Economic Outlook 2008

The central Arkansas metropolitan area was recently ranked "one of the top ten markets to watch" in office space by Sperry Van Ness, while Moody's Investment called the Little Rock area the second most diverse economy in the U.S. Despite changes affecting regional corporate leaders and portents of national downturn, central Arkansas is thriving. Local growth is spread among several industries, with a few areas of concentrated strength. Natural gas exploration in the Fayetteville Shale Play, which includes northern Faulkner County, has jump-started the region's mining sector. Local performance has been strong in Information (NAICS 51), including telecommunications, broadcasting, and data processing industries. Information industries may gain a critical edge from the region's low cost structure, coupled with urban sophistication that often surprises visitors. Other strong sectors include education, health services, and nonprofit grant-making and religious institutions.

Risks remain. Local single-family housing indicators have sagged to barely above the national average. Possible national recession and high energy prices will challenge local prosperity. The region skirted past ozone non-attainment during 2007, but local air pollution data remain ominous. During 2008 ozone levels could easily reach non-attainment, resulting in federal regulations that could dampen the economic climate.

Experience in other urban regions suggests that transformations in the corporate landscape can make talented workers leave established firms to form innovative new start-ups. County Business Patterns data suggest that local business establishments have risen in number somewhat more quickly than the national average. If these figures hint at a growing trend, the real secret behind rising local prosperity might just be a blossoming of old-fashioned entrepreneurship.

Good Times in Central Arkansas

The chart below is an index that compares employment growth since the year 2000. As you can see, employment has grown substantially faster in the local region than it has at state or national levels. The strong local employment picture carries through the third quarter of 2007, in face of a slowdown in state and U.S. employment growth. Despite worries about possible national recession and high energy prices, if these figures hint at a growing trend, the real secret behind rising local prosperity might just be a blossoming of old-fashioned entrepreneurship.

local firms - the aborted Acxiom buyout, the sale of local telecom giant Alltel, and lagging growth at Dillard's - the local economic news has seldom been better. The region's edge on state and national averages has only widened during the first three quarters of 2007.

Central Arkansas grew jobs at a 2.6 percent rate from 2005 to 2006, outpacing state and U.S. gains of 1.8 percent. This above-average growth continues a trend which began early in the current decade. As the second chart shows, local employment grew 6.2 percent from 2000 to 2006, versus 3.5 percent for the state and 3.3 percent for the U.S. This new trend reverses the trend of 1997-2000, when the central Arkansas region generally under-performed the U.S. average.

In sectors where the U.S. economy has barely gained jobs, the local region has recorded more substantial growth. The local information sector has been especially prominent, growing by 4.3 percent (400 jobs) over a year while the U.S. economy registered just 0.5 percent job growth in the same sector. Information includes telecommunications, an area of traditional strength in central Arkansas. Regional growth overall was also broadly-based, with gains exceeding the national average in eight of the twelve NAICS 2-digit sectors shown in the chart. Note that the region did not

(continued on page 2)
fare as well in business services as it has done in the past, when this sector was a regional growth leader.

In the manufacturing sector, local job loss rate was sharply higher than the national average. Since the share of local employment in manufacturing runs below the national average, this trend is less severe than it appears at first sight. Local transportation equipment manufacturing showed gains despite loss at the national level, probably bolstered by the region’s dynamic aerospace manufacturing industry.

The chart below compares per capita income growth for the two largest urban regions in Arkansas with overall U.S. and U.S. metro averages. As you can see, the central Arkansas region continues to hold a lead. While total job growth in the Fayetteville-Springdale-Rogers MSA continues to outpace job growth in central Arkansas, the gain in income per person has been slower.

Source for employment data: Arkansas Department of Workforce Services.

Source: U.S. Bureau of Economic Analysis.
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The Promenade at Chenal is one of many sizable investments being made in central Arkansas.
The End of Cheap Oil

Storm Clouds in the Old Crystal Ball

Metroplan is in the business of doing long-range planning (25-50 years in the future) for public infrastructure for our central Arkansas metropolitan area. Like all good long-range planners, we have our own crystal ball that we gaze into to try to divine the future. Lately we’ve been seeing some storm clouds on the horizon. It’s hard to tell yet how fast the storm is moving, but it looks like it will be a humdinger when it gets here.

While we don’t want to be like Chicken Little, we do think this is important enough to share some information with you. I’m talking about the end of cheap oil. President Bush said “We are addicted to the horizon. It’s hard to tell yet how fast the storm is moving.” Lately we’ve been seeing some storm clouds on the horizon. It’s hard to tell yet how fast the storm is moving, but it looks like it will be a humdinger when it gets here.

The sharp rise in oil prices that we have seen in late 2007 portends a future in which a finite and strategic commodity is chased by a rising tide of billions of people newly arrived in the middle class who want to trade in their bicycles and carts for autos and trucks. Oil will get much, much more expensive in real terms as we advance into this new century.

This issue branches into global warming, global population growth, and economic and military security. We won’t go there now. The purpose of the following articles is to give our readers advance notice and some background on an issue that will fundamentally impact all aspects of our daily lives in the future.

Like all storm clouds, however, this one has a silver lining. It provides incredible business opportunities in alternative energy, conservation, telecommunication and transportation. And it provides a challenge for our region to become globally competitive in the future.

Has Petroleum Passed Its Peak?

In 1956, petroleum geologist M. King Hubbert predicted that U.S. oil production would peak by the early 1970’s, then decline. Coming at a time when oil use was zooming upward, Hubbert’s killjoy prediction seemed absurd. Yet U.S. oil production attained its zenith in 1970, and has been careening downhill ever since. 4. Enhanced recovery techniques, computer-assisted geologic imaging, offshore drilling, and production from Alaska’s North Slope have not reversed the downward slide. By 2006 U.S. domestic oil production was just 53 percent of its 1970 peak.

The history of U.S. oil production, shown in Chart 6, has eerily resembled the bell-shaped curve of Hubbert’s original prediction.1

Hubbert’s central insight was that the production rate of oil (or any other resource) depended on the unproduced fraction remaining in the ground.2 So long as the oil so far produced is a tiny share of the total, production can increase rapidly in response to demand. But the economic forces that pull the production curve upward early in the cycle gradually give way to geological constraints that bend it back toward slowdown, peak, and ultimate decline.3

2. For a readable discussion of Hubbert’s methodology, see Kenneth Deffeyes, Beyond Oil: the View from Hubbert’s Peak, 2005.
3. Or, to quote Kenneth Deffeyes, “the oil production rate depends linearly on the fraction of the total oil that remains to be produced.” Beyond Oil, p. 42.

In 1969 Hubbert forecast that world oil production, then still accelerating, would top out a similar bell curve and begin declining shortly after the year 2000. In this view, recent world production figures shown in Charts 7 and 8 are revealing a peak that may already have been passed. Global oil production per capita actually peaked nearly twenty years ago — in 1979 — and has been slowly declining ever since. 4

Advocates of a more optimistic view of oil supply point out that Hubbert’s curve may only be valid for areas, like the United States, that have been extensively explored. Historically, the petroleum industry has alternated between cycles of surplus and shortage. Low prices in the late 1990’s and early 2000’s slowed oil exploration and research. In this view, today’s shortage represents the lengthy lead time between price hikes and renewed production growth. In many parts of the world, political limitations and inhibited markets may have prevented adequate exploration. More oil is there, but it will take time — and higher prices — to get to it.

0 0.5 1.0 1.5 2.0 2.5 3.0 3.5 4.0
Annual U.S. Oil Production 1859-2006
(Billion bbl)

Why Oil Will Be Constrained in Any Case

The prospect for oil over the next few decades looks daunting. The United States today imports about 65 percent of its oil. Domestic oil production peaked 27 years ago, and barring a revolution in conserva-

0 0.5 1.0 1.5 2.0 2.5 3.0 3.5 4.0
1 2 3 4
1 10 20 30 40 50 60 70 80 90 100
Monthly World Oil Production 2005-2007
(Million bbl/day)

World Oil Production 1960-2006
(Million bbl/day)
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While we don’t want to be like Chicken Little, we do think this is important enough to share some information with you. I’m talking about the end of cheap oil. President Bush said “We are addicted to oil.” That is only partly true. The United States is addicted to cheap oil, indeed our entire society is based on cheap oil and on the assumption that it will last forever. It will not. There is increasing evidence (as if $100/barrel crude is not enough) that its end is near if not here already. Like any issue worth its salt, this one is complex. The world is not on the verge of running out of oil even if nearly all of the giant pools near the surface have been discovered already. There are enormous reserves of unconventional oil in tar sands and oil shales that will be recovered, but at far greater cost in dollars and to the environment. On the demand side, the rapid industrialization of China and India has driven demand up dramatically. Now that demand is pushing available supply, it opens the door for market speculators (generating more chaotic price movements), and international mischief by oil exporters like Russia, Iran and Venezuela.

The sharp rise in oil prices that we have seen in late 2007 portends a future in which a finite and strategic commodity is chased by a rising tide of billions of people newly arrived in the middle class who want to trade in their bicycles and carts for autos and trucks. Oil will get much, much more expensive in real terms as we advance into this new century.

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In 1969 Hubbert forecast that world oil production, then still accelerating, would top out a similar bell curve and begin declining shortly after the year 2000. In this view, recent world production figures shown in Charts 7 and 8 are revealing a peak that may already be past - Hubbert’s future could be our present. Global oil production per capita actually peaked nearly twenty years ago - in 1979 - and has been slowly declining ever since.⁴

Advocates of a more optimistic view of oil supply point out that Hubbert’s curve may only be valid for areas, like the United States, that have been extensively explored.⁵ Historically, the petroleum industry has alternated between cycles of surplus and shortage. Low prices in the late 1990’s and early 2000’s slowed oil exploration and research. In this view, today’s shortage represents the lengthy lead time between price hikes and renewed production growth. In many parts of the world, political limitations and inhibited markets may have prevented adequate exploration. More oil is there, but it will take time - and higher prices - to get to it.⁶

The End of Cheap Oil

tion technology, the U.S. will have to import a rising share of oil to keep up with demand growth. Imports of 65 percent may give way to 70 percent, then 75 percent. Yet even a rise in imports will not cancel legitimate concerns about global warming and other environmental issues, which remind us that fossil fuels come with high external costs not reflected in their market price.

Meanwhile, oil demand is soaring in China, India, and other parts of the developing world, while global supply has— at least for the moment— stopped growing. The chart below shows that, while U.S. petroleum consumption has risen about 20 percent since 1980, oil use has quadrupled in the booming economies of China and India, and further demand growth is a certainty. Today’s high oil prices— still a fraction of the market price.

We cannot pump conventional oil forever, and alternatives like tar sands and oil shale are very expensive and environmentally destructive to extract.

The Regional Energy Question

The Energy Question in Central Arkansas

How does the central Arkansas region stack up as a petroleum user? Not well. Despite its reviving core, on the whole the central Arkansas urban area is a low-density region, with a higher-than-average dependence on cheap oil. Local residents rely heavily on their single-occupancy vehicles, drive more miles than average, and use alternative modes— transit, bicycles, walking— at even lower rates than the national average. The chart at right compares daily vehicle-miles traveled (VMT) by local residents of our region compared with the U.S. average for urbanized areas. As you can see, local VMT per capita run above average, and have grown faster than average. The Little Rock Urbanized Area ranks twenty-third among the 135 largest U.S. urbanized areas by VMT per capita. This places us in the top 17 percent, roughly equal to the much larger Atlanta and Dallas urbanized areas.

We do a lot of driving in central Arkansas. What are the implications of our auto-intensive lifestyles? According to a recent study by the Surface Transportation Policy Project, areas like ours pay less than average for housing, but more for transportation. Among the 47 U.S. metro areas between 500,000 and 1 million population, the Little Rock-North Little Rock-Conway MSA has the lowest housing costs for home-owning households, at just 17.7 percent of household income. Long commutes in our low-density region probably help keep housing affordable, by allowing local workers to choose from a large supply of housing within commuting range. We make smaller mortgage payments, and compensate by driving more miles— and paying more for fuel.

So long as fuel costs remain tolerable, this arrangement works to our advantage, and central Arkansas remains a competitive, low-cost region. But, in years to come, an increasingly troubled global energy outlook may put our lifestyles under pressure for change.
THE END OF CHEAP OIL

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Percent of Workers Commuting by Travel Mode in 2006

<table>
<thead>
<tr>
<th>Commuting Mode</th>
<th>U.S. Average</th>
<th>LR-NLR-Con MSA</th>
<th>LR-NLR-Con MSA Rank Among All 359 Metros</th>
<th>LR-NLR-Con MSA Rank Among 47 Mid-Sized Metros</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drove Alone</td>
<td>76.0%</td>
<td>81.7%</td>
<td>147 (top 41%)</td>
<td>17 (top 36%)</td>
</tr>
<tr>
<td>Used Public Transportation</td>
<td>4.8%</td>
<td>0.9%</td>
<td>197 (bottom 45%)</td>
<td>31 (bottom 34%)</td>
</tr>
<tr>
<td>Used Bicycle or Walked</td>
<td>3.3%</td>
<td>1.9%</td>
<td>266 (bottom 25%)</td>
<td>33 (bottom 29%)</td>
</tr>
</tbody>
</table>

Source: American Community Survey 2006, ranking by Metroplan.

3 U.S. Bureau of the Census, American Community Survey 2006. The U.S. average was 21.6 percent. The Baton Rouge Metro area was tied with LR-NLR at 17.7 percent of household income.
4 Refers to the 47 U.S. metro areas with 500,000 to 1 million population in 2006.
HOUSING CONSTRUCTION TRENDS

Local Housing Construction and the National Downturn
Local housing construction continued slowing during the first half of 2007. The chart below shows that the number of single-family units permitted during the first half of the year was down again compared with Housing markets showed pronounced local variations.

Local housing construction continued slowing during the first half of the year was down again compared with Housing markets showed pronounced local variations. Cabot single-family construction has dropped by slightly over half in just two years, from a peak of 247 units during the first six months of 2005 to just 122 units during the first half of 2007. ConAgra and Maumelle have also seen construction drop by 27 and 33 percent, respectively, in just a year since the first half of 2006. Bryant, Jacksonville and North Little Rock have, by comparison, seen housing construction rise somewhat over the first six months of 2006.

Chart 11

LR-NLR-Conway Housing Unit Permits
First Six Months of Each Year 1997-2007

While the pace of local single-family construction is the slowest since 2002, the region has fared slightly better than the national average. The chart below compares U.S. and central Arkansas quarterly single-family housing construction based on an index that uses the

Chart 12

Quarterly Single-Family Housing Permit Trend Index 2006 - Late 2007

strong years 2004-2005 as a base. As you can see, by the third quarter of 2007, U.S. construction had dropped to an index value of about 59, or 39 percent the average 2004-2005. Construction in Little Rock-NLR-Conway had dropped to an index value of about 66.1

Housing markets showed pronounced local variations. Cabot single-family construction has dropped by slightly over half in just two years, from a peak of 247 units during the first six months of 2005 to just 122 units during the first half of 2007. ConAgra and Maumelle have also seen construction drop by 27 and 33 percent, respectively, in just a year since the first half of 2006. Bryant, Jacksonville and North Little Rock have, by comparison, seen housing construction rise somewhat over the first six months of 2006.

Metroplan's Economic Review and Outlook is an annual chronicle providing economic and housing data and insight for the Little Rock-North Little Rock-Conway MSA.

Prepared by:
Jonathan Lupton, Research and writing
Jean Dahms, Graphics and layout
Jim McKenzie, Editing
Richard Magee, Editing

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Visit our website www.metroplan.org

for more information

AEDC List of New and Expanded Industries
LR-NLR-Conway MSA 2006

Source: Arkansas Economic Development Commission; conversion from SIC to NAICS by Metropplan.
Housing Construction Trends

Local Housing Construction and the National Downturn

Local housing construction continued slowing during the first half of 2007. The chart below shows that the number of single-family units permitted during the first half of the year was down again compared with the same time period in 2005 and 2006. Multi-family construction rebounded from a very slow performance in early 2006, with 662 new units permitted during the first half of 2007.

While the pace of local single-family construction is the slowest since 2002, the region has fared slightly better than the national average. The chart below compares U.S. and central Arkansas quarterly single-family housing construction based on an index that uses the region has fared slightly better than the national average. The chart below compares U.S. and central Arkansas quarterly single-family housing construction based on an index that uses the region has fared slightly better than the national average.

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HOUSING CONSTRUCTION TRENDS

LR-NLR-Conway Housing Unit Permits First Six Months of Each Year 1997-2007

Single-Family

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</thead>
<tbody>
<tr>
<td>Units</td>
<td>2,160</td>
<td>1,766</td>
<td>1,552</td>
<td>1,334</td>
<td>1,285</td>
<td>2,029</td>
<td>2,071</td>
<td>2,653</td>
<td>2,243</td>
<td>1,766</td>
<td>2,060</td>
</tr>
<tr>
<td>% Changes</td>
<td>21.1</td>
<td>11.9</td>
<td>32.1</td>
<td>78.9</td>
<td>88.1</td>
<td>67.9</td>
<td>88.1</td>
<td>67.9</td>
<td>11.9</td>
<td>32.1</td>
<td>78.9</td>
</tr>
</tbody>
</table>

Percent Single-Family

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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Units</td>
<td>478</td>
<td>508</td>
<td>267</td>
<td>144</td>
<td>129</td>
<td>40.3</td>
<td>21.1</td>
<td>11.9</td>
<td>32.1</td>
<td>78.9</td>
<td>88.1</td>
</tr>
</tbody>
</table>

Percent Multi-Family

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<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Units</td>
<td>144</td>
<td>130</td>
<td>14</td>
<td>0</td>
<td>144</td>
<td>0</td>
<td>130</td>
<td>0</td>
<td>14</td>
<td>0</td>
<td>130</td>
</tr>
</tbody>
</table>

LR-NLR-Conway MSA 2006

AEDC List of New and Expanded Industries

<table>
<thead>
<tr>
<th>NAICS 2-Digit Category</th>
<th>NAICS Code</th>
<th>SIC Code</th>
<th>Company</th>
<th>City</th>
<th>New or Exp</th>
<th>Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>31-33 - Manufacturing</td>
<td>31111</td>
<td>2047</td>
<td>Claudia's Canine Cuisine</td>
<td>Maumelle</td>
<td>E</td>
<td>dog and cat food</td>
</tr>
<tr>
<td>31-33 - Manufacturing</td>
<td>32562</td>
<td>2844</td>
<td>L'Oreal USA Products, Inc.</td>
<td>N. Little Rock</td>
<td>E</td>
<td>cosmetics</td>
</tr>
<tr>
<td>326291</td>
<td>3061</td>
<td>Rubber Gasket Co. of America</td>
<td>N. Little Rock</td>
<td>E</td>
<td>rubber goods</td>
<td></td>
</tr>
<tr>
<td>331311</td>
<td>2819</td>
<td>Altimas, Inc.</td>
<td>Bauxite</td>
<td>E</td>
<td>alamia chemical products</td>
<td></td>
</tr>
<tr>
<td>33678</td>
<td>334417</td>
<td>Moles, Inc.</td>
<td>Maumelle</td>
<td>E</td>
<td>electronic connectors</td>
<td></td>
</tr>
<tr>
<td>54 - Profess/Sci/Tech</td>
<td>541311</td>
<td>7371</td>
<td>Intellifins LLC</td>
<td>Conway</td>
<td>N</td>
<td>computer programming</td>
</tr>
<tr>
<td>55 - Management of Cos.</td>
<td>55111</td>
<td>8741</td>
<td>Family Life</td>
<td>Little Rock</td>
<td>N</td>
<td>corporate headquarters</td>
</tr>
<tr>
<td>56 - Admin/Support</td>
<td>561421</td>
<td>7389</td>
<td>One Cloverleaf LLC</td>
<td>Sherwood</td>
<td>N</td>
<td>call center</td>
</tr>
</tbody>
</table>

Source: Arkansas Economic Development Commission; conversion from SIC to NAICS by Metroplan.
Construction Values Sagged in 2006

The value of regional construction fell during 2006. The total drop-off from 2005 to 2006 was about 7 percent. The bulk of the decline was in the value of new residential construction (single- and multi-family together), which dropped nearly 22 percent from 2005 to 2006. By comparison, the other two indices – residential modification and non-residential - increased in value. Nonresidential construction also increased 10.8 percent from 2005 to 2006, pulled along by several large projects like the Dickey-Stephens ballpark in North Little Rock.

Construction values increased in both Saline and Lonoke Counties, but these increases were more than offset by sizable declines in Pulaski and Faulkner Counties.

The chart above compares US and central Arkansas trends in construction value using an index based on average construction value 1995-2000. The region has generally outpaced U.S. construction values across these years, although 2006 marked a downturn locally, while total U.S. construction values continued to climb.

The impact of the housing downturn can be seen in the fall-off in average new home permit value. As Chart 17 shows (opposite page), median new home value in 2000. Similar trends occurred in national new home values.

Chart 17 on facing page shows median single-family housing permit value for new construction in 2006. Maumelle tops the list by a wide margin. A recent change is the emergence of Bryant, which now has the third-highest median new construction values in the region. The bulk of the region's most affordable new homes can be found in North Little Rock, Cabot and Jacksonville.

**Note that mobile homes in Bryant are not counted in the median housing permit value figures.**

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**Socioeconomic Statistics**

<table>
<thead>
<tr>
<th>LNR-Croesy</th>
<th>Faulkner</th>
<th>Grant</th>
<th>Perry</th>
<th>Pulaski</th>
<th>Saline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Resident Employment</td>
<td>322,925</td>
<td>50,350</td>
<td>8,350</td>
<td>29,800</td>
<td>4,775</td>
</tr>
<tr>
<td>% Unemployment</td>
<td>4.7</td>
<td>4.5</td>
<td>4.9</td>
<td>5.0</td>
<td>4.8</td>
</tr>
<tr>
<td>Units Permitted</td>
<td>253</td>
<td>299</td>
<td>303</td>
<td>248</td>
<td>275</td>
</tr>
<tr>
<td>Median Value</td>
<td>$212,000</td>
<td>$228,250</td>
<td>$231,921</td>
<td>$245,687</td>
<td></td>
</tr>
</tbody>
</table>

**Sources:**
- Arkansas Department of Workforce Services, Arkansas Economic Development Commission, Arkansas Assessment Coordination Department, and FDIC.
- Bank data exclude assets and deposits held by banks serving the area but based outside the four-county Little Rock-North Little Rock MSA.
- New and expanded industries as announced by the Arkansas Economic Development Commission.
The value of regional construction fell during 2006. The total drop-off from 2005 to 2006 was about 7 percent. The bulk of the decline was in the value of new residential construction (single- and multi-family together), which dropped nearly 22 percent from 2005 to 2006. By comparison, the other two indices—residential modification and non-residential—in 2005 to 2006, pulled along by several large projects like the Dickey-Stephens ballpark in North Little Rock.

Construction values increased in both Saline and Lonoke Counties, but these increases were more than offset by sizable declines in Pulaski and Faulkner Counties.

The chart above compares US and central Arkansas trends in construction value using an index based on average construction value 1995-2000. The region has generally outpaced U.S. construction values across these years, although 2006 marked a downturn locally, while total U.S. construction values continued to climb.

The impact of the housing downturn can be seen in the fall-off in average new home permit value. As Chart 17 shows (opposite page), median new home value dropped slightly from 2005 to 2006, its first decline since Metroplan began keeping records for median new home value in 2000. Similar trends occurred in national new home values.

Chart 16 on facing page shows median single-family housing permit value for new construction in 2006. Maumelle tops the list by a wide margin. A recent change is the emergence of Bryant, which now has the third-highest median new construction values in the region. The bulk of the region's most affordable new homes can be found in North Little Rock, Cabot and Jacksonville.  

1 Note that mobile homes in Bryant are not counted in the median housing permit value figures.

New Data on Hot Springs Village  
The unincorporated community of Hot Springs Village has volunteered its building permit data to assist Metroplan with tracking regional trends. Metroplan will begin blending Hot Springs Village figures into future Metrotrends publications. In the meantime, here are some summary statistics for single-family housing construction in Hot Springs Village during 2005 and 2006.

<table>
<thead>
<tr>
<th>Source: Arkansas Department of Workforce Services, Arkansas Economic Development Commission, Arkansas Assessment Coordination Department, and FDIC.</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Assets ($)</td>
<td>23,922,005</td>
</tr>
<tr>
<td>Bank Deposits ($)</td>
<td>10,612,599,000</td>
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<tr>
<td>Bank Deposits ($)</td>
<td>8,292,205,000</td>
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<tr>
<td>Bank Deposits ($)</td>
<td>8,095,600,487</td>
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<tr>
<td>Total Assesed Valuations ($)</td>
<td>8,095,600,487</td>
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<tr>
<td>Total Assesed Valuations ($)</td>
<td>1,861,929,543</td>
</tr>
<tr>
<td>Total Assesed Valuations ($)</td>
<td>763,986,132</td>
</tr>
<tr>
<td>Total Assesed Valuations ($)</td>
<td>1,060,322,500</td>
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<tr>
<td>Total Assesed Valuations ($)</td>
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</tr>
<tr>
<td>Total Assesed Valuations ($)</td>
<td>1,060,322,500</td>
</tr>
</tbody>
</table>
Economic Outlook 2008

The central Arkansas metropolitan area was recently ranked "one of the top ten markets to watch" in office space by Sperry Van Ness, while Moody's Investment called the Little Rock area the second most diverse economy in the U.S. Despite changes affecting regional corporate leaders and portents of national downturn, central Arkansas is thriving. Local growth is spread among several industries, with a few areas of concentrated strength. Natural gas exploration in the Fayetteville Shale Play, which includes northern Faulkner County, has jump-started the region's mining sector. Local performance has been strong in Information (NAICS 51), including telecommunications, broadcasting, and data processing industries. Information industries may gain a critical edge from the region's low cost structure, coupled with urban sophistication that often surprises visitors. Other strong sectors include education, health services, and non-profit grant-making and religious institutions.

Risks remain. Local single-family housing indicators have sagged to barely above the national average. Possible national recession and high energy prices will challenge local prosperity. The region skirted past ozone non-attainment during 2007, but local air pollution data remain ominous. During 2008 ozone levels could easily reach non-attainment, resulting in federal regulations that could dampen the economic climate.

Experience in other urban regions suggests that transformations in the corporate landscape can make talented workers leave established firms to form innovative new start-ups. County Business Patterns data suggest that local business establishments have risen in number somewhat more quickly than the national average. If these figures hint at a growing trend, the real secret behind rising local prosperity might just be a blossoming of old-fashioned entrepreneurship.

Good Times in Central Arkansas

The chart below is an index that compares employment growth since the year 2000. As you can see, employment has grown substantially faster in the local region than it has at state or national levels. The strong local employment picture carries through the third quarter of 2007, in face of a slowdown in state and U.S. employment growth. Despite worries about possible national recession and high energy prices, the central Arkansas region continues exceeding U.S. employment growth. While not spectacular, local employment growth stands out because state and national trends have run even slower during a time of constrained labor force growth.

For the first time in over a decade, the region had an unemployment rate marginally above the U.S. average. This new trend suggests that the local labor force grew even faster than employment, despite tight overall U.S. labor supply.

The job gains in recent years have been broadly based across several industries. Chart 4, on page 3, shows employment change by industry from the early third quarter of 2007. Central Arkansas grew jobs at a 2.6 percent rate for 2005 to 2006, outpacing state and U.S. gains of 0.5 percent. This above-average growth continues a trend which began early in the current decade. As the second chart shows, local employment grew 6.2 percent from 2000 to 2006, versus 3.5 percent for the state and 3.3 percent for the U.S. This new trend reverses the trend of 1997-2000, when the central Arkansas region generally under-performed the U.S. average.

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(continued on page 2)