

January 2010



2009 Economic Review & Outlook

- Local Notes on National Economic Crisis
- Recent Housing Trends

METROPLAN

SMART PLANNING MAKES SMART PLACES

About Metroplan

Metroplan is a voluntary association of local governments that has operated by interlocal agreement since 1955. Originally formed as the Metropolitan Area Planning Commission of Pulaski County, Metroplan now has members in the six-county metro area (see below). Metroplan is the designated metropolitan planning organization (MPO) under Title 23 of the United States Code.

Metroplan serves as the regional voice on issues affecting central Arkansas, develops transportation plans required by federal law, convenes stakeholders to deal with common environmental issues, and provides information and staff resources to our member local governments, the business community and the public. As part of that mission Metroplan publishes *Metrotrends* twice yearly. The spring edition is the *Demographic Review and Outlook*; the fall edition is the *Economic Review and Outlook*.

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Metroplan's Economic Review and Outlook is an annual chronicle providing demographic 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

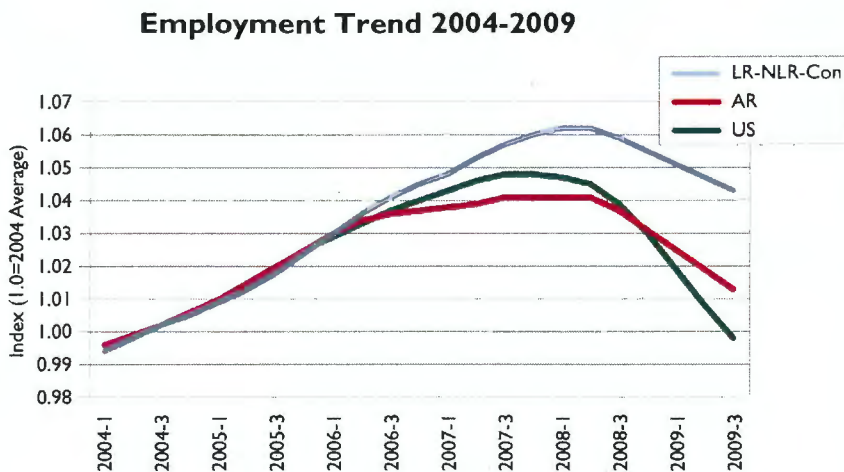
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Local Notes on National Economic Crisis

Local Notes from a National Economic Crisis

Central Arkansas has been hit less hard than average by the worst national recession since the Great Depression. The chart compares local employment growth and loss with state and U.S. averages since 2004. From a peak of 350,700 jobs in December 2007, the regional job total had declined to 341,800 by July, 2009 – a 2.5 percent drop. The employment loss has already edged out local job decline in the previous recessions of 1982, 1991, and 2002.¹ The chart below shows that state and U.S. losses in the current crisis have been proportionally even greater.



The local unemployment rate hit 6.7 percent in July, 2009. This statistic edges out June 1992 (6.6 percent) and June 2003 (5.8 percent).² Local unemployment remains below state and national averages. The chart below compares seasonally adjusted unemployment rates.

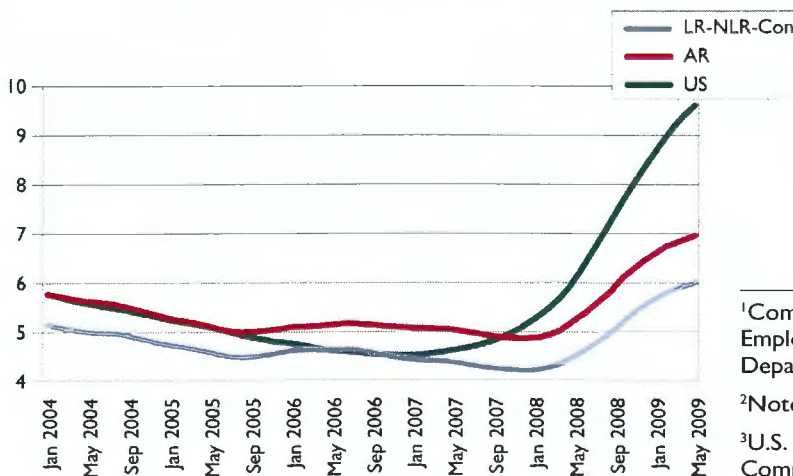
Local income growth ran slower than U.S. and state averages from 2007 to 2008. This may be a statistical readjustment following a sharp local income spike in 2006-2007 caused by the Alltel sale, although the trend bears close watching. Over the longer term, the central Arkansas region has out-performed state and U.S. averages in income growth. The chart compares per capita income growth from 2007 to 2008 with the annualized trend from 2000 to 2008.

The most alarming local statistic is the rise in poverty. As the chart on page 2 shows, local poverty has gone from slightly below the national average in 2000 to demonstrably higher in 2008.³

By 2008, more than one out of seven residents in central Arkansas (15.4 percent) was living below the federal poverty line. Poverty was highest in Faulkner County, at 18.6 percent, and Pulaski County, at 17.0 percent. The lowest poverty rate was in Saline County, at 10 percent.

Poverty is as much a social measure as an economic one, reflecting the distribution of income among households. Preliminary data analysis suggests that there is a close link between poverty and single-parent households with children. In 2000, central Arkansas already had a slightly higher-than-average share of single-parent households. From 2000 to 2008, single-parent households grew faster locally than

Unemployment Rate 2004-2009 (Seasonally Adjusted)



¹Comparison based on preliminary monthly data for 2009. Employment and unemployment figures are from the Arkansas Department of Workforce Services.

²Note that all three figures are not seasonally adjusted.

³U.S. Bureau of the Census, Census 2000 and 2008 American Community Survey.

Local Notes (continued)

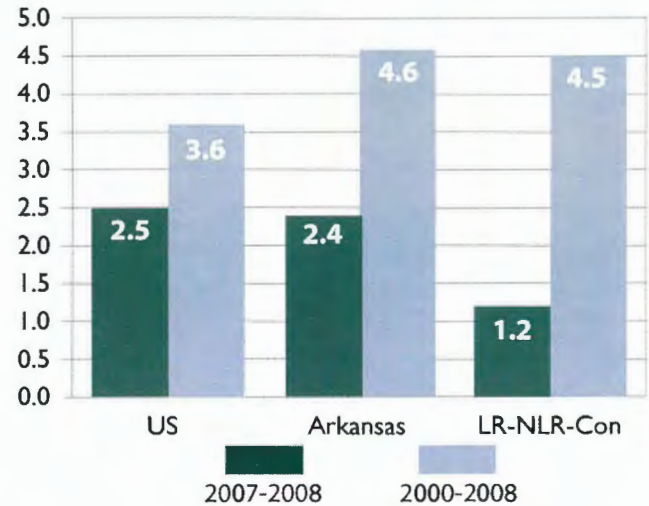
at the national level. Thus, the rise in local poverty may not be so much a measure of economic activity as changing social conditions. Because this rising poverty has a disproportionate link with our children, it represents a risk to our regional future.

As in past recessions, the central Arkansas region has been cushioned by its economic diversity and the large role played by economically steady sectors like state government, health care, and education. But economic diversity and the large presence of these very sectors could also mean the region's climb out of recession may be slower than average, once economic recovery begins.

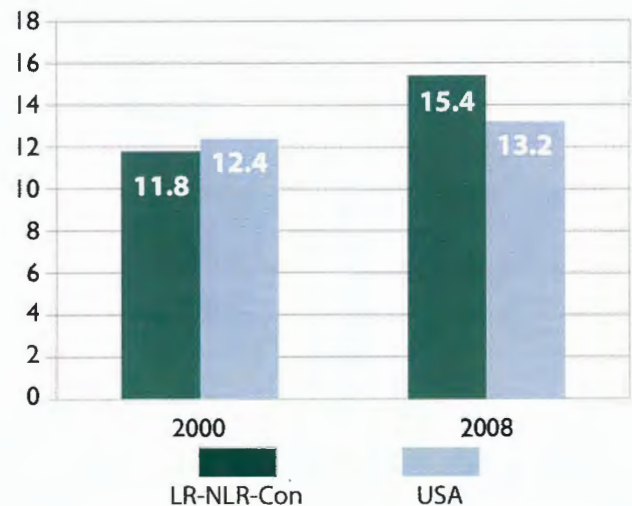
Nonetheless, the local economy has suffered a smaller jolt than much of the rest of the country. The U.S. as a whole may suffer unemployment in the ten percent range for several years. Economists today speak of "hysteresis," a condition in which entrenched high unemployment may sap economic vitality by conditioning workers and firms to lowered expectations and prolonged waste of productive potential.⁴ In central Arkansas, it looks like unemployment will top out below seven percent, still painful but less likely to damage our region's long-term economic potential. **M**

⁴"Separation Anxiety: The Crunch May Entrench Unemployment," *The Economist*, October 3, 2009, p. 13 of special section "The Long Climb: A Special Report on the World Economy."

Per Capita Income Growth Trends



Percent of Population in Poverty



AEDC List of New and Expanded Industries LR-NLR-Conway MSA 2008

NAICS 2-Digit Category	NAICS	Corporation	City	New/Exp	Product/Service
22 - Utilities	2211	Southwest Power Pool	Little Rock	E	Headquarters
31-33 - Manufacturing	311212	Sage V Foods	Little Rock	E	Rice milling
	32562	L'Oreal USA Products	N. Little Rock	E	Cosmetics
	325998	Polytec Inc.	N. Little Rock	E	Chemicals
	331311	Porocel Industries	Little Rock	E	Alumina refining
	331311	Aluchem of Little Rock	Little Rock	E	Alumina refining
	332322	Fabrication services	Little Rock	E	Sheet metal work
	332911	Cameron International	Little Rock	E	Industrial valves
	333611	Polymarin Composites USA	Little Rock	N	Turbine & turbine generator sets
	336411	Hawker Beechcraft	Little Rock	E	Aircraft
	336411	Dassault Falcon Jet	Little Rock	E	Aircraft
	33711	Custom Plastic & Wood LLC	Benton	E	Wood doors
49 - Warehousing	49311	Orbea USA	N. Little Rock	E	Distribution center
54 - Prof/Sci/Tech	54133	Garver Engineers	N. Little Rock	E	Corporate headquarters

Critical Industries 2009

What makes central Arkansas tick? As a metro area with nearly 700,000 people, the Little Rock-NLR-Conway region is a complex mixture of economic activities that together give the region the highest per capita income in the state of Arkansas. Central Arkansas is not just the state's governmental capital. It also serves as the cultural and business center of the state. The region lies in the middle of the state's road, rail, air – and even water – transportation systems. This helps explain not only the presence of local transportation businesses like trucking, railroads, and airlines, but also why professional offices locate here, in order to serve a market area that extends to most of the state.

To build income and grow, an urban area must serve as more than a regional center. It must have economic specialties of national and international scope. On this score, central Arkansas has seen mixed success in recent years. The table below depicts an interpretation of the region's top ten critical industries in 2009. ¹ The list below summarizes a few main points:

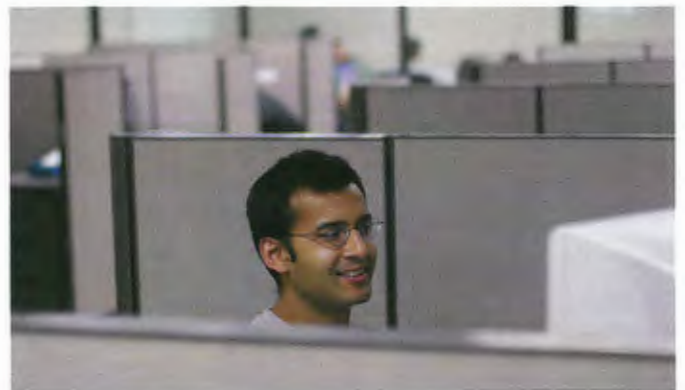
- The local computer systems design sector remains a power player, although it has lost ground against the U.S. average in recent years.
- The region's large trucking sector reflects in part the region's centrality in the state transportation web, as well as its position astride the major east-west I-40 and I-30 corridors.
- The region gained ground in business support services, a traditional central Arkansas industry that shows competitive advantages when analyzed with shift-share techniques.
- The local aerospace manufacturing sector is

a vital player, and has continued to grow at a faster rate than the U.S. average.

- The local metals industry has shown strength. This may involve linkages with valve and parts manufacturing for oil and gas exploration, areas of local growth in recent years.
- Telecommunications, once a local star sector, did not make the list, its role downgraded with the loss of local jobs and income associated with the sale of Alltel to Verizon.**M**

¹The data in this table was obtained with helpful assistance from the Arkansas Department of Workforce Services. LQ stands for Location Quotient, a measure of local employment concentration measured against national averages. To qualify for this list, a sector had to have an LQ of at least 1.75, with over 2,000 workers, or an LQ of 2.5 or more, with at least 1,000 workers. Note that the DWS withheld some figures for confidentiality reasons, such as NAICS 3336, which includes windmill blade manufactures like LM GlasFiber.

NAICS	Category	LQ	Employees
5415	Computer systems design	1.77	4,901
4841	General freight trucking	2.34	4,066
5614	Business support services	2.19	3,358
3364	Aerospace products and parts	3.33	3,142
2362	Nonresidential building	1.81	2,553
4238	Machinery/supplies (wholesale)	1.83	2,301
3329	Other fabricated metal products	3.79	1,908
3222	Converted paper products	3.16	1,801
6223	Other hospitals (specialty hospitals)	3.63	1,342
8133	Social advocacy organizations	3.16	1,133



Call centers and other business support services have gained ground in central Arkansas

Housing Trends

Toward the New Normal in Housing Construction

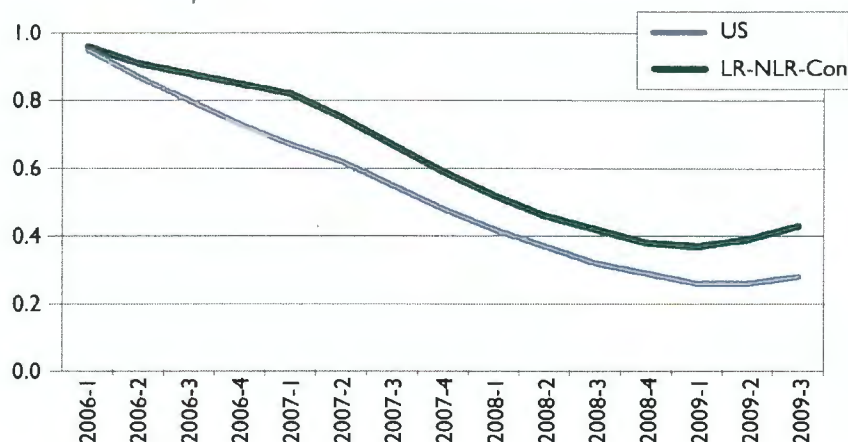
While local conditions were better than the national average, the local housing construction industry endured its toughest times in at least thirty years during late 2008 and the first half of 2009. The good news is that there are finally signs of recovery. The bad news is that the near-term future, “the new normal,” is not likely to see anything like the robust construction that preceded the housing bust.

Single-family construction during the first half of 2009 was down 22 percent from the first half of 2008. This was the worst performance in single-family construction since 1982. Permits trends for the third quarter of 2009 suggest an improving situation, albeit still far below the historical trend. The chart above right compares U.S. and central Arkansas single-family construction through September, 2009.

As you can see, by late 2009 the central Arkansas single-family housing market was finally showing upward momentum, though barely over 40 percent its level during the boom years 2004-2005. U.S. single-family construction also gave hints of upward momentum.¹

Locally, single-family construction increased during the first half of 2009 in Conway, rising 25 percent compared with the first half of 2008. It dropped in all other cities. The decline was least pronounced in Little Rock, off just 12 percent compared with the first half of 2008, and Bryant, down 17 percent. The drop-off was most severe in Jacksonville, down 60 percent, and Sherwood, which dropped 52 percent. Other communities saw activity drop between about 25 and 40 percent compared with the first half of 2008.

Single-Family Construction Index 2006-2009
(Seasonally Adjusted)



LR-NLR-Conway Housing Unit Permits

First Six Months of Each Year 1999-2009
for Cities Over 5,000

Single-Family Housing Unit Permits

	2006	2007	2008	2009
Benton	290	241	159	97
Bryant	50	82	71	59
Cabot	145	122	62	42
Conway	236	170	126	158
Hot Springs Village	150	115	50	30
Jacksonville	63	85	35	14
Little Rock	441	414	211	186
Maumelle	136	91	69	48
N. Little Rock	60	70	49	36
Sherwood	134	123	91	44
Total SF	1,705	1,513	923	714

Multi-Family Housing Unit Permits

Benton	0	0	0	0
Bryant	0	412	10	4
Cabot	130	0	0	72
Conway	68	10	212	528
Hot Springs Village	0	0	0	0
Jacksonville	0	16	25	8
Little Rock	9	208	278	328
Maumelle	0	0	46	16
N. Little Rock	2	16	120	8
Sherwood	2	0	0	2
Total MF	211	662	691	966
Total Units	1,916	2,175	1,614	1,680
Percent SF	89.0	69.6	57.2	42.5
Percent MF	11.0	30.4	42.8	57.5

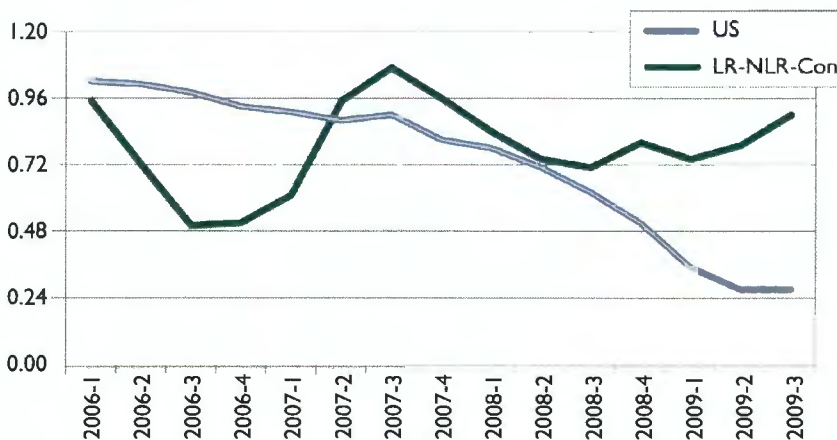
Housing Trends



Signs of the times in multi-family housing.

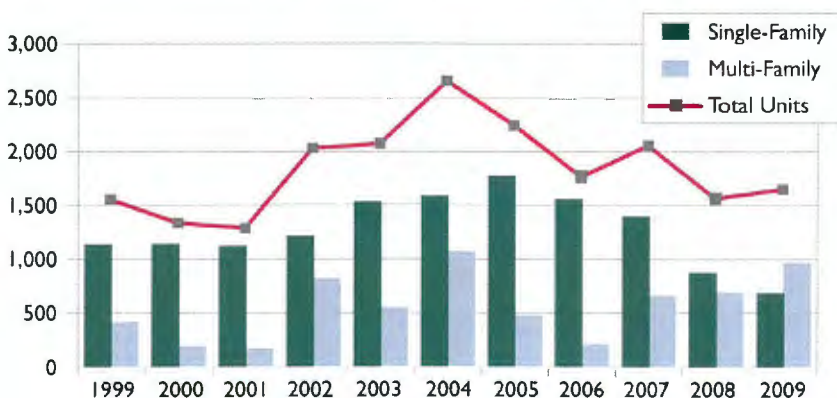
A changed housing situation has thrown more emphasis onto multi-family housing. At the national level, multi-family housing construction has dropped dramatically, although the drop-off has been somewhat less severe than with single-family housing. Adjusted for seasonality, local multi-family housing construction has dropped only slightly from the boom years of 2004-2005, and actually turned up during the past two quarters through September, 2009. Multi-family construction during the first half of 2009 was especially strong in Conway and Little Rock.

Multi-Family Construction Trend 2006-2009
(Seasonally Adjusted)



That said, multi-family vacancy rates have risen in most parts of the region. Vacancy has been high in the “old construction” complexes of Southwest Little Rock, and also notably high in the complexes along Reservoir Rd. in midtown Little Rock. Occupancy has run highest in the lower-rent “new construction” complexes. Occupancy has been particularly strong along Maumelle Blvd., in the city of Maumelle and western portions of North Little Rock.² Although the reasons for this market strength are unclear, a quick look at the map will confirm that this sub-region benefits from remarkably central location, close to the intersection of I-430 and I-40. This location, close to pedestrian trails and parks as well as a growing retail presence, allows fairly easy commuting not only to the largest job concentrations in Little Rock and North Little Rock, but also the growing Conway job market. **M**

LR-NLR-Conway Housing Unit Permits
First Six Months of Each Year 1999-2009



¹Figures are seasonally adjusted. Metroplan figures from local building permit records, with small-scale imputations for two communities that had not reported their September, 2009 permits. The U.S. figures are from the U.S. Bureau of the Census. Third quarter 2009 U.S. figures include a Metroplan imputation for September, 2009, based on the average relationship in past years between September and the two months preceding.

²Background on occupancy trends courtesy of the Multifamily Group, which can be accessed online at www.themultifamilygroup.com.

Construction Value Trends

Construction Value Trends

Local construction dipped sharply during the national banking crisis of late 2008. Total residential construction value dropped by 40.1 percent from 2007 to 2008. This reflects both a drastic drop in the number of units being built, as well as a dip in the average value of new units. In both single-family and multi-family markets, moderate-cost structures have gained the competitive advantage. Nonresidential construction also declined 8.5 percent from 2007 to 2008.

Total permit values in Lonoke County dropped 56 percent from 2007 to 2008, and were off by 28 and 29 percent in Saline and Pulaski Counties, respectively. Faulkner County construction value climbed by 14 percent, helped by the addition of a Hewlett-Packard facility which promises to add 1,200 jobs in the Conway area.

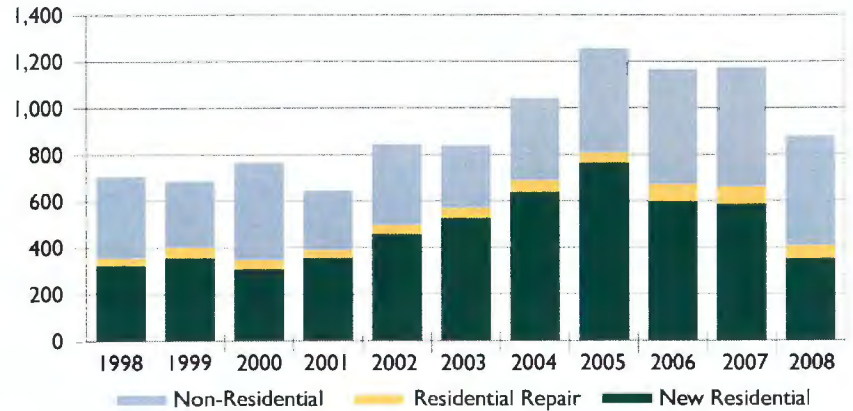
The index at right is a new one that compares U.S. and central Arkansas permit value trends in six-month intervals since 2004, and carries the trend forward to the first six months of 2009.¹

As you can see, central Arkansas permit values took a dive in the second half of 2008, but climbed well above the U.S. trend during the first half of 2009. In residential construction, shown at right, local residential values dropped faster than U.S. values. This may reflect the switch in central Arkansas toward a greater share of lower-cost multi-family construction in recent years.

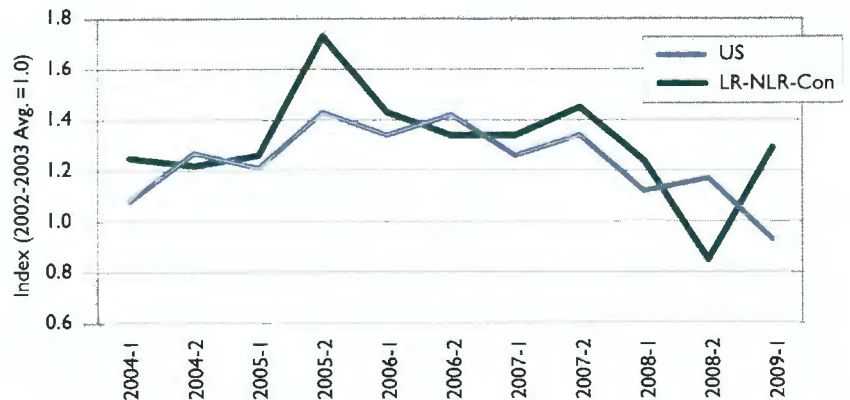
Local nonresidential construction, by comparison, has outpaced the U.S. trend during most of the past several years.

¹The value trend charts are based on an index in which the average value for 2002-2003 equals 1.0. Data from U.S. Census Bureau and Metroplan, U.S. data adjusted by Metroplan to provide statistical comparability.

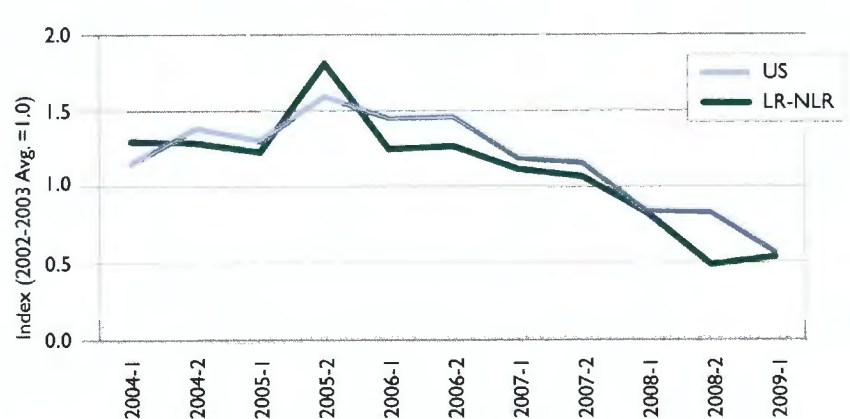
Permit Values by Type 1998-2008
(\$ millions)



Overall Construction Value Trend
2004-2009

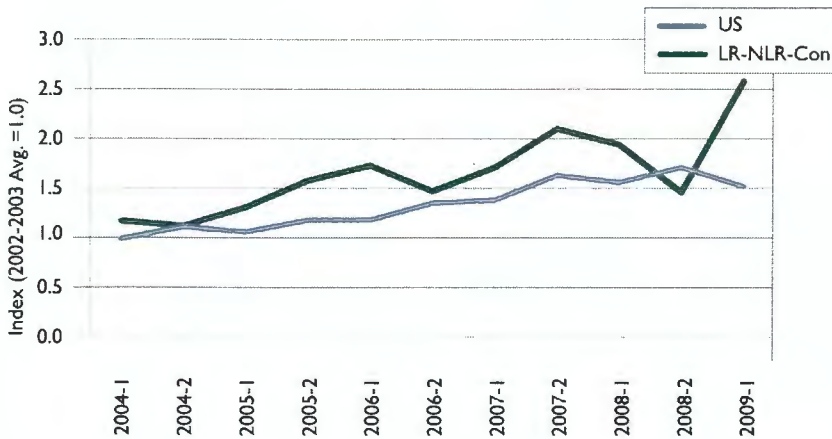


Residential Construction Value Trend
2004-2009



Construction Value Trends

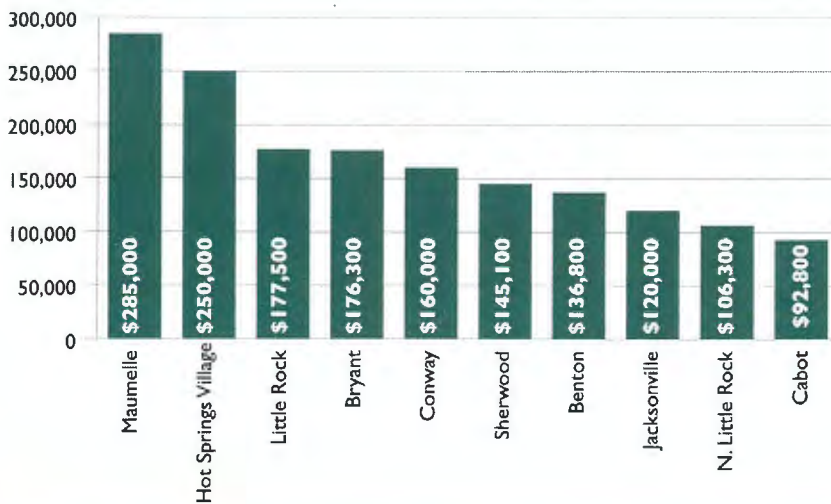
Nonresidential Construction Value Trend 2004-2009



While local nonresidential construction dipped during the banking crisis of late 2008, it shot up in the first half of 2009, even as U.S. nonresidential construction veered downward.

The nonresidential construction in central Arkansas during the first half of 2009 represented a large number and wide variety of projects, rather than a handful of high-value “flagship” projects. The City of Little Rock accounted for a striking 58 percent of regional nonresidential construction. The largest projects included industrial investments by LM GlasFiber and Supermarine, a sizeable addition to Arkansas Children’s Hospital, new schools and school additions, and a wide variety of other projects spread across the city, showing little preference for any one location.

Median Permit Value 2008



Median value for single-family homes climbed marginally in 2008 over 2007, from \$164,839 to \$165,264. The median value in the region’s ten largest cities saw the usual spread between comparatively high-value units in Maumelle and Hot Springs Village and more moderately-priced units in other markets. **M**



The new Park Avenue project in midtown Little Rock, on the former site of the University Mall

Economic Outlook 2010

Central Arkansas has recently been ranked among the country's economically strongest metropolitan areas. Local competitive advantage owes to economic diversity, cost and lifestyle advantages, and rising education levels. The region continues receiving net in-migration, despite a drastic U.S. domestic migration slowdown.¹

Surging fuel prices played a larger role in the economic crash than is commonly realized. Looking forward, energy costs will constrain growth by rising in tandem with economic activity. The above-average dependence on petroleum in Central Arkansas poses a risk to the region's future.

The rise of green technologies, like past technological revolutions, will be marked by surges, sudden setbacks, and renewed growth. The new technologies' greater efficiencies will pay for themselves, serving self-interest far more than the desire to "do good." The local rise of wind turbine manufacturing must be reinforced by local education and research support to encourage further green technology ventures.

From 2004 to 2009, the local education sector grew faster than the national average, particularly

higher education.² Local institutions must continue overcoming traditional barriers separating education from real-world jobs. Community colleges are especially well-positioned to make dynamic connections that benefit local workers and businesses simultaneously.³

A still-growing national commercial property "bust" will keep construction activity slow. Housing is moving toward a weak recovery. In-migration may, however, boost the local residential sector past the U.S. average, especially in multi-family housing. The recently-announced mixed use project in western Little Rock could presage other, similar communities as recovery sets in. New Urbanist environments need not be confined to traditional downtowns. The best opportunities may lie in dense suburban nodes, although developing pedestrian environments in such locations will remain a challenge. While the region may see some renewed spreading as recovery takes hold, the emphasis will continue shifting from "building out" toward "building in." **M**

¹IRS Migration data for 2008.

²Shift-share employment analysis by Metroplan, from Arkansas Dept. of Workforce Services 4-digit NAICS data.

³For further insight, see "A Question for the Class" by William Fulton in *Governing*, November 2009.

Little Rock-North Little Rock-Conway MSA Socio-Economic Statistics 2008-2009

	LR-NLR-Con MSA	Faulkner	Grant	Lonoke	Perry	Pulaski	Saline
Average Res. Employment 2008	327,850	53,240	8,225	30,600	4,650	183,700	47,425
% Unemployment	4.4	4.4	4.9	4.2	5.1	4.4	4.1
New Industries 2008**	1	0	0	0	1	0	0
Expanding Industries 2008**	13	0	0	0	0	12	1
Assessed Valuations 2008 (\$)	9,890,714,193	1,355,903,478	180,300,124	764,698,396	83,664,957	6,155,840,962	1,350,306,276
Real Estate (\$)	7,160,719,001	991,843,963	118,913,119	584,042,516	55,574,948	4,352,913,014	1,057,431,441
Personal Property (\$)	2,226,636,704	326,600,630	47,459,990	140,358,985	18,927,599	1,438,859,100	254,430,400
Utility & Carrier	503,358,488	37,458,885	13,927,015	40,296,895	9,162,410	364,068,848	38,444,435
Bank Deposits 2009 (\$1,000)*	8,674,511	2,092,071	83,931	423,915	0	6,001,940	72,654
Bank Assets 2009 (\$1,000)*	11,461,531	2,793,285	95,798	533,615	0	7,927,338	111,495

Sources: Arkansas Department of Workforce Services, Arkansas Economic Development Commission, Arkansas Assessment Coordination Department, and FDIC. Rounding may cause some unemployment rates to differ slightly from DWS data.

*Bank data exclude assets and deposits held by banks serving the area but based outside the LR-NLR-Conway MSA. Bank deposit data represent June 30, 2009.

**New and Expanded industries as announced by the Arkansas Economic Development Commission.

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