



Fourth 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: C-

The Compass Report for the Fort Smith area posted a C- grade for the fourth quarter, down from the C+ in the same quarter of 2016.

A continuing decline in the number of nonfarm jobs, especially in manufacturing and tourism, contributed to the lower grade. However, regional building permit values were up almost 39% in the quarter compared with the same quarter in 2016.

Northwest Arkansas: A-

The Northwest Arkansas area posted an A- grade for the fourth quarter, unchanged compared with same quarter of 2016. Growth in job numbers and sales tax revenue show a strong economy.

The number of jobs totaled 256,600 in December, well ahead of the 249,600 in December 2016. The region's tourism industry posted employment at 25,100 in December, better than the 23,900 in December 2016.

Central Arkansas: C

In the fourth quarter of 2017, the state's largest metro area posted a C, better than the C- in same quarter of 2016. Job gains and healthy gains in building activity were key parts of the improvement.

The number of jobs totaled 362,800 in December, better than the 356,600 in December 2016. Regional residential building permits totaled \$42.998 million in December, well ahead of the \$23.794 million in December 2016.

Jonesboro: B+

The region posted a fourth quarter grade of B+, better than the B- in the same quarter of 2016. Continuing job growth and housing permits resulted in the better economy.

Non-farm jobs totaled 58,400 in December, up from 56,800 in December 2016. Permit values for regional residential housing were up more than 24% in the quarter compared with the same quarter in 2016.

Regional “Takeaways”

FORT SMITH REGION (October-December 2017 conditions)

Non-farm employment was down substantially December-on-December declining 1.8 percent (-2,100 jobs). Total non-farm employment was an estimated 114,500 jobs compared to 114,700 in December 2015. This is troubling given the regional economy had appeared to have stabilized coming out of the recession.

The December total number of employed in the MSA was an estimated 115,104. By contrast, total employment in December 2006, prior to the recession, was 122,522. Examining labor force data, there were 119,998 people either employed or looking for work in December 2017. By comparison, in December 2016, 119,853 people fit that description. This is a increase of roughly 0.1%.

The unemployment rate in the Fort Smith area December-on-December was down 0.2% to 4.1%. The reason for the decrease was a decrease in the number of unemployed (265).

December-to-December the manufacturing sector lost 400 jobs. Manufacturing had been basically flat since February 2015 but the recent decline implies it may be premature to assume a floor has been reached.

Of the major sectors tracked only government services (200) and other services (100) expanded December-on-December. The following service sectors lost employment December-to-December: trade, transportation, and utilities (-1,000), professional and business services (-500), hospitality and leisure services (-300), education and healthcare services (-100), financial services (-100).

Information services and natural resources, mining, and construction were unchanged. The magnitude of the loss in trade, transportation, and utilities was surprising given the relative stability of the sector.

The number of building permits and valuations were up in the fourth quarter. Building permits increased 110%, while valuations were up 39%. Sales and use tax revenues, reported by the Arkansas Department of Finance and Administration, were up quarter-on-quarter a solid 4.1%.

The Fort Smith regional economy appears to be struggling to find its footing. Certainly employment numbers fail to signal anything resembling growth. The key economic indicators that indicate positive momentum are building permit activity and retail sales. The greatest concern is that many people may have left the labor force and perhaps the region as employment opportunities have disappeared. The current situation is an



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economy at or close to full employment. One sector to follow is construction, which has been hard hit but should stabilize and start to incrementally grow in the coming quarters based on permit data.

NORTHWEST ARKANSAS (October-December 2017 conditions)

Nonfarm employment grew 2.8% December-on-December. The metro economy added roughly 7,000 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 down roughly 5% over the same quarter last year. The value of permits was down 4%. The region continues to out-perform other metros in the state in terms of construction activity. For example, values for the quarter were almost two times that of Central Arkansas.

Given the growth rate of permits and concern by many in the construction and lending industry about potential over-building, the slowdown may be positive news.

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%. December-on-December sector employment was up 10.7% (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: manufacturing (1,900), other services (1,300), leisure and hospitality services (1,200), education and health services (1,100), government (1,000), trade, transportation, and utilities (700), and financial services (200). Business and professional services was the only sector to lose employment (-1,500) December-on-December. Information services was flat for December-on-December. Employment change in other services led all sectors growing at 16.9% December-on-December.

The unemployment rate in Northwest Arkansas was the lowest in the state among all MSAs in December (2.7%). The highest rate in the state was the Pine Bluff MSA at 5.6%. To add perspective, of the 388 MSAs in the country, only 4 posted rates above 10% while 71 had rates below 3%.

The labor force grew December-on-December in Northwest Arkansas by roughly 2.8%.

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 (120.6%) as well as tax dollars (\$13.3



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million in the quarter). This was due to an anomalous collection of \$7.8 million in November.

The Northwest Arkansas regional economy had sales and use tax collections totaling roughly \$29.9 million in the quarter while the Central Arkansas regional economy had collections for the same period of roughly \$22.4 million.

As the retail sector continues to evolve it will be interesting to observe what impact, if any, this will have on Walmart and the vendor community in Northwest Arkansas.

CENTRAL ARKANSAS (October-December 2017 conditions)

Nonfarm employment grew 6,200 jobs or 1.7% December-to-December. By comparison, the Northwest Arkansas regional economy grew 2.8%, adding 7,000 jobs. The Jonesboro metro area grew at the rate of 2.8% and added 1,600 jobs. The Fort Smith regional economy lost roughly 2,100 jobs or 1.8% during the same period.

The unemployment rate was an estimated a solid 3.4% 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 was up 0.1%. The labor force and employment both improved but the number of unemployed also increased. This is indicative of improving economic conditions inducing new entrants into the labor market.

Government services and trade, transportation, and utilities, are the largest sectors of the Central Arkansas economy. December-on-December government services employment was up 700 jobs or roughly 1.0%. Trade, transportation, and utilities lost 1,700 jobs, or 2.3%.

Other sectors gaining employment were: education and health care services (2,100), professional and business services (2,100), natural resources, mining, and construction (1,000), leisure and hospitality services (1,000), other services (800), and financial services (500). In addition to trade, transportation, and utilities, the information services sector also lost employment (-300). Manufacturing was unchanged December-on-December. The sector with the greatest percentage increase was natural resources, mining, and construction (6.0%).

Building permit data revealed activity and value was up significantly from the same quarter for the previous year. Specifically, permits increased by 122.5% while values increased 55.5%. 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 approximately 2.1%. All of the smaller counties which comprise the Central Arkansas metro saw growth in quarterly collections. Perry County had the fastest growth rate (13.3%). Pulaski County increased a modest 0.8%. Collections were up quarter-on-quarter in North Little Rock (1.3%) and Little Rock (0.5%), and up in Conway (8%).

THE JONESBORO METRO (October-December 2017 conditions)

Non-farm employment continued to expand for the fourth quarter of 2017. December-on-December the metro added 1,600 jobs. This was an increase of 2.8%. Growth was double the pace reported in the third quarter (1.4%). 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 6.5 percent or roughly 600 jobs. The goods producing sectors represent roughly 17% 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 up from the previous period (600 jobs). The unemployment rate in the Jonesboro metro was a very solid 3% in December. This is below the full employment rate of 4% and 0.2% below the rate in December 2016.

The Jonesboro metro area labor force grew December-on-December by roughly 1.6%. By comparison the Fort Smith region was essentially unchanged while the Central Arkansas region grew by approximately the same rate. The Northwest Arkansas metro area grew 2.8%.

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.

The number of building permits in the fourth quarter were up approximately 48% while the value of permits was up roughly 24%. 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 1.2% versus 0.2% in the previous quarter. Total collections were roughly \$6.3 million in the quarter.



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Collections for the city of Jonesboro were up 2.5% versus a 2.4% decline for the previous quarter.

THE NATIONAL ECONOMY (October-December 2017 conditions)

The Fed has begun to slowly raise short terms rates, most recently moving the Fed Funds target rate 1 ½ to 1 ¾%. This is still below historic average rates. Improving economic conditions have provided the Fed the ability to move rates. Look for additional increases as labor markets tighten.

Output growth is expected to remain positive for the foreseeable future. Growth through 2018 and into 2019 is expected to be between 2.8% to 3%. Barring a shock from in the Middle East, oil prices are unlikely to increase substantially in the near-term. Longer term, accelerating growth globally implies steady 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 4.1% 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 positive but volatile. However the outlook is for spending to accelerate through 2018 with the exception of investment in structures.

Non-farm employment has grown for the last 29 quarters. The economy created roughly 648,000 non-farm jobs in the fourth quarter after creating 492,000 in the fourth quarter of the preceding year.

Consumer demand continues to expand. Real personal consumption expenditures grew by 4.0 percent in the fourth quarter compared to an increase of 2.2% in the third quarter. Government spending increased at the federal, state and local level. Federal government spending increased for defense but declined -0.1% for the quarter.

Employment growth at the national and state level has been and will continue to be relatively strong in the services sectors. Manufacturing continues to be weak in the Fort Smith area but improved in the other major metros.

According to the Bureau of Labor Statistics, the Consumer Price Index increased at a seasonally annualized rate of 0.1% in December. The increase was led by increased prices for food, new and used vehicles, medical care, and shelter prices. The index for all items less food and energy rose 0.3% from the previous period. The increase was partially offset by decreases in prices for apparel and airline fares. Despite inflation below the target rate of 2%, employment and output growth have risen substantially

enough to the point where Fed policymakers felt comfortable raising short-term rates. Currently the Fed fund target rate is 1 1/2 to 1 3/4%.

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% and remained below 2% through October. The rate has since risen, closing the year at roughly 2.4%. Facilitating housing recovery, the 30-year Conventional Mortgage rate had been below 4% for most of 2017. The fourth quarter rate was 3.94%, down from 4.2% for the fourth quarter of 2016 but up from the third quarter rate of 3.81%. Despite low inflation, long-term rates are expected to continue to rise through 2018 as economic activity and tight labor markets impact prices.