Economic Outlook 2005

The national economy has strengthened over the past year, with a trickle of employment growth after more than three years of negative performance. The oil-price spike has, however, put a question mark over the U.S. economy's near-term future. High oil prices tend to hit Arkansas harder than the national average.1

Major infrastructure improvements underway on I-30, I-40, and U.S. 67-167 will provide an economic boost in the near future. These improvements will temporarily relieve traffic pressure, and may partly account for the recent housing development surge in Saline County. However, the experience of other metro areas and data from Metroplan's transportation model suggest the congestion benefit will be temporary.

Local economic indicators like income growth and construction trends remain strong, suggesting the region holds competitive advantages. Land development trends have shown a shift in recent years toward some in-fill and increasing density, not just downtown but throughout built-up parts of the region. Rising density and emphasis on high-amenity locations may reflect the region's growing incomes and increasingly technological economic structure. At the same time, the region continues growing at its periphery, as demonstrated by major recent retail completions in western Little Rock and Conway.

National economic uncertainty makes it hard to predict the near-term future. The experience of recent years suggests, however, that the central Arkansas regional economy can continue out-performing the national average in any case.

Employment & Income Trends

Living Well in Difficult Times

Total job growth in central Arkansas in 2003 amounted to about 300 jobs – a gain of about one-tenth of one percent over the previous year. This humble performance nonetheless outpaced state and national averages, both of which again registered losses during 2003.

What has caused the protracted employment growth slump in recent years? Most economists believe a rapid rise in productivity, or output per job, has been the primary factor. Foreign out-sourcing of jobs is probably another contributing factor. The large-scale call-up of reservists for military duty abroad has also been a small factor, albeit a difficult one to measure. While continuing economic recovery has finally added a few jobs at the national level since the beginning of 2004, the pace of growth remains slow.

Unemployment in central Arkansas hit its highest level in over ten years during 2003, at 5.1 percent. Once again, though, the region did better than the state average of 6.2 percent, and was also well below the U.S. average of 6.0 percent.

Despite the lack of significant job growth, most economic measures suggest that central Arkansas is out-performing the national average. Since the year 2000, the region’s population growth has accelerated. Trends in housing and general construction suggest growth well above U.S. norms (see data on pp. 4-5). Further, as the chart below shows, growth in per capita income has run above the U.S. and south-eastern average since the year 2000.

Several competitive advantages may have helped the region outperform the national average in recent years. Economic diversity shielded central Arkansas from the worst effects of the 2001 recession. Cost-of-living advantages and strengths in local industries have worked to the region’s advantage as well.

The chart on the opposite page compares employment change by industry from 2000 to 2003, based on the new NAICS employment classification system. As you can see, central Arkansas has outperformed the U.S. average in information, construction, and several types of service employment. The region’s competitive advantage has been especially strong in information (NAICS 51), with 6.8 percent employment growth since 2000 despite 11.9 percent decline at the national level.

As the chart shows, manufacturing job losses have been steep. The U.S. economy has shed one in six of all its manufacturing jobs since 2000, a loss of over 2.7 million jobs. While Central Arkansas has suffered an even higher rate of job loss than the national average, manufacturing accounts for a smaller share of total jobs than it does at the national level. The U.S. manufacturing sector has been losing jobs overall for 25 years, while central Arkansas has seen steady job losses in this sector for nearly 10 years.

One of the Wealth Builders

In a recent Brookings Institution study, the Little Rock-North Little Rock MSA ranked 12th in the U.S.A. as a “Wealth Builder” region among the 100 largest metropolitan areas. Author Paul Gottlieb defines Wealth Builders as regions that can raise their incomes without fast population growth. Gottlieb points out that “growth without growth” may be desirable because it avoids problems like rapidly rising infrastructure costs and spiraling traffic congestion. Regression analysis shows no meaningful correlation between population increase and per capita income growth in metropolitan areas. “Population Magnet” regions like Seattle, Portland and El Paso have seen little income gain despite fast population growth, possibly demonstrating the problems associated with rapid in-migration rates.

Gottlieb does not favor coercive policies to discourage population growth. He simply contends that a region’s population growth rate is not a benchmark of economic progress or quality of life. Often characterized by an above-average share of high-technology jobs, Wealth Builder regions hold a subtle but important advantage in the relentless game of regional competition.

The study cited is titled “Growth Without Growth: An Alternative Economic Development Goal for Metropolitan Area,” by Paul Gottlieb, February 2002. You can find it online at:

<http://www.brookings.edu/metro/publications/gottliebsum.htm>
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Economic Review & Outlook

Housing Construction Accelerates into 2004

Over 2,600 new housing units were permitted in central Arkansas during the first half of 2004, reflecting strong housing demand and low interest rates. Six of the region's nine major cities over 5,000 population recorded more single-family permits than during the first half of 2003. Only Bryant, Maumelle and Conway saw decline compared with the previous half-year.

Multi-family housing had a very active year in Little Rock, which saw more multi-family units permitted in the first half of 2004 than in all of the ten previous full years, with the exception of 1997. Aside from 189 units permitted in Conway, the pace of multi-family construction elsewhere in the region was modest.

The central Arkansas region has substantially out-performed the national average in construction values over the past two years. Overall values rose 30.5 percent locally from 2001 to 2003, compared with 6.7 percent growth at the national level. The region's edge has been most pronounced in single-family housing, with 53.3 percent growth 2001-2003 versus 24.7 percent at the national level. In non-residential construction, the region has shown growth while national nonresidential construction declined 2001-2003.

Construction Industry Continues at Record Pace in 2003

The total value of all construction permits in the region was $840.2 million in 2003, only slightly lower than last year's record performance. New residential construction was once again the hottest performer, passing the half-billion dollar mark at $526.2 million, the highest residential performance ever recorded in the region. Once again, low interest rates were a strong spur to construction.

Non-residential construction dropped 22 percent over 2002 with a total value of $270.8 million. This was a fairly modest overall performance compared with recent past years. The underlying source of this slowdown was a drop-off in Pulaski County, where nonresidential permit value dropped from its near-record performance of $307 million in 2002 to about $186 million in 2003. Non-residential construction activity actually climbed sharply in all three outlying counties following several years of slower activity in the recent past.

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The provision of federal funding for construction has actually increased in real dollars at the federal level. The preparation and publication of this document was financed by the US Department of Transportation through the Federal Highway Administration and Federal Transit Administration. The provision of federal financial assistance should not be construed as denoting US government approval of any plans, policies or programs contained herein.


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Means, Medians and Affordable Homes

Since 1996, Metroplan has provided data on mean housing permit value for each city in central Arkansas. While useful, mean housing cost is an inadequate measure of housing affordability. This year, Metroplan is also providing data on median housing cost. This provides a different and more precise indicator of housing affordability.

The chart below right depicts the mean value of new housing units given permits in central Arkansas during 2003, ranked by city. The results are roughly similar with past years. The mean cost crept up to $158,216 in 2003, with the highest mean values in Little Rock and North Little Rock and the lowest in Jacksonville and Cabot.

When ranked by median value, Maumelle ranked first in 2003, with a median value of $219,005, just 1.5 percent of the city's total during 2003, ranked by city. The results are roughly similar with past years. The mean cost crept up to $158,216 in 2003, with the highest mean values in Little Rock and North Little Rock and the lowest in Jacksonville and Cabot.

A closer look reveals that nearly 60 percent of Maumelle's new homes were valued at over $200,000. Only five units in Maumelle -- just 1.5 percent of the city's total -- were valued under $100,000.

The distribution of affordable homes varies widely between different cities. The charts below give just three examples, showing the distribution of new housing units by value in Maumelle, Benton, and Conway, in 2003. Maumelle's distribution shows the greatest slant toward the high end, while Benton's distribution is remarkable for its comparative balance between low, medium, and high prices. Conway shows a major affordability advantage with a fairly high proportion of homes under $100,000.

Explaining Means and Medians

The mean value for each city represents the total dollar value of all new single-family homes in each city divided by the number of units. Although a useful measure, the mean does not necessarily convey a value that is typical. For example, if a city builds a small number of really high-value homes, say over $1 million each, the mean for all homes will go up even though the vast majority may be in the much lower $100,000 to $200,000 range.

To compensate for such distortions, we can use the median -- the value at which exactly half the units are lower in value and half are higher. The substantial difference between means and medians can be seen in the results conveyed by the charts.
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Workforce 2030
The regional labor force will grow more slowly over the study period than during the previous thirty years, as a result of underlying demographic trends. While just over half of today's population is in the workforce, by 2030 the portion will drop to slightly under half, as shown at right. The slide in overall workforce participation will accelerate after 2010, when Baby Boomers start to retire. There will also be a modest proportional rise in workforce participation by females and workers over retirement age, but these sub-trends will be minor in comparison. There will be proportionally fewer workers in 2030 than today in the younger age groups, while the percent of workers age 55 and up will increase somewhat, as shown below.

Employment by Industry
There will be continuing changes in the nature of economic activity, not all of which can be foreseen at present. The broad array of employment types classified as services will be the region's primary source of new jobs. The bulk of job growth is likely to occur in the so-called "ICE" (Information, Communications and Entertainment) industries within the service sector.

Empty Factories of the Future
Manufacturing employment will diminish from 9 percent of all jobs in the region in 2000 to a mere 6 percent by 2030. U.S. manufacturing job losses have actually increased as a portion of total job loss during the last two recessions (1991 and 2001). Since recessions reveal underlying trends, the steep manufacturing job losses of recent years may point toward jobless factories in years to come. Increasing automation means that most of the few jobs remaining in manufacturing will be in non-production activities like maintenance, management, and research.

Retail Employment
Retail employment will grow, but at a slightly lower pace than overall employment. There is uncertainty about the future of retail employment, owing to the increasing role of non-store sales, particularly Internet transactions. The chart below shows the growth of so-called E-Commerce as a percent of total U.S. retail sales 1999-2003. E-commerce has more than doubled in four years, with no sign of slowing. This trend suggests a major reshaping in the retail industry, the results of which cannot be fully foreseen at present.

Today's Thoughts Versus Tomorrow's Reality
Metroplan's employment projections attempt to give definition to trends that contain many unknowns. The role of technology is raising serious questions about the economy's future direction. Slow job growth since 2001, often blamed on outsourcing, probably really owes to increased productivity. Machines and software are replacing human workers not just in manufacturing, but even in once-secure office jobs. Extrapolated into the future, today's trends suggest that tomorrow's routine tasks will be increasingly replaced with technology. Even complex problem-solving and other high-skill tasks may give way to the cyber-revolution. Some thinkers believe that future jobs will likely emphasize capabilities that only humans have, like creativity and interpersonal skill.

One aspect of the future can be seen with clarity. The role of personal skill and education will matter even more in 2030 than today. Future economic growth will depend on how society trains tomorrow's workers as they adapt, innovate and create the economy of the future.

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1 U.S. Department of Commerce, Census Bureau, August 20, 2004. During this period, e-commerce has grown by 193 percent, while total retail sales grew by less than 17 percent.

Large Commercial Projects 2003

There were 68 large commercial projects (valued at $1 million or more) permitted in central Arkansas during 2003. Between them, these projects accounted for $222.7 million, or about 82 percent of total commercial construction value during 2003. The largest was the First Security Center in the River Market District, a mixed-use project valued at $18 million. The second largest was the Wal-Mart Super Center at the junction of Cantrell Road and Chenal Parkway in western Little Rock, valued at nearly $12 million.

Retail projects accounted for 24 percent of the total, the biggest share held by the retail sector since at least 2000. Churches and K-12 and college-level educational facilities accounted for large shares of the total as well.

The cities of Little Rock and North Little Rock were again heavily dominant in large projects, but Conway also played a major role with a new middle school and major retail construction at the Conway Commons project near the junction of I-40 and U.S. 64.

Little Rock permits showed more dispersion than in the recent past. While downtown and western Little Rock saw major projects, about $82 million, or 59 percent of all permit value within the city was elsewhere in locations like mid-town, southwest, and near-downtown. West Little Rock remains a growth area, but has been less dominant in the regional construction picture in the past four years than it was during the 1990s.

ADED List of New and Expanded Industries

2003 LR-NLR Large Commercial Permits

<table>
<thead>
<tr>
<th>City</th>
<th>Total Dollar Value by City</th>
</tr>
</thead>
<tbody>
<tr>
<td>Little Rock</td>
<td>$12,084,643</td>
</tr>
<tr>
<td>North Little Rock</td>
<td>$11,422,000</td>
</tr>
<tr>
<td>Conway</td>
<td>$7,465,280</td>
</tr>
<tr>
<td>Bryant</td>
<td>$5,549,000</td>
</tr>
<tr>
<td>Jacksonville</td>
<td>$4,387,000</td>
</tr>
<tr>
<td>Little Rock West (out of city)</td>
<td>$2,951,000</td>
</tr>
<tr>
<td>Little Rock Other</td>
<td>$2,700,000</td>
</tr>
</tbody>
</table>

Building Permit Values

<table>
<thead>
<tr>
<th>Year</th>
<th>New</th>
<th>Residential</th>
<th>Non-Residential</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>144.6</td>
<td>75.5</td>
<td>3.2</td>
</tr>
<tr>
<td>2000</td>
<td>86.7</td>
<td>51.6</td>
<td>3.0</td>
</tr>
<tr>
<td>2001</td>
<td>97.7</td>
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Sources: Arkansas Employment Security Department, Arkansas Department of Economic Development, Arkansas Assessment Coordination Division, and Little Rock Regional Chamber of Commerce.

* Bank data exclude assets and deposits held by banks serving the area but based outside the four-county Little Rock-North Little Rock MSA.

** Data compiled by Metroplan for six-county LR-NLR MSA.
Large Commercial Projects 2003

There were 68 large commercial projects (valued at $1 million or more) permitted in central Arkansas during 2003. Between them, these projects accounted for $222.7 million, or about 82 percent of total commercial construction value during 2003. The largest was the First Security Center in the River Market District, a mixed-use project valued at $18 million. The second largest was the Wal-Mart Super Center at the junction of Cantrell Road and Chenal Parkway in western Little Rock, valued at nearly $12 million.

Retail projects accounted for 24 percent of the total, the biggest share held by the retail sector since at least 2000. Churches and K-12 and college-level educational facilities accounted for large shares of the total as well.

The cities of Little Rock and North Little Rock were again heavily dominant in large projects, but Conway also played a major role with a new middle school and a mixed-use project valued at $18 million. The second largest was the Wal-Mart Super Center at the junction of 1-40 and U.S. 64.

North Little Rock saw major projects, but Conway also played a major role with a new middle school and a mixed-use project valued at $18 million. The second largest was the Wal-Mart Super Center at the junction of 1-40 and U.S. 64.

Little Rock permits showed more dispersion than in the recent past. While downtown and western Little Rock saw major projects, about $32 million, or 59 percent of all permit value within the city was elsewhere in locations like mid-town, southwest, and near-downtown. West Little Rock remains a growth area, but has been less dominant in the regional construction picture in the past four years than it was during the 1990s.

ADDED List of New and Expanded Industries

LR-NLR MSA 2002

<table>
<thead>
<tr>
<th>Category/Company</th>
<th>City</th>
<th>New or Expanded</th>
<th>SIC</th>
<th>Product or Service</th>
</tr>
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<tr>
<td>Boltz, LLC</td>
<td>Conway</td>
<td>N</td>
<td>2514</td>
<td>Steel racks, shelving and furniture</td>
</tr>
<tr>
<td>Communications of America</td>
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<tr>
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<td>2844</td>
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<tr>
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<tr>
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LR-NLR Socio-Economic Statistics 2003

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2003 LR-NLR Large Commercial Permits

Total Dollar Value by City

- Little Rock West (West of 1-40)
- North Little Rock
- Little Rock (West of 1-40)
- Little Rock Downtown
- Sherwood
- Benton
- Bryant
- Cabot
- Conway
- Jacksonville
- North Little Rock
- Little Rock Other 30%

Building Permit Values

1999-2002 Building Permit Values - County and MSA Totals

($ Millions of Dollars)

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The national economy has strengthened over the past year, with a trickle of employment growth after more than three years of negative performance. The oil-price spike has, however, put a question mark over the U.S. economy's near-term future. High oil prices tend to hit Arkansas harder than the national average.

Major infrastructure improvements underway on I-30, I-40, and U.S. 67-167 will provide an economic boost in the near future. These improvements will temporarily relieve traffic pressure, and may partly account for the recent housing development surge in Saline County. However, the experience of other metro areas and data from Metroplan's transportation model suggest the congestion benefit will be temporary.

Local economic indicators like income growth and construction trends remain strong, suggesting the region holds competitive advantages. Land development trends have shown a shift in recent years toward some in-fill and increasing density, not just downtown but throughout built-up parts of the region. Rising density and emphasis on high-amenity locations may reflect the region's growing incomes and increasingly technological economic structure. At the same time, the region continues growing at its periphery, as demonstrated by major recent retail completions in western Little Rock and Conway.

National economic uncertainty makes it hard to predict the near-term future. The experience of recent years suggests, however, that the central Arkansas regional economy can continue out-performing the national average in any case.