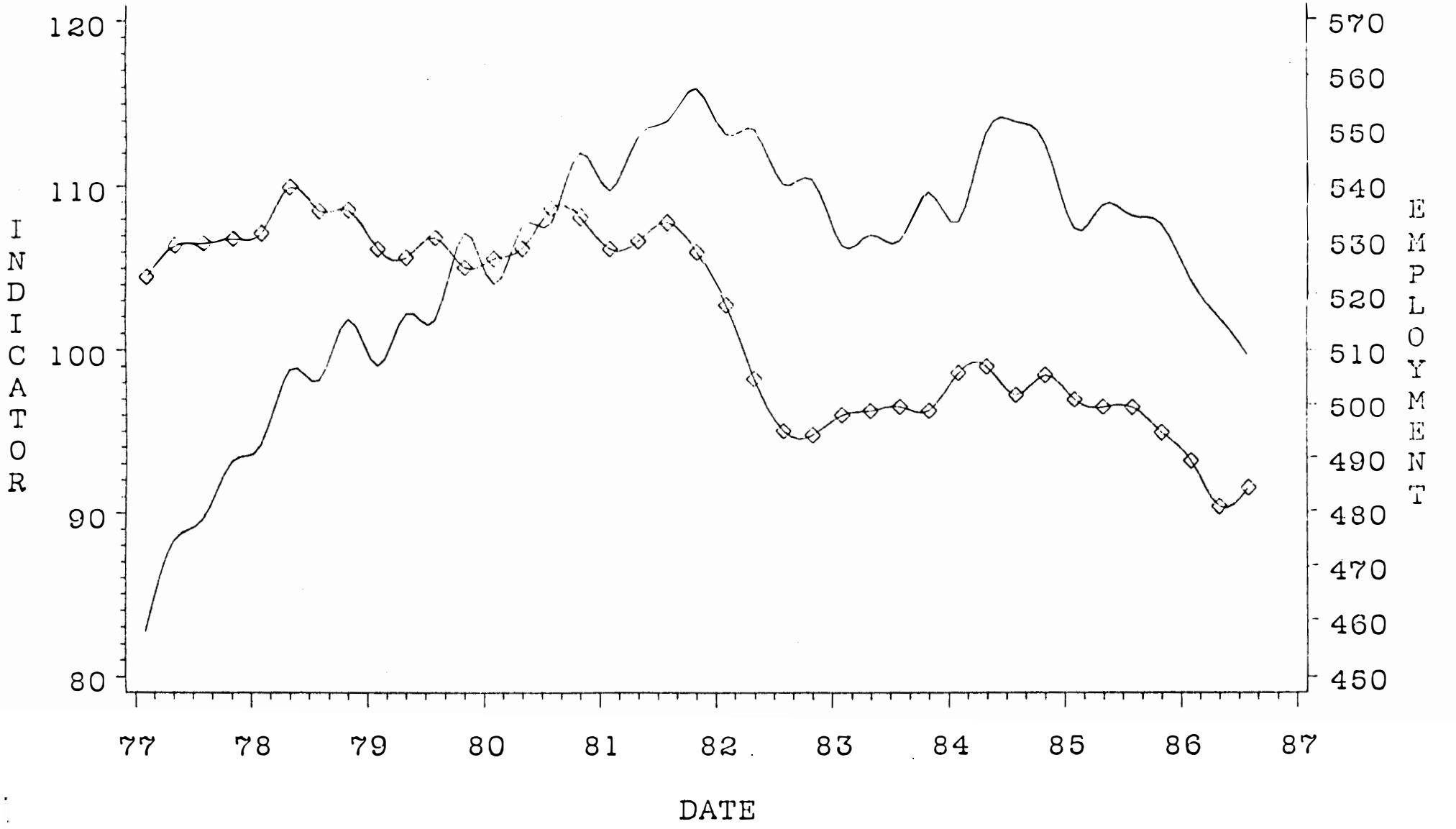
TABLE II. METROPOLITAN BUSINESS INDICATORS
(Quarterly data seasonally adjusted, except Consumer Price Index)

SERIES	1985:3	1985:4	1986:1	1986:2	1986:3	% Change
WAGE & SALARY EMPLOYMENT	534,800	529,498	527,418	516,156	508,974	-4.8
MANUFACTURING	45,049	44,375	43,679	43,041	42,585	-5.5
DURABLE GOODS	22,550	22,046	21,490	21,098	20,645	-8.4
NONDURABLE GOODS	22,499	22,329	22,189	21,942	21,940	-2.5
NONMANUFACTURING	489,752	485,123	483,740	473,116	466,389	-4.8
MINING	19,522	19,112	18,912	17,729	16,401	-16.0
CONSTRUCTION	27,404	27,247	26,156	24,834	24,333	-11.2
TRANSPORTATION, COMMUNICATION, & PUBLIC UTILITIES	45,597	44,918	45,591	43,843	43,043	-5.6
WHOLESALE & RETAIL TRADE	139,050	142,082	142,462	139,791	137,156	-1.4
FINANCE, INSURANCE, & REAL ESTATE	33,102	33,311	32,675	32,679	32,704	-1.2
SERVICES	133,343	132,856	132,490	129,617	128,234	-3.8
GOVERNMENT	91,599	85,596	85,453	84,623	84,517	-7.7
UNEMPLOYMENT RATE (%)	11.2	11.1	11.1	11.1	11.1	-0.1
CARGO VOLUME (100 TONS)	39,181	45,194	46,923	45,366	35,350	-9.8
DEPLANEMENTS (100)	7,529	8,073	8,516	7,671	7,977	6.0
ELECTRIC POWER CONSUMPTION (10 THOU KWH)	274,933	275,970	276,507	283,555	284,278	3.4
HOTEL/MOTEL OCCUPANCY TAX REVENUES ($100)	24,115	29,997	35,024	26,629	25,709	6.6
PERSONAL INCOME ($MIL) (a)	4,280	4,226	4,286	4,254	NA	-0.3 (b)
U.S. CONSUMER PRICE INDEX - URBAN (1967=100)	323.6	326.5	327.3	326.5	328.9	1.6

(a) Estimated, except as noted
(b) Percent change from 1985:1 to 1986:1

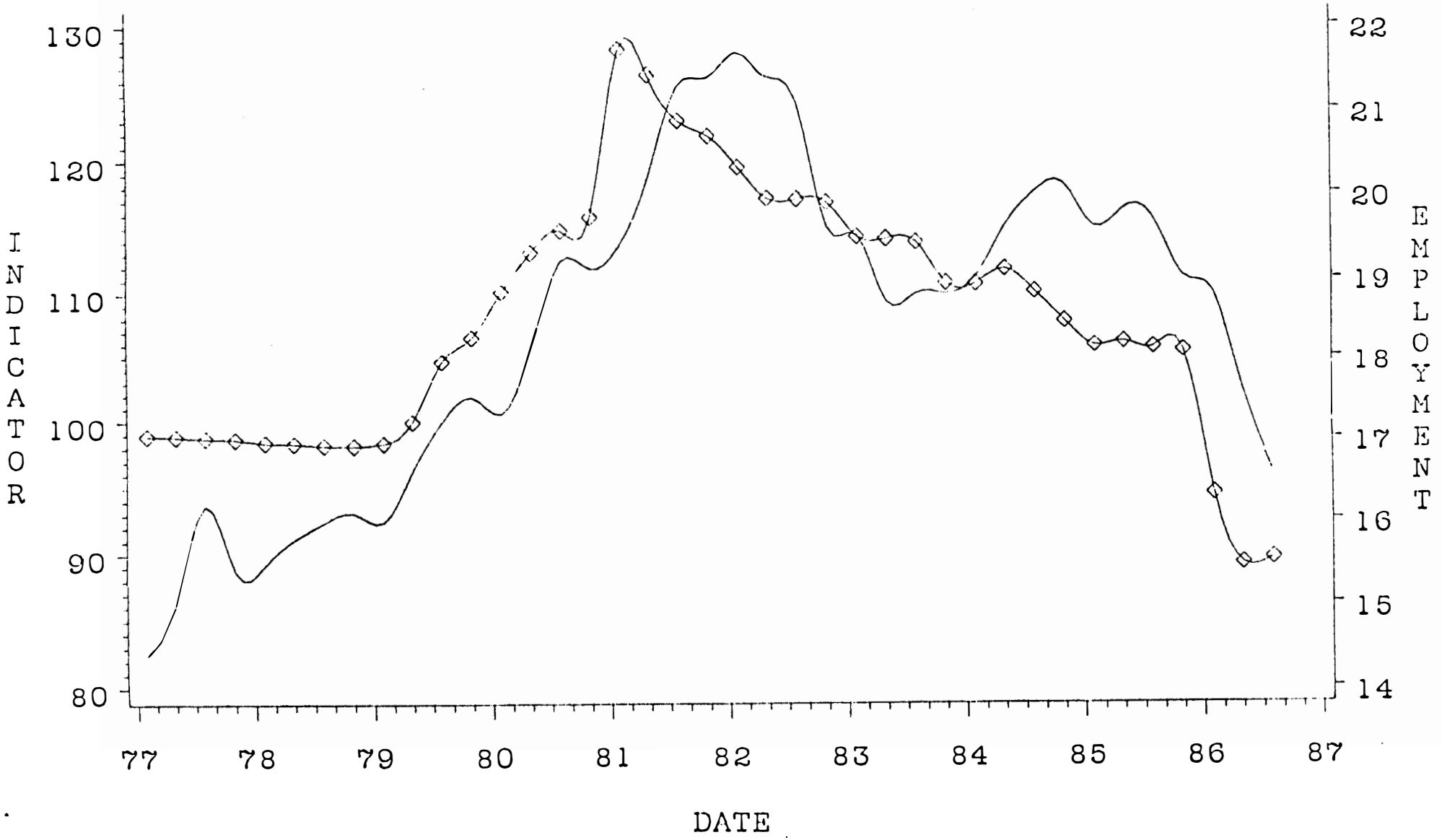
GENERAL INDICATOR VS METRO EMPLOYMENT

DIAMOND = INDICATOR. SOLID LINE = METRO EMPLOYMENT(thousands)



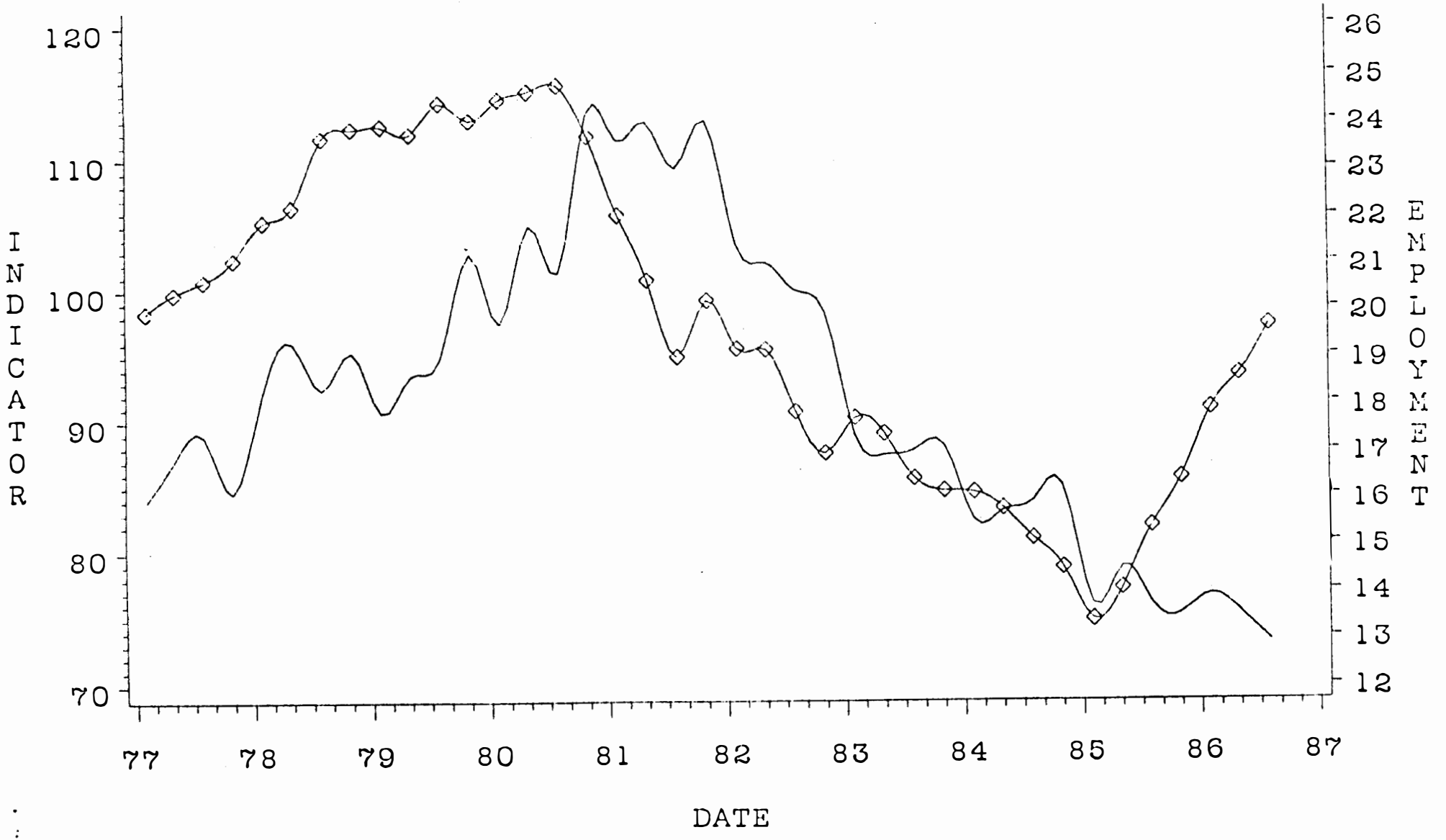
PETROLEUM INDICATOR VS MINING EMPLOYMENT

DIAMOND = INDICATOR, SOLID LINE = MINING EMPLOYMENT(Thousands)



PORT INDICATOR VS RELATED EMPLOYMENT

DIAMOND=INDICATOR, SOLID LINE=WATER TRANSPORTATION EMPLOYMENT(Thousands)



CONSTRUCTION INDICATOR VS CONSTRUCTION EMPLOYMENT

DIAMOND = INDICATOR, SOLID LINE = CONSTRUCTION EMPLOYMENT(Thousands)