

Current Economic Conditions in the Eighth Federal Reserve District

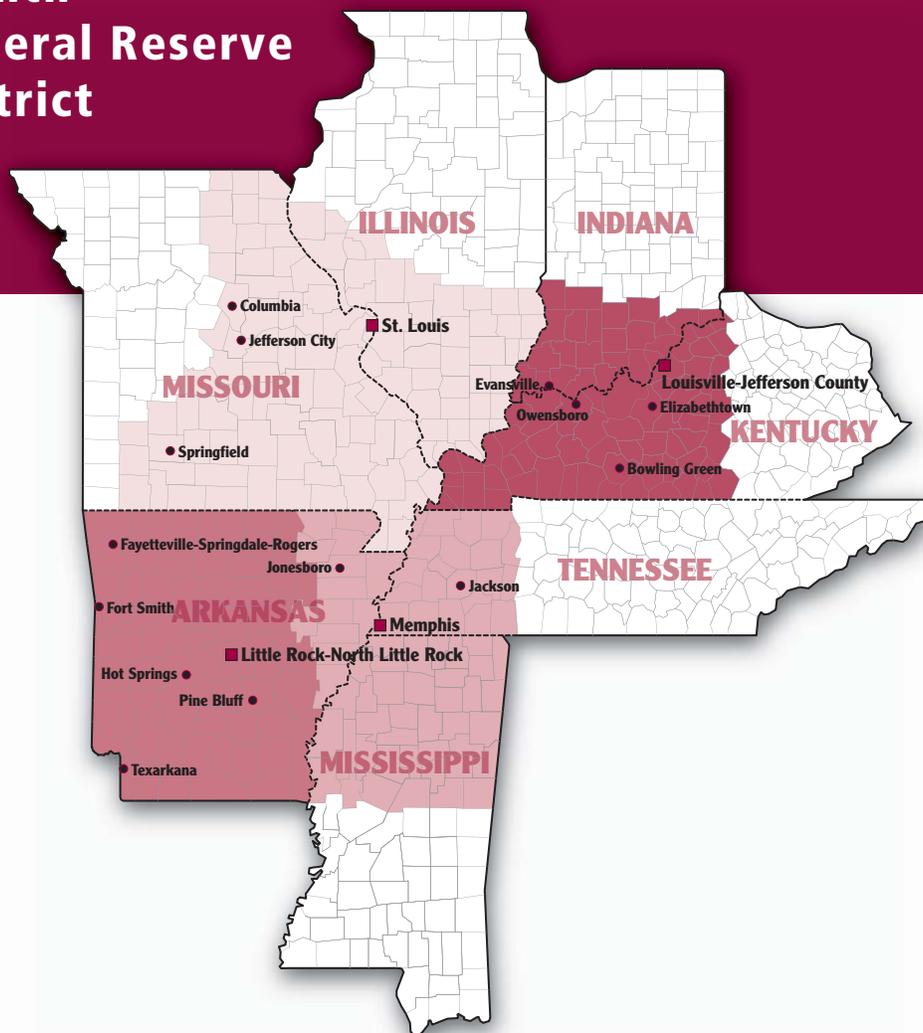
Little Rock Zone

September 21, 2012

Prepared by the
Research Division of the
Federal Reserve Bank of St. Louis



Eighth Federal Reserve District



This report (known as the *Burgundy Book*) summarizes information on economic conditions in the Little Rock zone of the Eighth Federal Reserve District (see map above), headquartered in St. Louis. Separate reports have also been prepared for the Louisville, Memphis, and St. Louis zones and can be downloaded from research.stlouisfed.org/regecon/.

The report includes government-provided data for Arkansas and the metro areas of the Little Rock zone. These data are the most recent available at the time this report was assembled.

NOTE: Metropolitan statistical areas (MSAs) are larger geographic areas than cities, as defined by the Census Bureau.

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Little Rock Zone Report—September 21, 2012

In general, labor market conditions over the past three months in the Little Rock zone have been stronger than in the nation, though growth in personal income has closely paralleled the nation's. Housing activity thus far in 2012 has been more mixed, though some areas of the zone are seeing robust growth rates experienced at the national level. House price changes in the zone are varied, but on average consistent with the nation. The following five points illustrate this assessment:

Annual Changes in Employment: In July 2012, Little Rock's nonfarm payroll employment was 0.6 percent higher than a year earlier, which was about three-quarters of a percentage point slower growth than the nation's growth rate of 1.4 percent.

Short-Term Changes in Employment: Between April 2012 and July 2012, the Little Rock MSA's payroll employment increased by an average rate of 0.3 percent per month. However, the rampant volatility in Little Rock area employment growth since mid-2009 has made it difficult to discern the underlying trend.

Unemployment Rate: In Little Rock, the unemployment rate decreased from 6.6 percent in April 2012 to 6.5 percent in July 2012. Over the same period, the U.S. unemployment rate inched up from 8.1 percent to 8.3 percent. Unemployment rates in the Little Rock zone, by and large, remain well below the U.S. rate.

Building Permits: Housing activity thus far in 2012 has been decidedly weaker in Little Rock than in the United States. The number of building permits issued in the Little Rock MSA over the first seven months of 2012 are running a little less than 40 percent below the same period a year earlier. That said, some areas of the Little Rock zone have seen permits expanding at rates similar to the nation's.

House Prices: Over the four quarters ending in the second quarter of 2012, prices of houses purchased with conventional mortgages were up by about 0.2 percent in the Little Rock MSA. For the nation, by contrast, house prices have declined by 0.6 percent. Overall, house prices have increased in two of the key areas in the Little Rock zone, while remaining unchanged or decreasing in the other four key areas.

Anecdotal Information from the Beige Book

Agriculture and Natural Resources

- Year-to-date coal production through August was 43.7 percent lower in Arkansas than in the first eight months of 2011.
- With the exception of pastureland, crop conditions have held steady since June; at least 80 percent of cotton, rice, sorghum, and soybean crops are rated as fair or better. The share of pastureland rated as fair or better has declined from 44 percent to 28 percent since mid-June.
- Crop yields in Arkansas are expected to be 2.5 to 12.5 percent higher compared with last year. Annual corn and sorghum production is forecasted to be 38.7 percent and 35.8 percent higher, respectively, than in 2011. Only cotton production is expected to decline from last year.

Car Dealers

- July and early August sales stayed the same compared with the same time last year for two of three contacts; one of six contacts reported a slight increase while one of six reported a moderate decrease.
- Sales are expected to increase in September and October when compared with the same time last year for one of two contacts; one of three contacts expect lower sales; the remaining contacts expect no change in sales.

Construction

- A contact reported several new office building construction projects in the Fayetteville metropolitan area.
- A contact noted some commercial redevelopment construction plans in Pulaski County.

General Retail

- July and early August sales decreased compared with the same time last year for one of two contacts; sales remained the same for one of three contacts; sales increased for the remaining contacts.
- Sales met expectations for one of six contacts; sales were below expectations for the remaining contacts.
- Sales are expected to increase in September and October when compared with the same time last year for one of two contacts; one of three contacts expect sales to decrease; the remaining contacts expect sales to remain the same.

Manufacturing

- Firms in furniture, air purification equipment, electrical equipment, metal can, industrial gas, and nanotechnology manufacturing plan to hire new workers while expanding operations or opening new plants. In contrast, firms in food, air transportation, and wind turbine manufacturing plan to lay off workers.

Real Estate

- A contact reported that apartment occupancy rates in northwest Arkansas remained high in Rogers, Bentonville, Fayetteville, and Springdale and strong multi-family real estate activity is expected in the second half of 2012.

Services

- An information technology services firm and a non-profit organization plan to hire new workers and expand operations. A telecommunications firm, meanwhile, plans to lay off a significant number of workers.

Banking and Finance

- Little Rock has not completed any Q3 visits. Visits have been scheduled for mid-September.

Detailed Indicators: Employment, Unemployment, Personal Income, and General Economic Activity

Nonfarm Payroll Employment Growth—Little Rock MSA

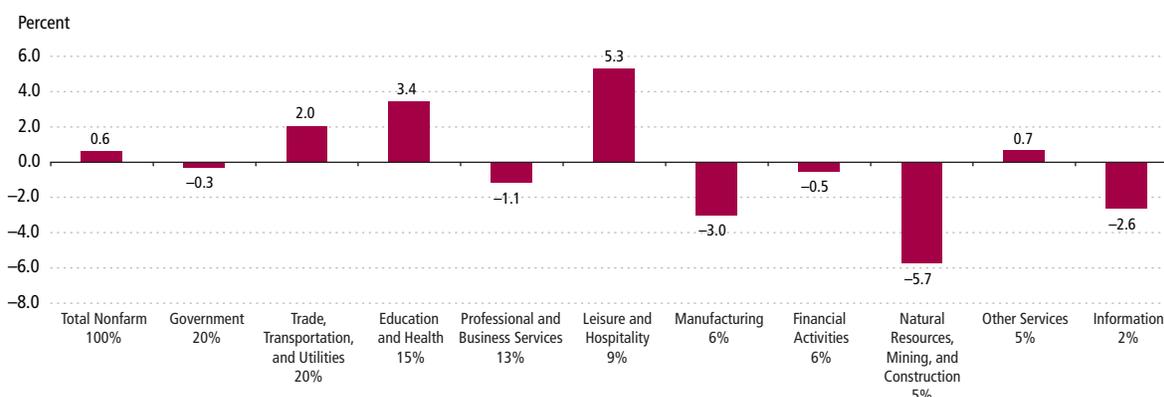


NOTE: 3-Month moving average, seasonally adjusted, January 2006–July 2012. See the narrative with the St. Louis charts for descriptions and definitions of the series that are also used in the Little Rock, Louisville, and Memphis charts and tables.

SOURCE: Bureau of Labor Statistics.

Compared with the nation, payroll employment growth in the Little Rock MSA has been exceptionally volatile since the end of the recession in June 2009. At this point, it is difficult to pinpoint the cause of this volatility. Nevertheless, over the three months ending in July 2012, payroll employment in Little Rock increased by 0.3 percent, versus 0.1 percent for the nation. During the three-month period shown in our prior report (January 2012 to April 2012), employment in Little Rock had decreased by 0.5 percent, versus a 0.1 percent increase for the nation. Because of this volatility, a longer-run view might provide more clarity: Since June 2009, Little Rock payroll employment has increased by 0.5 percent, while U.S. employment has increased by 2.1 percent.

Employment Growth by Sector—Little Rock MSA



NOTE: Percent change with respect to one year ago, July 2011–July 2012.
SOURCE: Bureau of Labor Statistics.

In contrast with the St. Louis MSA, payroll employment has increased slightly over the past 12 months in the Little Rock MSA. However, this increase of 0.6 percent still trails the nation (1.4 percent). The three largest sectors in the Little Rock MSA are Government; Trade, Transportation, and Utilities (TTU); and Education and Health. These three sectors account for 55 percent of total payroll employment. In the largest sector (Government), employment has decreased by 0.3 percent over the past year, but growth has been considerably stronger in TTU (2 percent) and in Education and Health (3.4 percent). Employment increases have also been particularly strong in the Leisure and Hospitality sector. Notable sectors that have experienced declining employment over the 12 months ending in July 2012 have been in Professional and Business Services, Manufacturing, and Natural Resources and Construction. Overall, these three sectors accounted for about 25 percent of the jobs in the Little Rock MSA.

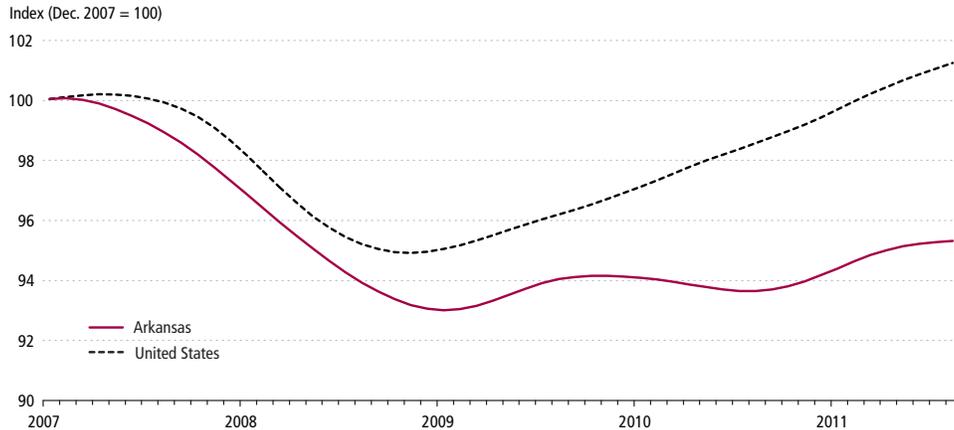
Employment and Unemployment by MSA

	Nonfarm payroll employment percent change, July 2011–July 2012			Unemployment rate July 2012
	Total	Goods producing	Service providing	
Little Rock, Ark.	0.63	-4.31	1.24	6.5
Fayetteville-Springdale-Rogers, Ark.-Mo.	3.47	1.13	3.98	5.5
Fort Smith, Ark.-Okla.	-2.42	3.04	-4.11	7.9
Texarkana, Ark.-Tex.	7.04	3.12	7.55	6.6
United States	1.40	1.52	1.38	8.3

NOTE: Sector-level employment data are not available for Hot Springs, Ark., or Pine Bluff, Ark.; as a result, these MSAs are not included in this table.
SOURCE: Bureau of Labor Statistics.

During the past 12 months, the Little Rock zone experienced net positive growth of employment across its MSAs. Over the past year, employment gains have been especially robust in the Texarkana (7 percent) and Fayetteville (3.5 percent) areas. By contrast, payroll employment has declined moderately in the Fort Smith area (-2.4 percent). Perhaps unusually, Fort Smith's decline stems from a rather large decline in services-related employment over the past year (-4.1 percent). The other MSAs, by contrast, have seen moderate to strong gains in services sector employment. Similar to our previous report published in June, the Little Rock MSA continued to see significant declines in goods-producing employment from a year ago. Compared with three months earlier, unemployment rates in the Little Rock zone are little changed but generally lower. Still, with the exception of Fort Smith, unemployment rates in the Little Rock zone MSAs are more than 1.5 percentage points lower than the nation's rate as of July 2012.

Coincident Economic Activity Index—Arkansas



SOURCE: Federal Reserve Bank of Philadelphia.

Economic activity in Arkansas, as measured by the Philadelphia Fed's coincident index, has struggled to recoup the losses experienced during the 2007-09 recession. The recession hit Arkansas comparatively harder than the nation as a whole and its recovery has been much weaker. In the first year of the recovery (measured from the index's low point), U.S. economic activity rose by 1.8 percent but Arkansas's activity rose by only 1.1 percent. As much as anything, Arkansas's weaker performance stems from the fact that government entities are the largest employer in the state. This matters because state and local governments have had to significantly reduce expenditures and employees to balance their budgets. Thus far in 2012, the growth gap between Arkansas and the United States has narrowed some: Activity has increased by 1 percent in Arkansas and by 1.6 percent in the United States. Still, Arkansas's current index (95.3) remains well below its December 2007 value, whereas the U.S. index (101.2) has surpassed its December 2007 value.

Real Personal Income Growth—Arkansas



NOTE: Percent change with respect to previous year.
SOURCE: Bureau of Economic Analysis.

Since the end of the recession in June 2009 (2009:Q2), growth of personal income (PI) in Arkansas has trended considerably closer to the U.S. growth rate. Prior to the recession, personal income growth in Arkansas was stronger than the nation's rate and, moreover, did not decline as severely during the recession. Since early 2011, though, PI growth in the nation and in Arkansas has slowed to less than 1 percent, with Arkansas's rate modestly lower. Indeed, Arkansas's PI is essentially unchanged (up 0.1 percent) over four quarters ending in the first quarter of 2012. Still, the nation's rate is only slightly stronger (0.6 percent).

Residential Real Estate Activity by MSA

	Total building permits, units year-to-date		House price index, percent change, 2012:Q2/2011:Q2
	July 2012	Percent change	
Little Rock, Ark.	1,314	-37.8	0.2
Fayetteville-Springdale-Rogers, Ark.-Mo.	975	43.6	0.6
Fort Smith, Ark.-Okla.	273	-11.1	0.0
Hot Springs, Ark.	28	64.7	-4.1
Pine Bluff, Ark.	57	18.8	-3.6
Texarkana, Ark.-Tex.	120	-46.4	-2.2
United States	454,275	31.1	-0.6

SOURCE: Bureau of the Census, Federal Housing Financing Authority.

Housing activity (as measured by building permit issuance) during the second quarter and early stages of the third quarter in the Little Rock zone has been decidedly mixed. In the largest MSA, Little Rock, authorized building permits over the first seven months of 2012 have declined nearly 38 percent from their levels a year earlier. Larger declines have been seen in the Texarkana area, but with markedly smaller declines seen in the Fort Smith area. Housing activity in the other three areas—Fayetteville, Hot Springs, and Pine Bluff—have seen robust growth of housing permits in 2012 compared with the same period a year earlier. These growth rates, by and large, are similar to the nation’s strong growth in housing permits year-to-date. Perhaps unusually, house prices over the four quarters ending in the second quarter of 2012 are generally little changed or up slightly in those areas where permits have fallen, while prices have declined in those areas where permits have exhibited the strongest growth. Texarkana was a notable exception. The largest increase in house prices over the past year was registered in Fayetteville (0.6 percent), while the largest decline occurred in the Hot Springs area (4.1 percent).