



Second 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 second quarter, down from the C in the first quarter of 2016 but unchanged compared to the same quarter of 2015.

The story for the metro area continues to be slow to muted job growth. The number of jobs totaled 114,000 in June, just 0.52% more than the 113,400 in June 2015. Sales tax revenue growth is one of the few positives for the region.

Northwest Arkansas

The Northwest Arkansas area posted an A- grade for the second quarter, unchanged compared to the first quarter and above the B+ for the second quarter of 2015.

Job growth (243,400 non-farm jobs in June 2016 compared to 234,700 in June 2015) continues to push the region forward, to include significant gains in building permit values and construction employment. The booming regional tourism industry continues to set record employment levels.

Central Arkansas

For the second quarter of 2016, the state's largest metro area posted a C, just below the C+ in the first quarter, and below the C+ in the second quarter of 2015.

Job gains, a falling unemployment rate and tourism sector growth helped the region's economy. Putting downward pressure on the second quarter grade was a slight decline in building permit values and sales tax revenue.

Jonesboro

The region posted a second quarter grade of A-, up from the B+ in the first quarter. Nonfarm employment continued to expand in the second quarter, with a 3.33% increase in jobs between June 2015 and June 2016.

Sales tax revenue and building permit values also grew for the region in the second quarter, with sales tax revenue in Craighead and Poinsett counties up 4.3% in June compared to June 2015.

Regional “Takeaways”

FORT SMITH REGION (April-June 2016 conditions)

Non-farm employment was up 0.5% June-on-June (600 new jobs), with total non-farm employment an estimated 114,000 jobs compared to 111,000 in June 2015.

The June total number of employed in the MSA was an estimated 116,729. By contrast, total employment in June 2006, prior to the recession, was 125,426. 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 122,835 people either employed or looking for work in June 2016. By comparison, in June 2015, 122,779 people fit that description. This is an increase of roughly 0.5%.

June-to-June the manufacturing sector was unchanged (17,700 jobs). Manufacturing has been basically stable since February 2015. This is a positive sign for the metro given the long-term trend.

The following service sectors had increased employment June-to-June: government services (500), trade, transportation, and utilities (300), education and healthcare services (200), and leisure and hospitality services (100). This marks the second straight report where employment growth was led by the government sector.

In addition to manufacturing, information services and other services were unchanged. Sectors losing employment included: natural resources, mining, and construction (-300) professional and business 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 as well as the relatively large loss reported in the first quarter.

Residential construction as measured by permit numbers was up substantially in the second quarter. Building permits increased 214%, while valuations were up 128%. As with the Jonesboro metro the reason was multi-family construction. Specifically, of the 147 permits pulled in June, 94 permits were associated with multi-family.

Sales and use tax revenues, reported by the Arkansas Department of Finance and Administration, were up quarter-on-quarter 1%. Collections were particularly strong in June.

Despite weak jobs data, the unemployment rate in the Fort Smith area June-on-June was down 0.7% (5%). The reason for the decrease was an increase in the number of employed (999) coupled with a relatively unchanged labor force (56).

Data for the Fort Smith regional economy is mixed. On the one-hand, the declining unemployment rate and stabilized manufacturing sector bode well for future performance. However, a reliance on growth in the government sector to lead employment growth is not sustainable.



THE COMPASS
Regional Economic Report



NORTHWEST ARKANSAS (January-March 2015 conditions)

Nonfarm employment grew at a solid rate June-on-June. The metro economy added roughly 8,700 jobs. This was an increase of 3.5%.

Looking at construction related data for the metro, the number of building permits in the second quarter for Northwest Arkansas were up roughly 44% over the same quarter last year. The valuation of permits was up a more modest 14%.

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 44%. June-on-June sector employment was up 8.3% 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 June-on-June were: professional and business services (4,000), trade, transportation, and utilities (1,300), education and health services (1,200), government (1,000), leisure and hospitality services (900), natural resources, mining, and construction (800), other services (200), and financial services (100). Information services employment was unchanged for the period.

Manufacturing lost employment June-on-June (800). Obviously the Northwest Arkansas regional economy is not immune to the long-run trend in manufacturing employment. Growth in business and professional services was exceptionally strong growing at 8.5% June-on-June.

The unemployment rate in Northwest Arkansas was the lowest in the state amongst all MSAs in June (3.1%). It was 0.6% lower than that for the Little Rock/North Little Rock/Conway MSA (3.7%). The highest rate in the state was the Pine Bluff MSA at 5.8%. To add perspective, of the 387 MSAs in the country, only 6 posted rates above 10% while 8 had rates below 3%.

The labor force grew June-on-June in Northwest Arkansas by roughly 3.9%. By comparison, the labor force grew in Central Arkansas and Jonesboro by approximately 2.7%. In the Fort Smith area the labor force grew a more modest 0.5%.

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 (7.3%) while Fayetteville collected the most tax dollars of any of the four major municipalities (\$10.6 million in the quarter). Sales tax collections were down in Bentonville quarter-on-quarter roughly 12.8% driven by a sharp decline for the month of April.

The Northwest Arkansas regional economy had sales and use tax collections totaling roughly \$23.4 million in the quarter while the Central Arkansas regional economy had collections for the same period of roughly \$20.3 million

Strong growth is expected employment, construction and tax collections for the foreseeable future.



THE COMPASS

Regional Economic Report

CENTRAL ARKANSAS (April-June 2016 conditions)

The rate was an estimated 3.7% in June. The rate indicates solid employment growth and a return to trend. Comparing to June of last year, the metro area unemployment rate has fallen 1.1%.



Nonfarm employment added 8,100 jobs or 2.3%

June-to-June. By comparison, the Northwest Arkansas regional economy grew at a slightly faster rate 3.7%, adding 8,700 jobs. The Fort Smith region added roughly 600 jobs or 0.5% during the same period. The Jonesboro metro area grew by 3.3% and added 1,800 jobs.

Government services and trade, transportation, and utilities comprise the two largest sectors of the Central Arkansas economy. June-on-June government services employment was up a modest 300 jobs while trade, transportation, and utilities gained 2,100 jobs.

Other sectors gaining employment were professional and business services (3,400), education and health care services (1,600), leisure and hospitality services (900), other services (300), and financial services (100).

The lone sector losing employment March-on-March was natural resources, mining, and construction (-600). Manufacturing and information services employment was unchanged. The sector with the greatest percentage increase was business and professional services (7.5%).

Looking at the construction sector, building permit data revealed permit activity was down from the same quarter for the previous year while valuation was up. Specifically, permits decreased by 21.3 percent while valuation increased 5.4%. Expectations are the sector should grow at trend over the next 4 quarters as well as add employment.

Despite the relatively larger size of the Central metro area there were 731 more building permits issued in the Northwest Arkansas metro (1,238 vs. 507) in the second quarter. The difference was even more pronounced looking at data for permit valuation. The value of permits in the Central Arkansas metro was roughly \$91.2 million for the quarter versus \$229.6 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 declined for the metro area by approximately 2%. Perry County had the fastest growth rate (6.2%). Faulkner County had the greatest decline (-6.3%). Collections were down quarter-on-quarter in Conway and Little Rock, but up slightly in North Little Rock.

Of all the economic indicators, unemployment rates at or near the full employment rate of 4% stand out. Growth has been solid in the state's largest metro.

THE JONESBORO METRO (April-June 2016 conditions)

Non-farm employment continued to expand for the second quarter of 2016. For the second quarter the metro added roughly 1,800 jobs. This was an increase of 3.4%. Growth was off the rapid pace reported in the first quarter (4.3%) but still respectable.

Looking at construction related data, the number of building permits in the second quarter for the Jonesboro metro were up approximately 239% while the valuation of permits was up roughly 117%. The massive increase was due to 312 apartment units being reported as permitted for the quarter by the U.S. Census Bureau. This is obviously an anomaly and the large number on units should have a dampening effect on future multi-family construction.

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 2.2 percent or roughly 200 jobs. The goods producing sectors represent roughly 16 percent of total non-farm employment.

The employment data are particularly encouraging given the erosion of manufacturing employment prevalent across many metros. The services sector grew at a faster rate than the goods producing sector June-on-June. Specifically, services added roughly 1,600 jobs (3.5 percent) versus 2,000 jobs the previous period. The metro growth rate for non-farm employment continues to impress.

The unemployment rate in the Jonesboro metro was a very solid 3.7% in June. This is below the full employment rate of 4% and 1.4% below the rate in June 2015.

The labor force grew June-on-June in Jonesboro by roughly 2.7%. This was off the rapid pace reported in March (4.9%). By comparison: the Fort Smith area labor force grew by less than a percent, the Northwest Arkansas metro area grew 6.2%, and the central Arkansas labor force grew by 2.7%. Employment conditions in the metro are very good relative to the state and most other metro areas.

Sales and use tax collection data indicate that Jonesboro metro area experienced solid growth quarter-on-quarter. In percentage terms, growth in collections was 3.1% versus 6.9% in the first quarter. Total collections were roughly \$5.6 million in the second quarter.

Finally, collections for the City of Jonesboro were up roughly 3.1% versus 8.4% for the previous quarter.



THE NATIONAL ECONOMY (April-June 2016 conditions)

Despite calls from various corners for the Fed to raise short-term rates, there is simply no upward pressure on prices to warrant the increase.



The current target range for the Fed Funds rate is $\frac{1}{4}$ to $\frac{1}{2}$ percent. While economic conditions are improving, the Fed has stated an increase is possible this year but dependent on economic data.

Barring a shock from the Middle East, oil prices are unlikely to change in the near-term.

Improvement in the national unemployment rate has finally reached a point which corresponds to upward pressure on wages. The unemployment rate stood at 4.9% at the end of the second quarter.

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 6 posted rates above 10% in June and 8 had rates below 3%. While no Arkansas MSA had a rate below 3%, no MSA had a rate above 5.8%.

Non-farm employment has grown for the last 23 quarters. The economy created roughly 439,000 non-farm jobs in the second quarter after creating 587,000 in the first quarter.

Consumer demand continues to expand. Real personal consumption expenditures grew by 4.3% in the second quarter compared to an increase of 1.6% in the first quarter.

State and local government spending, which had been steadily improving since the second quarter of 2014, has declined in two of the last three quarters. Federal government expenditures were down for the first half of the year led by declines in national defense spending.

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 even in the Northwest Arkansas metro.

According to the Bureau of Labor Statistics, the Consumer Price Index increased at a seasonally annualized rate of 0.1% in June. The increase was driven by 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 at home, natural gas, and electricity.