

First Quarter – 2023 Quarterly Narrative

An independent report of economic indicators from four Arkansas metro areas:

- Central Arkansas
- Northwest Arkansas
- The Fort Smith region
- Jonesboro metro

REGIONAL SUMMARIES

Fort Smith metro

The Compass Report for the Fort Smith area posted a grade of A due to its strong showing in non-farm, manufacturing, construction, and hospitality employment. In March 2023, the labor force consisted of 118,904 individuals, an increase of approximately 1% compared to March 2022 when the labor force comprised 117,726 people. This growth is noteworthy considering the overall downward trend in the labor force since 2008. The increase indicates a positive development, suggesting the possibility of economic revitalization and a renewed interest in employment opportunities in the area.

Northwest Arkansas

The Northwest Arkansas area posted a solid A grade for the first quarter. In March 2023, the total number of jobs reached a record high of 307,936, surpassing the previous year's March 2022 figure of 296,158. All sectors are trending at record high employment. In addition, the unemployment rate in Northwest Arkansas was the lowest in the state among all MSAs in March (2.0%).

Central Arkansas

For the first quarter of 2023, the state's largest metro area posted a B+. Economic indicators were strong in the non-farm, manufacturing, construction, and hospitality sectors. However, of concern is the decrease in building permit valuation (-38.2%) quarter-to-quarter. Regardless, the low unemployment rate (2.5%) and growth in various sectors indicate a solid economic performance.

Jonesboro

The region posted a first quarter grade of B. Much like Central Arkansas, building permit valuation has declined significantly (-23.3%) which brings down the overall grading of the metro. Nonetheless, the economic conditions in the Jonesboro metro were positive during the first quarter of 2023.



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Regional “Takeaways”

FORT SMITH REGION (January-March 2023 conditions)

Non-farm employment was up 2.4% March-on-March (2,700 jobs), with total non-farm employment an estimated 114,900 jobs compared to 112,500 in March 2022.

Examining labor force data, there were 118,904 people either employed or looking for work in March 2023. By comparison, in March 2022, 117,726 people fit that description. This is an increase of roughly 1%. It is important to note that since 2008, the labor force has generally been on a downward trajectory. However, this recent increase in the labor force offers a promising sign of potential economic revitalization and a renewed interest in employment opportunities within the area. (The high labor force was June 2007 @ 130,321).

March-to-March manufacturing sector added 500 jobs (+2.76%). Manufacturing continues to rebound well beyond the pre-pandemic levels and is currently at its highest employment level in the last decade. Manufacturing employment reached its height near the turn of the century with more than 30,000 people employed (31,200 June 1999).

The following sectors also had increased employment March-to-March: natural resources, mining, and construction (300), trade, transportation, and utilities (800), information services (100), education and health (800), and leisure and hospitality (500). Of significant importance is the rise in leisure and hospitality employment which has recovered beyond pre-pandemic levels. In addition, the education and health services sector continues growth and establishes new records each quarter.

The two sectors seeing decreased employment March-to-March were: financial activities (-100) and professional and business services (-600). The other services sector remains unchanged.

Residential construction, as measured by valuation was down March-to-March but up for the first quarter. Building permit (housing) valuation was up from first quarter 2022 (\$23.852 million) to first quarter 2023 (\$27.640 million), an increase of nearly 16%.

According to the Arkansas Department of Finance and Administration, sales and use tax revenues exhibited a robust quarter-on-quarter growth of 9.97%. The collections showed exceptional strength, particularly in March. Additionally, the city of Fort Smith experienced a notable 9% increase in tax collections.

The unemployment rate in the Fort Smith area March-on-March was down 0.4% (2.8%). The year prior to the pandemic, the unemployment rate ranged from 2.9% and 4%. In the last year, (March 2022 – March 2023) the rate ranged from 2.7-3.7. The decreasing unemployment rate in the Fort Smith area, along with the narrower range observed in the past year, suggests an overall positive trend in terms of employment and economic stability.

Data for the Fort Smith regional economy remains strong. Overall, the Fort Smith area shows signs of economic growth, with increased employment across various sectors, a rebounding manufacturing sector, positive tax revenue trends, and a declining unemployment rate. These indicators point towards a positive economic condition and potential economic revitalization in the region.



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NORTHWEST ARKANSAS (January-March 2023 conditions)

Non-farm employment grew at a strong rate March-on-March. The metro economy added roughly 14,800 jobs, an increase of more than 5%. Overall, the data showcases a favorable change in non-farm employment during the first quarter of 2022 and 2023. The consistent upward trend suggests a healthy job market with increasing opportunities, providing individuals with more employment options, and potentially contributing to overall economic growth.

Improved construction over the last year has translated into improved employment in the sector. Since the height of the 2008 recession when sector employment fell to just over 7,000 jobs, the sector has grown by more than 113%. March-on-March sector employment was up 1,300 jobs (+9.2%).

However, construction-related data for the metro indicates a decrease of 48.5% in building permit valuation from March to March. Building permit valuation in March 2022 was \$211.049 million and was \$108.561 million in March 2023. Quarter-to-quarter comparison showed a reduction from \$504.279 million to \$403.422 million. Overall, the data highlights a mixed performance in building permit valuation for housing construction between 2022 and 2023, with a C- rating. While there were some periods of growth and positive change, particularly in January, there were also instances of decline, notably in February and March.

All sectors showed an increase in employment with the exception of information services which remained steady. March-on-March sector increases in employment were manufacturing (600), trade, transportation, and utilities (3,300), financial services (200), professional and business services (1,900), education and health services (1,600), leisure and hospitality services (2,400) and other services (700). Each of these is trending at record high employment.

The trade, transportation, and utilities sector was up 8.1% March-on-March and the leisure and hospitality services sector was up 8.7% indicating strong growth in both of these sectors. Both sectors are trending well above pre-pandemic levels.

The unemployment rate in Northwest Arkansas was the lowest in the state among all MSAs in March (2%). It was 0.5% lower than that for the Little Rock/North Little Rock/Conway MSA (2.5%). The highest rate in the state was the Texarkana, TX – Texarkana, AR at 4%. For perspective, of the 389 MSAs in the country, only 3 posted rates above 10% while 16 had rates below 2%.

The labor force grew March-on-March in Northwest Arkansas by 10,940 (3.6%) and continues to set record highs each quarter.

The Northwest Arkansas regional economy had sales and use tax collections totaling roughly \$42 million while the Central Arkansas regional economy had collections for the same period of approximately \$38.6 million.

The data indicates a favorable economic situation in Northwest Arkansas, characterized by robust expansion in non-farm employment, multiple sectors achieving record-high employment levels, low unemployment rates, and steady growth in the labor force. While there were variations in building permit valuation and mixed performance in the construction sector, the overall economic outlook remains positive.



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CENTRAL ARKANSAS (January-March 2023 conditions)

Non-farm employment added a solid 6,900 jobs or 1.85% March-to-March. By comparison, the Northwest Arkansas regional economy grew at a faster rate of 5.08%, adding 14,600 jobs. The Fort Smith regional economy added roughly 2,700 jobs or 2.4% during the same period. Meanwhile, the Jonesboro metro area grew at the rate of 3.2% adding 2,000 jobs March-on-March.

The three largest employment sectors in Central Arkansas saw growth. The largest sector, trade, transportation, and utilities gained employment of 1,400 from 76,900 to 78,300 March-on-March, or 1.8%. Government services, the second largest sector in the metro, grew a modest 200 jobs. The education and health services sector increased 2,500 jobs or 4.15%.

The largest percentage increase in employment was in the leisure and hospitality services which saw an increase of 10.4% or 1,200 jobs. This sector is nearing the pre-pandemic employment levels of 35,000+ jobs. March 2023 data indicate a total of 34,000 jobs in this sector.

Gains in employment were also seen in the following sectors: mining, logging, and construction (600), and manufacturing (200), while the information service sector remained unchanged at 5,600 jobs.

The two sectors losing employment March-on-March were the financial services employment (-200) and the professional and business services (-200).

Building permit data revealed valuation was down from the same quarter for the previous year. Specifically, March-to-March valuation decreased from \$61.52 million (2022) to \$34.259 million (2023). Comparing quarter to quarter shows a sizable decrease from \$169.156 million (2022) to \$104.600 million (2023) or -38.2% which received a grade of F. Overall, the narrative of the data displays a mixed pattern in building permit valuation for housing. While the first quarter 2022 demonstrated a positive growth trend, the similar time period in 2023 experienced a notable decline in the first two months, with a slight recovery in March, but still significantly below the valuation of first quarter 2022.

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 8.92%, from \$354.4 million in first quarter of 2022 to \$386.1 million in the first quarter 2023. Collections were up quarter-on-quarter in North Little Rock (7.3%), Conway (6.8%), and Little Rock (11.3%).

Of all the economic indicators, unemployment rates at a record low of 2.5% stand out. This rate of 2.5% is down from 3.1% March-on-March and indicates employment rates at or near the full employment rate. Growth has been solid in the state's largest metro.

Overall, the economic conditions show positive employment growth in various sectors, though with fluctuations and variations. The low unemployment rate indicates a solid economic performance in the largest metro area of the state. However, the construction sector experienced a notable decline in building permit valuation, suggesting challenges in that industry.



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THE JONESBORO METRO (January-March 2023 conditions)

The Jonesboro metro area economy has performed well during the quarter. Non-farm employment continued to expand for the first quarter of 2023 reaching record levels. For the first quarter the metro added roughly 2,000 jobs. This was an increase of 3.2%.

The valuation of building permits decreased in the 1st quarter of the Jonesboro metro. Valuation has decreased from \$13.803 million in March 2022 to \$12.058 million in 2023 – a reduction of 12.6%. However, the total first quarter valuation decreased from \$35.652 million to \$27.358 million. This is a decrease of 23.3%. The building permit valuation indicator received a grade of D. On the positive side of this issue, March 2023 building permit valuation is up from both February and January of 2023 by more than 56%.

The unemployment rate in the Jonesboro metro was a very solid 2.2% in March. This rate is .5% below the rate in March 2022. The unemployment rate is approaching the record unemployment of November 2021 at 2.1%.

The labor force grew March-on-March in Jonesboro by roughly 1,000 – an increase of 1.5%. By comparison, the Fort Smith area labor force grew by 1%, the Northwest Arkansas metro grew 2.7%, and finally Central Arkansas labor force grew by .4%. Employment conditions in the metro remain strong.

Sales and use tax collection data indicate that the Jonesboro metro area experience solid growth quarter-on-quarter of 7.3%. Total collections were roughly \$8.9 million in the first quarter. Finally, sales and use tax for the city of Jonesboro in the first quarter of 2023 showed a 6.68% increase compared to the same period in 2022.

Economic conditions in the Jonesboro metro area have been positive during the first quarter of 2023. However, the value of building permits experienced a substantial decrease, receiving a grade of D. Overall, the economic conditions in the Jonesboro metro area demonstrate positive employment growth and stable unemployment rates.

Understanding The Compass Report grades

A key factor in understanding the report is in understanding the “grading” approach used to measure the current and leading economic indicators.

The strategy is to place the most recent data in historical context. Average values for the percent change over the referenced time period were calculated, as were standard deviations for each measure. The more similar current values are to historic averages the more likely the indicator grade is to be a “C.”

The farther away the observed value, as measured by the standard deviation of the data, the more divergent the grade from “C.” In other words, “C” reflects no change in economic activity. The grades “B” or “A” indicate improvement above the historical average, and “D” and “F” indicate a decline in economic activity compared to the historical average.



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THE NATIONAL ECONOMY (January-March 2023 conditions)

Total nonfarm payroll employment rose by 236,000 in March, and the unemployment rate changed little at 3.5 percent. Employment continued to trend up in leisure and hospitality, government, professional and business services, and health care.

According to the Bureau of Labor Statistics, the Consumer Price Index for All Urban Consumers (CPI-U) rose 0.1% in March on a seasonally adjusted basis, after increasing 0.4% in February. Over the last 12 months, the “all items” index increased 5% before seasonal adjustment.

U.S. economic growth significantly slowed in the first quarter 2023, with GDP growing at an annualized rate of 1.1%, down from 2.6% in the previous quarter. Household spending increased by 3.7% during the first quarter, driven by strong consumer spending, but concerns about the sustainability of this growth emerged as consumer sentiment deteriorated towards the end of the quarter.

The economic slowdown can be attributed to persistent inflation and aggressive rate hikes by the Federal Reserve aimed at addressing rising prices.

The March 2023 banking crisis and fears of another financial turmoil have further dampened economic performance through higher borrowing costs and reduced consumer confidence.

Business investment experienced a significant decline of 12.5% between the end of last year and the beginning of 2023, impacting the overall strength of the economy.

Leading economists anticipate a rapid deterioration in economic growth, with projections of a 1.8% contraction in the second quarter and concerns about an impending recession.

Consumer demand is cooling off after years of elevated inflation and multiple interest rate hikes, while reduced commercial lending by banks is slowing down the growth of businesses reliant on financing.

Despite the Federal Reserve's aggressive rate hikes, the job market and consumer spending have remained resilient. However, the overall economy is slowing down, and inflation is still far from the target of 2%.

Prices for consumer goods rose by 4.2% in the 1st quarter, surpassing the Fed's target, which may prompt further rate hikes if inflation remains high despite the economic slowdown.

Although jobs have been recovered and unemployment has dropped, American households are still facing challenges such as high inflation, rising borrowing costs, and reduced business investment, potentially leading to a closer proximity to a recession.



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