

Fourth Quarter – 2023 Quarterly Narrative

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

- Fort Smith Region
- Northwest Arkansas
- Central Arkansas
- Jonesboro Metro

REGIONAL SUMMARIES

Central Arkansas

Central Arkansas' economy displayed a mix of stability and growth in Q4 2023, earning a B grade.

- Unemployment: The unemployment rate rose slightly (0.5%) to 3.2%, nearing pre-pandemic levels.
- Employment: Non-farm employment grew 1.6% year-over-year (6,200 jobs added), with notable gains in construction, education & health, and leisure & hospitality. However, some sectors like trade & transportation and professional & business services saw job losses.
- Housing: Building permit valuations surged compared to Q4 2022.
- Taxes: Sales and use tax collections rose steadily throughout the quarter, exceeding Q4 2022's total by 4.6%.

Strong job growth, rising tax collections, and a booming construction sector signal economic resilience, but fluctuating building permit valuations and job losses in some areas warrant attention. Central Arkansas displays stability with promising signs of growth, particularly in construction, education & health, and leisure & hospitality. Monitoring employment, housing, and tax collection trends will be crucial for continued economic success.

Northwest Arkansas

The Northwest Arkansas metro thrived in Q4 2023, earning an overall grade of B+.

- Employment: Non-farm employment surged 3.4% year-over-year, with 10,300 jobs added. Additionally, construction, manufacturing, professional and business services, education and health, along with other sectors, all experienced growth.
- Housing: Building permit valuations for housing saw a significant 31% increase compared to Q4 2022.
- Taxes: Sales and use tax collections rose steadily throughout the quarter, exceeding Q4 2022's total by 8.3%.
- Unemployment: The unemployment rate climbed slightly to 2.4% but remains low by historical standards.

Several sectors, particularly construction and professional & business services, displayed robust growth. Rising building permit valuations and increasing tax collections indicate a healthy housing market and economic expansion. Strong economic performance across various sectors, a thriving housing market, and positive tax collection trends depict a healthy and growing Northwest Arkansas metro.



The Compass Report Arkansas metro grades Fourth Quarter - 2023

Central Arkansas: B

Fort Smith metro: B-

Jonesboro metro: C

Northwest Arkansas: B+

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Fort Smith Metro

The Fort Smith Metro's economy in Q4 2023 showed mixed signals.

- **Employment:** Job growth was positive year-over-year (0.86%) but flat compared to Q3. Construction, education & health, leisure & hospitality, and other sectors added jobs, while manufacturing and professional & business services declined slightly year-to-year.
- **Housing:** Building permit valuations for housing rebounded in Q4 compared to Q3, exceeding the previous year's total by 14.3%.
- **Taxes:** Sales and use tax collections remained stable and slightly increased in December. (see the raw data for notes regarding Crawford County sales tax Q4 2023).
- **Unemployment:** The unemployment rate rose to 3.8%, mirroring pre-pandemic levels.

The Fort Smith Metro earned a B- for the fourth quarter of 2023. The regional economy demonstrates resilience with positive signs in housing and some employment sectors. However, job losses in specific sectors and a rising unemployment rate warrant attention for future economic planning.

Jonesboro Metro

The Jonesboro Metro presented a mixed economic picture in Q4 2023, earning an overall grade of C.

- **Unemployment:** The unemployment rate rose slightly (0.5%) to 2.9%, aligning with pre-pandemic levels.
- **Labor Force:** The labor force shrank by 1.3%, indicating a decrease of 905 individuals.
- **Employment:** Non-farm employment remained flat, with a minor decline of 400 jobs year-over-year.
- **Housing:** Building permit valuations rose 14.4% compared to Q4 2022.
- **Taxes:** Sales and use tax collections remained stable, highlighting consistent commercial activity.

While unemployment remains low, the shrinking labor force and a slight decline in employment warrant attention. Growth in building permit valuations suggests a healthy housing sector and stable tax collections indicate ongoing economic activity. Trends in non-farm employment and the labor force necessitate ongoing monitoring to inform future economic planning.

Arkansas Economy

In the fourth quarter of 2023, Arkansas exhibited economic stability, characterized by notable growth in non-farm employment and a marginal unemployment rate rise. Consequently, the fourth quarter of 2023 earned a commendable B+ rating.

- **Employment:** Arkansas demonstrated strong growth in non-farm employment, consistently expanding throughout the period. Over the span from December 2022 to December 2023, the state saw an increase of 15,100 jobs, representing a significant 1.1% rise.
- **Unemployment:** The state's unemployment rate climbed from 3.4% in December 2022 to 3.7% in December 2023, indicating a notable increase of 0.3%.
- **Housing:** Building permit valuations for housing in Arkansas saw significant growth throughout the fourth quarter of 2023, with increases of 9% in October, 4% in November, and 5% in December.
- **Taxes:** During the fourth quarter of 2023, Arkansas experienced a positive trend in gross sales tax collections.

In the fourth quarter of 2023, Arkansas demonstrated economic strength with increases in non-farm employment and a rise in the unemployment rate. However, sectors such as construction and hospitality showed consistent growth and notable changes in building permits, while declines in manufacturing employment indicate challenges in certain sectors.

Regional "Takeaways"

FORT SMITH REGION (October – December 2023 conditions)

Non-farm employment experienced a growth of 0.86% year-over-year, adding 1,100 jobs from December 2022 to December 2023, reaching an estimated total of 117,000 positions compared to 116,000 in the corresponding month of the previous year. When analyzed quarter-on-quarter, the metro area showed consistent non-farm employment trends, albeit with a slight decrease observed in Q2 2023.

In December, the Fort Smith metro saw approximately 115,700 individuals employed. Labor force data indicated that in December 2023, there were 120,218 individuals either employed or actively seeking employment. This number contrasts with December 2022, which recorded 117,984 individuals in this category, reflecting a 1.9% increase year-over-year. Five employment sectors experienced growth from December to December: construction (+500), education and health services (+900), leisure and hospitality (+200), other services (+100), and government (+300), while the transportation & utilities, financial activities, and information sectors remained stable over the same period.

Two employment sectors saw a decrease: manufacturing, which declined by 100 jobs, and professional and business services, which experienced a reduction of 900 positions. Employment in professional and business services dropped by 7.5% from December to December. This sector currently employs 11,100 employees, rebounding from its lowest point in the past decade, which occurred in July 2023.

The decline in the valuation of building permits for housing in the third quarter of 2023 has been rerouted by an upturn in the fourth quarter. Valuations in Q4 amounted to \$34.911 million, compared to \$30.542 million for the corresponding period in 2022, indicating an increase of 14%.

Sales and use tax collections in the Fort Smith MSA remained stable throughout the fourth quarter of 2023, experiencing a slight increase in December. The quarter's total amounted to \$16.296 million, compared to \$15.821 million for the corresponding period in 2022. (Note: Sales tax data for the 4th quarter of 2023 in Crawford County is projected due to county leaders' delay in submitting the necessary paperwork to the state in compliance with Arkansas law. The projected amount is estimated based on historical trends and expected economic factors.

The unemployment rate in the Fort Smith area rose by 1.1 percentage points to reach 3.8% in December compared to the previous year. This trend in the unemployment rate mirrors a return to economic conditions reminiscent of those before the pandemic.

The Fort Smith Metro earned an overall grade of B- for the fourth quarter of 2023. Despite certain sectors demonstrating resilience and growth, others encounter challenges such as fluctuating employment figures and instability in the housing market. Although tax collections show a positive trajectory, indicating economic stability or even growth, the rise in the unemployment rate suggests a return to pre-pandemic conditions. This dynamic underscores the importance of monitoring employment trends and housing market volatility for future economic planning.



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NORTHWEST ARKANSAS (October – December 2023 conditions)

Non-farm employment growth in the Northwest Arkansas metro continues to be at or near record highs with approximately 10,300 jobs added, representing a 3.4% increase.

Industries that experienced job growth from December to December included mining, logging, and construction (adding 2,000 jobs), manufacturing (400 jobs), professional and business services (3,400 jobs), education and health services (2,000 jobs), leisure and hospitality (300 jobs), other services (700 jobs), and government (1,900 jobs). However, trade, transportation, and utilities saw a decrease of 300 jobs, while information services lost 100 jobs. The financial activities sector remained unchanged. Notably, the mining, logging, and construction sector exhibited robust growth, particularly strong at 13.1%.

The valuation of building permits for housing witnessed a noteworthy surge from the fourth quarter of 2022 to the fourth quarter of 2023. The total valuation for the fourth quarter of 2023 amounted to \$423.4 million, marking a substantial increase compared to the \$322.2 million valuation in the fourth quarter of 2022, representing a 31% rise.

The unemployment rate in the Northwest Arkansas metro area saw a slight increase, climbing from 2.0% in December 2022 to 2.4% in December 2023. Overall, the unemployment rate continues to hover at or below pre-pandemic levels.

Throughout the fourth quarter of 2023, gross sales and use tax collections in the NWA metro exhibited a consistent upward trend compared to the same period in 2022. The total amount for Q4 2023 amounted to \$46.96 million, showing growth from the \$43.47 million collected during the corresponding quarter in 2022, marking an increase of 8.3%.

Earning a grade of B+, the Northwest Arkansas Metro area demonstrates robust economic performance across various sectors. Positive economic trends are evident despite a slight uptick in the unemployment rate, which remains consistent with or below pre-pandemic levels. Significant growth in building permit valuations within the housing sector and an expanding labor force underscore the region's economic strength. Moreover, impressive growth in gross sales and use tax collections reflects a healthy economic expansion and heightened commercial activity in the area.

CENTRAL ARKANSAS (October – December 2023 conditions)

In December 2023, the unemployment rate stood at 3.2%, marking a 0.5 percentage point increase from 2.7% in the fourth quarter of 2022. This current unemployment rate aligns closely with the levels observed preceding the 2020 pandemic.

Non-farm employment saw an addition of 6,200 jobs, representing a growth of 1.6%, since December 2022. Total non-farm employment amounts to approximately 389,100 jobs for December 2023.

Central Arkansas observed a sustained rise in gross sales and use tax collections, with the collections for this quarter in 2023 indicating growth, averaging an increase of around 4.6% compared to the corresponding quarter in 2022. Total gross sales and use tax collections escalated to \$42.7 million in Q4 2023 from \$40.9 million in the corresponding quarter of 2022.

The building permit valuation for the fourth quarter of 2022 witnessed a substantial surge compared to the same period in 2023. November and



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December of 2023 notably demonstrated significant rises in building permit (housing) valuations. In summary, the total valuation for the fourth quarter of 2023 amounted to \$183.47 million, indicating a remarkable increase compared to the fourth quarter of 2022, which had a total valuation of \$104.11 million.

Sectors experiencing employment growth included mining, logging, and construction (2,000), manufacturing (100), education and health services (4,100), leisure and hospitality (800), other services (700), and government (500). However, according to the available data, three sectors saw a decline in employment: trade, transportation, and utilities (-1,100), information (-200), and professional and business services (-700). The financial activities sector remained stable. Among these sectors, mining, logging, and construction exhibited the most significant percentage increase, with a growth rate of 10.4% compared to December of the previous year. In the fourth quarter of 2023.

Central Arkansas witnessed a modest uptick in the unemployment rate compared to the previous year, reflecting a stabilization of economic conditions post-pandemic. Despite this, the region experienced growth in non-farm employment, indicating resilience and recovery in the labor market. Gross sales and use tax collections showed consistent growth, suggesting sustained economic activity. However, the housing market fluctuated, with building permit valuations staggering between quarters. While some sectors saw employment gains, others faced challenges, resulting in a mixed picture of the economy. Overall, Central Arkansas demonstrates stability with promising signs of growth, earning a letter grade of B.

THE JONESBORO METRO (October – December 2023 conditions)

From December 2022 to December 2023, there was an uptick in the average unemployment rate in the Jonesboro MSA, rising from 2.4% to 2.9%. This rate aligns closely with the pre-pandemic levels observed in 2019 before the onset of the COVID-19 pandemic.

The labor force decreased by 905 positions, reflecting a 1.3% decline from the fourth quarter of 2022 to the same period in 2023, reaching 66,875 individuals. Non-farm employment remained steady throughout the fourth quarter of 2023, with a minor decrease of 400 jobs compared to the previous year's period.

Building permit valuations indicated growth from the fourth quarter of 2022 to the corresponding period in 2023. Total valuations rose from \$24.3 million in the fourth quarter of 2022 to \$27.90 million in 2023.

Economic conditions in the Jonesboro MSA from December 2022 to December 2023 showed a mixed outlook. While the average unemployment rate increased slightly, it remained consistent with pre-pandemic levels observed in 2019. The labor force experienced a slight decline, and non-farm employment remained stable, with a minor decrease compared to the previous year. Building permit valuations and gross sales and use tax collections indicate stability. The Jonesboro MSA earned an overall grade of C.

THE ARKANSAS ECONOMY (October – December 2023 conditions)

During the fourth quarter of 2023, Arkansas demonstrated strong growth in non-farm employment, consistently expanding throughout the period. Over the span from December 2022 to December 2023, the state saw an increase of 15,100 jobs, representing a significant 1.1% rise, reaching an estimated total of 1,362,600 positions, up from 1,347,500 in December 2022. Quarterly analysis indicates a consistent upward trend, reflecting steady growth.

Throughout the fourth quarter of 2023, Arkansas consistently rose in the unemployment rate. The state's unemployment rate climbed from 3.4% in December 2022 to 3.7% in December

2023, indicating a notable increase of 0.3%. This deviation contrasts with the previous trend of declining unemployment rates observed in quarters one through three, marking a shift to a mixed labor market as 2024 approaches.

During the fourth quarter of 2023, Arkansas experienced a positive gross sales tax collections trend. November saw a modest uptick in collections, while October and December witnessed significant surges of 9% and 5%, respectively, indicating a varied pattern in consumer spending habits. Overall, the quarter displayed a favorable trajectory, suggesting increased consumer activity contributing to the state's revenue growth.

Building permit valuations for housing in Arkansas saw significant growth throughout the fourth quarter of 2023, with increases of 9% in October, 4% in November, and 5% in December. This consistent upward trend indicates a flourishing economy and potential employment prospects for 2024.

In Q4 2023, manufacturing employment in Arkansas experienced a decrease, dropping from 164,000 in December 2022 to 163,000 in December 2023 despite maintaining stable employment levels throughout the year.

During Q4 2023, the construction sector, which includes natural resources and mining, showed remarkable employment growth. Arkansas witnessed the addition of 7,600 jobs, representing a 12.83% increase in construction-related employment. By December 2023, the sector reached 66,800 jobs, compared to 59,200 in the corresponding month of the previous year.

The hospitality sector in Arkansas demonstrated robust and consistent employment growth, with an increase of 4,500 jobs from December 2022 to December 2023. Throughout the quarter, this sector maintained a favorable growth trajectory, displaying a resilient pattern in job creation. By December 2023, it reached an estimated total of 130,100 positions.

In the fourth quarter of 2023, Arkansas achieved an overall B+ grade. The state displayed economic resilience, with notable increases in non-farm employment as well as growth in the construction and hospitality sectors, despite an uptick in the unemployment rate. However, significant changes in building permits and declines in manufacturing employment signal potential challenges in some sectors. The varied performance across industries suggests a requirement for vigilant monitoring to navigate market fluctuations and sustain growth.

THE NATIONAL ECONOMY (October – December 2023 conditions)

Overview:

In the fourth quarter of 2023, the U.S. economy demonstrated remarkable resilience. It surpassed expectations, with GDP expanding at an annualized rate of 3.3%, outpacing the anticipated historical 2% growth. This heightened performance was mainly driven by solid consumer spending, which increased by 2.8%, and significant government expenditure, with state, local, and federal spending all contributing to economic expansion. Additionally, progress was made on inflation, with core prices for personal consumption expenditures rising by 2%, indicating a controlled inflationary environment. Throughout the year, the economy accelerated at a 2.5% annualized pace, exceeding earlier forecasts and highlighting the effectiveness of current economic policies. Despite lingering concerns about the effects of monetary tightening and government deficit spending, the U.S. economy remains resilient, supported by steady job creation, rising personal income, and increased savings.



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Positive Indicators:

GDP Growth: The U.S. economy expanded at a robust pace of 3.3% in the fourth quarter, surpassing expectations driven by strong consumer spending and government expenditure.

Consumer Spending: Personal consumption expenditures increased by 2.8%, indicating healthy consumer confidence and driving overall economic growth.

Government Spending: Both state and local government spending (up 3.7%) and federal government expenditures (up 2.5%) contributed significantly to GDP expansion, supporting economic activity.

Inflation Control: Core prices for personal consumption expenditures rose by 2%, indicating progress on inflation control, essential for maintaining economic stability.

Job Creation: The economy added 2.7 million jobs throughout 2023, contributing to consumer confidence and spending.

Personal Income and Savings: Disposable personal income increased by 4.2% in the fourth quarter. In comparison, the personal saving rate reached 4.5%, reflecting improved household financial stability.

Trade: Exports increased in goods and services, contributing to GDP growth.

Manufacturing: The manufacturing industry experienced significant growth, with annual manufacturing construction spending making the largest contribution to GDP ever, indicating strength in the sector.

Challenges:

Monetary Policy Effects: Concerns remain about the potential negative effects of past monetary policy tightening, with 11 interest rate hikes totaling 5.25 percentage points between March 2022 and July 2023, which could contribute to future economic challenges.

Debt and Savings: Despite rising personal income, there are concerns about high-interest debt loads accruing and dwindling savings rates, which could impact future consumer spending and economic growth.

Government Deficit Spending: While government spending supported economic expansion, there are worries about the sustainability of growth driven by deficit spending, with the total federal IOU at \$34 trillion and counting and a budget deficit exceeding half a trillion dollars for the first three months of fiscal 2024.

Overall, while the positive factors indicate a resilient and growing economy, the negative factors underscore potential challenges ahead, particularly regarding the sustainability of growth and the impact of past policy decisions.

Understanding The Compass Report Grades

The "grading" approach used to measure the current and leading economic indicators is a key factor in understanding the report. The strategy is to place the most recent data in a historical context. Average



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values for the percent change over the referenced 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.