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2000 Economic Review and Outlook

Employment growth within the central Arkansas region remained slow during 1999. Nonfarm payroll jobs rose just 1.6 percent, slightly below the state growth rate of 1.7 percent and below the US growth rate of 2.2 percent.

Unemployment also hit its lowest rate of the decade at just 3.1 percent for the Little Rock-North Little Rock MSA. State and US levels, although higher, continued dropping also. The combination of slow job growth, low unemployment, and rising local income levels all point to continuing labor shortage in the region.

Chart A

1990-1999 Job Growth
LR-NLR MSA Versus State and US

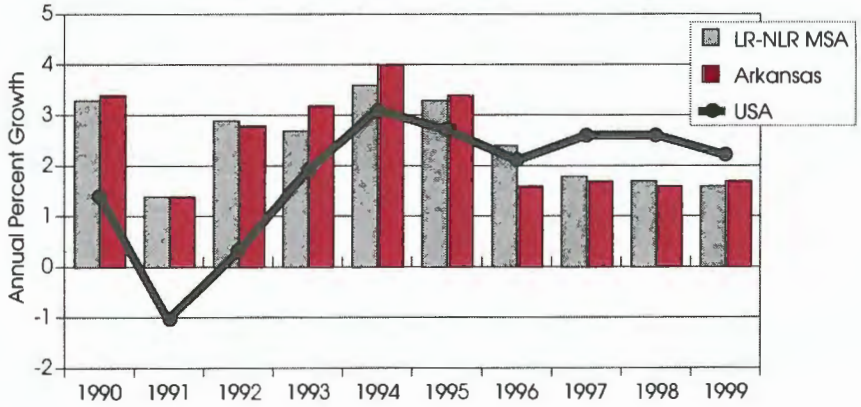
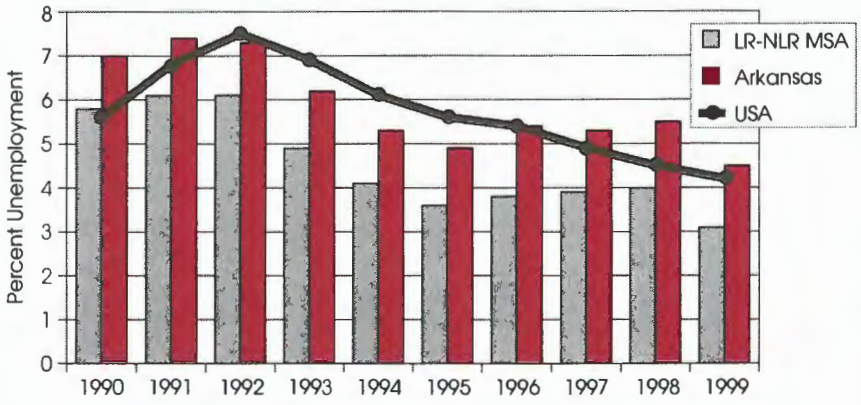


Chart B

1990-1999 Unemployment
LR-NLR MSA Versus State and National Average



Workforce Demographics

At local, state, and national levels, one of the key reasons for low unemployment rates is population age. Generally unemployment rates run higher among the younger age groups, owing to lower experience and skill levels. Unemployment is low today partly because there are few younger workers around, and more people in their high-employment mid-career phase. A recent article in *Monthly Labor Review* pointed out that 1999's unemployment rate of 4.2

(continued on page 2)

Source for charts: Bureau of Labor Statistics and Arkansas Employment Security Department.

Inside . . .

. . . and more!

Little Rock - North Little Rock MSA
(Metropolitan Statistical Area)

nationally would have been higher had the nation's demographic structure resembled past years in the 1970's and 1980's.[1]

While a low unemployment rate benefits people looking for work, it is hard on firms looking for employees. At both national and local levels, there is widespread concern that a comparative scarcity of available workers is constraining economic growth.

Despite its low unemployment rate, the labor market in the Little Rock-North Little Rock MSA may hold a slight advantage owing to local demographics. The table below compares the proportion of population in four major age groups for the Little Rock region, the USA, and the state of Arkansas.

Age Goups as Percent of Population

Age Groups	LR-NLR MSA	USA	Arkansas
0 to 19	29.0	28.8	29.1
20 to 44	39.0	37.3	34.7
45 to 65	20.7	21.2	21.9
65 +	11.3	12.7	14.3

Source: Census Bureau estimates of population by age for June 1, 1998, released September 1999.

As the data show, central Arkansas holds a small advantage in younger workers, aged 20 to 44, who make up 39 percent of the population, versus 37.3 percent for the USA as a whole and 34.7 percent for the state of Arkansas. This difference is especially pronounced in the younger portion of young adult workers. 14.8 percent of the of central Arkansas population is currently aged 20 to 29, compared with 13.4 for the US and 13.3 for the state of Arkansas. Note that these figures are derived from census estimates; we will get a clearer picture after the 2000 census figures become available.

The higher proportion of younger workers in the Little Rock-North Little Rock MSA could bode well for the future. As the region's young adult workers gain experience they will move into their high productivity middle careers. This advantage is likely to continue since the region's two largest counties, Pulaski and Faulkner, have historically attracted a positive migration flow in the 20 to 29 age cohorts.[2]

Nonetheless, slow labor force growth will remain a constraint to growth. It is important that public and private leaders recognize the importance of attracting and retaining workers for the sake of the region's economy. Economic development experts are becoming increasingly aware that quality of life is a primary determinant of regional success. This is because industries, particularly in high-tech sectors, are increasingly footloose. If costs between two potential sites are about equal, industries will generally choose the one with a higher perceived quality of life. In many cases, firms will choose a site for its better quality of life even when costs are higher.[3]

[1] Jennifer Martel and Laura Kelter, "The Job Market Remains Strong in 1999," *Monthly Labor Review,* February 2000, p. 18.

[2] Swanson, David and Mary McGehee, *Arkansas Net Migration by Age, Gender, Race and County: 1980-1990.* Arkansas Institute for Economic Advancement, University of Arkansas at Little Rock, 1993, and Pollard, Forrest and Mary McGehee, *Arkansas Net Migration by Age, Sex, Color, and County: 1970-80.* University of Arkansas at Little Rock, Demographic Research Division, June 1987.

[3] Blair, John P., *Local Economic Development: Analysis and Practice.* Sage Publications, 1995, p. 51.

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

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Urban Compactness and Economic Growth

The emerging information economy has been full of surprises that have turned conventional wisdom upside down. One such surprise may be the way information-sector growth is beginning to change land use priorities in our cities.

Why Density Means Synergy

Today, employment growth is picking up in downtowns across the U.S.A, reversing several decades of flight to the suburbs. Employers may be seeking a quality that sterile suburban office parks cannot give. What is this quality?

To begin with, there appears to be a link between employment density and economic competitiveness. The correlation between greater density and greater production is a strong one, and is usually reflected in higher income per worker.[1]

A regression analysis by economists Ciccone and Hall looked at the correlation between productivity and density. The analysis compared counties in the U.S., showing that each doubling of employment density yielded a productivity gain of 6 percent.[2] This result occurred *after* adjustments were made to correct for other urban advantages, such as proximity to larger market areas, lower transport costs, and other factors. Their analysis suggests that density by itself seems to have certain advantages.

What might these benefits be? The proximity of people to other people, and hence the cross-fertilization of information and ideas. Large firms are willing to pay enormously to gain these advantages. As one economic writer puts it: "What can people be paying Manhattan or downtown Chicago rents *for*, if not for being near people?"[3]

Let's Meet Over Coffee: The Network Economy

In an economy where thinking and innovation matter above all else, workers need to find personal contact and trade ideas close to their jobs during the workday. Districts that provide meeting spaces and good food or coffee within walking distance of offices are not just pleasant places. They are also hubs of information exchange, and thus incremental parts of the new network economy.

A new addition to Little Rock's River Market district.

Today's more mobile, independent workforce seeks *service clusters* - local retail districts that can combine meeting places with print shops, copy centers, and teleconference facilities. According to a study by the Puget Sound Regional Council in Seattle, increasingly "retail businesses are filling this need. For example, espresso cafes are the meeting rooms for small business strategic partners. Thus Starbucks Coffee . . . is very much a part of the New Economy."[4]

Little Rock already has its stylish and pedestrian-friendly River Market District where restaurants, retail shops, and offices are mixed in together on the eastern edge of downtown. Other sites with potential include the recently improved Main Street area in North Little Rock and the proposed Railroad Market District in Conway. These areas - and new ones that may emerge - are probably not frivolous extras. By creating and supporting such service clusters, the central Arkansas region has an opportunity to reach toward the fast-approaching horizon of a new economic vision.

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1 Ragan, Kelly and Bharat Trehan. "Cities and Growth." *Economic Letter*. Federal Reserve Bank of St. Louis, September 11, 1998.

2 Ciccone, A. and R. Hall. "Productivity and the Density of Economic Activity." *American Economic Review* (March 1996) pp. 54-70.

3 Lucas, Robert E. "On the Mechanics of Economic Development." *Journal of Monetary Economics*, Vol. 22, 1988, pp. 38-39.

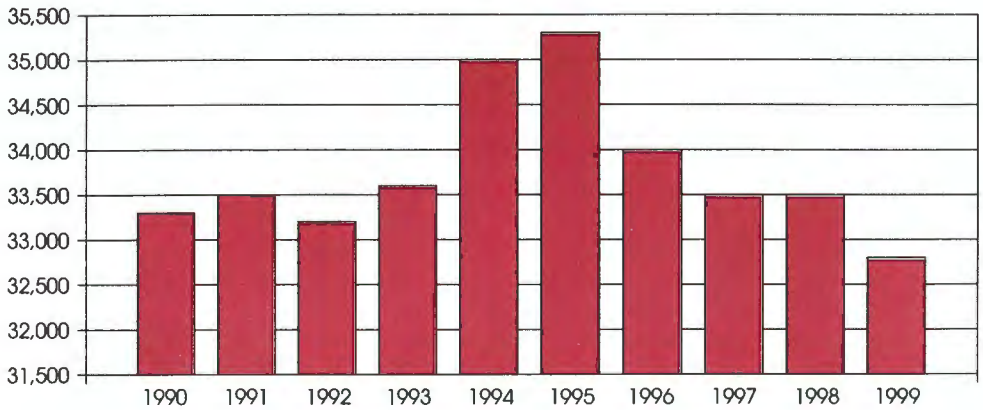
4 "High Technology Jobs in the Central Puget Sound Region." Puget Sound Regional Regional Council, 2000. Accessed online: <www.psrc.org>

Manufacturing Jobs Sag Amid Prosperity

Despite favorable trends in almost all other sectors of the regional economy, the manufacturing sector has shown steady job losses in recent years. During 1994 and 1995, manufacturing employment climbed sharply and seemed to suggest a new trend was in the offing. Instead, the manufacturing sector began to suffer steady job losses, and in 1999 manufacturing employment stood about 1.5 percent lower than it had at the beginning of the decade.

Chart C

LR-NLR MSA Manufacturing Employment 1990 - 1999

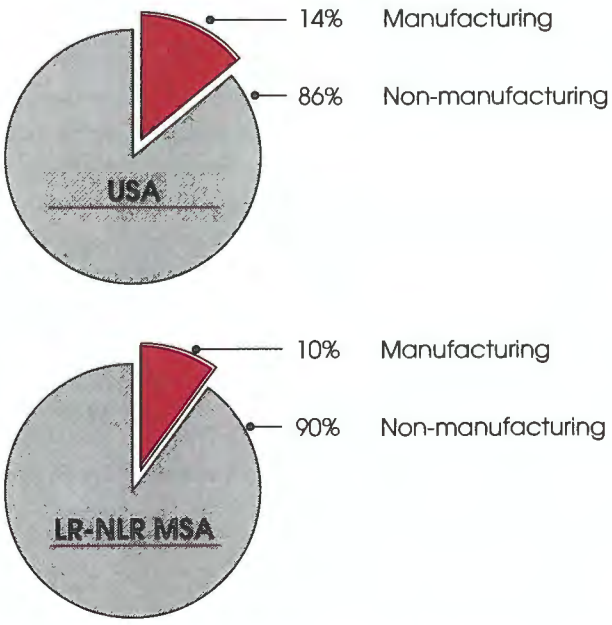


While job losses may be hard on workers, this trend does not represent major economic problems. The Central Arkansas region has never been a major industrial center - in fact, as the charts below show, manufacturing employment runs below the national average.

Further, job losses in manufacturing were simply a reflection of national trends. In fact, the region's rate of manufacturing job loss from 1990 to 1999 was actually slower than the national decline. Manufacturing productivity has been rising rapidly at the national level, suggesting that *job losses* are not automatically correlated with *economic losses*. Just as important, the Little Rock-North Little Rock MSA showed strength in several promising areas of manufacturing.

Chart D

Manufacturing Employment as Share of Total Employment USA and LR-NLR MSA, 1999



Corporate Jets

Little Rock is the home of Dassault Falcon Jet, Raytheon, Midcoast-Little Rock, Inc., and other firms involved in the finishing and modification of small jets. Employment has grown from 1,113 in 1994 to 1,693 by 1998 - a 52 percent increase. While the aerospace industry has generally experienced job losses nationwide, corporate jets are becoming a major growth area. Frustrated with airline crowding and delays, more and more U.S. travelers are opting for private or chartered aircraft.[1] This trend may create more demand for small jets, and thus continued growth in Little Rock's aerospace sector.

Products from Local Natural Resources

Manufacturing in local industries tied to natural resources has increased. Employment has grown in local lumber, wood products, and paper manufacturers, at rates above the national average. For ex-

ample, in lumber and wood products, local employment grew by 18.8 percent from 1990 to 1999, compared with 11.8 percent growth at the national level. More jobs were lost than gained at the national level in paper and related products, but the Little Rock-North Little Rock MSA saw 17.4 percent growth from 1990 to 1999.

Products for the Regional and National Construction Industry

In the production of concrete, stone, clay and glass products, local industries have out-performed the national average, with a 62.5 percent job gain from 1990-1999 versus 2.8 percent at the national level. A large number of local firms produce everything from ready-mix concrete to marble tables and ceramic tiles.

Manufacturing Trends in Perspective

In a few other sectors, the region's job losses have exceeded the national average, as in the case of industrial machinery, electronic equipment, food products, and the printing and publishing industries. However, as the table below shows, the total loss in manufacturing employment from 1990 to 1999 amounts to just 500 jobs - less than two-tenths of one percent of the 313,400 total jobs in central Arkansas.

US and Central Arkansas Manufacturing Employment Trends 1990-1999

	1990 (x 1,000)	1999 (x 1,000)	Total (x 1,000)	Percent Change
USA				
Total Employment	110,321	128,615	18,294	16.9
Manufacturing	19,062	18,432	-630	-3.3
Little Rock-North Little Rock MSA				
Total Employment	253.2	313.4	60.2	23.8
Manufacturing	33.3	32.8	-0.5	-1.5

Data Sources: Arkansas Employment Security Department and US Bureau of Labor Statistics.

[1] Donnelly, Sally B. "Private Jets for Everyone," *Time*, August 20, 2000.

Public School Enrollment Little Rock - North Little Rock MSA

County	1990 - 1991 School Year	1999-2000 School Year	Percent Change
Faulkner	10,551	14,243	35.0
Lonoke	8,581	10,733	25.1
Pulaski	55,579	53,588	-3.6
Saline	10,769	12,062	12.0
MSA Total	**85,480**	**90,626**	**6.0**

Source: Arkansas Department of Education.

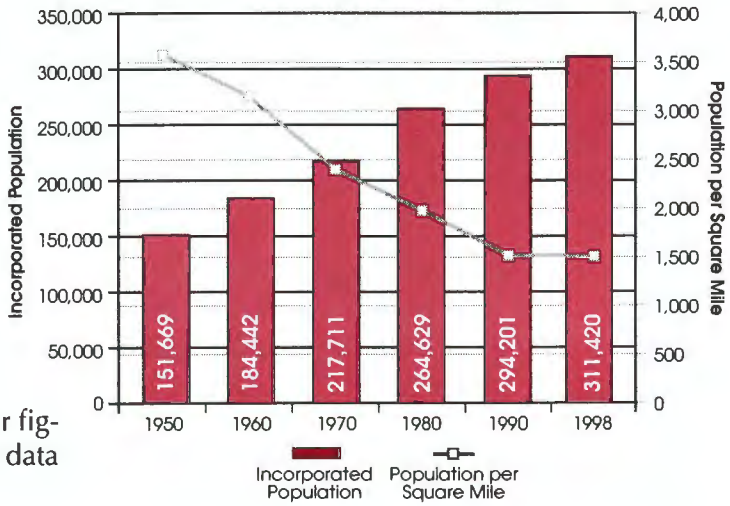
Spreading Out for Fifty Years

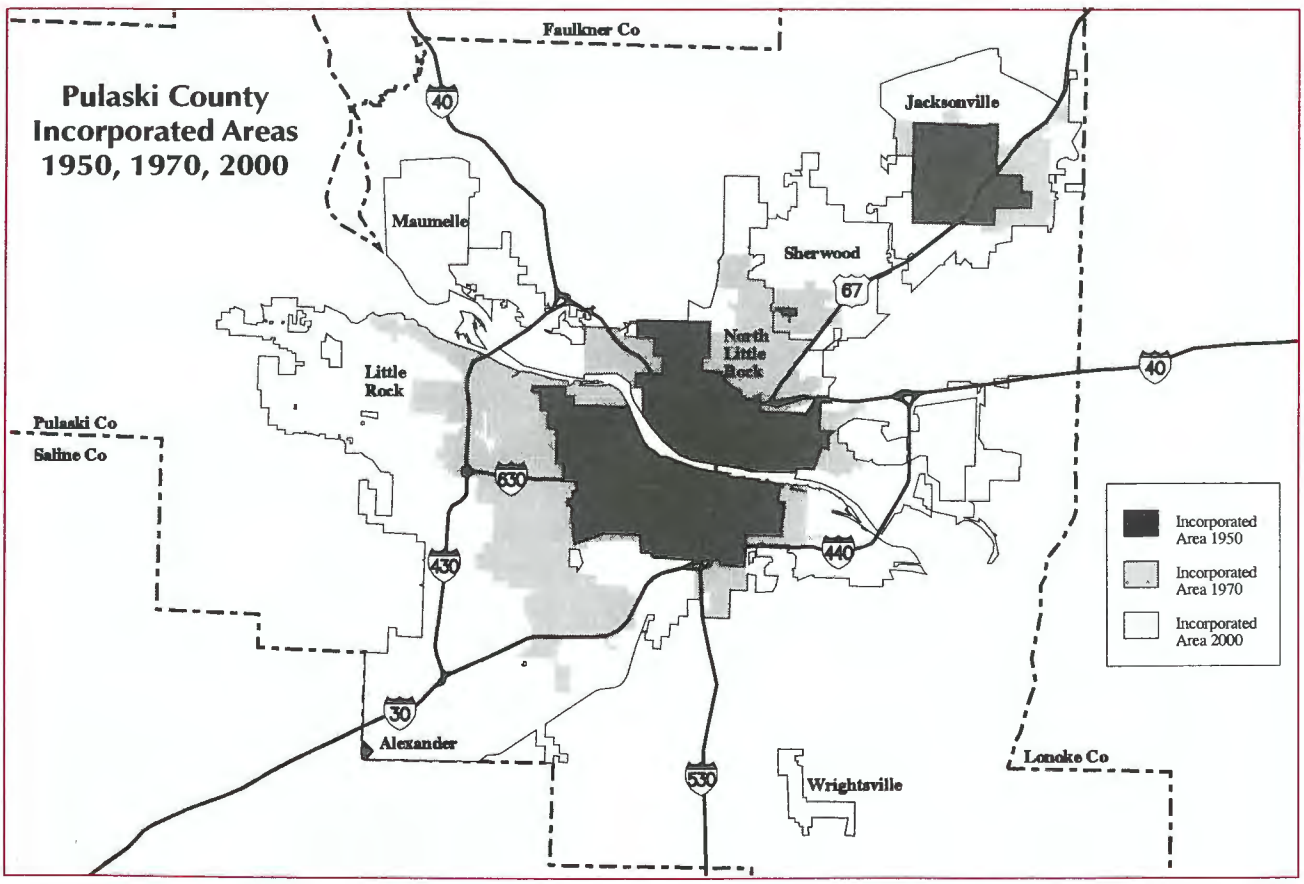
The text and data on the following pages tell the story of fifty years of suburbanization across the central Arkansas region. The trends resemble those of other urban regions in the United States during the same time period. It is a story of tremendous economic growth and of success at providing a higher standard of living for the majority of citizens. Yet this success has brought along nagging side effects like neighborhood decline, traffic congestion and air pollution.

The map below shows changes to incorporated areas within Pulaski County from 1950 to the present. The incorporated area, containing most of the county's housing and businesses, has spread far faster than the population has grown. Chart E at right gives some figures to demonstrate these trends. While Pulaski County's population doubled (105 percent growth), incorporated land area nearly quadrupled (387 percent growth). Similar trends have occurred in nearby Faulkner, Lonoke and Saline Counties, but our figures will focus on Pulaski County because the data are more complete.

Chart E

Pulaski County Incorporated Population vs. Population per Square Mile

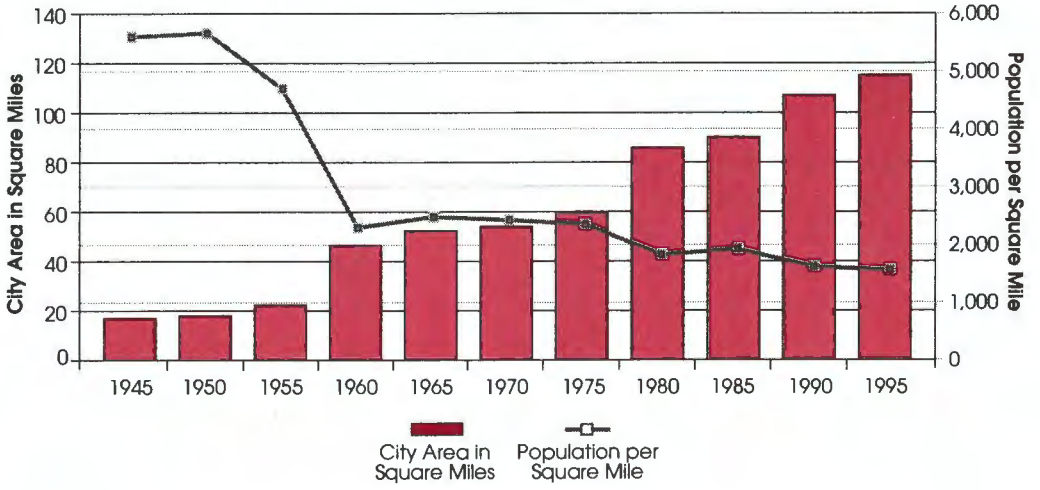




As a result of the suburbanizing trend, population density has plummeted. Chart *F* below shows the case of Little Rock, which provided us with the most complete data on land area. Population per square mile dropped from about 5,500 at the end of World War II to about 1,800 by 1995. Density had dropped to one-third of its previous level.

Chart F

Little Rock Population and Population Density



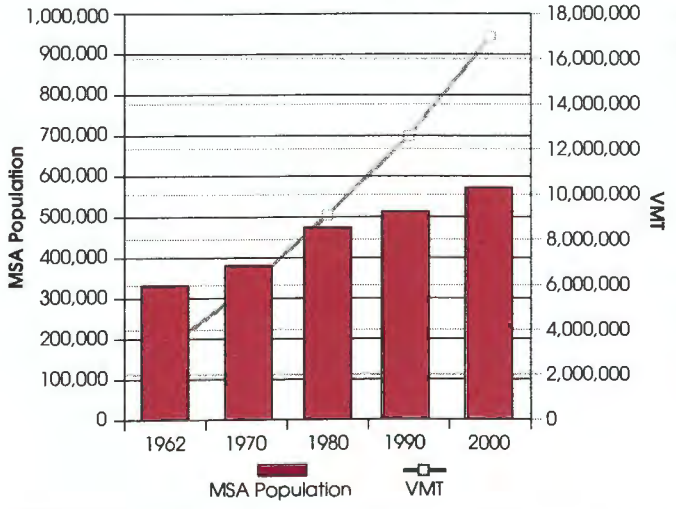
Driving Into Gridlock?

These trends in land use were closely correlated with changes in transportation. Much of the outward growth of cities was driven by population growth in the suburbs. As people moved to the new and expanding suburbs, homes became more distant from jobs. Work force participation grew, especially among women. Prosperity allowed more people to own cars. As a result, traffic levels surged.

The best measure of overall traffic levels can be found in average daily VMT, or "vehicle-miles traveled." Chart *G* below shows the increase in VMT for the four-county area known today as the Little Rock-North Little Rock MSA. The data begin with 1962, the first year in which the Arkansas State Highway and Transportation Department tracked these figures. As the data show, from 1962 to 2000, VMT grew by a factor of five (434 percent). By comparison, population grew by less than double over this period (78 percent). Daily vehicle-miles per capita nearly tripled from about 9.9 miles to 29.6 during this period.

Chart G

Population vs. VMT
Four-County LR-NLR MSA



Population growth was obviously not the primary factor behind this increase. Instead, more vehicles per household, growing work force participation, and more miles driven were primary contributors.

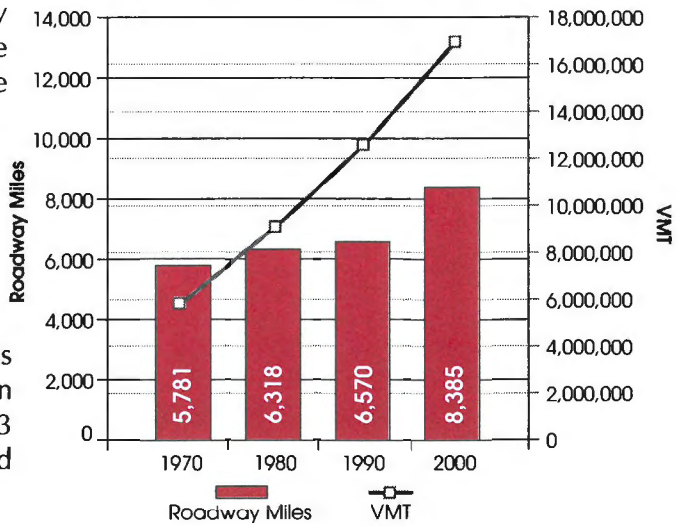
A Traffic Explosion

The implications of this trend are not hard to figure out. While new roadways have been constructed and others have been widened, roadway capacity has not kept pace with traffic growth. The chart at left shows that, while roadway miles in the Little Rock-North Little Rock MSA rose 45 percent from 1970 to 2000, VMT climbed by 191 percent. The results are not hard to see, with traffic levels reaching or exceeding capacity on major portions of regional freeways and arterial streets.

Chart H

LR-NLR MSA

Roadway Miles and VMT Compared



Air Pollution & Other External Costs

There has been another consequence to all this traffic growth. On August 2, 2000, ozone levels in the Little Rock-North Little Rock MSA exceeded 0.83 parts per million, tipping the region's three-year trend past federal limits.

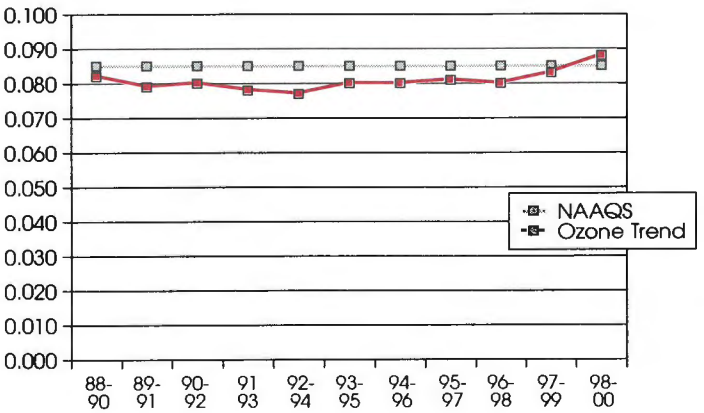
This will probably put the region in violation of the Clean Air Act, meaning new federal controls on spending for transportation infrastructure and other regulations on industrial and transportation emissions to bring the problem under control. Like traffic congestion, ground-level ozone pollution represents an external cost to growth, a cost that accrues to all of society but which people do not pay when they are driving their cars.

Chart I

LR-NLR Ozone Trends:

3-Year Average of 4th Highest Daily Maximum

1988-2000



There is nothing unique about development trends in central Arkansas during the past fifty years. With slight variations, the story has been the same in most US urban areas. Each successive wave of suburbanization has yielded lower densities of development, longer driving times, and greater congestion. Like many other US regions, central Arkansas today faces the challenge of encouraging economic growth while curbing its worst side effects.

Understanding Ozone Trends

The chart above depicts the rise in ozone problems in recent years. Ozone non-attainment is based on a complex formula that measures the average fourth highest daily maximum reading across a three-year period (a value shown as "Ozone Trend" in the chart). Under the new 8-hour ozone standard, the non-attainment threshold is 0.085 parts per million (ppm).[1] This limit is shown as NAAQS (National Ambient Air Quality Standard). As the chart shows, the central Arkansas region ran close to that limit throughout the 1990's. The region exceeded the federal standard during the summer of 2000, when the three-year average ran above the threshold.

1 The EPA's right to enforce the new standard has been challenged in a case which will be resolved by the U.S. Supreme Court within a few months.

Building Pace Remains Strong

Construction dollar value totaled $687 million for the four-county region during 1999. This was just below the record-setting pace of 1998 and the second highest performance ever. New residential construction continued to exceed all previous records, reaching $356.3 million, or 10 percent higher than the previous record in 1998. Commercial construction totaled about $286.3 million, a drop of 18.8 percent from 1998's record performance. This decline probably reflects the completion of several large publicly funded projects and a slowdown in the construction of new "big-box" retail facilities, but still represents a solid performance higher than all years other than 1996 and 1998.

Faulkner County construction accelerated in 1999, reaching $144.6 million or one-fifth of the regional total. This is the highest proportion yet attained by any county in the region outside Pulaski. Construction value declined slightly in Saline and Lonoke Counties, at $53.1 and $37.6 million respectively. In both cases, the decline probably represented a fall-off following a commercial construction boom along the freeway corridors during the period 1995-1998. The pace of housing construction remains strong in both counties.

Chart K

Total Building Permit Values by County LR-NLR MSA 1993-1999

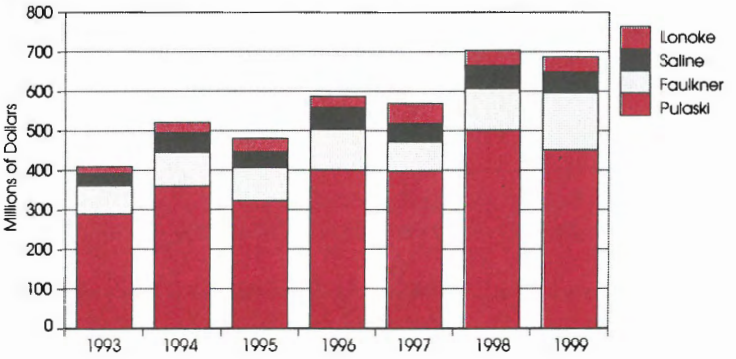
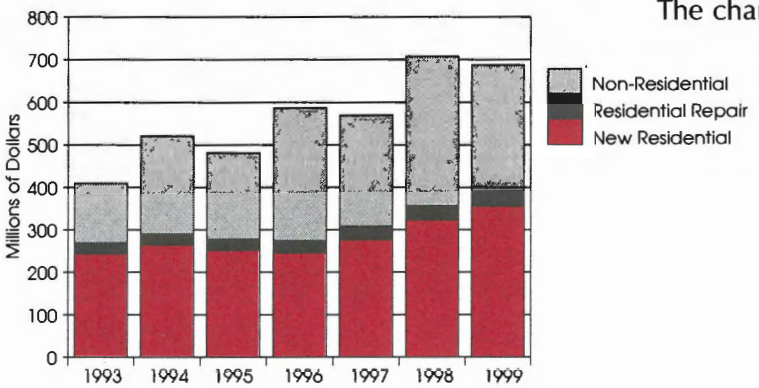


Chart L

Building Permit Value Trends 1993-1999

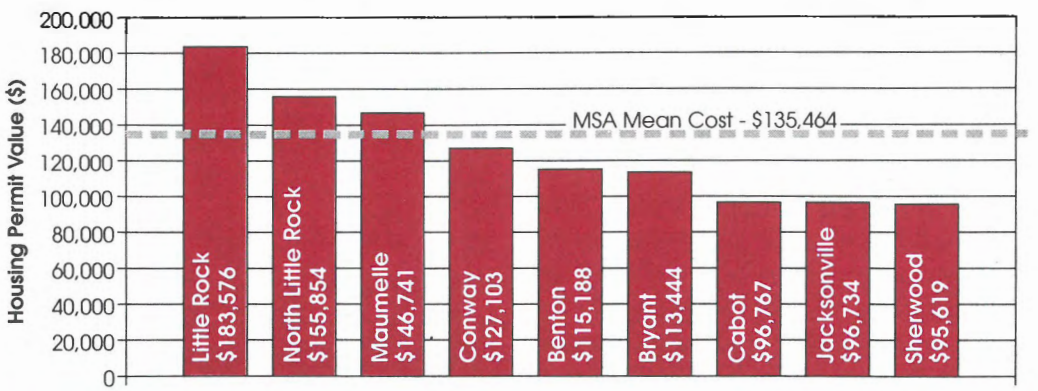


The average value of a single-family housing permit reached a new high of $135,464 in 1999. The chart below depicts the average costs per city for the year. Little Rock retained the highest value per unit, at $183,576, followed closely by North Little Rock and Maumelle. Jacksonville and Sherwood, which both had average values in the low to mid-$80,000 range in 1998, climbed markedly to $96,734 and $95,619, respectively.

(Note: for permit value figures to match these charts, visit Metroplan's web site at www.metroplan.org.)

Chart M

1999 Average Single-Family Housing Permit Values by City



Housing Unit Permits

Single-Family — First Half of Year 1990-2000

Single-Family	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Little Rock	226	226	288	382	368	261	263	230	265	287	283
North Little Rock	30	28	46	59	59	47	50	37	33	43	30
Jacksonville	20	11	27	37	45	27	43	39	38	37	41
Sherwood	61	40	26	43	40	49	46	46	67	71	64
Maumelle	35	26	31	36	79	68	112	147	145	157	139
Cabot	62	71	92	99	166	183	155	93	139	140	157
Benton	34	62	69	77	107	73	73	57	84	76	127
Bryant	61	57	40	36	58	71	84	63	74	86	90
Conway	131	181	199	249	319	225	218	167	218	240	211
MSA Total (SF)	**660**	**702**	**818**	**1,018**	**1,241**	**1,004**	**1,044**	**879**	**1,063**	**1,137**	**1,142**

Multi-Family — First Half of Year 1990-2000

Multi-Family	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Little Rock	25	10	0	3	14	249	7	230	634	242	36
North Little Rock	0	0	0	0	0	0	0	2	0	0	0
Jacksonville	0	6	0	2	10	1	0	7	1	58	80
Sherwood	20	0	0	11	6	274	19	0	226	0	8
Maumelle	0	0	0	14	6	0	0	0	0	0	0
Cabot	N/A	0	N/A	0	0	13	5	0	0	20	0
Benton	0	0	16	24	10	0	276	0	0	5	8
Bryant	40	0	0	0	4	10	0	2	0	4	4
Conway	39	149	40	46	148	51	194	184	236	67	50
MSA Total (MF)	**124**	**165**	**56**	**100**	**198**	**598**	**501**	**425**	**1,097**	**396**	**186**

MSA Total	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
(All Housing Units)	784	867	874	1,118	1,439	1,602	1,545	1,304	2,160	1,533	1.328
Percent SF	84.2	81.0	93.6	91.1	86.2	62.7	67,6	67.4	49.2	74.2	86.0
Percent MF	15.8	19.0	6.4	8.9	13.8	37.3	32.4	32.6	50.8	25.8	14.0

Note: These data count mobile homes as single-family housing. Permit counts may be subject to slight revision. If these data are used in any publications, please credit Metroplan.

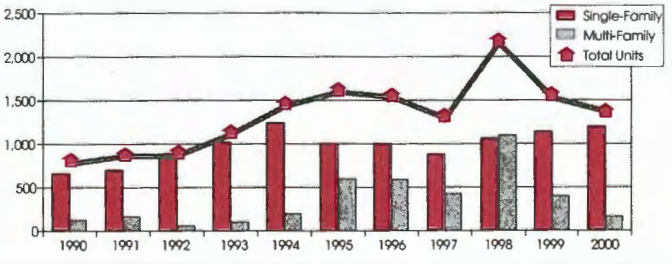
Housing Construction Slows Moderately in Early 2000

Overall housing construction began to slow across the region during early 2000. Nonetheless, single-family permits during the first half of 2000 slightly outpaced the first part of 1999, despite slightly higher interest rates in 2000. The pace of single-family construction held about even in most cities, aside from a slight drop-off in Maumelle and a surge in Benton.

Multi-family construction slowed sharply, however, from 396 permits in early 1999 to 186 permits during the first half of 2000. The new construction consisted mainly of one 80-unit complex in Jacksonville, a further addition to Eagle Hill in the Otter Creek area of Little Rock, and several small apartment buildings and duplexes in Conway.

Chart N

Total Housing Units Permits LR-NLR MSA
First Half 1990 through First Half 2000



LR-NLR Socio-Economic Statistics 1999

	LR-NLR MSA	Faulkner	Lonoke	Pulaski	Saline
Average Resident Employment	289,050	40,150	24,550	184,500	39,850
% Unemployment	3.1	3.1	2.5	3.4	2.6
Manufacturing	32,800	N/A	N/A	N/A	N/A
New Industries	1	1	0	0	0
Expanding Industries	17	1	1	13	2
Assessed Valuations ($)	5,320,942,479	624,767,903	364,206,258	3,646,951,567	685,016,751
Real Estate ($)	3,719,981,034	427,482,360	251,862,870	2,536,346,554	504,289,250
Personal Property ($)	1,342,792,601	173,146,070	87,337,475	925,819,660	156,489,396
Corporate ($)	258,168,844	24,139,473	25,005,913	184,785,353	24,238,105
Bank Deposits ($)*	2,356,284,000	289,000,000	336,280,000	1,590,072,000	140,932,000
Bank Assets ($)*	2,625,929,000	329,000,000	415,994,000	1,729,034,000	151,901,000

Sources: Arkansas Employment Security Department, Arkansas Department of Economic Development, Arkansas Assessment Coordination Division, and Greater Little Rock Chamber of Commerce.

*Bank data exclude assets and deposits held by banks serving the area but based outside the four-count Little Rock-North Little Rock MSA. The largest of these are Bank of America (based in Charlotte, NC) and Regions Banks (Birmingham, AL).

1999 New and Expanding Industries

Category/Company	City	Product
Non-Durable Manufacturing		
Odom's Tennessee Pride Sausage, Inc.	Little Rock	Pork products, sausage, breakfast links
Cabot Foods, Inc.	Cabot	Sausages and other prepared meats
Arkansas Face Veneer Co.	Benton	Veneers and spliced-to-size veneer faces
Smurfit-Stone Container Corp.	Jacksonville	Plastic bags, liners, and shrink bags
Leisure Arts, Inc.	Little Rock	Miscellaneous publishing
PGI Nonwovens	North Little Rock	Miratec textile product
Rineco Chemical Industries, Inc.	Benton	Chemicals
Durable Manufacturing		
Pirelli Tire, LLC	Little Rock	Inner tubes
Cope Plastics, Inc.	Little Rock	Custom plastic fabrication
Bullet Buildings, Inc.*	Conway	Steel prefabricated metal buildings
Triangle Engineering of Arkansas	Jacksonville	Speciality ventilation equipment & accessories
Lucent Technologies	Little Rock	Telecommunications equipment
Arkansas Trailer Manufacturing Co.	Little Rock	Truck trailers
Raytheon Aircraft	Little Rock	Aircraft modification
BEI Sensors and Systems Co.	Maumelle	Optical shaft angle encoders
Transportation - Trucking		
Sysco Food Services of Arkansas	Little Rock	Distribution center
Retail - Department Stores		
Dillards, Inc.	Little Rock	Corporate headquarters
Insurance		
American Management Corp.	Conway	Insurance corporate headquarters

*This is the only new industry, the remaining are all expanding industries.
Source: Arkansas Department of Economic Development

2001 Economic Outlook

The pace of regional economic growth will continue slowing in 2001. Uncertainties are increasing as the current growth cycle ages and oil prices contribute to inflationary pressures. The diverse nature of the central Arkansas economy may help cushion the area, but if the state economy weakens, linkages could cause the MSA's service-sector and government-based economy to soften as well.

The future pace of growth in western Little Rock faces uncertainties owing to restructuring in the retail industry and the challenges posed by traffic congestion, infrastructure costs and other side effects of the area's recent growth trend.

The downtown construction trend in retail, office space and multi-family housing may slow as several large projects reach completion. However, national trends favor downtown and in-fill locations owing to the pressures of traffic congestion and a desire for the synergy offered by economically diverse, pedestrian-friendly districts.[1] Construction of the 12-story Acxiom office facility and further multi-family retrofits currently under consideration may continue the downtown growth trend.

Labor shortage remains the region's greatest economic challenge, especially in technology businesses requiring highly specialized and educated workers. Since in-migration to the region continues to run below the national average, it may be difficult to import enough skilled workers from other parts of the country. The region's economic future may therefore be increasingly determined by its ability to educate the local children and adults who will comprise tomorrow's work force.

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[1] Urban Land Institute, *2000 Real Estate Forecast*, May 2000, p. 12.

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