



Fourth 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 fourth quarter, better than the C in the third 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, minor gains in regional sales tax revenue, rising construction activity, and continued growth in the region's tourism industry.

Northwest Arkansas

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

The number of jobs totaled 249,600 in December, well ahead of the 243,300 in December 2015. Manufacturing jobs grew from 27,200 in December 2015 to 27,400 in December 2016. The region's tourism industry slowed during the quarter, with employment at 23,900 in December, just below the 24,100 in December 2015.

Central Arkansas

For the fourth quarter of 2016, the state's largest metro area posted a C-, down from a C in the third quarter and below the B- in the fourth quarter of 2015.

Pulling the grade down was a decline in job growth during the quarter, relatively flat sales tax revenue and declines on construction and manufacturing jobs. The number of jobs totaled 356,600 in December, below the 357,200 in December 2015.

Jonesboro

The region posted a fourth quarter grade of B-, down from the A- in the third quarter. The Jonesboro metro began its first quarter in The Compass Report with a B+ in the first quarter of 2016.

Nonfarm employment grew in the fourth quarter. Non-farm jobs totaled 56,800 in December, up from 55,500 in December 2015. second quarter.

Regional “Takeaways”

FORT SMITH REGION (October-December 2016 conditions)



THE COMPASS
Regional Economic Report



Non-farm employment was essentially flat from December-on-December declining just 0.2% (-200 jobs). Total non-farm employment was an estimated 114,500 jobs compared to 114,700 in December 2015.

Non-farm employment has stabilized but the region has not experienced meaningful growth since the end of the recession. The December total number of employed in the MSA was an estimated 114,694. By contrast, total employment in December 2006, prior to the recession, was 122,522.

Examining labor force data, there were 119,853 people either employed or looking for work in December 2016. By comparison, in December 2015, 120,909 people fit that description. This is a decrease of roughly 0.9%.

The unemployment rate in the area December-on-December was down 0.6% to 4.3%. The reason for the decrease was a decrease in the number of unemployed (790) which was almost three times the decline in the number of employed (266). December-to-December the manufacturing sector lost 200 jobs. Manufacturing has been basically flat since February 2015. This is another sign that the regional economy has stabilized.

The following service sectors had increased employment December-to-December: education and healthcare services (300), professional and business services (200), financial services (100), and leisure and hospitality services (100). Government services, information services and other services were unchanged.

Sectors losing employment included natural resources, mining, and construction (-500) and trade, transportation, and utilities (-200). 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 losses reported throughout 2016.

The number of building permits and valuations were up in the third quarter. Building permits increased 44%, while valuations were up 59%. Sales and use tax revenues, reported by the Arkansas Department of Finance and Administration, were up quarter-on-quarter a solid 5% driven by strong December collections.

At first blush the data for the Fort Smith regional economy appears mixed. Certainly employment numbers fail to signal anything resembling growth. However, taken together the regional economy appears to have “right-sized.” The fundamental shifts in sector employment witnessed earlier have stabilized. The unfortunate aspect is that many people have left the labor force and perhaps the region as employment opportunities have disappeared. The current situation is an economy at or close to full employment. Tax collections and building permit data indicate solid economic activity.

One sector to follow is construction, which has been hard hit but should stabilize and start to incrementally grow in the coming quarters.

NORTHWEST ARKANSAS (October-December 2015 conditions)

Nonfarm employment grew at a relatively 2.5 December-on-December. The metro economy added roughly 6,400 jobs. Given recent quarterly growth rates, fourth quarter data indicate solid growth.

Looking at construction related data for the metro, the number of building permits in the fourth quarter for Northwest Arkansas were up roughly 35% over the same quarter last year. The valuation of permits was up a more modest 26%. The region continues to outperform other metros in the state in terms of construction activity. For example, valuations for the quarter were more than three times 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 43%. December-on-December sector employment was up 1% (100 jobs) driven by consistent growth in permit activity and trend growth. Based on permit data the sector employment is likely to grow in the coming quarters.

Other sectors that added jobs December-on-December were: professional and business services (3,300), education and health services (1,100), trade, transportation, and utilities (1,000), government (1,000), financial services (300), other services (200), manufacturing (200), and natural resources, mining, and construction (100). employment was unchanged for the period. Information services (-100) and leisure and hospitality services (-200) lost employment December-on-December. Employment change in business and professional services led all sectors growing at 6.9% December-on-December.

The unemployment rate in Northwest Arkansas was the lowest in the state among all MSAs in December (2.7%). It was 0.6% lower than that for the Little Rock/North Little Rock/Conway MSA (3.3%). The highest rate in the state was the Pine Bluff MSA at 5.1%. To add perspective, of the 387 MSAs in the country, only 5 posted rates above 10% while 27 had rates below 3%.

The labor force grew December-on-December in Northwest Arkansas by roughly 1.6%.

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 (10.8%) while Fayetteville collected the most tax dollars of any of the four major municipalities (\$11.4 million in the quarter).



THE COMPASS

Regional Economic Report



The Northwest Arkansas regional economy had sales and use tax collections totaling roughly \$25.8 million in the quarter while the Central Arkansas regional economy had collections for the same period of roughly \$27.5 million

Wal-Mart has for decades been the primary driving force behind employment growth. Recently the retail giant has been reducing local employment and analysts expect additional reductions as the company looks to save money for investment to fund growth of its e-retailing business. While the regional economy has become more diversified over time it is likely that layoffs at Wal-Mart will reduce the rate of growth.

CENTRAL ARKANSAS (October-December 2016 conditions)

Nonfarm employment lost 600 jobs or 0.2% December-to-December. By comparison, the Northwest Arkansas regional economy grew 2.5%, adding 6,200 jobs. The unemployment rate was an estimated a solid 3.3% in December. The rate was below the benchmark rate of 4% which indicates full employment. Compared to December of last year, the metro area unemployment rate has fallen 0.3%. The decline was driven by significant decrease in the number of unemployed (9.1%) relative to decrease in the labor force (0.7%).

It was a mixed picture in government services and trade, transportation, and utilities, the two largest sectors of the Central Arkansas economy. December-on-December government services employment was down 700 jobs or roughly 1%. Trade, transportation, and utilities gained 800 jobs or 1.1%. Other sectors gaining employment were education and health care services (2,100), other services (200), and financial services (100).

Other sectors losing employment December-on-December were professional and business services (1,400), natural resources, mining, and construction (-1,000) information services (-300), manufacturing (300), and leisure and hospitality services (100).

The sector with the greatest percentage increase was education and health care services (3.9%).

Looking at the construction sector, building permit data revealed permit activity and valuation was up modestly from the same quarter for the previous year. Specifically, permits increased by 8.6% while valuation increased 18.2%. Expectations for the sector are continued growth in the near term.

Comparing the fourth quarter to the same period for the previous year, sales and use tax data indicates that retail activity decreased for the metro area by 0.7%. All of the smaller counties which comprise the Central Arkansas metro saw growth in quarterly collections. Perry County had the fastest growth rate (4.4%). Pulaski County declined 1.5% negating gains made in other counties. Collections were down quarter-on-quarter in in North Little Rock (-1.5%) and Little Rock (-2%), but up in Conway (2.7%).

THE JONESBORO METRO (October-December 2016 conditions)

Non-farm employment continued to expand for the fourth quarter of 2016. For the quarter the metro added roughly 1,300 jobs. This was an increase of 2.3%. Growth was off slightly from pace reported in the third quarter (3%). The metro growth rate for non-farm employment continues to impress.

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 3.4%, or roughly 300 jobs. The goods producing sectors represent roughly 16% of total non-farm employment. The services sector grew at a slower rate than the goods producing sector December-on-December. Specifically, services grew at a rate of 2.1%. Despite the slower growth rate the sector is much larger and this was reflected in the number of new jobs (1,000). This was down from the previous period (1,200 jobs).

The unemployment rate in the Jonesboro metro was a very solid 3.2% in December. This is below the full employment rate of 4% and 0.5% below the rate in December 2015. The Jonesboro metro area labor force grew December-on-December by roughly 0.7%.

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 as well as the overall weak performance of the state economy.

Looking at construction related data reported for the quarter by the U.S. Census Bureau, the number of building permits in the fourth quarter were up approximately 57% while the valuation of permits was up roughly 36%. Strong construction data is likely impacting the employment numbers for the goods producing sector.

Sales and use tax collection data indicate that Jonesboro metro area experienced solid growth quarter-on-quarter. In percentage terms, growth in collections was 3.5% versus 6% in the previous quarter. Total collections were roughly \$6.2 million in the quarter. Finally, collections for the city of Jonesboro were up roughly 1.5% versus 4.1% for the previous quarter.



THE NATIONAL ECONOMY (October-December 2016 conditions)

The Fed has begun to slowly raise short terms rates, most recently moving the Fed Funds target rate $\frac{3}{4}$ to 1%. This is still well below historic average rates. Improving economic conditions have provided the Fed the ability to move rates but mixed employment and income data continues to be cause for concern.



Output growth is expected to remain positive for the foreseeable future. Growth through 2017 and into 2018 is expected to be between 2% to 2.5%. Barring a shock from in the Middle East, oil prices are unlikely to increase substantially in the near-term.

Longer term, accelerating growth globally could 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 4.7% at the end of the fourth 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 25 quarters. The economy created roughly 443,000 non-farm jobs in the third quarter after creating 636,000 in the third quarter. Consumer demand continues to expand. Real personal consumption expenditures grew by 3.5% in the fourth quarter compared to an increase of 3% in the third quarter.

State and local government spending, which had been steadily improving since the second quarter of 2014, has declined in three of the last five quarters. Federal government expenditures decreased at an annualized rate of 1.2% driven by a sharp decrease in defense related spending.

According to the Bureau of Labor Statistics, the Consumer Price Index increased at a seasonally annualized rate of 0.3% in December. The increase was driven by increased gasoline, medical care, and shelter prices. The index for all items less food and energy rose a more modest 0.2 percent. The increase was partially offset by decreases in prices for apparel and communication.

Long-term interest rates have been hovering at or near historic lows throughout the year but have recently been trending upward. Facilitating housing recovery, the 30-year Conventional Mortgage rate had been below 4% since July 2015 but rose during the fourth quarter finishing the year at 4.32%. Despite low inflation, long-term rates are expected to continue to rise in the mid-term as proposed government fiscal policy impacts growth as well as government borrowing.