



Fourth Quarter – 2015

An independent economic analysis of Arkansas' three largest metro areas:

- Central Arkansas
- Northwest Arkansas
- The Fort Smith region

About The Compass

The Compass Report is managed by Talk Business & Politics. The Fort Smith analysis is sponsored by Arvest Bank. Economist Jeff Collins compiles the data and provides analysis.

REGIONAL SUMMARIES

Fort Smith region

The Compass Report for the Fort Smith area posted a C grade for the fourth quarter, better than the C- from the third quarter of 2015 but down from the C+ in the fourth quarter of 2014.

Although the region's jobless number declined (5.1% in December 2015, compared to 5.5% in December 2014), the number of jobs were relatively flat. Non-farm employment in the metro area ended December at 114,200, down from 114,300 in December 2014. However, the number of unemployed moved in the right direction. There were 6,132 unemployed in December, down from 6,502 in December 2014.

Sales tax collections in the metro area were up slightly, with \$4.292 million reported in December in four regional counties, up from \$4.284 million in December 2014.

Northwest Arkansas

The first ever grade of A was captured by the Northwest Arkansas metro in the fourth quarter. The grade was up from the B+ in the third quarter of 2015 and up from a B in the fourth quarter of 2014. The consistent pace of job growth, tax revenue gains and building activity pushed conditions higher for the A grade in the Northwest Arkansas economy during the fourth quarter.

The metro economy added 11,300 jobs, rising to 243,000 in December. Sales tax revenues also grew, with \$8.649 million collected in Benton, Madison and Washington counties in December, up from \$8.195 million in December 2014.

Central Arkansas

Economic conditions in central Arkansas, the state's largest metro area, received a grade of B- in the fourth quarter, better than the C+ in the third quarter of 2015 and the C+ in the fourth quarter of 2014.

Job gains and continued gains in sales tax revenue were again economic drivers for the metro area in the fourth quarter. There were 355,100 non-farm jobs in the region in December, ahead of the 351,300 in December 2014.

Government services and trade, transportation, and utilities comprise the two largest sectors of the Central Arkansas economy. December-on-December government services employment was up 200 jobs while trade, transportation, and utilities gained 2,400 jobs.

Regional "Takeaways"



FORT SMITH REGION

(October-December 2015 conditions)

Nonfarm employment was down 0.1% December-on-December (100 new jobs), with total nonfarm employment an estimated 114,200 jobs in December compared to 114,300 in December 2014. Comparing quarter-on-quarter data, nonfarm employment in the metro was essentially unchanged (0.1%). Since the first quarter of the year non-farm employment growth has been non-existent.

The December total number of employed in the MSA was an estimated 114,094. By contrast, total employment in December 2006, prior to the recession, was 122,504. This is testament to the impact of the recession on the Fort Smith regional economy as well as the long erosion of manufacturing as a source of new employment.

Examining labor force data, there were 120,226 people either employed or looking for work in December 2015. By comparison, in December 2014, 118,287 people fit that description. This is an increase of roughly 1.6%.

December-to-December the manufacturing sector lost 500 jobs or roughly 2.7%. In December 2015 an estimated 17,700 people worked in the sector. Despite stabilizing earlier in the year, manufacturing appears to be shedding employment one again.

While overall nonfarm employment declined, four service sectors had increased employment December-to-December. Government services (500), trade, transportation, and utilities (300), education and healthcare services (300), as well as leisure and hospitality services (200) increased December-on-December.

In addition to manufacturing, sectors losing employment include natural resources, mining, and construction (-700) and financial services (-200). The magnitude of the loss in financial services was surprising given the relatively small size of the sector (600). Professional and business services, other services, and information services were unchanged according to the data.

Residential construction as measured by number of permits was down and by value significantly quarter-on-quarter (-49% and -39%, respectively).

Sales and use tax revenues, reported by the Arkansas Department of Finance and Administration, were up quarter-on-quarter 2.6%. Collections were particularly strong in November.

Despite weak jobs data, the unemployment rate in the Fort Smith area December-on-December was down 0.4%. The reason for the decrease was a significant increase in the number of employed (2,309) relative to the increase in the labor force (1,939).

Data for the Fort Smith regional economy had been mixed for some time. Barring some unforeseen factor, the metro area economy is likely to struggle through the next four to six quarters despite the forecast for continued growth at the state and national level.

NORTHWEST ARKANSAS

(October-December 2015 conditions)

Nonfarm employment grew at a solid rate December-on-December. The metro economy added roughly 11,300 jobs. This was an increase of 4.9%.

Looking at construction related data for the metro, the number of building permits in the fourth quarter for Northwest Arkansas were roughly 109% of the total for Q4 2014. However, the valuation of permits was 121 percent of Q4.

Improved construction activity has translated into improved employment in the sector. Since the height of the recession when sector employment fell to just over 7,000 jobs, the sector has grown by approximately 33%. December-on-December sector employment was up 11% driven by strong permit activity and trend growth.

Based on permit data the sector employment is likely to grow in the coming quarters. Sectors that added jobs December-on-December were: trade, transportation, and utilities (3,400), leisure and hospitality services (2,600), professional and business services (2,200) education and health services (1,200), natural resources, mining, and construction (1,000), government (1,000), information services (100), and financial services (100). Manufacturing lost employment December-on-December (-500).

Growth in leisure and hospitality services was exceptionally strong growing at 11.9% December-on-December.

The unemployment rate in Northwest Arkansas was the lowest in the state amongst all MSAs in December (3.2%). It was almost a percentage point lower than that for the Little Rock/North Little Rock/Conway MSA (4%). The highest rate in the state was the Pine Bluff MSA at 6.7%. To add perspective, of the 387 MSAs in the country, only 12 posted rates above 10% while 25 had rates below 3%.

The labor force grew December-on-December in Northwest Arkansas by roughly 3.7%. By comparison, the labor force grew in Central Arkansas 2.8%. In the Fort Smith area the labor force grew a more modest 1.6%. Finally, the Jonesboro metro area labor force grew 4%.

Sales and use tax collection data indicate that Bentonville, Fayetteville, Springdale, and Rogers have experienced solid growth quarter-on-quarter. In percentage terms,



Bentonville experienced the strongest growth in collections (22.9%) while Fayetteville collected the most tax dollars of any of the four major municipalities (\$11.2 million in the fourth quarter).

By comparison, the Northwest Arkansas regional economy had sales and use tax collections totaling roughly \$24.3 million in the fourth quarter while the Central Arkansas regional economy had collections for the same period of roughly \$27.2 million. This is startling considering the difference in population.

Strong growth is expected to be the norm in Northwest Arkansas for the foreseeable future.

CENTRAL ARKANSAS

(October-December 2015 conditions)

The unemployment rate for Central Arkansas peaked in January 2011 at 8%. Five years later the rate stands at 4% or what many consider full employment. Comparing to December of last year, the metro area unemployment rate has fallen 0.9%. Nonfarm employment added 3,800 jobs or 1.1% since December 2014.

Government services and trade, transportation, and utilities comprise the two largest sectors of the Central Arkansas economy. December-on-December government services employment was up 200 jobs while trade, transportation, and utilities gained 2,400 jobs.

Other sectors gaining employment were leisure and hospitality services (1,200), financial services (400), education and health care services (100), professional and business services (100), and manufacturing (100). Sectors losing employment December-on-December were natural resources, mining, and construction (-300), other services (-300), and information services (-100). The sector with the greatest percentage increase was leisure and hospitality services (3.8%).

Looking at the construction sector, building permit data revealed activity was off substantially from the same quarter for the previous year. Expectations are the sector should rebound, adding employment in the coming months but at a slower rate than previously expected.

Despite the relatively larger size of the Central metro area there were 506 more building permits issued in the Northwest Arkansas metro (866 vs. 360) in Q4. The difference was even more pronounced looking at data for permit valuation. The value of permits in the Central Arkansas metro was roughly \$60.1 million for the quarter versus \$180 million for Northwest Arkansas.

Comparing the most recent three month period to the same period for the previous year, sales and use tax data indicates that retail activity grew for the metro area by approximately 3.4%. Grant County had the fastest growth rate (7.4%).

Of all the economic indicators, unemployment rates at or near the full employment rate of 4% stand out. Growth has been solid if not spectacular but given the weak performance of construction, manufacturing, and government the overall performance of the regional economy was surprisingly strong.

THE NATIONAL ECONOMY

(October-December 2015 conditions)

Most industry analysts expect low prices to continue into the foreseeable future, particularly given slowing growth in China and weakness in the EU. Unrest in the Middle East poses the greatest risk to low petroleum prices.

Improvement in the national unemployment rate has finally reached a point which corresponds to upward pressure on wages. The unemployment rate stood at 5% at the end of the fourth quarter.

The current target range for the Fed Funds rate is $\frac{1}{4}$ to $\frac{1}{2}$ percent. Despite the modest increase in the third quarter the lack of inflationary pressure and relatively weak GDP growth imply no new action is likely.

Business investment had been one of the bright spots for the national economy. Although recent data indicate investment spending slowed recently, the outlook is for spending to accelerate through 2016.

Of the 387 MSAs in the country, only 12 posted rates above 10% in December and 25 had rates below 3%. No Arkansas MSA had a rate above 6.7%.

Non-farm employment has grown for the last 21 quarters. The economy created roughly 846,000 non-farm jobs in the third quarter after creating 576,000 in the third quarter.

Consumer demand continues to expand. Real personal consumption expenditures grew by 2.4 percent in the fourth quarter compared to an increase of 3% in the third quarter.

Federal government expenditures, which had been steadily declining, grew in the third and fourth quarters.

Employment growth at the national and state level has been and will continue to be relatively strong in the services. Manufacturing continues to be weak throughout the state.



Demand for housing has also rebounded due to latent demand, low mortgage interest rates, and renewed lending.

According to the Bureau of Labor Statistics, the Consumer Price Index decreased at a seasonally annualized rate of 0.1% in September. The decrease was driven by lower energy prices and food prices. This was partially offset by rising shelter and medical care prices. Automobile prices also increased.

Long-term interest rates remain low and have actually declined relative to rates at the end of 2013. For example, the 10-year Treasury Constant Maturity rate was below 2% in 2012 but had subsequently risen over time reaching 2.9% in December 2013. In December 2015 the rate stood at 2.24%. Further propelling the housing recovery the 30-year Conventional Mortgage rate was below 4% for the same period until rising to a peak of roughly 4.4 percent in January. The rate has retreated to 3.95% in December.

Incomes and employment are expected to grow modestly in the near-term. Housing, however, is expected to continue to accelerate given positive market conditions.

RISKS TO THE U.S. ECONOMY

The U.S. economy is being driven by the consumer. Consumer confidence has improved significantly but terrorism in Europe could induce consumers to pull back. This is particularly true to the extent that international events impact the equity markets.

Globally, growth has softened as regional economies in Asia and Europe struggle. This has impacted demand for U.S. goods abroad and stimulated demand in the U.S. for imports as the dollar strengthens against other currencies. Somewhat surprisingly, imports declined in the fourth quarter.

The political season is unlikely to lead to impede meaningful action on economic issues as both parties posture. This may be good news given some of the policy ideas currently being debated in the press.

While the unemployment rate has improved, it does not adequately tell the entire story. Reduced labor force participation, high unemployment rates for young and minority workers remain persistent problems.

The Federal Reserve has significantly reduced monetary stimulus in response to stabilized growth. However many economists continue to be concerned about the impact on inflation of prolonged easy money.

Low oil prices are like a tax break, and are unlikely to increase anytime soon barring significant unrest in oil producing countries.