

Current Economic Conditions in the Eighth Federal Reserve District

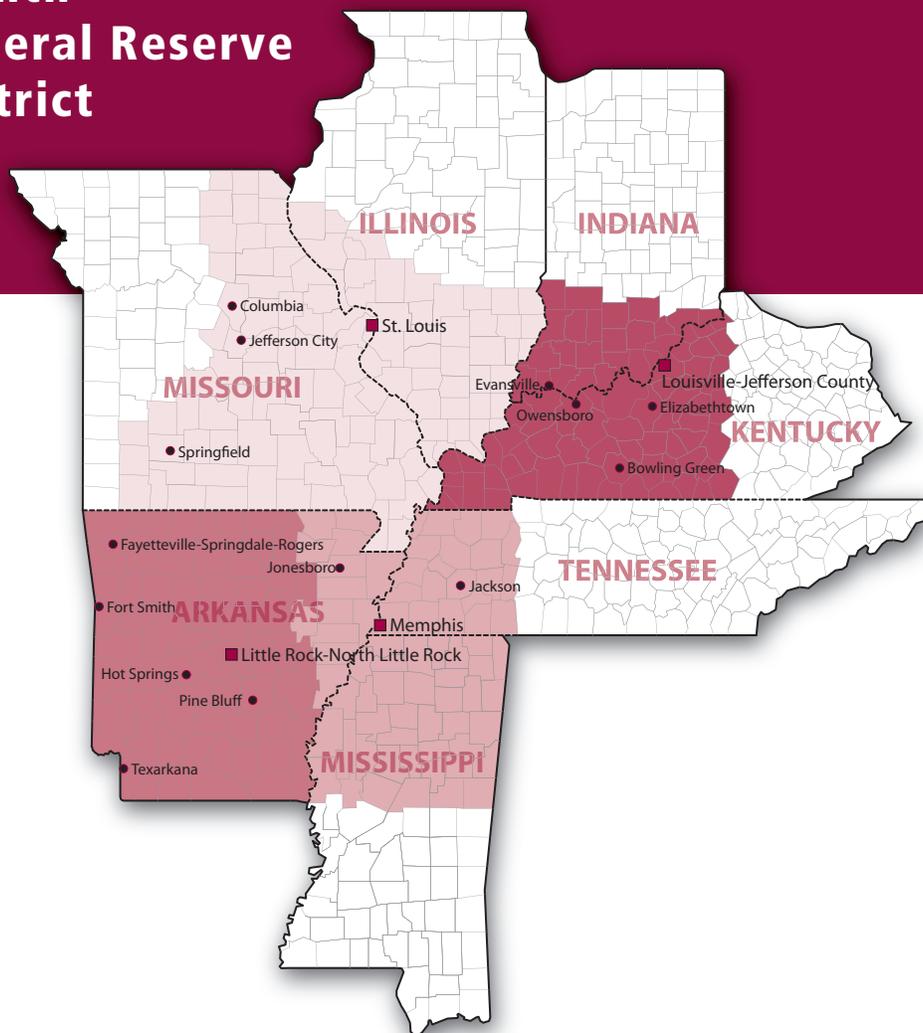
Little Rock Zone

December 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—December 21, 2012

On balance, labor market conditions over the past three months in the Little Rock zone have been modestly stronger than in the nation. However, employment growth remains exceptionally volatile, which makes it difficult to gauge near-term trends. Following a slight dip in the first quarter, the growth in real personal income rebounded modestly in the second and third quarters. Housing activity thus far in 2012 has been modestly stronger than a year earlier, though exhibiting less strength overall compared with the nation. House prices in the third quarter were down slightly from a year earlier, in contrast to the unchanged prices for the nation. The following five points illustrate this assessment:

Annual Changes in Employment: In October 2012, Little Rock's nonfarm payroll employment was 1.6 percent higher than a year earlier. This growth, which was 1 percentage point faster than three months earlier, exceeded the nation's growth by 0.15 percentage points.

Short-Term Changes in Employment: Between July 2012 and October 2012, the Little Rock MSA's payroll employment increased by an average of 0.3 percent per month. This increase outpaced the nation's 0.1 percent average monthly gain.

Unemployment Rate: Over the past three months (from July to October), the Little Rock MSA's unemployment rate decreased from 6.5 percent to 6.3 percent. In most areas of the Little Rock zone, the unemployment rate in October was well below the U.S. rate (7.9 percent).

Building Permits: Housing activity in the Little Rock zone is outpacing last year's activity, particularly in the largest areas. Still, activity in the zone thus far in 2012 has not kept pace with growth nationally.

House Prices: Over the four quarters ending in the third quarter of 2012, prices of houses purchased with conventional mortgages were down slightly in the Little Rock MSA. However, the meager change in house prices in the Little Rock zone masks some considerable variability across the zone.

Anecdotal Information from the Beige Book

Agriculture and Natural Resources

- Nearly all crops in Arkansas were harvested as of early November. The harvest completion rates were well ahead of their 5-year averages for cotton and soybeans, with an additional 15 percentage points of each crop harvested.
- The USDA forecasts higher yields and production for all crops in Arkansas in 2012 relative to 2011. In particular, they upgraded their early September yield and production estimates for all crops. Rice, corn, and sorghum production is expected to be 20 percent, 65 percent, and 69 percent higher, respectively, in 2012 relative to 2011.
- Relative to the 5-year average, an additional 14 percentage points of the planned winter wheat crop has been planted in Arkansas and has emerged as of late November. Over 96 percent of the crop is rated in fair or better condition.

- Year-to-date coal production through November was 50.9 percent lower in Arkansas than in the first 11 months of 2011.

Car Dealers

- Half of contacts reported that sales in October and early November remained the same compared with the same time last year; one of three contacts reported increased sales, while one of six reported decreased sales.
- Two of three contacts reported that sales met expectations; the remaining contacts reported that sales fell short of expectations.
- Two of three contacts expected sales to increase in November and December compared with the same time last year; one of six contacts expected lower sales; the remaining contacts expected no change in sales.

Construction

- A contact in Little Rock reported a couple of commercial construction redevelopment projects in the downtown area, while another contact noted that some office building projects in suburban Little Rock are under construction.
- A contact in south Arkansas reported that home-builder confidence in October has reached the highest level in the past six years.

General Retail

- One of two contacts reported decreased sales for October and early November compared with the same time last year; one of three contacts reported sales remained the same; the remaining contacts reported increased sales.
- Half of contacts reported that sales met expectations; the remaining contacts reported that sales were below expectations.
- One of two contacts expected sales to increase in November and December compared with the same time last year; one of three contacts expected sales to decrease; the remaining contacts expected sales to remain the same.

Manufacturing

- Firms in plastic, poultry processing, and small-arms manufacturing announced plans to hire new workers and expand operations and open new plants. Meanwhile, compressor and food manufacturers announced a net reduction of workers in this quarter.

Real Estate

- A national contact reported that multifamily real estate activities in Little Rock remained strong as the vacancy rate continued to decline and rents continued to increase.

Services

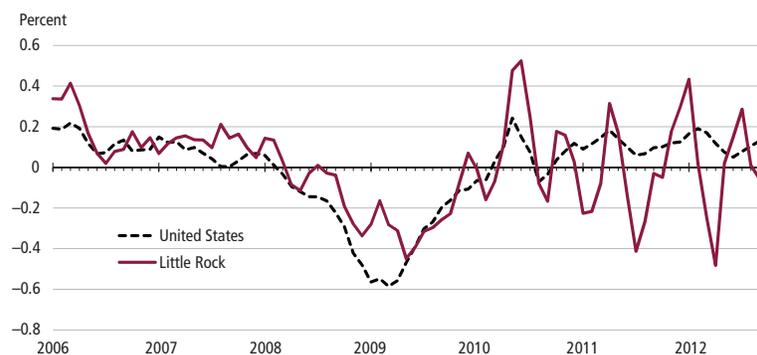
- A crisis management services firm plans to hire four professionals, while a medical services firm laid off 50 employees.

Banking and Finance

- Little Rock contacts have no responses to provide for this category.

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

Nonfarm Payroll Employment Growth—Little Rock MSA

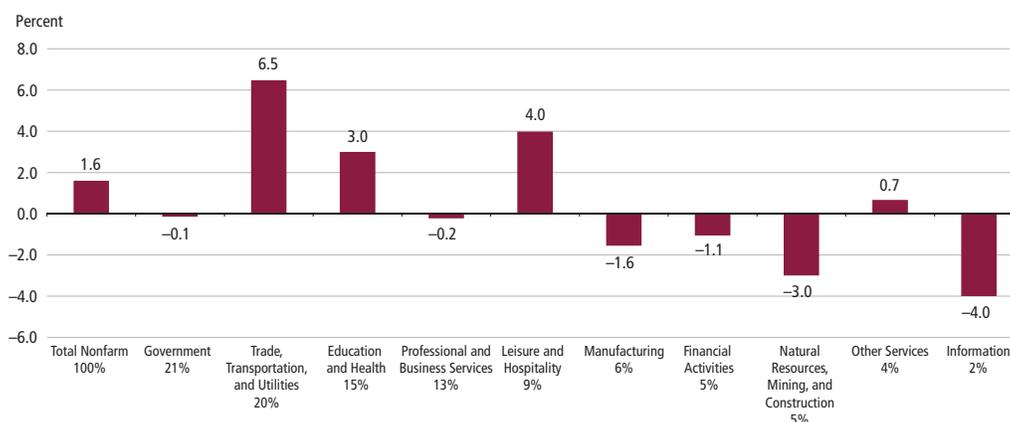


NOTE: 3-Month moving average, seasonally adjusted, January 2006–October 2012. See the narrative with the St. Louis charts for descriptions and definitions of the series that are also used in the Little Rock, Louisville, and Memphis charts and tables.

SOURCE: Bureau of Labor Statistics.

Payroll employment growth in the Little Rock MSA continues to be extraordinarily volatile relative to the nation's employment growth. Over the three months ending in October 2012, payroll employment in Little Rock increased by an average of 0.3 percent per month, versus 0.1 percent for the nation. These increases are roughly the same as shown in our prior report (April 2012 to July 2012). A longer-run view may provide more clarity, given the volatility in these figures: Payroll employment in the Little Rock MSA has increased by 1.3 percent since June 2009, half as much as the nation's 2.6 percent increase.

Employment Growth by Sector—Little Rock MSA



NOTE: Percent change with respect to one year ago, October 2011–October 2012.

SOURCE: Bureau of Labor Statistics.

The year-to-year growth in payroll employment in the Little Rock MSA has picked up over the past three months. For the 12 months ending in October 2012, nonfarm payroll employment has increased by 1.6 percent, which is 1 percentage point faster than the growth reported in our previous report (July 2011 to July 2012). Moreover, this increase modestly exceeds the nation's 1.4 percent gain. Measured by employment shares, the three largest sectors in the Little Rock MSA are Government (21 percent); Trade, Transportation, and Utilities (20 percent); and Education and Health (15 percent). Together, these three sectors accounted for 56 percent of total payroll employment in October 2012. Job growth in the Little Rock MSA has been hampered by continued year-to-year declines in government payrolls, which is the largest employment provider. These declines, more recently, have been offset by vigorous job growth in Trade, Transportation, and Utilities (6.5 percent), Education and Health (3 percent), and Leisure and Hospitality (4 percent). By contrast, manufacturing employment continued to decline in October (–1.6 percent), although its decline was appreciably smaller than that reported in our September report (–3 percent). Overall, 6 of the 10 sectors in the Little MSA experienced employment declines in October relative to a year earlier.

Employment and Unemployment by MSA

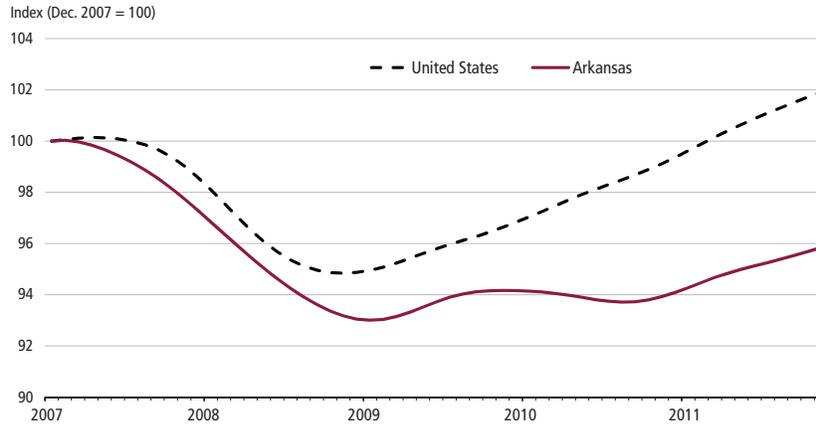
	Nonfarm payroll employment percent change, October 2011–October 2012			Unemployment rate October 2012
	Total	Goods producing	Service providing	
Little Rock, Ark.	1.60	–2.22	2.06	6.3
Fayetteville-Springdale-Rogers, Ark.-Mo.	3.85	1.71	4.29	5.4
Fort Smith, Ark.-Okla.	–0.72	1.56	–1.39	8.4
Texarkana, Ark.-Tex.	4.20	3.12	4.34	6.2
United States	1.45	1.15	1.49	7.9

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, employment gains in the Little Rock zone's MSAs generally exceeded the nation's 1.5 percent growth—in many cases by a significant margin. The Fort Smith MSA was a notable exception, as it experienced falling employment relative to a year earlier. Over the past year, employment gains have been especially robust in the Texarkana (4.2 percent) and Fayetteville (3.9 percent) areas. Job growth in the Little Rock MSA also exceeded the nation's growth, but by a narrower margin. As in our previous report, Fort Smith's employment decline continues to stem from a relatively large decline in service-providing employment over the past year (–1.4 percent). Other Arkansas MSAs continue to see healthy growth of employment in both the service-providing and goods-producing sectors. Fort Smith is also unique in that, unlike the other Arkansas MSAs, its unemployment rate remains above the nation's rate. However, similar to the nation, the unemployment rate in the Arkansas MSAs declined modestly from their rates three months earlier.

Coincident Economic Activity Index—Arkansas

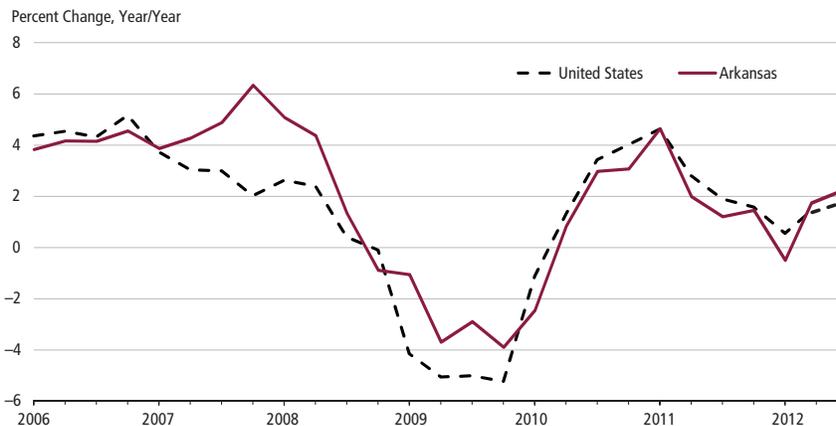


SOURCE: Federal Reserve Bank of Philadelphia.

The Philadelphia Fed's coincident index combines information on payroll employment, nominal wages and salaries, the unemployment rate, and average hours worked in the manufacturing sector. It is designed to be a comprehensive measure of economic performance at the state level, comparable with real GDP at the national and state level (gross state product). [NOTE: The level of activity is measured on a state-wide basis rather than by the boundaries of the Federal Reserve Districts.] In this chart, the index is set to equal to 100 at December 2007, which is the peak of the previous U.S. business expansion according to the National Bureau of Economic Research Business Cycle Dating Committee.

The pace of economic activity in Arkansas, as measured by the Philadelphia Fed's coincident index, has struggled to keep pace with that of the nation since the end of the recession in mid-2009. Year-to-date, Arkansas's growth (1.7 percent) trails the nation's growth (2.3 percent) by a significant amount. As noted in the employment discussion in the previous page, Arkansas's weaker performance stems importantly from the fact that government entities are a large employer in the state and state government payrolls have declined by 3.5 percent since June 2009. More recently, though, Arkansas's pace of growth has nearly matched the nation's. Over the three months ending in October 2012, Arkansas's coincident index increased by about 0.5 percent, versus 0.6 percent for the nation. However, Arkansas's level of activity remains about 4 percent below its level in December 2007. By contrast, the level of activity for the nation has surpassed its peak in December 2007. Moreover, this gap between Arkansas and the nation is much larger than that which prevailed during the depth of the recession in early 2009.

Real Personal Income Growth—Arkansas



NOTE: Percent change with respect to previous year.

SOURCE: Bureau of Economic Analysis.

Real personal income (PI) is a measure of the income received by households from a variety of sources.¹ The largest component of PI is compensation, which is largely wages and salaries. PI also includes interest and dividend income, transfer payments from the government, and some other sources. At the national level, PI is about 85 percent of GDP. Thus, its growth rate generally tracks GDP closely.

Growth of PI in Arkansas over the past four quarters continues to trend closely to the U.S. growth rate—though advancing by a modestly faster rate. Earlier this year, Arkansas's real PI growth dipped modestly in the first quarter from a year earlier (–0.5 percent), while growth of U.S. real PI remained slightly positive (0.6 percent). Income growth then accelerated modestly in the second and third quarters from a year earlier. From the third quarter of 2011 to the third quarter of 2012, Arkansas's growth (2.3 percent) modestly exceeds the nation's growth (1.8 percent). By and large, real PI growth remains exceptionally modest during this business expansion.

¹ Real personal income for the nation and the states is nominal personal income deflated by the personal consumption expenditure chain-price index.

Residential Real Estate Activity by MSA

	Total building permits, units year-to-date		House price index, percent change, 2012:Q3/2011:Q3
	October 2012	Percent change	
Little Rock, Ark.	2,890	9.8	-0.3
Fayetteville-Springdale-Rogers, Ark.-Mo.	1,420	44.5	0.6
Fort Smith, Ark.-Okla.	390	-14.8	1.0
Hot Springs, Ark.	41	46.4	-2.8
Pine Bluff, Ark.	60	-3.2	4.2
Texarkana, Ark.-Tex.	129	-58.9	2.5
United States	679,933	33.1	0.0

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

Housing activity (as measured by building permit issuance) continued to increase in the Little Rock zone, although the pace of activity has slipped in a few areas relative to the same period a year ago. Through the first 10 months of 2012, building permit issuance in the Little Rock MSAs totaled a little more than 4,900 permits, which was up 10.1 percent from the same period a year earlier. In the Little Rock MSA, which comprises about 60 percent of the zone's total 2012 MSA permit issuance, permits are running 9.8 percent above last year's pace. Permit issuance has been considerably stronger this year in the Fayetteville and Hot Springs MSAs. In fact, growth in these two areas has outstripped the nation's growth (33.1 percent) by a considerable margin. In contrast, permit issuance is running below last year's pace in Fort Smith, Pine Bluff, and Texarkana. House price changes have been all over the map in the Little Rock zone. Changes in house prices in the third quarter of 2012 relative to the third quarter of 2011 range from a decline of 2.8 percent in Hot Springs to an increase of 4.2 percent in Pine Bluff.