



Third 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 third quarter, better than the C- in the second quarter of 2016 and better than the C- in the same quarter of 2015.

Helping to drive the slightly better gain was an improvement in the regional jobless rate, gains in regional sales tax revenue and a surprising gain in the number of manufacturing jobs.

Northwest Arkansas

The Northwest Arkansas area posted a B grade for the third quarter, down from the A- in the second quarter and just below the B+ for the third quarter of 2015. However, the decrease is a reflection of more modest economic growth and does not suggest an economic downturn.

The number of jobs totaled 244,300 in September, well ahead of the 239,700 in September 2015. Manufacturing jobs fell from 27,200 in September 2015 to 26,100 in September 2016. Also, the booming tourism industry paused during the quarter, with employment at 24,200 in September, just off the 24,300 in September 2015.

Central Arkansas

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

Like it was with Northwest Arkansas, the grade reflects a slower pace of growth than the same period in 2015. The number of jobs totaled 355,800 in September, well ahead of the 353,300 in September 2015.

Jonesboro

The region posted a third quarter grade of A-, unchanged compared to the second quarter. The Jonesboro metro began its first quarter in The Compass Report with a B+ in the first quarter of 2016.

Nonfarm employment continued to expand in the third quarter. Non-farm jobs totaled 56,800 in September, up from 55,100 in September 2015. The pace of growth moderated compared to the second quarter.

Regional “Takeaways”

FORT SMITH REGION (July-September 2016 conditions)

Non-farm employment was up 0.5% September-on-September (600 new jobs), with total non-farm employment an estimated 114,400 jobs compared to 113,800 in September 2015.

The September total number of employed in the MSA was an estimated 116,152. By contrast, total employment in September 2006, prior to the recession, was 122,522. This is testament to the impact of the recession on the Fort Smith regional economy as well the ongoing loss of manufacturing employment.

Examining labor force data, there were 122,043 people either employed or looking for work in September 2016. By comparison, in September 2015, 121,361 people fit that description. This is an increase of roughly 0.6%.

September-to-September manufacturing sector added 300 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 September-to-September: government services (400), trade, transportation, and utilities (200), and leisure and hospitality services (200). This marks the third straight report where employment growth was led by the government sector. Education and healthcare services, 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 and second quarters.

Residential construction, as measured by both the number of permits and valuation, was down in the third quarter. Building permits decreased 15%, while valuations were down 25%.

Sales and use tax revenues, reported by the Arkansas Department of Finance and Administration, were up quarter-on-quarter a solid 4.7%. Collections were particularly strong in July.

Despite weak jobs data, the unemployment rate in the Fort Smith area September-on-September was down 0.3% (4.8%). The reason for the decrease was an increase in the number of employed (952) relative the increase in the size of the labor force (582).



THE COMPASS
Regional Economic Report



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. On the other hand, a reliance on growth in the government sector to lead employment growth is not sustainable. Given strong growth in other major metros in the state, the results were disappointing. It remains to be seen if policy changes from Washington will have a material impact on economies similar to the Fort Smith metro.

NORTHWEST ARKANSAS (July-September 2015 conditions)

Nonfarm employment grew at a relatively modest rate September-on-September. The metro economy added roughly 4,600 jobs. This was an increase of 1.9%. Given recent quarterly growth rates, third quarter data indicate solid but not the spectacular growth.

Looking at construction related data for the metro, the number of building permits in the third quarter for Northwest Arkansas were down roughly 36% over the same quarter last year. The valuation of permits was down a more modest 17%. Activity remains bullish despite being off from the third quarter of 2015. For example, valuations for the quarter were almost double that of Central Arkansas.

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 46%. September-on-September sector employment was up 4% 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 September-on-September were: professional and business services (2,000), trade, transportation, and utilities (1,000), education and health services (1,000), government (1,100), natural resources, mining, and construction (400), other services (200), and financial services (100). Information services employment was unchanged for the period.

Leisure and hospitality services (100) and manufacturing lost employment September-on-September (1,100). Obviously the Northwest Arkansas regional economy is not immune to the long-run trend in manufacturing employment although the magnitude of the decline is surprising. Employment change in business and professional services led all sectors growing at 4.2% September-on-September.

The unemployment rate in Northwest Arkansas was the lowest in the state amongst all MSAs in September (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 3 posted rates above 10% while 26 had rates below 3%.

The labor force grew September-on-September in Northwest Arkansas by roughly 3%.



THE COMPASS

Regional Economic Report



Sales and use tax collection data indicate that Fayetteville, Springdale, and Rogers have experienced solid growth quarter-on-quarter. In percentage terms, Bentonville experienced the strongest growth in collections (11.1%) while Fayetteville collected the most tax dollars of any of the four major municipalities (\$10.9 million in the quarter).

The Northwest Arkansas regional economy had sales and use tax collections totaling roughly \$25.2 million in the quarter while the Central Arkansas regional economy had collections for the same period of roughly \$26.3 million. Strong growth is expected employment, construction and tax collections for the foreseeable future.

CENTRAL ARKANSAS (July-September 2016 conditions)

The rate was an estimated 3.6% in September. The rate was below the benchmark rate of 4% which indicates full employment. Compared to September of last year, the metro area unemployment rate has fallen 0.6%. The decline was driven by strong growth in the number of employed (2.2%) relative to growth in the labor force (1.5%).

Nonfarm employment added a modest 2,500 jobs or 0.7% September-to-September. By comparison, the Northwest Arkansas regional economy grew at a slightly faster rate 1.9%, adding 4,600 jobs. The Fort Smith regional economy added roughly 600 jobs or 0.5% during the same period. Meanwhile the Jonesboro metro area grew at the fastest rate, 3.1% and added 1,700 jobs.

Government services and trade, transportation, and utilities, the two largest sectors of the Central Arkansas economy, both gained employment. September-on-September government services employment was up a modest 200 jobs while trade, transportation, and utilities gained 900 jobs.

Other sectors gaining employment were professional and business services (1,500), education and health care services (800), leisure and hospitality services (1,000), other services (200), and manufacturing (100). Sectors losing employment September-on-September were natural resources, mining, and construction (-1,700) and information services (-500). Financial services employment was unchanged. The sector with the greatest percentage increase was leisure and hospitality services (3%).

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 35.1% while valuation increased 10.3%. The decline was due to a large number of multi-family units during the permitted in the third quarter of last year. Expectations for the sector are continued growth and a rebound in employment growth.

Comparing the most recent three month period to the same period for the previous year, sales and use tax data indicates that retail activity increased for the metro area by approximately 1.7%. Lonoke County had the fastest growth rate (7%). Faulkner County had the greatest decline (-3%). Collections were down quarter-on-quarter in North Little Rock (-3.2%), but up in Conway (1.2%) and Little Rock (3.8%).

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 (July-September 2016 conditions)

The Jonesboro metro area economy has performed extremely well during the quarter. Non-farm employment continued to expand for the second quarter of 2016. For the second quarter the metro added roughly 1,700 jobs. This was an increase of 3.1%. Growth was off slightly from pace reported in the second quarter (3.4%).

Looking at construction related data, the number of building permits in the third quarter for the Jonesboro metro were up approximately 96 % while the valuation of permits was up roughly 48%. The massive increase was due to a large number of apartment units being reported as permitted for the quarter by the U.S. Census Bureau. This is obviously an anomaly and the large number of 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% or roughly 200 jobs. The goods producing sectors represent roughly 16% 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 September-on-September. Specifically, services added roughly 1,500 jobs (3.3%) versus 1,600 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 3.3% in September. This is below the full employment rate of 4% and 0.9% below the rate in September 2015.

The labor force grew September-on-September in Jonesboro by roughly 3.6%. By comparison: the Fort Smith area labor force grew by less than 1%, the Northwest Arkansas metro area grew 3%, and finally Central Arkansas labor force grew by 1.5%. Employment conditions in the metro are very good relative to the state and most other metro areas.



THE COMPASS

Regional Economic Report



Sales and use tax collection data indicate that Jonesboro metro area experienced solid growth quarter-on-quarter. In %age terms, growth in collections was 6% versus 3.1% in the first quarter. Total collections were roughly \$5.9 million in the third quarter. Finally, collections for the City of Jonesboro were up roughly 4.1% versus 3.1% for the previous quarter.

THE NATIONAL ECONOMY (July-September 2016 conditions)

The Fed has begun to slowly raise short terms rates, most recently moving the Fed Funds target rate from 0.5% to 0.75%. This is still well below historic average rates. Improving economic conditions have provided the Fed the ability to move rates but relatively weak employment data continues to be cause for concern.

Output growth is expected to remain positive for the foreseeable future. Growth through 2017 is expected to be around 2%.

Barring a shock from the Middle East, oil prices are unlikely to change in the near-term. Longer term, accelerating growth globally is expected to provide modest upward pressure on 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 third quarter.

Business investment had been one of the bright spots for the national economy. Recent data indicate investment spending has generally slowed. However the outlook is for spending to accelerate through 2017.

Non-farm employment has grown for the last 24 quarters. The economy created roughly 636,000 non-farm jobs in the third quarter after creating 439,000 in the second quarter.

Consumer demand continues to expand. Real personal consumption expenditures grew by 2.8 % in the third quarter compared to an increase of 4.3% in the second quarter.

State and local government spending, which had been steadily improving since the second quarter of 2014, has declined in three of the last four quarters. Federal government expenditures rebounded growing at an annualized rate of 2.5% after declining 0.1% in second quarter.

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, especially in the Northwest Arkansas MSA.

According to the Bureau of Labor Statistics, the Consumer Price Index increased at a seasonally annualized rate of 0.3% in September. The increase was driven by increased gasoline and shelter prices. The index for all items less food and energy rose a more modest 0.1%. The increase was partially offset by decreases in prices for new and used vehicle, apparel, entertainment, and communication.

Long-term interest rates have been hovering at or near historic lows throughout the year but have recently been trending upward. In July 2016 the 10-year Treasury Constant Maturity rate hit a low for the year of 1.5%, but rebounded reaching 1.63% in September. Facilitating housing recovery, the 30-year Conventional Mortgage rate has been below 4% since July 2015. The rate has since declined standing at 3.46% in September. Despite low inflation, long-term rates are expected to rise in the mid-term as proposed government fiscal policy impacts growth as well as government borrowing. Incomes and employment are expected to grow through the remainder of the year and into 2017.