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The Iowa Labor Market in 2002: An Elusive Recovery

In general, economic conditions showed some improvement in 2002, but the recovery that was expected to take hold during the second half of the year never materialized. Iowa's companies shed about 6,700 jobs last year with the deepest cuts reflected in durable goods manufacturing and retail trade. Manufacturers of durable goods like furniture, industrial machinery and steel were down about 12,000 jobs since the recession began in early 2001.

Two of Iowa's industries displayed a countercyclical trend by hiring workers last year. Over 2,000 workers were added to both the construction and the finance, insurance and real estate industries. The hiring activity that occurred in these industries was generated by unusually low interest rates.

The recovery stalled during the second quarter of 2002 for a number of reasons—most of them psychological. Threats of another terrorist attack, corporate fraud, the financial fragility of many state governments, and, toward the end of the year, the increased risk of war with Iraq discouraged a pickup in business investment.

Iowa's unemployment rate increased during the second half of 2002, hovering near the 4 percent mark for the July through December period. Despite these conditions, the statewide unemployment rate ended the year about two percentage points below the national jobless rate. Also, Iowa's unemployment rate was consistently one of the lower in the country. For December 2002, the state's jobless rate of 3.9 percent was the fourth-lowest in the state rankings.

Faced with hiring freezes imposed by many companies, unemployed workers found it increasingly difficult to find jobs. Furthermore, productivity gains allowed businesses to boost output without hiring additional workers. The group of unemployed workers covered by Unemployment Insurance experienced an average duration of unemployment of 13.4 weeks in 2002 compared to 11.6 weeks in 2001.

The monthly labor force figures for fourth quarter steadily declined after reaching a peak level of 1,630,500 in September. This trend could suggest that the number of discouraged workers is on the rise due to sluggish hiring activity.

After incurring two years of job losses in the nonfarm sector, the Iowa economy appears headed toward a year of transition in 2003. Without a doubt, the economy's performance for 2003 is tied to business investment. Capital spending by businesses will be needed to enter into a period of robust and sustained economic growth. Slow to moderate job growth is expected for 2003 with widespread job gains projected for 2004.

New Labor Surplus Area List Released

The annual list of labor surplus areas was recently released for fiscal year 2003. The list became effective October 1, 2002 and will remain in effect through September 30, 2003. Chickasaw County is the only area in Iowa included on the current list.

The purpose of classifying Labor Surplus Areas is to direct federal procurement contract money to areas where people are in the most severe economic need. Employers located in an eligible area can receive preference in bidding on federal contracts.

Labor surplus areas are classified on the basis of civil jurisdictions. Civil jurisdictions are now defined as all cities with a population of at least 25,000 and all counties. A civil jurisdiction is classified as a labor surplus area when its average unemployment rate was at least 20 percent above the average unemployment rate for the nation during the previous two calendar years. During periods of high national unemployment, the 20 percent ratio is disregarded and an area qualifies if its unemployment rate for the two-year period was 10 percent or more. Similarly, a "floor" concept of six percent comes into effect whenever the average unemployment rate for the nation during the two-year reference period was five percent or less.

The two-year reference period used in preparing the current list was January 2000 through December 2001. Since the national unemployment rate averaged less than five percent during this period, the six percent "floor" rate went into effect for the fiscal year 2003 labor surplus area classifications.

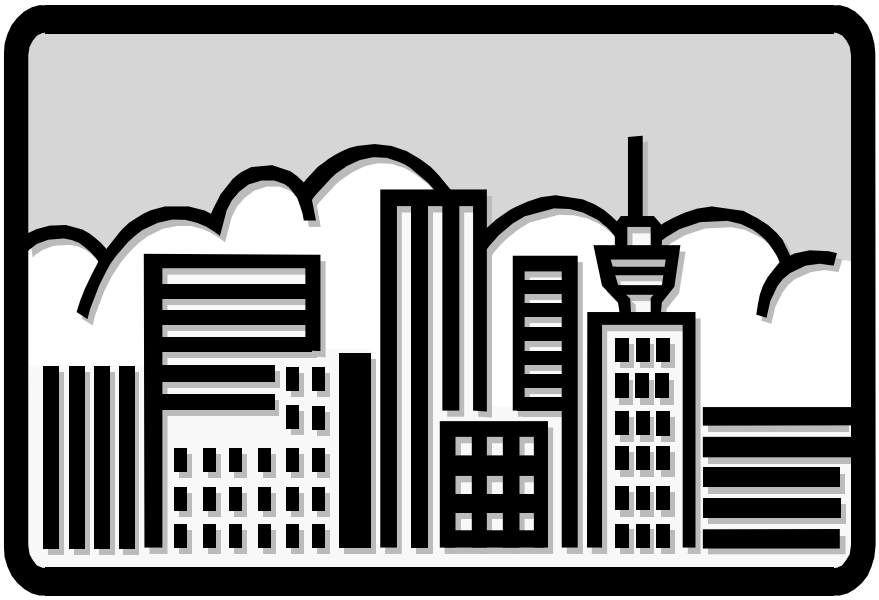
A complete listing of Labor Surplus Areas by state appears in the February 4, 2003 issue of the ***Federal Register.***

NAICS— A More Viable Way of Classifying Industries

What is NAICS?

North America has an all-new system for classifying businesses and reporting industry statistics. Since the 1930s, government statistical programs have published industry data based on the Standard Industrial Classification (SIC) system. However, this is about to change. The public will soon be provided with industry data based on the North American Industry Classification System (NAICS). Beginning with the release of nonfarm employment figures for January 2003 on March 13, industry employment data will be based on NAICS.

NAICS will change the type of industry statistics available from the Current Employment Statistics (CES) Program, Covered Employment Wage (CEW) Program, along with many other federal programs.



Why Convert to NAICS?

Although the SIC system has been revised and updated periodically to keep pace with changes in the U.S. economy, it still focuses on the manufacturing sector and provides insufficient detail for the now dominant service sector. Newly developed industries in information services, health care delivery, and even high-tech manufacturing cannot be studied under the SIC system because they are not separately identified at the industry level. To capture the dynamics of the 21st century, NAICS has been designed to reflect changes in industry activity as it unfolds.

The NAICS system also does a better job of classifying business establishments based on what they actually do. The SIC dealt with auxiliary establishments by assigning them the industry code of the parent company. For example, the headquarters of a grocery chain would be coded as SIC 5411, grocery stores, even though employees in that office are involved in decisionmaking and planning roles for the company. In contrast, the NAICS system assigns an industry code to an auxiliary establishment that best describes their main activity without regard to the parent company.

Another NAICS advantage is its usefulness as a consistent tool for measuring the economies of Canada, Mexico and the United States. Since all three partners in the North American Free Trade Agreement (NAFTA) are using NAICS, crosswalks will no longer be needed to compare industry employment data for these three countries.

How will NAICS affect the nonfarm employment series?

First of all, NAICS will provide more detail. NAICS uses a six-digit classification code that allows greater flexibility in the coding structure. The SIC coding system uses only four digits. Another important difference is that NAICS uses the first two digits of the six-digit code to designate the highest level of aggregation, with 20 such two-digit industry sectors. The SIC has only 11 divisions, designated by letters of the alphabet.

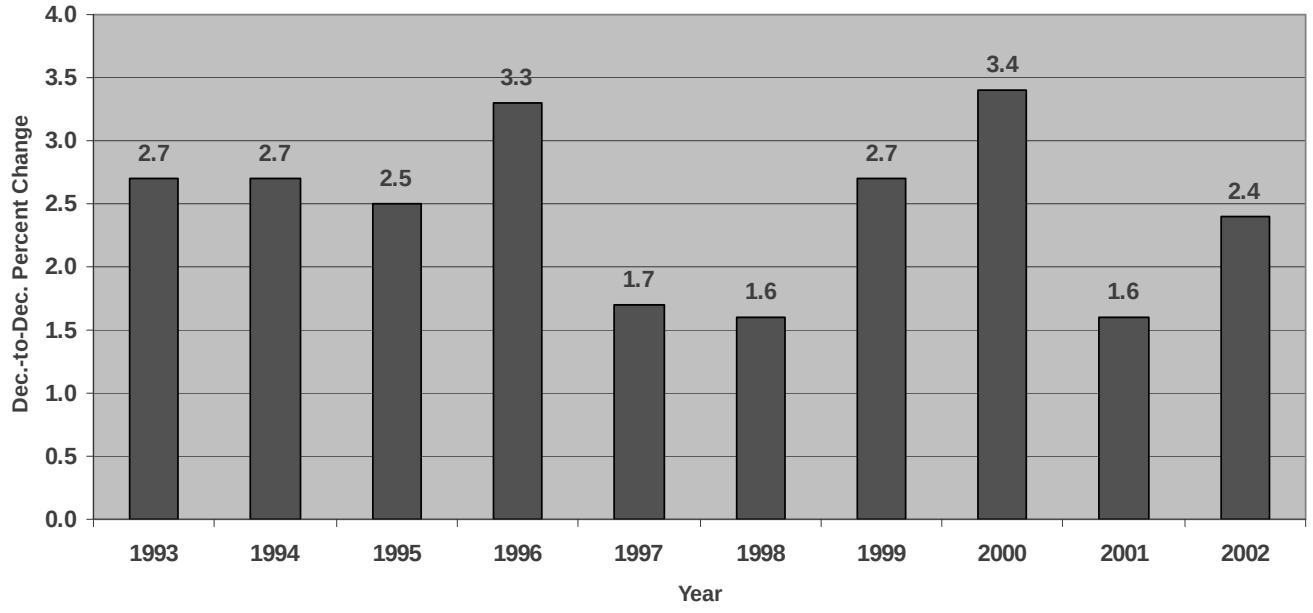
The availability of time series data is essential for trend analysis, economic forecasting and determining seasonal adjustment. In many cases, however, the NAICS changes are so significant that reconstructing historical data based on the new classification system will be difficult. As a result, the nonfarm employment time series will have a shorter history under NAICS than under SIC. The state and area published nonfarm employment series will have a NAICS-based history extending back to at least January 1990. However, the hours and earnings series will begin in January 2001.

Comparison of the NAICS and SIC Structures

NAICS Sector	NAICS Titles	SIC Division	SIC Titles
11	Agriculture, forestry, fishing, hunting	A	Agriculture, forestry, fishing
21	Mining	B	Mining
22	Utilities	C	Construction
23	Construction	D	Manufacturing
31-33	Manufacturing	E	Transportation, communications, electric, gas and sanitary services
42	Wholesale trade		
44-45	Retail trade		
48-49	Transportation and warehousing	F	Wholesale trade
51	Information	G	Retail trade
52	Finance and insurance	H	Finance, insurance, and real estate
53	Real estate and rental and leasing		
54	Professional and technical services	I	Services
55	Management of companies and enterprises	J	Public administration
56	Administrative and waste services	K	Nonclassifiable establishments
61	Educational services		
62	Healthcare and social assistance		
71	Arts, entertainment, and recreation		
72	Accommodation and food services		
81	Other services, except public administration		
92	Public administration		

Source: ***Monthly Labor Review***, December 2001.

Consumer Price Index for All Urban Consumers, U.S. City Average 1993-2002



U.S. Statistical Update

Labor Force Data*
(Seasonally Adjusted)

	Oct 2002	Nov 2002	Dec 2002	Dec 2001
Civilian Labor Force	143,123,000	142,733,000	142,542,000	142,314,000
Employed	134,914,000	134,225,000	133,952,000	134,055,000
Unemployed	8,209,000	8,508,000	8,590,000	8,259,000
Unemployment Rate	5.7%	6.0%	6.0%	5.8%

Historical Labor Force Series*

	1998	1999	2000	2001	2002
Civilian Labor Force	137,673,000	139,368,000	140,863,000	141,815,000	144,863,000
Employed	131,463,000	133,488,000	135,208,000	135,073,000	136,485,000
Unemployed	6,210,000	5,880,000	5,655,000	6,742,000	8,378,000
Unemployment Rate	4.5%	4.2%	4.0%	4.8%	5.8%

Unemployment Rates for Iowa and Neighboring States

National Rankings, Dec 2002

Rank	State	Rate
1	South Dakota	3.0
3	Nebraska	3.4
4	Iowa	3.9
4	Minnesota	3.9
21	Missouri	4.9
27	Wisconsin	5.4
44	Illinois	6.4

Consumer Price Indexes*
(All Items)

CPI-U

	Dec 2002	Nov 2002	Dec 2001	% Chg from Dec 2001
U.S. City Average				
1967 = 100	541.9	543.1	529.2	
1982-84 = 100	180.9	181.3	176.7	2.4%

CPI-W

	Dec 2002	Nov 2002	Dec 2001	% Chg from Dec 2001
U.S. City Average				
1967 = 100	527.2	528.4	515.0	
1982-84 = 100	177.0	177.4	172.9	2.4%

Source: Bureau of Labor Statistics, U.S. Department of Labor.

*The Consumer Price Index for All Urban Consumers (CPI-U) extends coverage to such groups as salaried workers, the self-employed, retirees, and the unemployed. The index covers approximately 80 percent of the total noninstitutional civilian population of the United States. The CPI for Urban Wage Earners and Clerical Workers (CPI-W) represents about one-half of the population covered by the CPI for All Urban Consumers.

**************SEASONALLY ADJUSTED**************

	Labor Force	Employment	Unemployment	Rate
1997	1,579,400	1,527,900	51,500	3.3%
1998	1,569,100	1,525,600	43,400	2.8%
1999	1,572,800	1,532,700	40,100	2.5%
2000	1,563,100	1,522,100	40,900	2.6%
2001	1,587,800	1,534,800	53,000	3.3%
2002				
Jan	1,598,000	1,545,000	53,000	3.3%
Feb	1,604,600	1,549,400	55,100	3.4%
Mar	1,602,600	1,547,900	54,700	3.4%
Apr	1,604,700	1,546,400	58,400	3.6%
May	1,622,800	1,565,000	57,800	3.6%
Jun	1,622,800	1,563,600	59,200	3.6%
Jul	1,628,900	1,563,700	65,200	4.0%
Aug	1,625,700	1,565,000	60,700	3.7%
Sept	1,630,500	1,567,200	63,200	3.9%
Oct	1,625,500	1,559,700	65,900	4.1%
Nov	1,621,000	1,557,500	63,500	3.9%
Dec	1,619,800	1,556,800	63,000	3.9%