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Jan '87

Leading Economic Indicators for the New Orleans Metro Area

The New Orleans area leading economic indicators show continued signs that the economy will begin a period of slow growth in 1987. The petroleum and construction indicators continued upward movement that started in August, and the tourism indicator remained relatively stable from its third quarter value. The general and port indicators began a slight decline during the last two months of 1986. However, for reasons given below, we feel that the dip in the general and port indicators does not portend an overall downturn in the local economy. We predict that employment levels will continue to fall at a decreasing rate into the first half of 1987, but will stabilize and begin to grow again before year's end.

The general indicator rose to 92.6 in October, 1986, before falling in value in November and December (Table 1 and Graph I). The declines were primarily caused by an abnormally low year-end offshore rig count. The rig count is one of the three components of the general index. In the past five years it has increased by an average of forty rigs between the third and fourth quarters. The year-end drilling spurt is a well-known industry phenomenon. This year, however, it increased by only twelve rigs for the same time period. The question is whether this is a true trouble warning for 1987 or whether it is merely a departure from the seasonal pattern. We suspect that cuts in 1986 drilling budgets left no room for the normal year-end increases, and that the November and December general indicator declines reflect only the absence of this seasonal effect. This reasoning is supported by

the petroleum indicator, which continued its steady upward climb that began in August of 1986 (Table 1 and Graph II). The December value of 91.4 surpassed the March figure of 91.2. As long as oil prices continue to increase throughout the first half of 1987, we can expect employment levels for the petroleum sector to level off, although dramatic drilling increases are not expected.

The port indicator took a slight drop in October and November of 1986 (Table 1 and Graph III). It increased, however, to 98.0 in December, returning to a level slightly higher than its October value. If the index of currency exchange rates continues to decline in early 1987 (which we expect to happen), we predict relatively healthy port activities in 1987.

The tourism indicator declined slightly in the last quarter of 1986 (Table 1). This reflects U.S. GNP values, which lullled in the last quarter of 1986. We feel this to be a minor slowdown, and predict tourism to grow in 1987.

After declining to 85.0 in October, 1986, the construction indicator rose for two consecutive months, with the December value of 88.8 being the second highest recorded value during the year (Table 1 and Graph IV). While the indicator is showing signs of recovery, we must keep in mind the volatile nature of this business sector. Further increases in early 1987 months may signal some relief in the construction sector in late 1987. There is little reason to believe that construction employment will improve before then.

Performance of the 1986 Indicators

The Group I (general) leading indicator began a steady monthly increase in June, 1985, signaling subsequent economic improvement. We predicted that the recovery would bottom out in early 1987, and, indeed there was a substantial slowdown in employment loss in the remainder of the year.

Seasonally adjusted metro area employment decreased by 2.1% in the second quarter of 1986, then only by 1.2% and 0.3% in the third and fourth quarters, respectively. (Non-seasonally adjusted metro area employment actually increased by 0.3% in the fourth quarter.) For every employment sector except construction and transportation employment the rate of job loss slackened over the course of the year.

Metro area personal income rose 1.5% in the first quarter of 1986, after falling by the same proportion in the previous quarter. Personal income fell off again in the second quarter, but rebounded by the third. The result is a small (0.2%) gain in personal personal income from the third quarter of 1985 compared to the same period in 1986. However, after adjusting for inflation as measured by the consumer price index, personal income actually declined by about 1 %. This pattern is consistent with our predictions of continued but slower decline into early 1987.

The first quarter jump in personal income can largely be attributed to Superbowl XX held in New Orleans in January.

Unfortunately, our leading indicator model cannot yet capture such an extraordinary influence.

The Group II (petroleum) indicator reached 105.7 in November, 1985, then started into a period of for several months. Mining employment followed the indicator's downward lead, dropping 14.7% between the fourth quarter of 1985 and year-end 1986 (Table 2). However, the rate of job loss tapered off toward year's end.

The Group III (port) indicator climbed steadily from the beginning of 1985 until the fourth quarter of 1986. Data from the Port of New Orleans (not reported here) show that tonnage over public facilities did increase in late 1986. However, the employment declines appear to result from recent increases in labor efficiency. The decline in the U.S. currency exchange rate experienced throughout 1986 so far this year should further increase port activity in 1987. Eventually, as crew sizes and the technology for handling cargo settle into a new pattern, this will mean an improved employment picture at the Port.

The Group IV (tourism) indicator rose steadily until the fourth quarter of 1986, when it stabilized. Hotel and motel occupancy rates (not reported here) actually increased by 5.7% (51.8% to 54.8%) from 1985 to 1986. In addition, airport deplanements and hotel and motel occupancy tax revenues were both up over their 1985 levels of 4.3% and 6.3%, respectively. But when fourth quarter hotel/motel tax revenue figures are compared, 1986 seems off of the 1985 pace. This is due to the fact that 1985 experienced the greatest tourism activity of any fourth

quarter in history primarily on account of the Superbowl. The decline from what amounted to a banner period is deceiving. Our tourism indicator is not yet geared to capture the effects of an extraordinary occurrence such as the Superbowl. It is hoped that such an adjustment may become part of the modeling process. This will require obtaining data which is currently unavailable to us.

The Group V (construction) indicator peaked in early 1986, then declined through the mid-year, implying losses in construction employment in late 1986. Construction employment did decline by 6.1% in the last half of 1986.

The metro New Orleans unemployment rate has continued its double digit pace for a full two calendar years. Unemployment losses have been virtually matched by declines in the civilian labor force, resulting in a nearly constant rate. This phenomenon indicates a net out migration of unemployed persons to other areas offering better job opportunities.

Summary

The New Orleans metropolitan leading indicators provided highly accurate predictions of metropolitan economic performance in the second half of 1986. The general prediction was that the rate of decline in the economy would gradually slow, and that employment would bottom out in early 1987. We are now extending this forecast to predict slow employment and personal income growth commencing in mid to late 1987.

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TABLE 1. NEW ORLEANS METROPOLITAN LEADING INDICATORS, 1985-1986.

MONTH	I	II	III	IV	V
	GENERAL	PETROLEUM	PORT	TOURISM (QUARTERLY)	CONSTRUCTION
1985 JANUARY	97.3	105.9	76.3	.	90.4
FEBRUARY	96.8	106.1	74.8	117.2	87.5
MARCH	96.4	107.0	74.9	.	89.0
APRIL	96.3	107.8	77.0	.	89.3
MAY	96.6	106.8	77.2	117.4	88.6
JUNE	97.4	105.3	78.4	.	87.2
JULY	96.7	105.1	80.7	.	94.0
AUGUST	96.6	106.1	81.9	118.3	94.1
SEPTEMBER	95.8	104.9	82.1	.	88.9
OCTOBER	95.2	105.5	84.6	.	85.7
NOVEMBER	94.7	105.7	85.7	118.7	84.6
DECEMBER	94.6	103.0	87.0	.	88.5
1986 JANUARY	93.4	101.8	88.2	.	86.2
FEBRUARY	93.1	95.1	91.0	119.9	92.2
MARCH	92.5	91.2	92.5	.	87.1
APRIL	91.3	88.8	91.8	.	88.6
MAY	90.5	90.1	93.7	120.8	86.8
JUNE	90.9	89.1	93.9	.	87.0
JULY	91.2	86.0	95.7	.	83.5
AUGUST	91.6	89.5	97.3	121.6	84.8
SEPTEMBER	92.1	89.8	98.9	.	85.9
OCTOBER	92.6	89.8	97.8	.	85.0
NOVEMBER	92.0	90.1	96.8	121.6	85.9
DECEMBER	91.4	91.4	98.0	.	88.8

TABLE 2. NEW ORLEANS METROPOLITAN CONCURRENT INDICATORS
(Quarterly data seasonally adjusted, except Consumer Price Index)

SERIES	1985:4	1986:1	1986:2	1986:3	1986:4	% Change
WAGE & SALARY EMPLOYMENT	529,593	527,405	516,344	510,052	508,294	-4.0
MANUFACTURING	44,373	43,662	43,059	42,508	42,768	-3.6
DURABLE GOODS	22,038	21,476	21,115	20,634	20,726	-6.0
NONDURABLE GOODS	22,335	22,186	21,944	21,874	22,042	-1.3
NONMANUFACTURING	485,220	483,743	473,285	467,544	465,525	-4.1
MINING	19,086	18,869	17,752	16,472	16,283	-14.7
CONSTRUCTION	27,256	26,165	24,793	24,307	23,248	-14.7
TRANSPORTATION, COMMUNICATION, & PUBLIC UTILITIES	44,918	45,607	43,842	43,067	41,766	-7.0
WHOLESALE & RETAIL TRADE	142,082	142,297	139,697	137,263	137,407	-3.3
FINANCE, INSURANCE, & REAL ESTATE	33,311	32,686	32,679	32,694	32,976	-1.0
SERVICES	132,856	132,446	129,617	128,598	129,593	-2.5
GOVERNMENT	85,710	85,652	84,905	85,143	84,251	-1.7
EMPLOYMENT RATE (%)	11.1	11.0	11.1	10.7	11.6	0.5
PLACEMENTS (100)	8,076	8,527	7,676	7,951	8,344	3.3
ELECTRIC POWER CONSUMPTION (10 THOU KWH)	275,668	275,748	283,638	285,234	292,514	6.1
HOTEL/MOTEL OCCUPANCY & REVENUES (\$100)	29,950	34,996	26,695	25,659	29,035	-3.1
PERSONAL INCOME (\$MIL) (a)	4,203	4,264	4,256	4,277	NA	0.2 (b)
U.S. CONSUMER PRICE INDEX - URBAN (1967=100)	326.5	327.3	326.5	328.9	330.8	1.3

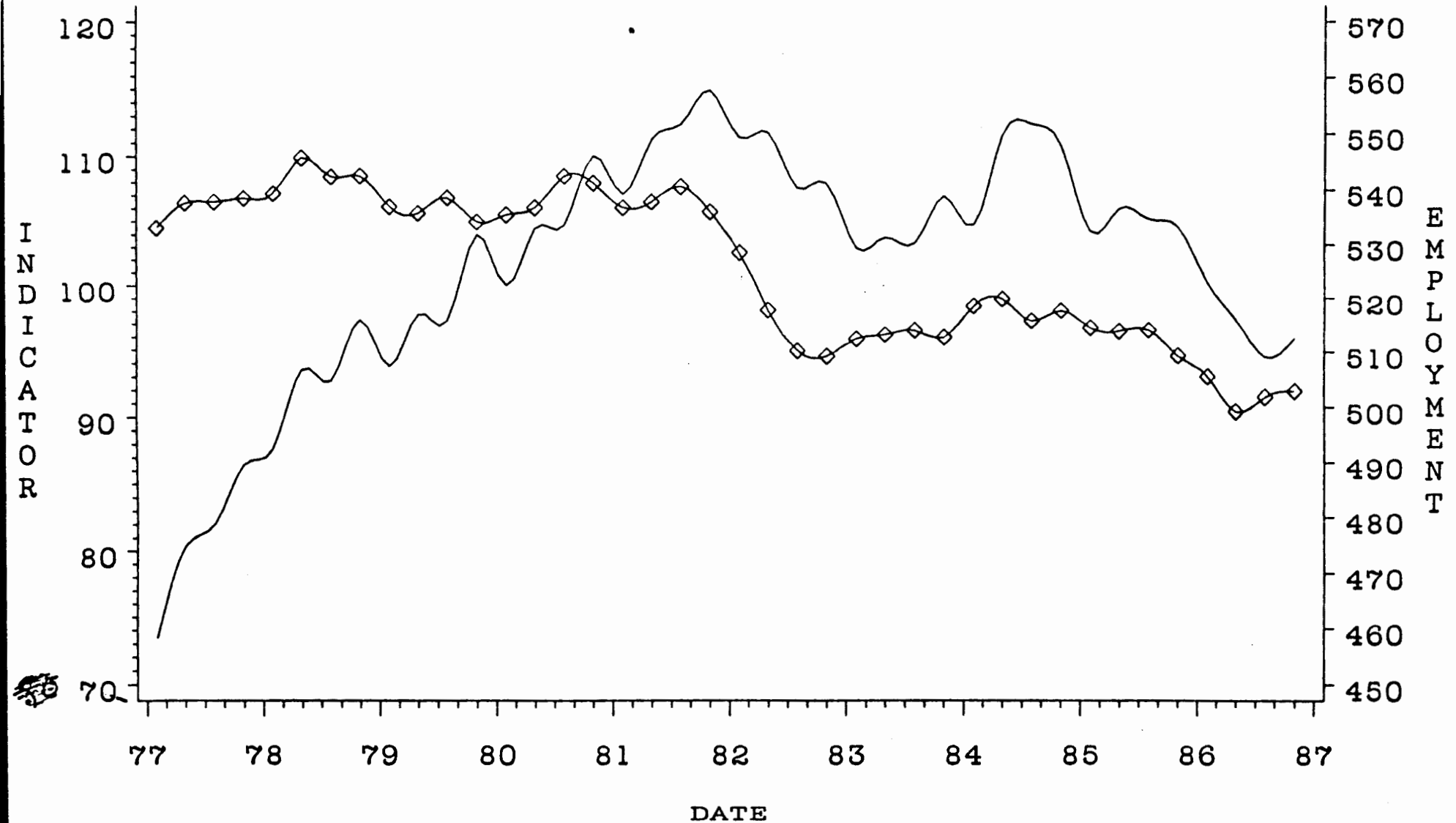
(a) Estimated.

(b) Percent change from 1985:3 to 1986:3

Graph I

GENERAL INDICATOR VS METRO EMPLOYMENT

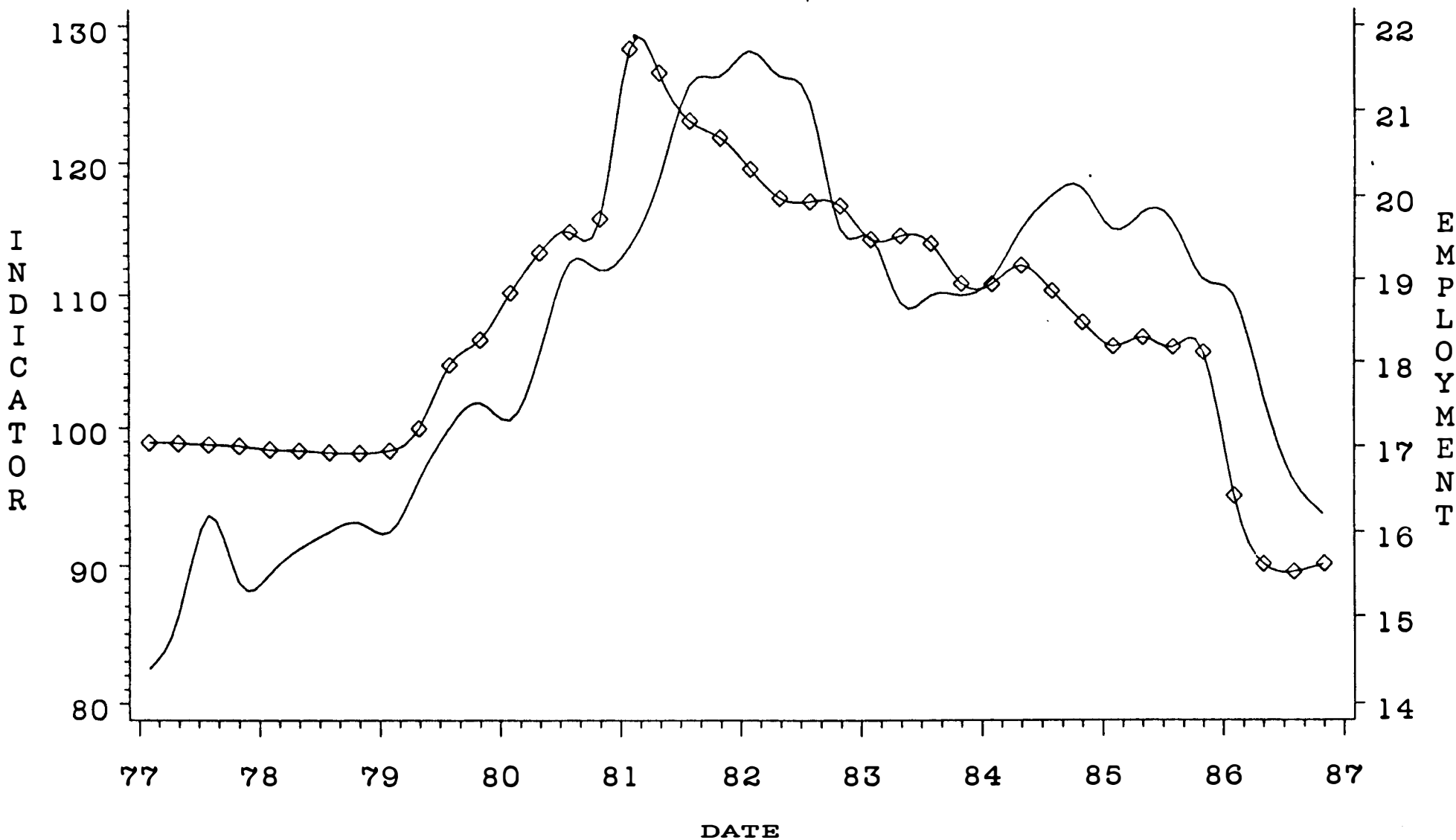
DIAMOND = INDICATOR, SOLID LINE = METRO EMPLOYMENT(thousands)



Graph IV

PETROLEUM INDICATOR VS MINING EMPLOYMENT

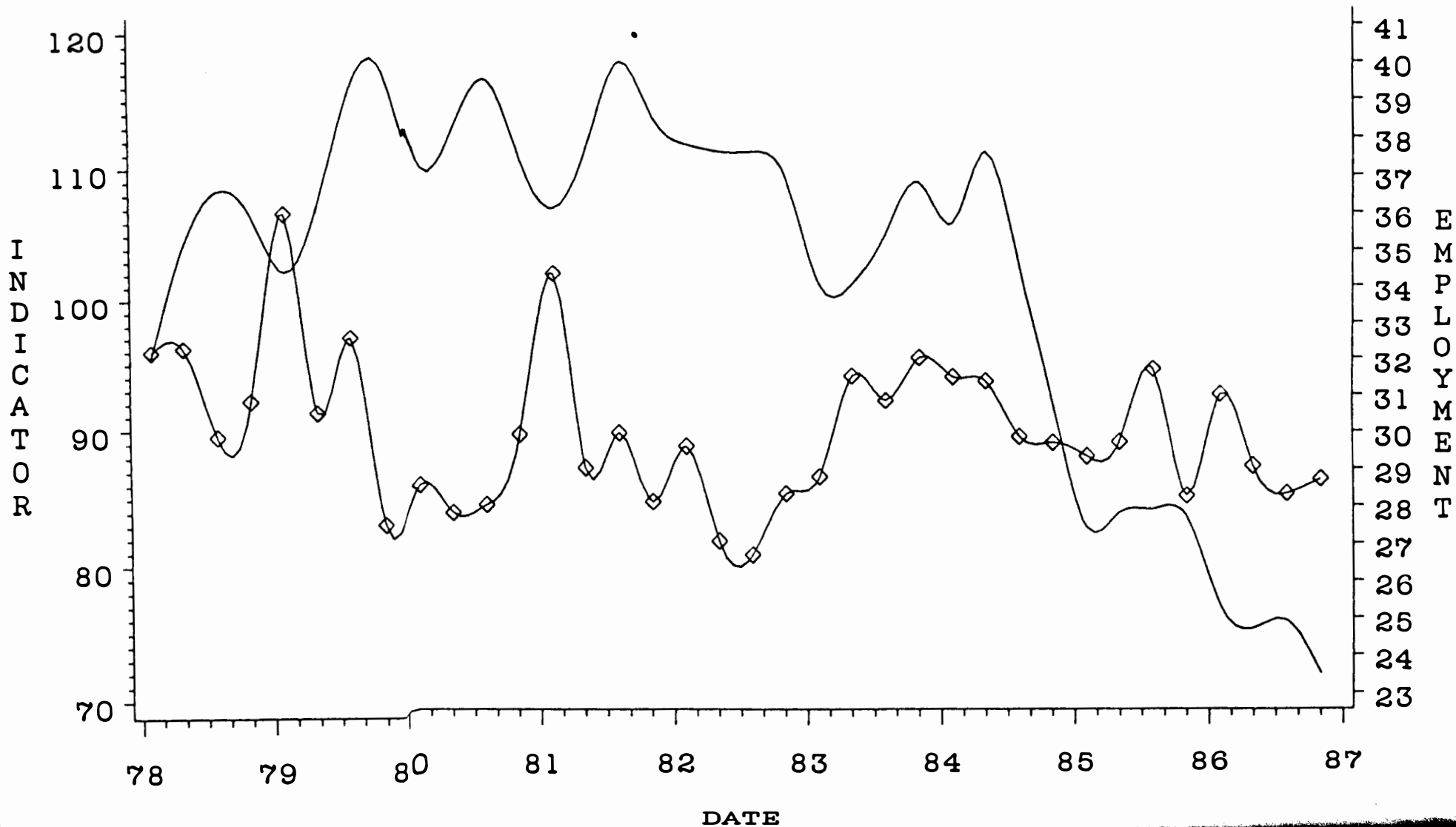
DIAMOND = INDICATOR, SOLID LINE = MINING EMPLOYMENT(Thousands)



Graph III

CONSTRUCTION INDICATOR VS CONSTRUCTION EMPLOYMENT

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



Graph IV

PORT INDICATOR VS RELATED EMPLOYMENT

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

