

LITTLE ROCK REGIONAL ECONOMY IN 2023



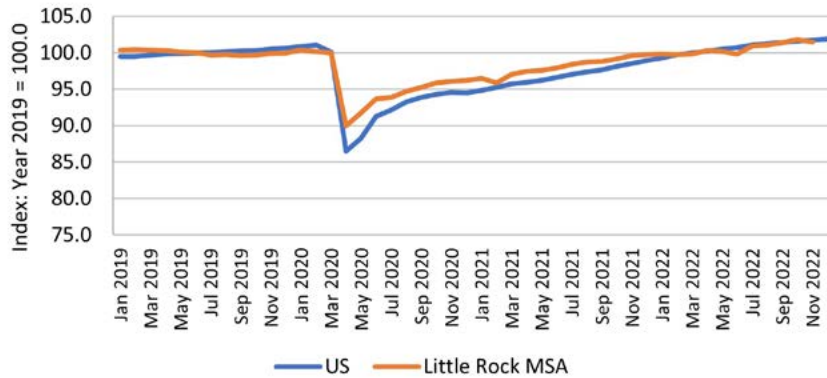
Jonathan Lupton, Metroplan

February 2023

The regional economy demonstrates a pattern of steady growth. Job growth, which is the most up-to-date measure, shows gains roughly on par with the national average. Local unemployment has leveled out around 3.1 percent, adjusting for seasonality. The rate of unemployment is almost the same for the U.S.A. as it is for the Little Rock Metropolitan Statistical Area (MSA). Rising interest rates normally shift unemployment upward. Since unemployment has remained flat, it appears that worker shortage is keeping people employed despite softening economic conditions.

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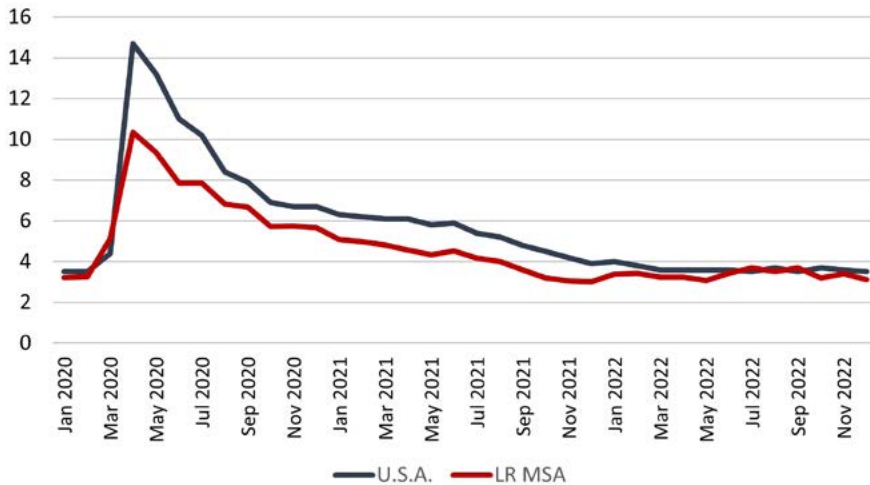
Job Growth Trend 2019–2022



Source: U.S. Bureau of Labor Statistics, seasonally adjusted. Metroplan index.



Comparative Unemployment Rates 2015–2022



Source: U.S. Bureau of Labor Statistics. All figures are seasonally adjusted.



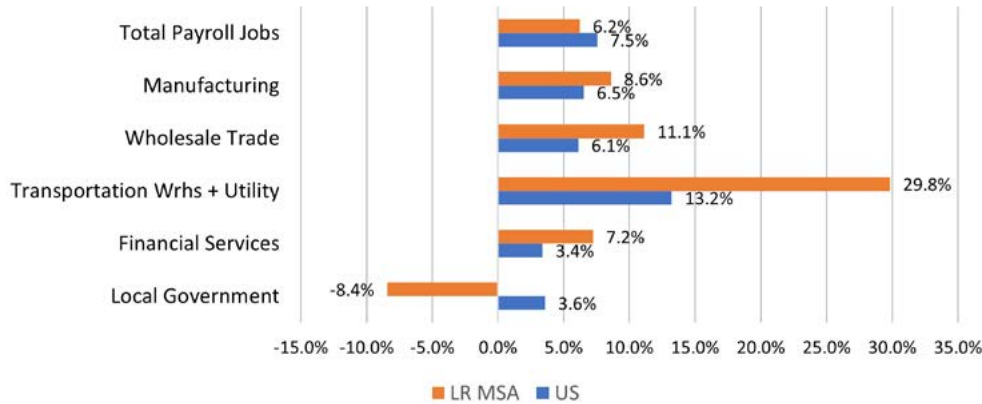
Photo: iStockphoto.com



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The regional economy showed signs of shifting trends during 2022. The chart below compares job trends in selected sectors between the U.S.A. and Central Arkansas. The timeline is from October 2020 to October 2022, the recovery period from the Covid-19 recession. Total job growth for the Little Rock MSA, at 6.2 percent, ran just a shade lower than the U.S. average of 7.5 percent. However, since local jobs were less hard-hit by the recession of 2020 to begin with, the region's post-recession performance has been creditable.

Job Change in Selected Sectors 2020–2022



Source: U.S. Bureau of Labor Statistics. Figures represent month of October.

The region gained jobs a little faster than the U.S. average in manufacturing. In financial services, a sector that has recently shown local competitive advantage, growth was about double the national average. The biggest change, however, was in the Wholesale Trade and especially the Transportation-Warehouse-Utility sectors, which outgrew the U.S. average by more than double overall. A large part of this was the opening of two new Amazon warehouses in Little Rock and North Little Rock during 2021, but numerous other firms followed Amazon's lead and have added similar jobs. Central Arkansas holds advantages in lower congestion, centrality, good transportation infrastructure, and cost-competitiveness that have lured firms to the region. There is evidence this trend will continue into 2023 and beyond.

The biggest job loss occurred in Local Government, which lost 8.4 percent compared with 3.6 percent growth at the U.S. level. Labor shortage probably drove this trend. Better-paying private sector jobs have lured employees away from local government. The problem will likely work itself out, but local governments should beware how labor shortage might impact their delivery of public services.

Retail sales have been volatile in recent years. The chart at right shows how retail sales in 2022 declined 1.5 percent from 2021. However, 2021 had been a strange year, since federal stimulus spending pumped money into households during the Covid-19 crisis. Seen in this light, after a 10.9 percent hike in retail sales, the downshift in 2022 was comparatively minor.

The [local] Wholesale Trade and Transportation-Warehouse-Utility sectors outgrew the U.S. average by more than double.

Transport Warehouse and Utility job growth in Central Arkansas 2020–2022:

↑30%

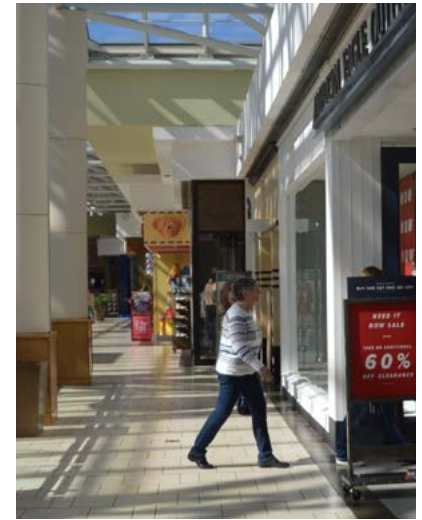
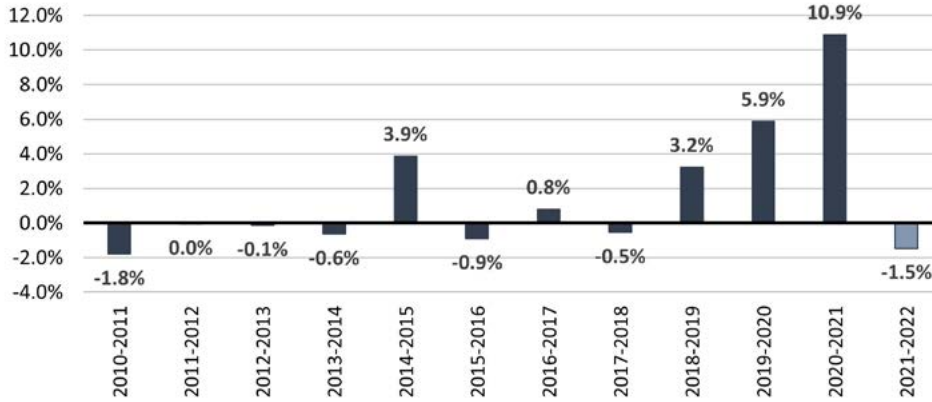


Amazon is leading a trend toward a new warehousing, logistics and distribution services in the region.



Inflationary times mean shoppers are looking for a break on price.

Little Rock MSA Retail Sales 2010–2022
Annual Percent Change, Inflation-Adjusted



Retail spending declined modestly in 2022, after record sales the year before.

While retail sales are relatively stable, the construction industry is taking a hit from rising interest rates. The chart below shows regional single-family housing starts. As you can see, construction was unusually strong during 2021 and into early 2022. Once the federal prime rate rose above the 5-6 percent range, however, construction swooned. From a peak of 228 single-family starts in April of 2021, single-family activity has been at or below 100 units per month since August, although the total climbed a bit to 119 in January 2023.

Little Rock MSA Monthly Single-Family Housing Starts
January 2021–January 2023



Single-family housing construction began slowing in the fall of 2022, after the Federal Reserve prime rate crossed above 5 percent.

Last year’s report predicted that during 2022 Covid-19 would become less of a drag on economic activity. This proved correct. Most people have acquired a degree of immunity from exposure to the vaccine or the disease itself and have resumed normal activities. However, Covid-19 continues causing illness and deaths, especially among vulnerable groups. The table below gives an update on Covid-19 mortality trends as of early 2023. The rate of deaths from Covid-19 remains below U.S. and Arkansas state averages in Pulaski County and the Little Rock MSA.

Covid-19 Mortality Rate

Region	Population	Total Deaths	Deaths / 100,000
Pulaski County	397,821	1,298	326.3
Little Rock MSA	750,936	2,413	321.3
Arkansas Total	3,025,891	12,721	420.4
United States	332,031,554	1,091,184	328.6

Source: U.S. Centers for Disease Control, January 2023. Census population estimates as of July 1, 2021.

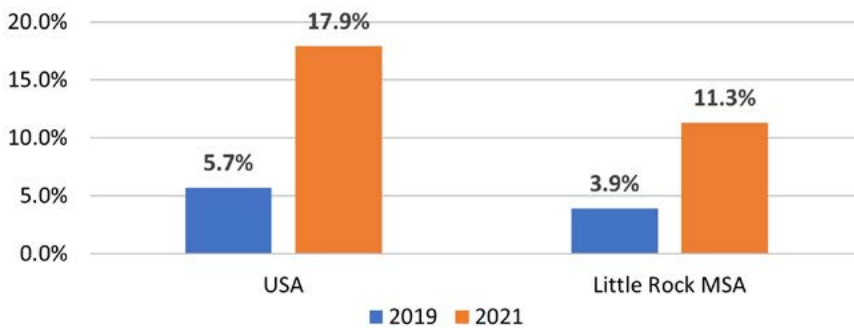


Nonetheless, overall mortality has risen, and this is a sharp reversal from the previous long-term demographic trend. Covid-19 is a leading cause, along with drug abuse and rising obesity.

The Covid-19 pandemic caused a major shift in work and lifestyle patterns. A Census Bureau data release in late 2022 sheds light on the shift toward working from home. As the chart below shows, work at home rose both for the U.S. and the Little Rock MSA. The Central Arkansas region still has a lower share of home workers than the U.S. average, but in both cases the share nearly tripled from 2019 to 2021. This change suggests long-lasting implications for Central Arkansas districts hosting large amounts of office space, especially downtown Little Rock. Evidence from lower Manhattan suggests that real estate that was once exclusive to offices now hosts a rising share of housing and entertainment.¹

Most people have acquired a degree of immunity from the vaccine or exposure to the disease ... and have resumed normal activities.

Share of Employed Persons Working from Home 2019–2021



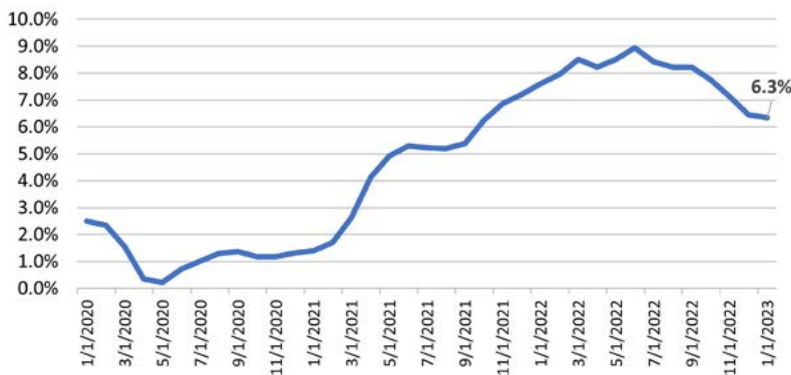
Source: American Community Survey 2019 and 2021, one-year version.

The next metric—the U.S. inflation rate in recent years—underlies most of today’s economic uncertainty. As the chart below shows, inflation climbed from near-zero in the depths of the Covid recession to a peak near 9 percent in June of 2022. Since then, rising federal interest rates and declining fuel prices have turned the inflation trend downward, to its most recent reading of 6.3 percent in January 2023. It is likely that, under pressure from Federal Reserve interest rate hikes, inflation will continue declining, and may cease to be a problem by late in 2023. How will the economy react? Whenever rates have risen as much as they have in recent months, a U.S. recession has always followed. Yet indicators have not yet shown recessionary trends.



Inflation during 2022 ran at its highest rate in forty years. Photo: iStockphoto.com

U.S. Inflation Rate January 2020–January 2023



Source: Federal Reserve Bank of St. Louis.



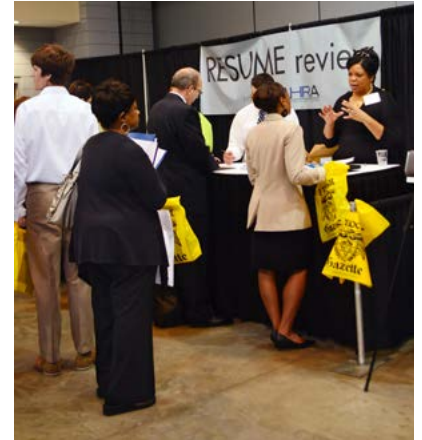
Fuel prices spiked after Russia invaded Ukraine in February 2022, but have eased recently. Photo: iStockphoto.com

¹“The Future of Family Living,” *Economist* February 11 2023.

The Year Ahead

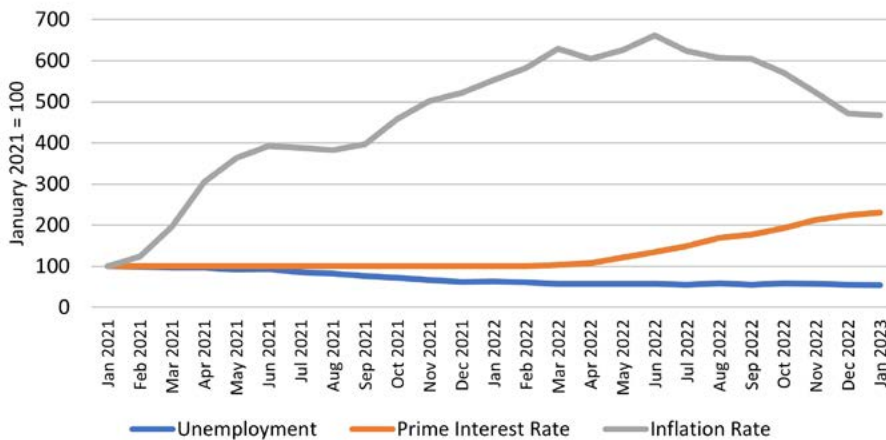
The chart below is an index that compares three critical interacting trendlines from January 2021 through January 2023. The gray line depicts inflation, and the orange line is an index of the Federal Reserve's prime interest rate. As you can see, inflation began veering downward about three months after the Fed accelerated its rate increases in May of 2022. The key indicator to watch for recession is the blue line, unemployment. U.S. unemployment decreased steadily until about mid-2022, then dropped a little more to 3.4 percent in January 2023. It is normally a rule of economics that interest rate hikes will also kick unemployment upward, but this has so far failed to happen. The Federal Reserve may have to keep ratcheting interest rates upward to stomp out persistent inflation, so unemployment may yet rise during 2023.

Other indicators like consumer spending and consumer confidence have weakened over the past year. There have been sizeable layoffs at leading national tech firms. At some point these problems might knock the U.S. economy into recession, and unemployment may start ticking up. In December 2022 unemployment was about 3.1 percent for the region. This is near historic lows, meaning even a modest rise in unemployment would not cause much local economic damage. U.S. unemployment is barely higher.



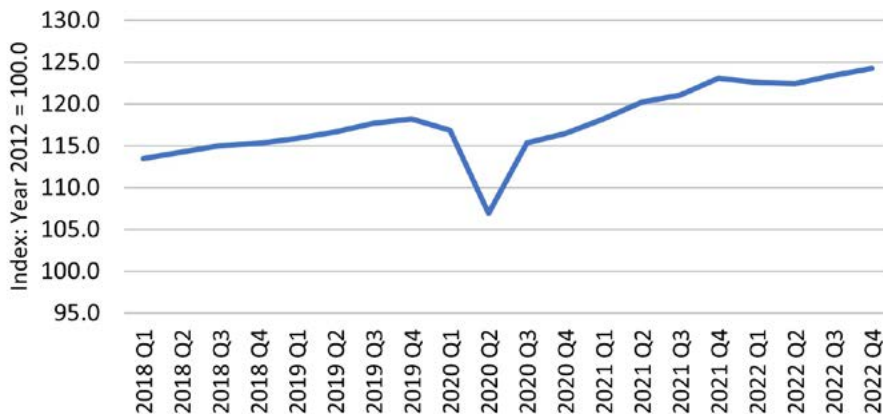
The U.S. economy is slowing at present, but strong demand for workers is keeping people in jobs.

Index of Key U.S. Indicators January 2021–January 2023



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U.S. GDP 2018–2022



Source: U.S. Bureau of Economic Analysis.

LOCAL AND NATIONAL UNEMPLOYMENT RATES ARE CURRENTLY NEAR HISTORIC LOWS.

**CURRENT
LITTLE ROCK
UNEMPLOYMENT:
3.8%**

**U.S. UNEMPLOYMENT:
3.6%**

The war in Ukraine had a serious impact on the global economy in early 2022. It caused a major spike in energy prices and global shortages in food and fertilizers, reminding us how dangerous global hot spots can be. Other crisis zones, especially the Taiwan Strait and Iran, might also have the potential for violence with worldwide impacts. These issues cannot be predicted but should not be ignored. Energy prices declined in later 2022, as market mechanisms adapted to shortages caused by boycotts. Going forward, fuel prices will remain a critical uncertainty.

In summary, U.S. economic growth during 2023 will be modest and possibly slightly negative. Since recessions can open a chain reaction of unforeseen vulnerabilities, there remains a degree of risk. But the resilience of labor markets in face of steep interest hikes indicates that any recession will likely be mild, and the U.S. economy may even get through 2023 with a “soft landing,” avoiding negative growth. The Little Rock region’s comparative economic diversity, and the presence of sturdy industries like hospitals, universities and state government means that a downturn – even if it happens - will be milder than average. The best bet for the local area is that 2023 will see an unspectacular yet stable economic trend.



The Little Rock region’s larger-than-average government sector provides some insulation from recession conditions.
Photo: iStockphoto.com.



The region’s large medical sector should continue its steady growth trend.
Photo: <https://directory.curehht.org/hospital/university-arkansas-medical-sciences>



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