

## Third 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

#### Central Arkansas

Central Arkansas displays a resilient economic landscape with a consistent decline in unemployment rates post-pandemic. Although the third quarter saw an increase compared to prior periods, the average drop of 0.4% from 2022 signifies progress. Non-farm employment surged by 7,300 jobs, reaching roughly 386,400 in September 2023, a positive trend. While building permit valuations fluctuated, there was a substantial 17.4% surge in September 2023 compared to the same month last year. Sectors like trade, transportation, and utilities experienced minor declines, while leisure and hospitality saw a remarkable 9.82% increase in employment. Robust growth in gross sales and use tax collections underscores a thriving economy. Overall, the region's varied sector employment growth and minimal unemployment rate position it well, despite potential challenges in construction. **The comprehensive assessment grades Central Arkansas at a commendable B+.**

#### Northwest Arkansas

The Northwest Arkansas (NWA) economy continues to showcase robust growth, particularly evident in non-farm employment. The housing sector experienced a notable increase in building permit valuations in Q3 2023, notably in July, despite decreases in August and September compared to the previous year. Various sectors demonstrated job growth, notably professional and business services, while only information services and financial activities faced slight employment declines. Although the unemployment rate saw a minor uptick from 2.3% to 2.5% in September 2023, it remains at or below pre-pandemic levels, while the labor force expanded by 4.2%. Gross sales and use tax collections showcased substantial growth, particularly in August, marking the region's second-highest value for the year, indicating a flourishing economic expansion and heightened commercial activity across Benton, Madison, and Washington counties. **The NWA metro's strong economic performance across sectors, housing growth, expanding labor force, and impressive tax collection growth earn it an admirable grade of A-.**



## Fort Smith Metro

In the Fort Smith area, non-farm employment demonstrated a slight year-over-year increase of 0.61%. The labor force expanded by 2%, with 120,500 individuals engaged in employment or actively seeking work in September 2023. Of the 10 sectors measured, five showed employment increases, including construction, education and health services, leisure and hospitality, other services, and government, while transportation and utilities, manufacturing, and professional and business services faced declines. Building permit valuations for housing experienced a significant drop from the previous year, reflecting a 50% reduction in the third quarter of 2023. Despite a favorable trajectory in sales and use tax collections, the unemployment rate rose by approximately 0.3%, reaching 3.8% in September 2023, indicating a return to pre-pandemic conditions. While some sectors exhibit resilience, challenges in employment fluctuations and housing market instability persist. The positive tax collections suggest economic stability, but attention to employment trends and housing market volatility is crucial for future planning. **The Fort Smith Metro received a grade of B- for the third quarter of 2023.**

## Jonesboro

In the Jonesboro MSA, the third-quarter average unemployment rate remained sturdy at 2.8%. The workforce grew by 1.9% between Q3 2022 and Q3 2023 and non-farm employment stayed steady in Q3 2023. Building permit valuations generally decreased, notably in July and September, despite a rise in August 2023, reflecting fluctuations in this sector. The area received a commendable B+ grade for gross sales and use tax collections highlighting robust commercial activity. **While non-farm employment earned an A- and the unemployment rate reduction received a B-, concerns linger regarding the construction sector's performance and building permit trends, contributing to an overall B- grade for the third quarter of 2023.**

## Arkansas Economy

Arkansas earned a respectable B grade in Q3 2023, showcasing resilience in its economy. Non-farm employment surged by 19,700 jobs, marking a 1.46% increase year-over-year, earning an A+. The unemployment rate dropped impressively from 3.5% to 2.9% (A+). While gross sales tax collections (B) displayed mixed trends, reflecting varied consumer spending, housing permit valuations fluctuated (C) across the quarter, indicating market volatility. Minor declines in manufacturing employment were observed (C), while the construction and hospitality sectors exhibited robust growth (A+), emphasizing the state's diverse economic landscape.

## Regional "Takeaways"

### FORT SMITH REGION (July-September 2023 conditions)

Non-farm employment showed a 0.61% increase from September to September, adding 700 jobs, reaching an estimated total of 115,500 positions in September compared to 114,800 in the same month of 2022. Quarter-on-quarter analysis reveals consistent non-farm employment in the metro, with a slight dip noted from Q2 2023.

In September, the MSA recorded an estimated 115,900 individuals employed. Labor force statistics revealed that in September 2023, there were 120,500 individuals engaged in employment or actively seeking work. In contrast, September 2022 saw 118,054 individuals in this category, marking a 2% increase year-over-year.



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Of the ten employment sectors measured, five saw increases September-on-September: construction (400), education and health services (600), leisure and hospitality (600), other services (200), and government (500).

The financial activities and information sectors maintained stability from one September to the next. Despite rebounding to pre-pandemic levels, both sectors exhibit a steady and unwavering performance.

Three employment sectors experienced a decline: transportation and utilities (-400), manufacturing (-100), and professional and business services (-1,000). Employment in professional and business services was reduced by 8.4% from September to September. This sector employs around 10,900 individuals; in July, it hit its lowest count in a decade, even below employment numbers during the pandemic.

Over the course of a year, from September 2022 to September 2023, there was a significant drop in the valuation of building permits for housing, showing a decrease of \$8.597 million in the third quarter of 2023, marking a 50% reduction compared to last year's third quarter. It's important to highlight that the valuation of these permits witnessed a notable increase from the second quarter of 2022 (\$24.215 million) to the second quarter of 2023 (\$40.258 million), reflecting a growth of approximately 66%. However, this valuation sharply declined in Q3 to \$25.758 million.

Concerning sales and use tax collections in the Fort Smith MSA, there was an overall favorable trajectory during the third quarter of 2023, with the most substantial surge in July. The entire quarter recorded an average uptick of around 3.79% in tax collections compared to the corresponding months in 2022.

The unemployment rate in the Fort Smith area increased by ~0.3% (3.8%) when comparing September to the previous year. This rate exhibits an increase from the rates in the second quarter of 2023 by 0.9%. The trend in the unemployment rate within the Fort Smith area reflects a return to unemployment economic conditions similar to that before the pandemic.

Overall, while specific sectors show resilience and growth, others face challenges like fluctuating employment numbers and housing market instability. The tax collections' positive trajectory hints at economic stability despite the unemployment rate reflecting a return to pre-pandemic conditions, warranting attention to employment trends and housing market volatility for future economic planning. The Fort Smith Metro earned an overall grade of B- for the third quarter of 2023.

#### **NORTHWEST ARKANSAS** (July-September 2023 conditions)

The expansion of non-farm employment remains strong from September to September. The NWA (Northwest Arkansas) economy added roughly 10,200 jobs, an increase of 3.4%.

The building permit valuation for housing experienced a notable increase from the third quarter of 2022 to the third quarter of 2023. This increase was facilitated by building permit valuations in July 2023, which saw a year-high for 2023 at \$198.978 million. August and September showed a decrease from last year. The average valuation for the third quarter of 2023 was \$166.450 million, a considerable increase compared to the third quarter of 2022, which had an average valuation of \$156.163 million.



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Sectors that added jobs September-on-September were mining, logging, and construction (1,600), manufacturing (200), trade, transportation, and utilities (400), professional and business services (2700), education and health services (1,500), leisure and hospitality (400), other services (900), and government (2,300). Information services (-100) and financial activities (-100) were the only sectors to lose employment. Growth in professional and business services is exceptionally strong at 4.63%.

The Northwest Arkansas metro's unemployment rate experienced a small uptick, rising from 2.3% in September 2022 to 2.5% in September 2023. In general, the unemployment rate remains at or below the unemployment rate before the pandemic. The labor force grew September-on-September in Northwest Arkansas by an estimated 10,291 (4.2%).

During the third quarter of 2023, the gross sales and use tax collections in the NWA metro revealed an impressive positive trajectory in comparison to the corresponding period in 2022. The period from July to September 2023 experienced substantial growth, signifying robust economic expansion and heightened commercial activity in Benton, Madison, and Washington counties. The peak observed in August was particularly noteworthy, marking the second-highest value for the year.

The Northwest Arkansas Metro area demonstrates a strong economic performance, reflected in various sectors. Despite a slight uptick in the unemployment rate, it remains consistent with or below pre-pandemic levels. The housing sector saw significant growth in building permit valuations, and the labor force expanded, indicating positive economic trends. Gross sales and use tax collections showcased impressive growth, signifying a healthy economic expansion and increased commercial activity in the region, notably observed in August with peak values for the year, earning the NWA metro a grade of A-.

#### **CENTRAL ARKANSAS** (July-September 2023 conditions)

The unemployment rate for Central Arkansas continues to decline post-pandemic despite an uptick in quarter three compared to the previous two quarters. In September 2023 the unemployment rate was 3.1%. Compared to the third quarter of 2022, the unemployment rate has dropped an average of 0.4%.

Non-farm employment added 7,300 jobs, or 1.9%, since September 2022. Total non-farm employment is roughly 386,400 jobs for September 2023.

The building permit valuation for the third quarter of 2022 experienced a decline compared to the same period in 2023. July and August of 2023 showed decreased building permit (housing) valuations. September 2023 brought a surge with an increase of 17.4% in valuations from September to September. Overall, the average valuation for the third quarter of 2023 was \$41.088 million, which marked a notable decrease compared to the third quarter of 2022, with an average valuation of \$43.283 million.

The largest sector in Central Arkansas, trade, transportation, and utilities, experienced a decrease of 700 jobs or 0.9%. The other largest sector, government services, was basically unchanged, adding only 200 jobs. Other sectors gaining employment were mining, logging, and construction (1,800), education and health services (3,300), leisure and hospitality (3,300), and other services (900). Four sectors lost employment based on the available data. Manufacturing (-100),



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information (-300), financial activities (-300), and professional and business services (-900). The sector with the greatest percentage increase was leisure and hospitality, at 9.82% compared to September last year.

Central Arkansas experienced a substantial total percent increase in gross sales and use tax collections. The collections for this quarter in 2023 showed robust growth, marking an average increase of approximately 3.2% compared to the corresponding quarter in 2022. This significant uptick underscores a thriving economic environment in the Central Arkansas metro.

Overall, the economic scenario depicts promising employment growth across various sectors, albeit accompanied by fluctuations and differences. The region's minimal unemployment rate highlights its strong economic standing as the state's largest metropolitan area. Nevertheless, a notable decline in building permit valuations within the construction sector signals potential hurdles in this industry. The comprehensive assessment for Central Arkansas stands at a B+.

### **THE JONESBORO METRO** (July-September 2023 conditions)

In the Jonesboro MSA, the third-quarter average unemployment rate stood at a robust 2.8%, aligning closely with the state's average of 2.9%. There was a quarter-to-quarter decrease in the average unemployment rate from 3.0% to 2.8%.

The workforce expanded from the third quarter of 2022 to the corresponding period in 2023 by a commendable 3,903 positions, representing a growth of 1.9%. Non-farm employment maintains consistency throughout the third quarter of 2023, with an increase of 1,533 jobs compared to the same period last year and a slight decrease of 133 jobs from the second quarter of this year, on average.

The overall assessment of building permit valuations showed a decline from the third quarter of 2022 to the corresponding period in 2023. Specifically, there were notable reductions in permit valuations for July and September, reflecting a 17.9% decrease in July and a 19.2% decrease in September. However, August 2023 marked an increase, rising to \$13.067 million from \$10.444 million in August 2022.

In the Jonesboro metro, there was a positive shift in gross sales and use tax collections in the third quarter of 2023, resulting in an overall grade of B+. In Craighead and Poinsett counties, tax collections displayed notable growth compared to the corresponding period in the previous year. This consistent pattern underscores the area's strong commercial activity and economic vibrancy, boasting an impressive average quarter-to-quarter change of around 1.64% when contrasted with the third quarter of 2022.

The economic indicators for the Jonesboro Metro in the second quarter of 2023 received an overall grade of B-. Non-farm employment showed robust growth, with an A- rating, indicating a significant increase in jobs during the quarter. The metro also achieved a B- for the change in the unemployment rate, demonstrating a positive trend in reducing unemployment. Overall, while there are positive aspects, such as employment and tax collections, there are areas of concern, particularly in the construction sector's performance and building permits.



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## Understanding The Compass Report Grades

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

The strategy is to place the most recent data in a 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 historical averages, the more likely the indicator grade will 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 ARKANSAS ECONOMY (July-September 2023 conditions)

Arkansas showcased robust growth in non-farm employment throughout Q3 2023, experiencing consistent expansion. From September 2022 to September 2023, the state added 19,700 jobs, marking a notable 1.46% increase, reaching an estimated total of 1,364,600 positions, up from 1,344,900 in September 2022. The quarter-on-quarter analysis revealed steady growth, sustaining an upward trajectory.

The state demonstrated a remarkable decline in the unemployment rate during the third quarter of 2023. Arkansas' unemployment rate dropped from 3.5% in September 2022 to 2.9% in September 2023, marking a significant decrease of 0.6%. This trend continued across the quarter, consistently showing a downward trend, reflecting a robust labor market.

Arkansas witnessed a mixed trajectory in gross sales tax collections during Q3 2023. July and September showed a moderate increase in collections, while August recorded a noteworthy surge, reflecting a diverse trend in consumer spending behavior. The quarter exhibited an overall positive trend, indicating stable consumer activities contributing to the state's revenue.

The valuation of building permits for housing in Arkansas experienced fluctuations across the third quarter of 2023. Although July showcased a substantial increase in valuation, reaching \$280.799 million, August and September demonstrated a decline in housing permit valuation. This inconsistency suggests a degree of volatility within the housing market during this period.

Arkansas' manufacturing employment witnessed a minor fluctuation during Q3 2023, with a slight decrease from 164,000 in September 2022 to 162,000 in September 2023. While the sector sustained stability in employment levels for the most part of the quarter, a modest decline was observed by the end of September.

The construction sector, encompassing natural resources and mining, displayed consistent and robust growth in employment throughout Q3 2023. Arkansas added 7,100 jobs, marking a 12.31% increase in



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construction-related employment, reaching 64,800 jobs in September 2023 compared to 57,700 in the same month of the previous year.

Arkansas' hospitality sector exhibited strong and steady growth in employment, adding 10,300 jobs from September 2022 to September 2023. This sector's growth trajectory remained positive throughout the quarter, showcasing a resilient pattern in job creation, reaching an estimated total of 132,400 positions in September 2023.

Arkansas displayed economic resilience with notable increases in non-farm employment and remarkable drops in the unemployment rate. Although sectors like construction and hospitality showed consistent growth, fluctuations in housing permit valuations and minor declines in manufacturing employment signal challenges in specific sectors. The varied performance across industries suggests a requirement for vigilant monitoring to navigate market fluctuations and sustain growth. Arkansas achieved an overall B grade in the third quarter of 2023.

### **THE NATIONAL ECONOMY** (July-September 2023 conditions)

The third quarter of 2023 saw continued economic growth, albeit slightly slower than the previous quarter. Consumer spending remained strong, supported by rising wages and a healthy labor market. Businesses continued to invest but more cautiously as interest rates began to rise. Inflation remained elevated but showed signs of cooling.

#### **Positive Indicators**

**Gross Domestic Product (GDP):** The economy grew at a seasonally adjusted annual rate of 5.2% in the third quarter, exceeding expectations.

**Consumer Spending:** Consumer spending, which accounts for about two-thirds of the U.S. economy, grew at 1.8% in the third quarter.

**Personal Income:** Personal income grew at a healthy rate of 0.9% in the third quarter, providing additional support for consumer spending.

**Retail Sales:** Retail sales, a key indicator of consumer spending, increased 0.9% in the third quarter.

**Employment:** The unemployment rate remained at 3.5% in the third quarter, indicating a strong labor market.

**Corporate Profits:** Corporate profits continued to grow in the third quarter, although slower than in the previous quarter.

**Durable Goods Orders:** New orders for durable goods, a measure of business investment, increased by 4.0% in the third quarter.

**Housing Market:** The housing market remained strong in the third quarter, with housing starts and home sales exceeding expectations.

#### **Challenges**

**Inflation:** Inflation remained elevated in the third quarter, with the Consumer Price Index (CPI) increasing 6.7% year-over-year.

**Interest Rates:** Rising interest rates pressure businesses and consumers, leading to a slowdown in investment and spending.



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Trade Deficit: The trade deficit in goods and services widened in the third quarter, reflecting strong domestic demand and weak export growth.

Overall, the U.S. economy continued to grow in the third quarter of 2023 but slower than in the previous quarter. The economy faces several challenges in the coming months, including rising interest rates and elevated inflation. However, strong consumer spending and a healthy labor market suggest that the economy will continue to grow in 2024.



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