First Quarter — 2016
Quarterly narrative

An independent economic analysis of four Arkansas metro areas:

- Central Arkansas
- Northwest Arkansas
- The Fort Smith region
- Jonesboro metro

REGIONAL SUMMARIES

Fort Smith region
The Compass Report for the Fort Smith area posted a C grade for the first quarter, unchanged compared to the fourth quarter of 2015 but down from a B in the first quarter of 2015.

Pulling the grade down slightly was a decline in energy sector related jobs and a relatively small gain in non-farm employment during the quarter. Bright spots in the quarter was improvement in the unemployment rate and steady gains in regional sales tax collections.

Northwest Arkansas
The Northwest Arkansas area posted an A- grade for the first quarter, down from an A in the fourth quarter of 2015, but better than the B in the first quarter of 2015.

Job growth (242,200 non-farm jobs in March 2016 compared to 231,200 in March 2015) continues to be impressive in the region, and construction activity remains on consistent upward trend. The booming regional tourism industry saw job growth of 10.3% between March 2015 and March 2016.

Central Arkansas
For the first quarter of 2016, the state's largest metro area posted a C+, just below the B- in the fourth quarter of 2015, and unchanged compared to the first quarter of 2015.

Job gains, falling unemployment rate and consistent gains in sales tax revenue helped the region's economy. The jobless rate was 3.6% in March, well below the 5.1% in March 2015.

Jonesboro
Nonfarm employment continued to expand for the first quarter of 2015. In Q1 the metro added roughly 2,300 jobs. This was an increase of 4.3%.

Looking at construction related data, the number of building permits in the first quarter for the Jonesboro metro were up approximately 52% while the valuation of permits was up roughly 30% quarter-on-quarter.

Regional "Takeaways"

THE COMPASS
Regional Economic Report

ZERO MOUNTAIN LOGISTICS

FORT SMITH REGION
(January-March 2016 conditions)

Nonfarm employment was up 0.3% March-on-March (300 new jobs), with total nonfarm employment an estimated 112,900 jobs in March compared to 112,600 in March 2015.

The March total number of employed in the MSA was an estimated 116,494. By contrast, total employment in March 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 the ongoing loss of manufacturing.

Examining labor force data, there were 122,123 people either employed or looking for work in March 2016. By comparison, in March 2015, 120,360 people fit that description. This is an increase of roughly 1.5%.

March-to-March the manufacturing sector was unchanged (17,800 jobs). Manufacturing has been basically stable since February 2015. The following service sectors had increased employment March-to-March: government services (600), education and healthcare services (400), trade, transportation, and utilities (200), and leisure and hospitality services (200).

In addition to manufacturing, sectors losing employment include natural resources, mining, and construction (-500) professional and business services (-400), other services (-100), and financial services (-100). The magnitude of the loss in natural resources, mining, and construction was surprising given the relatively small size of the sector. Information services employment was unchanged according to the data. Residential construction as measured by number of permits was up 21%, but surprisingly down 3% quarter-on-quarter.

Sales and use tax revenues, reported by the Arkansas Department of Finance and Administration, were up quarter-on-quarter 3%. Collections were particularly strong in February.

Despite weak jobs data, the unemployment rate in the Fort Smith area March-on-March was down 1.3%. The reason for the decrease was a significant increase in the number of employed (3,224) relative to the increase in the labor force (1,783).

Data for the Fort Smith regional economy continues to disappoint. However, the substantial decline in the unemployment rate coupled with the growth in tax collections are encouraging signs.

NORTHWEST ARKANSAS
(January-March 2015 conditions)

Nonfarm employment grew at a solid rate March-on-March. The metro economy added roughly 11,000 jobs. This was an increase of 4.8%.

Looking at construction related data for the metro, the number of building permits in the first quarter for Northwest Arkansas were roughly 151% of the total for Q1 2015. However, the valuation of permits was 136% of Q1.

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 36%. March-on-March sector employment was up 8.9 percent 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 March-on-March were: trade, transportation, and utilities (3,000), leisure and hospitality services (2,300), professional and business services (3,400) education and health services (1,300), natural resources, mining, and construction (800), government (1,000), information services (100), and financial services (100).

Manufacturing lost employment March-on-March (-1,100). Obviously the Northwest Arkansas regional economy is not immune to the long-run trend in manufacturing employment.

Growth in leisure and hospitality services was exceptionally strong growing at 10.3% March-on-March.

The unemployment rate in Northwest Arkansas was the lowest in the state amongst all MSAs in March (2.9%). It was 0.7% lower than that for the Little Rock/North Little Rock/ Conway MSA (3.6%). The highest rate in the state was the Pine Bluff MSA at 5.4%. To add perspective, of the 387 MSAs in the country, only 11 posted rates above 10% while 10 had rates below 3%.

The labor force grew March-on-March in Northwest Arkansas by roughly 6.2%. By comparison, the labor force grew in Central Arkansas 3.6%. In the Fort Smith area the labor force grew a more modest 1.5%. Finally, the Jonesboro metro area labor force grew 4.9%.

Sales and use tax collection data indicate that Fayetteville, Springdale, and Rogers have experienced solid growth quarter-on-quarter. In percentage terms, Rogers experienced the strongest growth in collections (9.6%) while Fayetteville collected the most tax dollars of any of the four major municipalities ($9.8 million in the fourth quarter).

Sales tax collections were down in Bentonville quarter-on-quarter roughly 3.2%. The Northwest Arkansas regional economy had sales and use tax collections totaling roughly $22.8 million in the first quarter while the Central Arkansas regional economy had collections for the same period of roughly $25 million.

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

CENTRAL ARKANSAS
(January-March 2015 conditions)

The unemployment rate for Central Arkansas peaked in January 2011 at 8%. Five years later the rate stands at an estimated 3.6%. The March data indicates solid employment growth and a return to trend. Comparing to March of last year, the metro area unemployment rate has fallen 1.5%.

Nonfarm employment added 7,200 jobs or 2.1% since March 2015. By comparison, the Northwest Arkansas regional economy grew at an extremely fast rate of 4.8%, adding 11,000 jobs. The Fort Smith regional economy added roughly 300 jobs or 0.3% during the same period. Meanwhile the Jonesboro metro area grew by 4.3% and added 2,300 jobs.

Government services and trade, transportation, and utilities comprise the two largest sectors of the Central Arkansas economy. March-on-March government services employment was up a modest 300 jobs while trade, transportation, and utilities gained 2,200 jobs.

Other sectors gaining employment were leisure and hospitality services (2,900), professional and business services (1,100), other services (400), financial services (200), education and health care services (200), and information services (200).

The lone sector losing employment March-on-March was natural resources, mining, and construction (-300). Manufacturing employment was unchanged. As was true in the fourth quarter of last year, the sector with the greatest percentage increase was leisure and hospitality services (9.1%).

Looking at the construction sector, building permit data revealed activity was up substantially from the same quarter for the previous year. Specifically, permits increased by 16% while valuation increased 7.9%. Expectations are the sector should rebound, adding employment in the coming.

Despite the relatively larger size of the Central metro area there were 220 more building permits issued in the Northwest Arkansas metro (976 vs. 756) in Q1. Moreover, the Central Arkansas permit number includes approximately 280 multi-family units permitted in February. The difference was even more pronounced looking at data for permit valuation. The value of permits in the Central Arkansas metro was roughly $91.9 million for the quarter versus $204.5 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 0.6%. Grant County had the fastest growth rate (4.9%).

Collections were up quarter-on-quarter in Conway and North Little Rock, but down slightly in Little Rock.

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.

To underscore the impact of the four largest metro areas, for the first quarter of this year the unemployment rate for the rest of the state was 5.4%. The statewide unemployment rate with the three largest metros added back in was 4%.

THE JONESBORO METRO
(January-March 2015 conditions)

Nonfarm employment continued to expand for the first quarter of 2015. In Q1 the metro added roughly 2,300 jobs. This was an increase of 4.3%.

Looking at construction related data, the number of building permits in the first quarter for the Jonesboro metro were up approximately 52% while the valuation of permits was up roughly 30 percent quarter-on-quarter. Given the relative size of the Jonesboro MSA large swings in permit activity are to be expected.

Data for the manufacturing sector and the construction sector are not reported separately for the Jonesboro area; however, the goods producing sector which includes both sub-sectors grew 3.5% or roughly 300 jobs. This was triple the number of jobs created in the sector in the previous quarter. The goods producing sectors represent roughly 16% of total non-farm employment.

The services sector grew at a faster rate than the goods producing sector March-on-March. Specifically, services added roughly 2,000 jobs (4.5%). The growth rate for non-farm employment bodes well for the metro area economy through 2016.

The unemployment rate in the Jonesboro metro was a very solid 3.5% in March. This is below the full employment rate of 4% and 1.7% below the rate in March 2015. Employment conditions in the metro are very good relative to the state and most other metro areas.

The employment data are particularly encouraging given the erosion of manufacturing employment prevalent across many metros.

The labor force grew March-on-March in Jonesboro by roughly 4.9%. By comparison, the labor force grew in Central Arkansas 3.6%. In the Fort Smith area the labor force grew a more modest 1.5%. Finally, the Northwest Arkansas metro area labor force grew 6.2%.

Sales and use tax collection data indicate that Jonesboro metro area experienced solid growth quarter-on-quarter. In percentage terms, growth in collections was 6.9%. Total collections were roughly $5.4 million for the quarter. Finally, collections for the City of Jonesboro were up roughly 8.4 percent.

THE NATIONAL ECONOMY
(January-March 2015 conditions)

Most economists expect low prices to continue into the foreseeable future. There is simply no upward pressure on prices. Unrest in the Middle East poses the greatest risk to low oil 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 first quarter.

The current target range for the Fed Funds rate is ¼ to ½ percent. 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. Recent data indicate investment spending slowed however the outlook is for spending to accelerate through 2016.

Of the 387 MSAs in the country, only 11 posted rates above 10% in March and 10 had rates below 3%. One Arkansas MSA had a rate below 3% while no Arkansas MSA had a rate above 5.4%.

Non-farm employment has grown for the last 22 quarters. The economy created roughly 587,000 non-farm jobs in the first quarter after creating 846,000 in the fourth quarter.

Consumer demand continues to expand. Real personal consumption expenditures grew by 1.5% in the first quarter compared to an increase of 2.4% in the fourth quarter.

State and local government expenditures, which had been steadily declining, grew in the first quarter. The converse was true for federal expenditures.

Employment growth at both 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 even in the Northwest Arkansas MSA.

According to the Bureau of Labor Statistics, the Consumer Price Index increased at a seasonally annualized rate of 0.1% in March. The increase was driven by slightly increased energy and all items less food and energy prices. The increase was partially offset by decreases in prices for new and used vehicle, apparel, food and electricity. The lack of inflationary pressure has allowed short and long-term interest rates to remain at or near historic lows. Short-term rates are expected to remain low for the foreseeable future as long as inflation remains below 2%.

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% throughout 2012 but had risen over time reaching 2.9% in December 2013. In March 2016 the rate stood at 1.78%. 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% in January. The rate has since retreated, standing at 3.31% in March.

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 any number of international factors could create uncertainty and reduce consumer confidence. 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 both the fourth quarter of 2015 and the first quarter of this year.

Growth in the U.S. has been steady but not consistently at trend. It is the weakness in the growth rate of GDP, inflation rate well below 2%, and an unemployment rate of 4% that has kept the Fed from raising short-term rates.

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 being put forth would not be beneficial to the U.S. economy.

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. Income growth is perhaps a truer signal that labor markets are finally returning to normal.

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.

Despite the current level of uncertainty, financial markets and consumers seem to be bullish. It remains to be seen if the next unexpected event will topple that enthusiasm.