



## **Second Quarter — 2017**

### **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, unchanged compared to the same quarter of 2016.

A slight decline in job growth and a decline in building activity were the primary reasons for the low grade. However, regional sales tax collections showed improvements, a good sign in terms of consumer confidence.

#### **Northwest Arkansas**

The Northwest Arkansas area posted an A grade for the second quarter, better than the A- in the same quarter of 2016. The improvement is a reflection of sizeable gains in job growth and sales tax revenue.

The number of jobs totaled 253,800 in June, well ahead of the 243,700 in June 2016. The region's tourism industry posted employment at 26,200 in June, better than the 25,000 in June 2016.

#### **Central Arkansas**

In the second quarter of 2017, the state's largest metro area posted a C, unchanged compared to the same quarter of 2016. Slower job growth in the region's manufacturing and tourism sectors helped keep the grade from improving.

The number of jobs totaled 356,300 in June, just above the 353,700 in June 2016. The region's tourism industry posted employment at 35,300 in June, better than the 34,600 in June 2016.

#### **Jonesboro**

The region posted a second quarter grade of A-, unchanged compared to the same quarter of 2016. 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 second quarter. Non-farm jobs totaled 56,900 in June, up from 55,500 in June 2016.

# Regional “Takeaways”

## FORT SMITH REGION (April-June 2017 conditions)

Non-farm employment was essentially down from June-on-June declining 0.7% (-800 jobs). Total non-farm employment was an estimated 113,700 jobs compared to 114,500 in June 2016.

Non-farm employment has somewhat stabilized but given the growth rates of other metros in the state stabilization cannot be taken as a positive indicator of regional economic performance. The June total number of employed in the MSA was an estimated 117,501. By contrast, total employment in June 2006, prior to the recession, was 125,426.

Examining labor force data, there were 122,857 people either employed or looking for work in June. By comparison, in June 2016, 123,262 people fit that description. This is a decrease of roughly 0.3%.

The unemployment rate in the Fort Smith area June-on-June was down 0.6% to a respectable 4%. The rate is above the state rate of 3.7%. The reason for the decrease was a decline in the number of unemployed (807) which was double the increase in the number of employed (402). Obviously the unemployment picture is being impacted by both job creation and to a greater extent withdrawal from the labor force.

June-to-June the manufacturing sector lost 600 jobs. Manufacturing has been basically flat through much of 2016, but has since begun to decline. This is another sign that the regional economy has not found its footing.

The following service sectors had increased employment June-to-June: professional and business services (500), education and healthcare services (100), and government services (100). Financial services, information services and other services were unchanged.

Sectors losing employment included natural resources, mining, and construction (-300) leisure and hospitality services (-100) and trade, transportation, and utilities (-500). 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 down significantly in the second quarter but as with Jonesboro, the numbers were skewed by large multi-family permits in the second quarter of 2016. Building permits decreased 63%, while valuations were down 41%.



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Sales and use tax revenues, reported by the Arkansas Department of Finance and Administration, were up quarter-on-quarter a solid 9% driven by strong April collections.

## **NORTHWEST ARKANSAS (April-June 2017 conditions)**

Non-farm employment grew at an accelerated rate of 4.1% June-on-June. The metro economy added roughly 10,100 jobs. Given recent quarterly growth rates, second quarter data are surprisingly strong.

Looking at construction related data for the metro, the number of building permits in the second quarter for Northwest Arkansas were down roughly 4% over the same quarter last year. The valuation of permits was up a modest 4%. The region continues to out-perform other metros in the state in terms of construction activity. For example, valuations for the quarter were more than double that of Central Arkansas.

Improved construction activity has translated into improved employment in the sector. June-on-June sector employment was up 4.7% (500 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 June-on-June were: professional and business services (4,100), leisure and hospitality services (1,200), education and health services (1,100), government (1,000), trade, transportation, and utilities (900), financial services (400), manufacturing (600), and other services (300). Information services employment was unchanged June-on-June. Employment change in business and professional services led all sectors growing at 8.4% June-on-June.

The unemployment rate in Northwest Arkansas was the lowest in the state amongst all MSAs in June (2.8%). It was 0.5% 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%. To add perspective, of the 387 MSAs in the country, only 2 posted rates above 10% while 26 had rates below 3%. The labor force grew June-on-June in Northwest Arkansas by roughly 5%.

Sales and use tax collection data indicate that all major cities in Northwest Arkansas experienced solid growth quarter-on-quarter. In percentage terms, Bentonville experienced the strongest growth in collections (27.9 percent) while Fayetteville collected the most tax dollars of any of the four major municipalities (\$11.1 million in the quarter).

The Northwest Arkansas regional economy had sales and use tax collections totaling roughly \$25.7 million in the quarter while the Central Arkansas regional economy had collections for the same period of roughly \$26.5 million



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## CENTRAL ARKANSAS (April-June 2017 conditions)

Nonfarm employment gained 2,600 jobs or 0.7% June-to-June. By comparison, the Northwest Arkansas regional economy grew 4.1% , adding 10,100 jobs. Meanwhile the Jonesboro metro area grew at the rate of 2.5% and added 1,400 jobs. The Fort Smith regional economy lost roughly 800 jobs or 0.7% during the same period.



The unemployment rate was an estimated a solid 3.3% in June. The rate was below the benchmark rate of 4% which indicates full employment. Compared to June of last year, the metro area unemployment rate has fallen 0.4%. The decline was driven by significant decrease in the number of unemployed (10.4%) relative to decrease in the labor force (1.8%).

Government services and trade, transportation, and utilities, the two largest sectors of the Central Arkansas economy. June-on-June government services employment was down 800 jobs or roughly 1.1%. Trade, transportation, and utilities gained 900 jobs or 1.3%. Other sectors gaining employment were: education and health care services (2,800), leisure and hospitality services (700), other services (200), and financial services (200). The sector with the greatest percentage increase was education and health care services (5.3%).

Sectors losing employment June-on-June were: natural resources, mining, and construction (-500), professional and business services (-400), information services (-300), manufacturing (200),

Looking at the construction sector, building permit data revealed permit activity and valuation was up significantly from the same quarter for the previous year. Specifically, permits increased by 91.5% while valuation increased 28.3%. The increase was impacted by multi-family construction activity in the second quarter of this year. That said, 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 increased for the metro area by approximately 5.2%. All of the smaller counties which comprise the Central Arkansas metro saw growth in quarterly collections. Faulkner County had the fastest growth rate (11.5%). Pulaski County grew 4.4%. Collections were down quarter-on-quarter in in North Little Rock (-1.7%) but up in Little Rock (4.6%), and significantly in Conway (9.6%).

## **THE JONESBORO METRO (April-June 2017 conditions)**

Non-farm employment continued to expand for the second quarter as the metro added roughly 1,400 jobs. This was an increase of 2.5%. June saw the largest gain compared to June of last year (a difference of 1,700 jobs). Obviously relatively high growth rates are more likely on a small base, but the metro areas persistent strong growth is impressive.

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 4.3% or roughly 400 jobs. The goods producing sectors represent roughly 16.6% of total non-farm employment.

The services sector grew at a slower rate than the goods producing sector June-on-June. Specifically, services grew at a rate of 2.2%. Despite the slower growth rate the sector is much larger and this was reflected in the number of new jobs (1,000).

Finally the government sector also expanded but at a much slower pace than the goods and services sectors. June-on-June the sector added 100 jobs or 1.1%. The unemployment rate in the Jonesboro metro was a very solid 2.9% in June. This is below the "full employment" rate of 4% and 0.4% below the rate in June of last year.

The Jonesboro metro area labor force grew June-on-June by roughly 3.6%. By comparison Central Arkansas area labor force increased by 1.8% while the Fort Smith area declined slightly. The Northwest Arkansas metro area grew 5%.

Looking at construction related data reported for the quarter by the U.S. Census Bureau, the number of building permits in the second quarter were down significantly, 44% while the valuation of permits was down roughly 25%. This should not be considered poor performance given the second quarter of last year included a large number of multi-unit permits which skewed the data.

Sales and use tax collection data indicate that Jonesboro metro area experienced solid growth quarter-on-quarter. In percentage terms, growth in collections was 4.8% led by Craighead County. Total collections were roughly \$5.9 million in the quarter. Collections were also up for the city of Jonesboro roughly 5.2%. This was an improvement over the first quarter (2%).

## **THE NATIONAL ECONOMY (April-June 2017 conditions)**

The national economy grew at an annualized rate of 3.1% in the second quarter. This followed relatively sluggish growth in the first quarter of 1.2%. While experts had anticipated improved growth in the second quarter, the estimate was slightly better than forecast. Growth is projected to be roughly 2.4% to 2.6% through 2017 and into 2018.



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In addition to output growth, improved employment has put upward pressure on wages – real disposable income grew at 3.3% in the quarter. Corporate profits also grew at an accelerated rate during the quarter – 6.3%.

Employment data suggest the national economy is very close to full employment. This is not to say that serious issues of under-employment or weak labor force participation do not persist, only that the unemployment rate is near 4%. Nonfarm payroll employment added 562,000 in the second quarter, an average of roughly 187,333 per month. By comparison, the economy added 493,000 jobs in the same quarter of 2016.

Consistent improvement in the national economy has positively impacted consumer confidence. Real retail and food service sales grew at a modest annualized rate of 1.4% in June following growth of 2.2% and 2.3% in April and May respectively. Despite rising incomes and low energy prices, growth in retail and food service sales has been slow. As the economy expands, expect retail sales to accelerate in the coming quarters.

Federal government spending was up in the second quarter 1.9% following a decrease of 2.4% in the first. Increased federal government spending was due to national defense spending, which had declined 3.3% in first quarter, but rose sharply in the second quarter, 4.7%. Non-defense related spending fell by 1.9% following decline of 1.2% in the first quarter.

State and local government spending decreased 1.5% after increasing in the first quarter at an annualized rate of 0.5%. State and local government spending, which had steadily improved for six consecutive quarters beginning with the second quarter of 2014, has declined in four of the last six.

Focusing on current data, 2017 economic growth in the U.S. has been solid if not spectacular. Importantly, current growth rates are not significantly different from long-run trend. Many of the major risks to the economy, such as economic slowing in China, uncertainty in Europe brought about by Brexit, and inflation have either not come to pass or had minimal impact. Meanwhile potential conflict on the Korean peninsula has shaken the region and could have economic consequences for the U.S. economy.