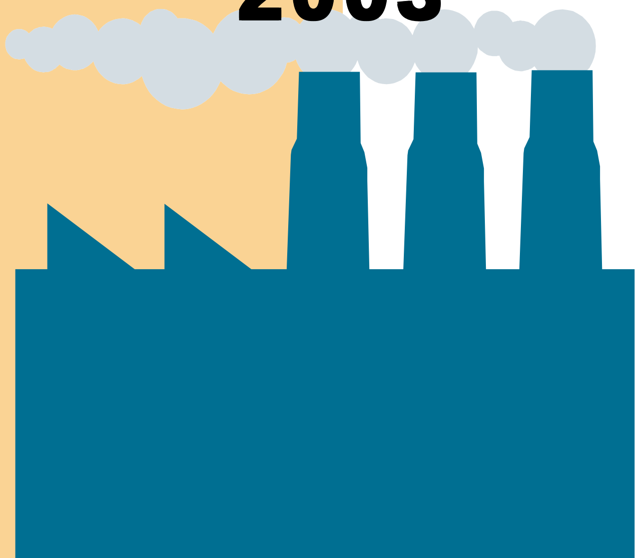
Arkansas Business Conditions Survey Results Summary 2003



A Statewide Annual Survey of Licensed Contractors and Manufacturers to Collect Information Related to the Economy

Contractors Licensing Board

Arkansas Workforce Investment Board

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Where excellence has many faces

Institute for Economic Advancement
College of Business
University of Arkansas at Little Rock

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Purpose of the Survey

The goal of the *Arkansas Business Conditions Survey* is to provide statewide employer-based indicators of economic activity from the goods-producing sectors (*construction and manufacturing*) of the Arkansas economy. The questionnaire was directed to executive/administrative (*i.e., CEO/owner, CFO, facility/plant manager, etc.*) personnel within each surveyed establishment. The third annual *Arkansas Business Conditions Survey* is a cooperative effort between the Contractors Licensing Board, the Arkansas Workforce Investment Board, and the University of Arkansas at Little Rock's Institute for Economic Advancement.

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Methodology

The survey population included a total of 7,187 construction and manufacturing establishments (*i.e., 3,447 - licensed contractors and 3,740 manufacturers*) statewide[1]. Surveyed businesses within both industry groups represent a cross-sectional mix of business sector activity and establishment sizes. The *Arkansas Business Conditions Survey* was administered utilizing two systematic mailings to the survey population during September and October 2003. In addition, the questionnaire was made available to potential respondents via secured on-line Internet access. An initial mailing was distributed to all 7,187 establishments on September 15, 2003. A total of 639 completed questionnaires were received from the first mailing. A second mailing was distributed to nonrespondents October 1, 2003. An additional 467 completed questionnaires were received from the second mailing. Also, a total of 49 completed questionnaires were received via the Internet, boosting the overall completion total to 1,155. The mailings uncovered a total of 251 establishments as being closed or having undeliverable mailing addresses. Therefore, the overall return/completion rate was seventeen percent. The survey results are based on a total of 1,155 completed questionnaires, representing 509 completed questionnaires from manufacturers and 646 completed questionnaires from construction contractors. The overall results represent a sample reliability of a 95 percent confidence level at a plus or minus 3 percent confidence interval.

Survey Results

Business Conditions Scorecard

Looking at the overall results in Table 1, surveyed businesses on average rate current business conditions within the state slightly below the rest of the nation, based on an average scorecard rating of 2.95 (a rating of 3.00 represents the midlevel range). The Arkansas job market is viewed more negatively when compared to the rest of the nation with an average rating score of 2.77.

Table 1

On a scale of 1 to 5, (with 1 representing the lowest/poorest rating and 5 representing the highest/best rating) how would you rate...

	Overall Results Avg.	Manufacturing Results Avg.	Construction Results Avg.
Current business conditions in Arkansas compared to the rest of the nation.	2.95 (*1079*)	2.83(*477*)	3.04 (*602*)
The current Arkansas job market within your industry when compared to the rest of the nation.	2.77 (*1113*)	2.64 (*492*)	2.88 (*621*)

Note: The average (mean) scorecard ratings are based on the total number of respondents indicating a rating value between 1 and 5. One (1) represents the lowest/poorest rating and five (5) represents the highest/best rating. An average scorecard rating of three (3.00) represents the midpoint in the rating scale. An average rating above three denotes a positive score while an average rating of less than three denotes a negative score. In the November 2002 survey, responding establishments gave an overall business conditions rating average of 3.07 and a overall job market rating average of 2.92.

The number in parentheses indicates the number of cases that provided a rating value.

[1] Survey lists provided by the Contractors Licensing Board and Arkansas Department of Economic Development.

Economic Indicators

Table 2

Indicate whether your company is currently experiencing increases, decreases, or remaining stable for each of the following business condition indicators, compared to the previous six months.

	Overall Results				Manufacturing Results				Construction Results			
	Increase	No Change	Decrease	Diffusion Index	Increase	No Change	Decrease	Diffusion Index	Increase	No Change	Decrease	Diffusion Index
Sales/Orders	27.2%	40.2%	32.6%	-5.4% (1110)	29.5%	33.5%	36.9%	-7.4% (501)	25.3%	45.6%	29.1%	-3.8% (609)
Production Levels	23.0%	50.0%	26.9%	-3.9% (1063)	28.0%	38.5%	33.5%	-5.5% (493)	18.8%	60.0%	21.2%	-2.4% (570)
Prices of Supplies/Materials	62.9%	34.1%	3.0%	59.9% (1127)	57.9%	38.1%	4.0%	53.9% (499)	66.9%	30.9%	2.2%	64.7% (628)
Inventories	9.8%	66.8%	23.4%	-13.6% (1069)	13.1%	54.7%	32.1%	-19.0% (495)	7.0%	77.2%	15.9%	-8.9% (574)
Full-Time (FT) Employment	16.0%	59.3%	24.7%	-8.7% (1119)	14.7%	57.5%	27.8%	-13.1% (496)	17.0%	60.8%	22.2%	-5.2% (623)
Part-Time (PT) Employment	9.0%	75.1%	16.0%	-7.0% (815)	9.5%	71.1%	19.3%	-9.8% (357)	8.5%	78.2%	13.3%	-4.8% (458)
Hrs. Worked FT Employees	15.3%	67.3%	17.3%	-2.0% (1124)	14.9%	65.7%	19.5%	-4.6% (498)	15.7%	68.7%	15.7%	0% (626)
Hrs. Worked PT Employees	8.0%	75.7%	16.3%	-8.3% (773)	7.1%	72.5%	20.4%	-13.3% (338)	8.7%	78.2%	13.1%	-4.4% (435)
Profit Margins	12.1%	42.2%	45.7%	-33.6% (1128)	11.6%	37.7%	50.7%	-39.1% (499)	12.4%	45.8%	41.8%	-29.4% (629)

Note: The diffusion index is calculated as the difference between the percentage of total reporting increases and the percentage reporting decreases. The number in parentheses indicates the number of cases that provided a response of "increase," "remain stable," or "decrease" for each economic indicator specified. For comparison purposes in the November 2002 survey, overall diffusion indexes were reported as follows: *sales/orders* -7.1%, *production levels* -5.6%, *prices of supplies/materials* 50.4%, *inventories* -12.6%, *full-time employment* -10.7%, *part-time employment* -6.2%, *hours worked full-time employees* -7.8%, *hours worked part-time employees* -10.0%, and *profit margins* -27.7%.

In comparing the percentage differences between employers who reported increases for a given economic indicator versus those who reported decreases (*i.e., diffusion index*) unfavorable trends emerge. For the manufacturing industry, higher unfavorable percentages are reflected in negatively impacted profit margins, inventories, full-time employment, hours worked by part-time employees, and increases in the prices of supplies/materials. Manufacturers report the following supplies/materials are increasing in price compared to the previous six months: fuel including diesel and gasoline; wood and paper products; steel products including castings, pipe, and stainless steel; petroleum-based products including resins and solvents; plastic materials; and several manufacturers indicated shipping costs in general are increasing. Approximately fifty-one percent *(50.7%)* of responding manufacturers indicate their company is experiencing decreases in profit margins compared to the previous six months. In the construction sector, a near even split of respondents indicate profit margins are currently stable *(45.8%)* considering the previous six months, compared to other contractors indicating that profit margins are decreasing *(41.8%)* from the level of construction activity during the last six months. The highest percentage of negative impact is shown when comparing unfavorable diffusion index percentages related to profit margins, inventories, and the prices of supplies and materials. Construction employers report price increases for the following supplies/materials: lumber and plywood, steel products (i.e., sheet and structural), concrete and gravel products, fuel, and miscellaneous building products such as roofing, sheetrock, insulation and flooring.

Overall, the survey results from Table 2 indicate employers frequently report no change in their current levels of economic activity as compared to the previous six months. However, unfavorable trends emerge when looking at the diffusion index. These unfavorable trends are supported by over three-fourths of employers reporting they have no plans for hiring or expansion activities over the next six months.

Exporting

Most surveyed employers who export products/services outside the state (*61.1% of manufacturers export and 17.6% of construction contractors export*) report their export levels are remaining stable compared to the previous six months.

Employment Activity and Future Business Conditions

Slightly over sixty-six percent (*66.3%*) of surveyed employers indicated they will not be looking to fill any job vacancies in Arkansas within the next six months as compared to thirty-three percent (*32.6%*) that will be in a hiring mode. Employers looking to hire within the next six months report that the average wage paid for these anticipated job vacancies will be approximately $11.70 per hour ($24,336 annually for 40 hour work week). In addition, fifty-five percent (*55.0%*) of surveyed employers indicate they do not anticipate having to pay overtime hours during the next six months. Generally speaking, the survey results indicate that unfilled job vacancies by responding employers are not translating into more overtime hours for existing workers in the short term. Regarding future business conditions, over three-fourths (*78.4%*) of surveyed employers have no plans for expansion in Arkansas over the next six months. Also, the majority *(64.0%)* of respondents view their company's level of business activity as being either "stable" or having the potential for "moderate growth."

Business Respondent Demographics

Table 3

Employment Level	Overall Results	Manufacturing Results	Construction Results
Less than 10 employees	48.3%	43.8%	51.9%
10 to 25 employees	23.9%	19.3%	27.6%
26 to 50 employees	12.0%	13.2%	11.1%
51 to 100 employees	7.0%	8.6%	5.7%
101 to 200	3.5%	5.3%	2.0%
201 to 300	1.8%	3.7%	0.3%
301 to 400	0.9%	1.6%	0.3%
401 to 500	0.7%	1.2%	0.3%
Greater than 500	1.5%	2.9%	0.3%
No Answer	0.4%	0.4%	0.5%
Number of respondents	*1155*	*509*	*646*

Length of Time in Operation	Overall Results	Manufacturing Results	Construction Results
Less than 1 year	1.1%	0%	2.0%
1 to 5 years	9.5%	4.3%	13.6%
6 to 10 years	14.5%	12.0%	16.6%
11 to 15 years	12.7%	12.2%	13.2%
16 to 20 years	12.4%	13.6%	11.5%
More than 20 years	48.9%	57.2%	42.4%
No Answer	0.8%	0.8%	0.8%
Number of respondents	*1155*	*509*	*646*

Industry Sector	Overall Results
Building, Developing, & General Contracting (NAICS 233)	18.6%
Heavy Construction (NAICS 234)	6.8%
Special Trade Contractors (NAICS 235)	28.4%
Food Manufacturing (NAICS 311)	1.9%
Beverage & Tobacco Product Manufacturing (NAICS 312)	0.3%
Textile Mills (NAICS 313)	0.1%
Textile Product Mills (NAICS 314)	0%
Apparel Manufacturing (NAICS 315)	0.4%
Leather & Allied Product Manufacturing (NAICS 316)	0.1%
Wood Product Manufacturing (NAICS 321)	6.0%
Paper Manufacturing (NAICS 322)	1.0%
Printing & Related Support Activities (NAICS 323)	5.9%
Petroleum & Coal Products Manufacturing (NAICS 324)	0.4%
Chemical Manufacturing (NAICS 325)	1.1%
Plastics & Rubber Products Manufacturing (NAICS 326)	2.9%
Nonmetallic Mineral Product Manufacturing (NAICS 327)	0.3%
Primary Metal Manufacturing (NAICS 331)	2.7%
Fabricated Metal Product Manufacturing (NAICS 332)	8.1%
Machinery Manufacturing (NAICS 333)	2.5%
Computer & Electronic Product Manufacturing (NAICS 334)	0.3%
Electrical Equipment, Appliance, & Component (NAICS 335)	2.1%
Transportation Equipment Manufacturing (NAICS 336)	0.5%
Furniture & Related Product Manufacturing (NAICS 337)	1.2%
Miscellaneous Manufacturing (NAICS 339)	5.5%
No Answer	2.9%
Number of respondents	*1155*

Comments

All respondents were given the opportunity to offer comments to assist policymakers in working toward improving the business conditions in Arkansas compared to the rest of the nation. A total of 461 comments were received. Many of the comments were centered around the issues noted below.

Insurance Costs

- "Insurance costs are killing us - workers compensation, medical, liability."
- "Insurance industry needs a review. Their profitability versus our accessibility. Individual medical expenses should be completely tax deductible to relieve some of the pressure employees put on companys to provide benefits."

Education/Qualified Workforce

- "Work with high school graduates to encourage vocational futures. We are understaffed with good machinists. Our vocational schools are spending too much time requiring unrelated classes."
- "Reform the education offered to Arkansas students. Not all students are college bound, but they need good basics too."

Tax Incentives

- "Provide incentives to existing industries to maintain jobs in Arkansas to prevent moving jobs offshores."
- "Must have competitive incentive package to attract new business. Must have good legal environment to conduct business to either attract or retain business."

Specific Industry-Based Comments

- "Stem the tide of manufacturing job losses. This country must have manufacturing jobs so the average person will have money to purchase goods and services."
- "Enforce laws regarding local building permits and contractor license."