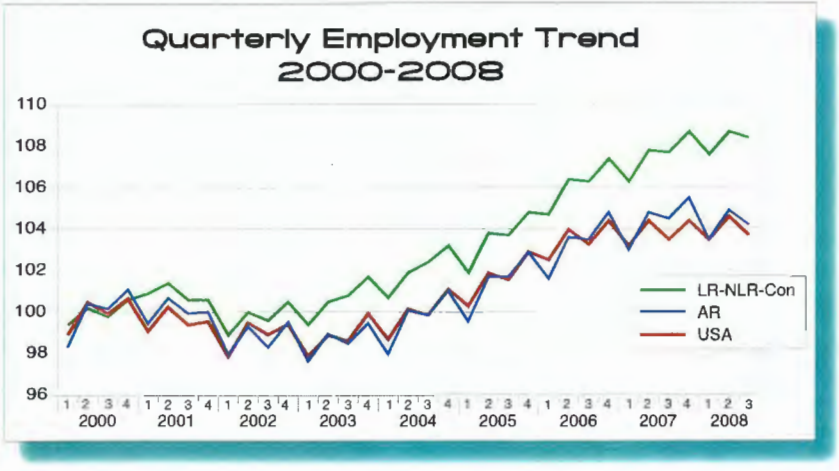
METROTRENDS

SMART PLANNING MAKES SMART PLACES

ECONOMIC REVIEW & OUTLOOK 2008

Local Strength in Hard Times

Severe national economic conditions are finally taking a toll on the central Arkansas economy, but local conditions remain better than the national average. The chart below depicts Metroplan's index for local, state and U.S. employment trends from 2000 through the third quarter of 2008.[1] As you can see, during 2008 all three indices were weakening. The only positive note is that local job growth has, so far, slowed less markedly than US and state averages.



Hendrix Village construction in Conway, October 2008

Amazingly, even as job growth was slowing across the board, the central Arkansas region managed to grow jobs at a slightly faster pace than the Northwest Arkansas metropolitan region. After years of extremely fast annual growth, Northwest Arkansas jobs grew just 1.2 percent from 2006 to 2007. Central Arkansas job growth was slightly higher, at 1.5 percent, during the same period.

The chart on the following page (bottom left) shows that a large share of central Arkansas job growth – and economic growth - is occurring in Faulkner County. From 2002 to 2007, Faulkner County contributed over one-quarter of all job growth in the metro area, nearly twice as much as the other outlying counties combined. The region's traditional employment center, Pulaski County, contributed 61 percent of the new jobs, still the largest share but with the slowest annual job growth rate among the six counties.[2]

Unemployment in central Arkansas remained below state and U.S. averages, at 4.0 percent in August, 2008, compared with 4.6 percent for the state of Arkansas and 6.1 for the national average.[3] Most economic forecasts predict that unemployment will continue rising, however, well into 2009.

Local Strength, *continued on page 2*

Inside:

[1] Arkansas Department of Workforce Services, nonfarm payroll jobs series, not seasonally adjusted.

[2] U.S. Bureau of the Census, Local Employment Dynamics, place of work employment.

[3] Arkansas Department of Workforce Services, labor force statistics.

Local Strength in Hard Times

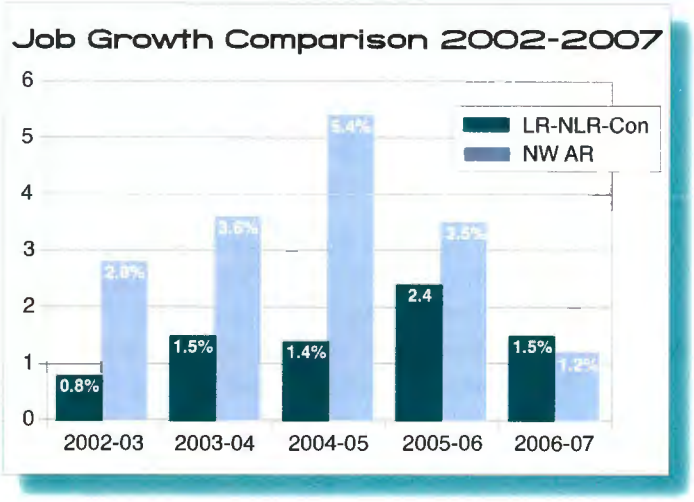
Local Strength, *continued from page 1*

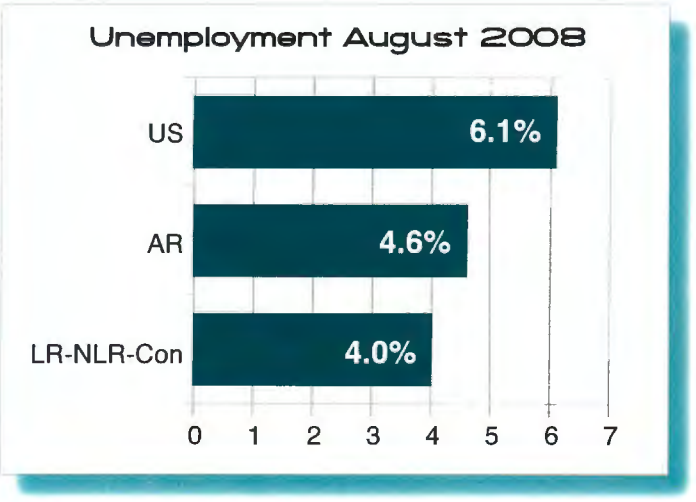
Income growth has also favored central Arkansas in recent years. Per Capita income in central Arkansas was about $37,785 in 2007, ranking 86th among 363 U.S. metro areas.[4] Local income grew 17 percent from 2001 to 2007, after adjusting for inflation. Thus, local income grew nearly twice as fast as the U.S. average (9.9 percent) during these years. These figures may be distorted by the sale of local firm Alltel. This sale has yielded large executive bonuses which accounted for a share of the income spike, at least during the 2006-2007 period.[5]

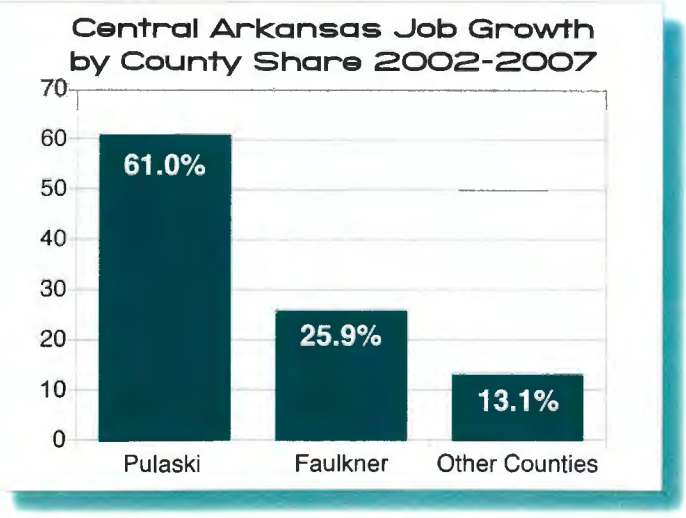
The central Arkansas region has had a lengthy run of prosperity and above–average growth since 2000, reversing a period of decidedly anemic growth during the years 1996-1999. The recent prosperity, coupled with continuing economic diversity, may cushion the region in face of national economic restructuring. Nonetheless, the drastic recent drop-off in central Arkansas housing markets (see pp. 8-10), points to inevitable linkages with national trends. Local income and employment trends will not be immune to shock waves currently jostling the U.S. and global economies.

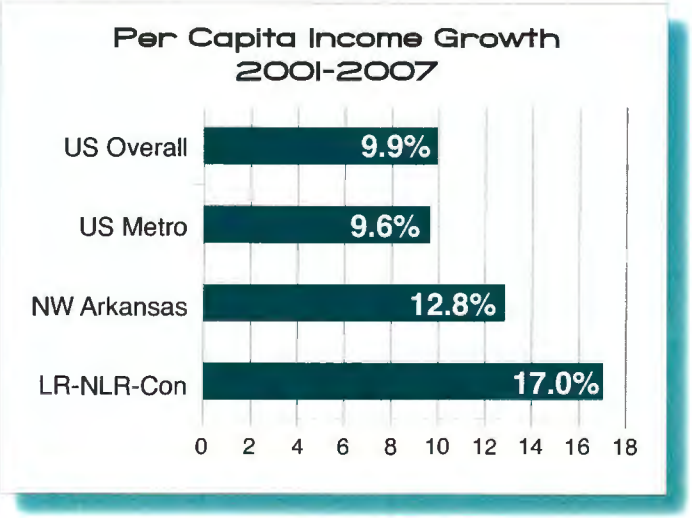
[4] U.S. Bureau of Economic Analysis, inflation adjustment by Metroplan.

[5] David Smith, "Income Growth in State Tops U.S.," Arkansas Democrat-Gazette, August 8, 2008.









Petroleum Perils 2008

Last year, Metroplan's *Economic Review and Outlook* addressed global oil worries in an article titled "The End of Cheap Oil." We pointed to a future of chaotic price changes, relentless demand increases in China, India, and other developing countries, and flat global oil production since 2005.

As of this writing, oil prices are tumbling to levels not seen since early 2007. Yet staggering oil price hikes since about 2004 aggravated the debt crisis and contributed to a developing global recession. The chart below compares world oil production and prices since 2001.[1] As you can see, oil prices whipsawed up and down – mostly up – while production barely gained. Throughout the years 2005, 2006, and 2007, as prices soared to levels never before seen, global oil production remained flatlined around 84.5 million barrels per day.

Finally, in early 2008, responding to prices and perhaps political pressures, production nudged up a bit, hitting a new global peak of 87.1 million daily barrels in July of 2008. With the global economy sputtering, demand weakened and prices fell. Yet from January, 2001 to July, 2008, even after prices had dropped from their peak, *the price of a barrel of oil had climbed 350 percent, to yield just 11 percent more oil.*

Global Petroleum Supply & U.S. Prices

	Supply: Million bbl/day	Price: $/bbl
January 2001	78.2	$29.59
July 2008	87.1	$133.37
Change	11%	351%

Source: U.S. Energy Information Administration

These trends explain why even the conservative and market-friendly journal *The Economist* recently announced: "'Peak oil,' if oil means the traditional sort that comes cheaply out of holes in the ground, will probably arrive soon. There is oil aplenty of other sorts (tar sands, liquefied coal, and so on) ... But it will get expensive to produce, putting a floor on the price that is way above today's."[2]

While it is unlikely that oil prices will rise during a global economic downturn, price volatility will remain an issue over the longer term. Businesses and governments that prepare for renewed energy price hikes during the current respite will hold a competitive advantage when economic recovery puts the pressure back on.

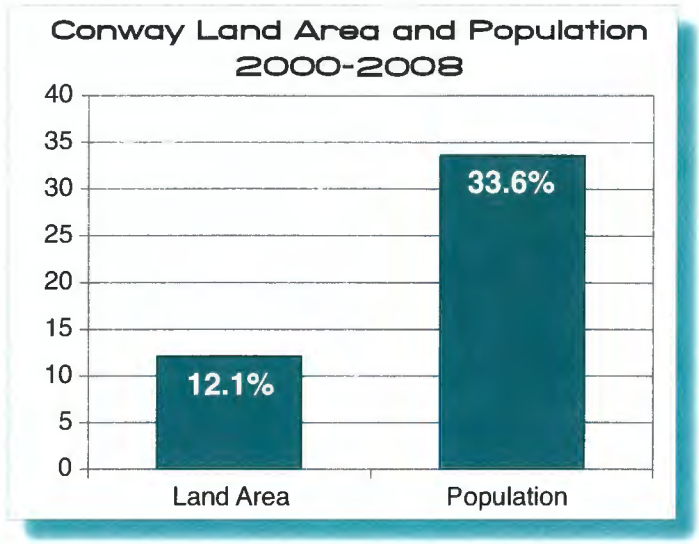
[1]The chart uses index values for price and supply in which January 2001=1.0. Thus, the oil price spike in early 2008 shows that prices were 4.5 times greater than in January 2001. Metroplan developed this index from U.S. Energy Information Administration monthly data on price and supply at www.eia.doe.gov/, accessed 10/21/08. July 2008 figures are the latest available.

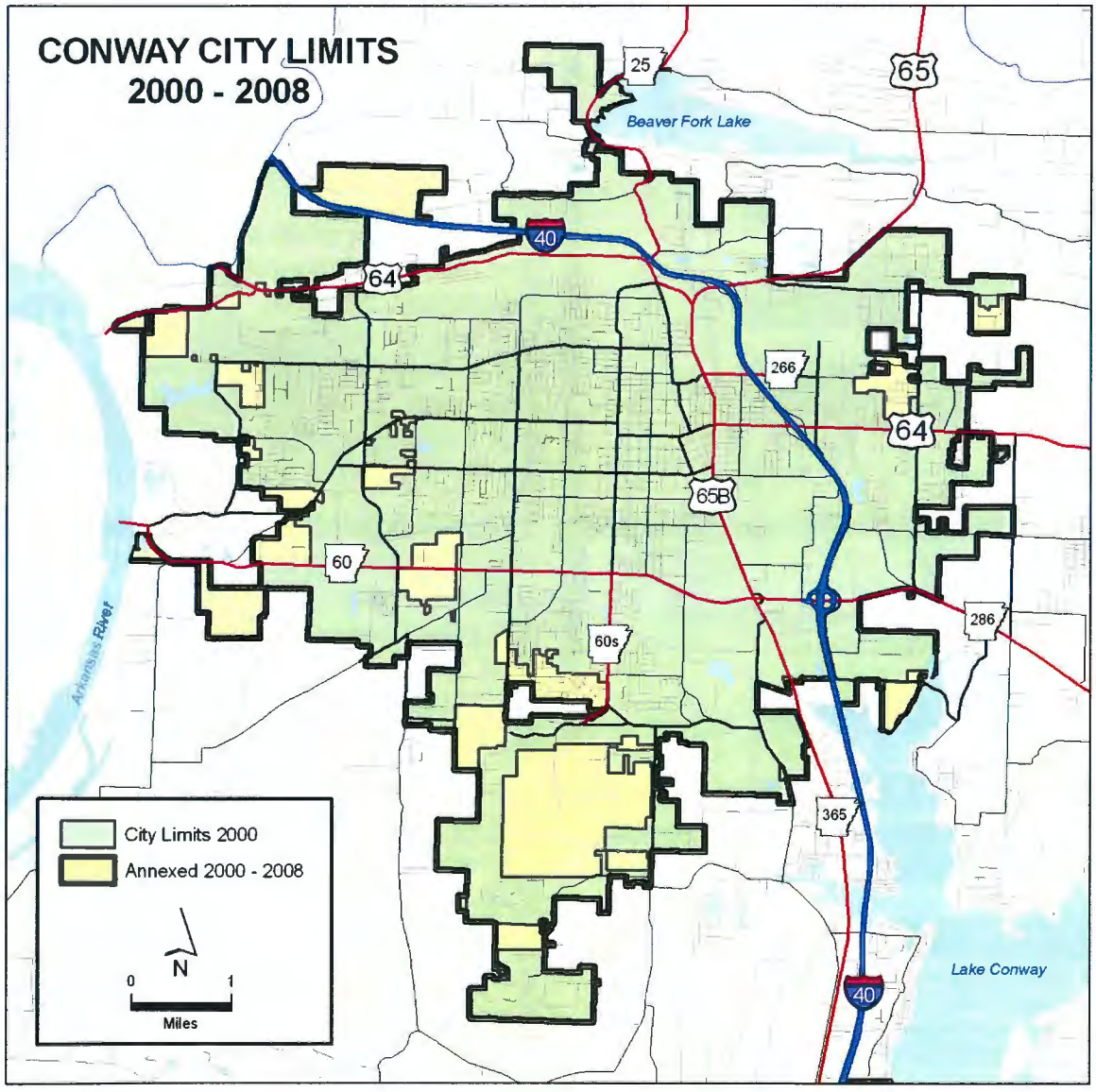
[2]"The Power and the Glory: A Special Report on Energy," *The Economist*, June 21, 2008.

Growing & Changing in Conway

What is striking about the map below?

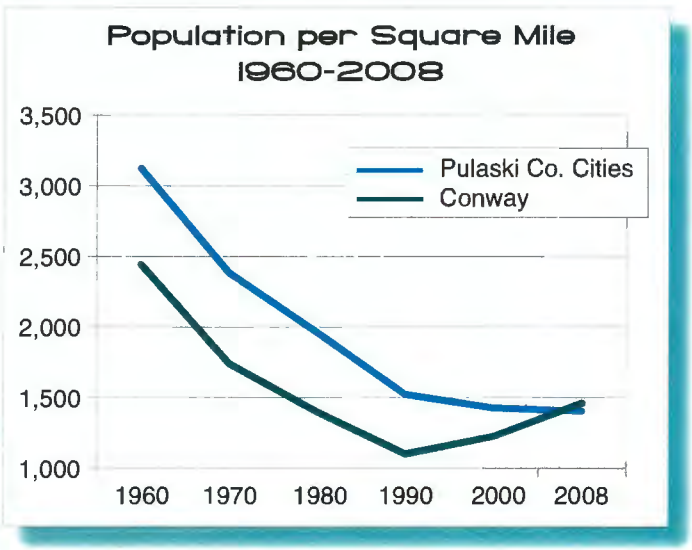
At first glance, this image of Conway's changing city limits from 2000 to 2008 merely confirms modest boundary growth. Look more closely, then glance at the chart at right. See something surprising? From 2000 to 2008, Conway grew 12 percent in land area, while population grew by over 33 percent – almost three times as fast. U.S. cities have been losing density – sprawling, some say – for more than fifty years. And Conway was doing the same. In recent years, though, Conway has begun moving in a different direction.





Growing & Changing in Conway

The chart below compares density trends in Conway with Pulaski County cities, from 1960 to 2008. As you can see, the cities in Pulaski County have, since about 1990, slowed their population dispersion. This fits with a national trend of more concentrated growth. But Conway has actually reversed a trend, and is gaining density. How, and why, is this happening?



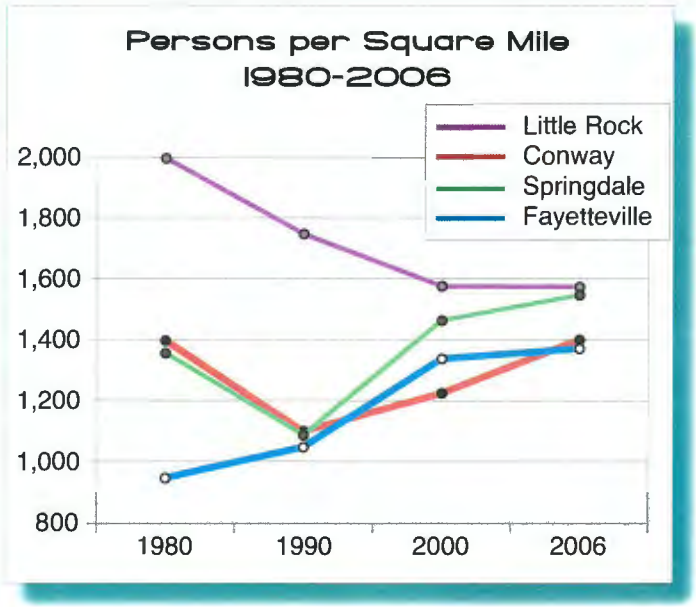
One contributing factor may be a growing stock of multi-family housing. But Conway's multi-family housing growth was faster in proportion during the 1980's, when density was still declining, than during the 1990's and 2000's, with density rising. Something else is at work.

The real reason is probably Conway's land development policies. The City of Conway – working with the private, not-for-profit Conway Corporation – requires new developments to tie into Conway Corporation utilities for sewer, water, electricity and cable television. The city is conservative about annexing new land, and only does so at the request of landowners. The slow pace of annexation keeps costs down, reducing the amount of infrastructure that would be needed with less careful policies. Housing impact fees, first imposed in 2003, help defray the cost of providing city services to new housing.

Conway's policies contribute to its enviably low cost structure. Housing costs remain 20 percent below the national average, and slightly below the regional average. While per capita utility costs in central Arkansas run above the national average, Conway utility costs are below the U.S. average.

Within Arkansas, two other fast-growing cities have also begun regaining density – Springdale and Fayetteville. Changing demographics account for some of the change, but both have imposed impact fees, and Fayetteville's land use policies may be a factor.

It is perhaps not a coincidence that Hewlett-Packard chose to site a new 1,200-worker facility in Conway. Land use and infrastructure planning are often derided as antithetical to economic growth. Experience in Conway demonstrates instead that thoughtful planning can cut costs and build the foundation for economic dynamism and prosperity.



Little Rock has continued dispersing, while three faster-growing cities have reversed the trend.

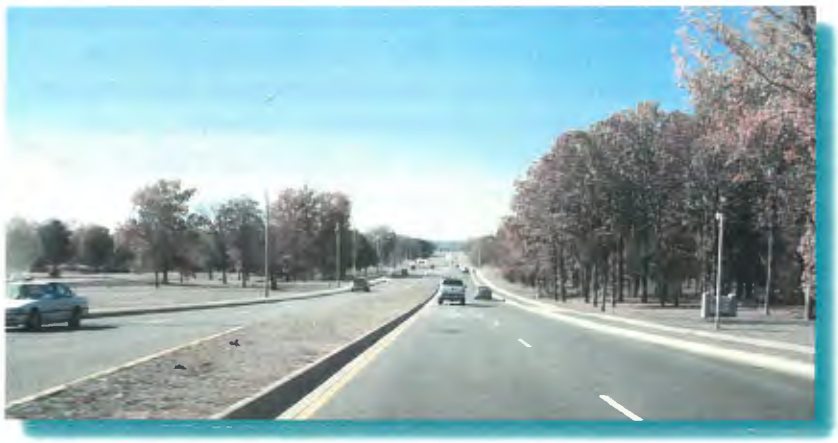
[1] *2007 Annual Faulkner County Economic Report*, page 9. <http://www.conwayplanning.org>.

[2] Data from U.S. Bureau of the Census, *County and City Data Book: 2007*.

Conway's Zest for Innovation

Land use planning is only one of many areas in which Conway stands out as a creative community. The examples below further demonstrate the city's willingness to get ahead of the curve with new ideas.

Dave Ward Drive. The recent widening of Dave Ward Drive was completed in 2005. The rebuilt road was designed with a median-divided boulevard cross-section to improve safety and increase capacity. Working with the Arkansas Highway and Transportation Department and Metroplan, the City of Conway developed a three-party access management agreement that helps safeguard the road's future traffic-moving potential. The Dave Ward access management effort has won national recognition.



Dave Ward Drive looking west.

An artist's rendering of Hendrix Village's central square (image courtesy of Traditional Neighborhood Development Partners, LLC, and Hendrix college).

Hendrix Village. Hendrix College is today developing a walkable community adjacent to its campus just north of downtown Conway. Working cooperatively with the city, the college aims to provide workplaces, restaurants, shops and housing together in a classic New Urbanist community.

Roundabouts. In the vicinity of Hendrix Village, Harkrider Street has been redesigned to incorporate two roundabouts in a cooperative effort between Hendrix College, the City of Conway, and the Arkansas Highway Department. These intersections will move traffic smoothly, with fewer conflicts and greater safety than traditional stoplights. Roundabouts have been developed elsewhere in the City of Conway also. **M**

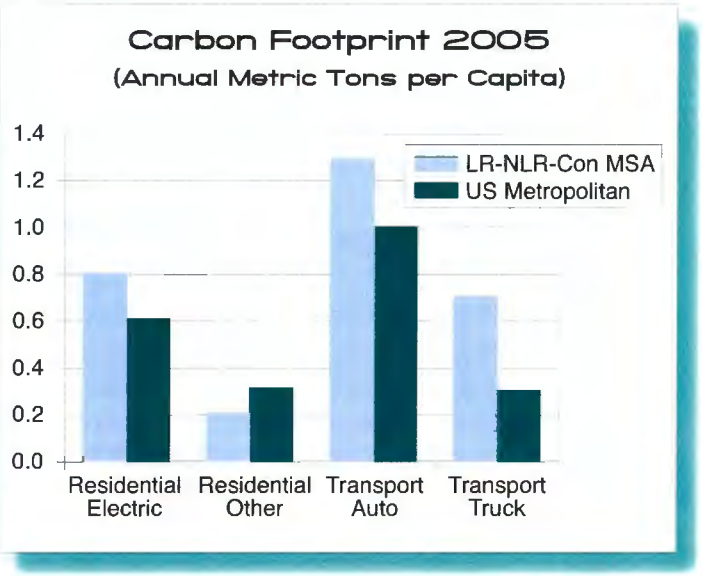
This roundabout on Harkrider Street will also be a gateway to Hendrix Village (image courtesy of Traditional Neighborhood Development Partners, LLC, and Hendrix college).

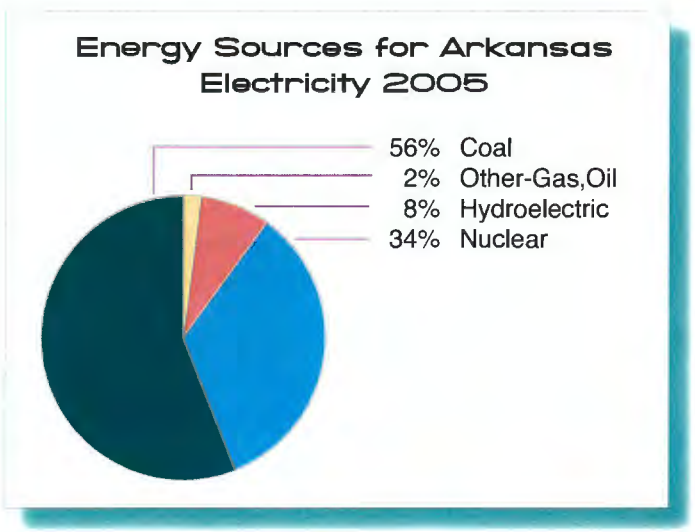
Our Carbon Footprint

An Outsized Carbon Footprint in Central Arkansas

In May of 2008, the Brookings Institution released a report comparing the carbon emissions of America's 100 largest metropolitan areas. The results for the Little Rock-North Little Rock-Conway region were not flattering. The central Arkansas region ranked 85th worst overall, with a carbon footprint of 3.009 metric tons per capita, nearly one-third larger than the U.S. metropolitan average of 2.235.

The study included separate analyses of residential and transportation energy use. Central Arkansas did not rank too badly in residential energy consumption, at 43rd overall. The area's relatively moderate climate – free of the exceptionally frigid winters or long, sensationally torrid summers found in some parts of the country – probably helped. Just as important, a higher-than-average portion of local electricity comes from carbon-free nuclear power.





In transportation central Arkansas ranked as the 96th worst overall. Only three other metropolitan areas in the country had higher carbon emissions from transportation. Likely reasons included above-average commuting distances, a high share of commuting by single-occupancy vehicle, minimal use of mass transit, and a larger-than-average share of light trucks in the passenger vehicle fleet.

Sources: 1. Marilyn Brown, Frank Southworth and Andrea Sarzynski, "Shrinking the Carbon Footprint of Metropolitan America" (Brookings Institution, 2008) available at www.brookings.edu.

2. State electricity data from *Arkansas Statistical Abstract 2008*, p. 495, data from U.S. Energy Information Administration.

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. Metroplan acts as a voice of regionalism for the central Arkansas metropolitan area. Metroplan's board of directors consists of the mayors of more than 20 local municipalities and the county judges of five county governments. Metroplan has worked as the council of local governments and Metropolitan Planning Organization (MPO) of the region since 1955.

Prepared by: Jonathan Lupton, Research and writing
Jean Dahms, Graphics and layout

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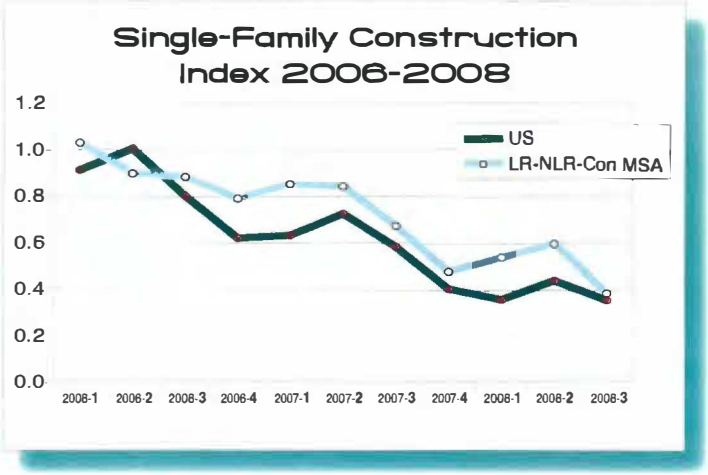
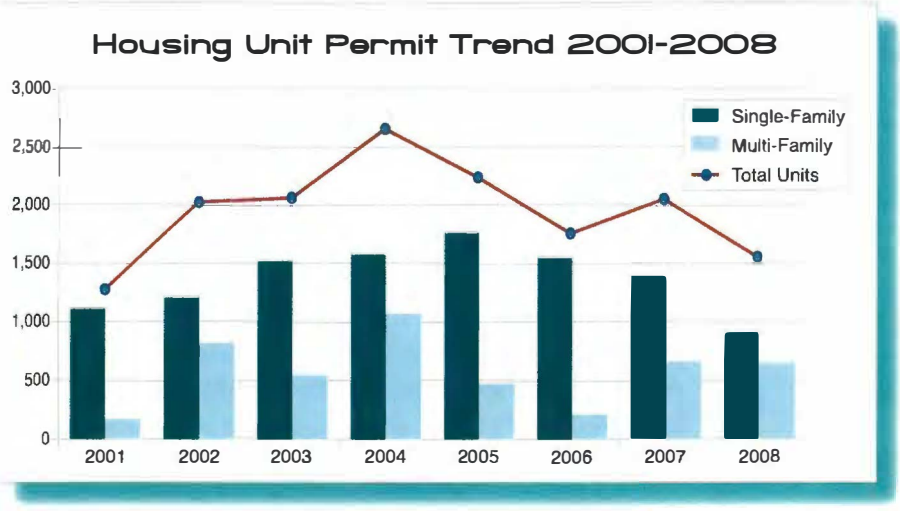
Housing Construction Trends

Housing Construction Still Seeking Bottom

Central Arkansas single-family housing construction accelerated its decline during the first half of 2008, yielding the slowest growth in new single-family units since 1997. All major cities in the region except Maumelle had fewer single-family starts in the first half of 2008 than the same period in 2007. Multi-family construction did better, hardly booming but providing one bright spot in a beleaguered housing construction industry. Apartment and townhouse/ condo construction levels in Little Rock, North Little Rock, and Conway were all higher in the first six months of 2008 than the first half of 2007.



The chart below shows Metroplan's index for single-family construction, based on the years 2004 and 2005 as average, or 1.0. The U.S. construction index had slid to an anemic 0.36 by the third quarter of 2008. The performance of the Little Rock-North Little Rock-Conway MSA was marginally better, at 0.39, meaning construction had dropped to 39 percent of its level during the boom years 2004 and 2005. The change in housing markets has passed the threshold of normal cyclical changes, reflecting a national economy in crisis.



LR-NLR-Conway Socio-Economic Statistics 2007-2008

	LR-NLR-Con MSA	Faulkner	Grant	Lonoke	Perry	Pulaski	Saline
Average Resident Employment	324,375	51,650	8,325	30,575	4,700	182,300	46,825
%Unemployment	4.6	4.5	4.9	4.5	5.1	4.8	4.2
New Industries**	8	2	0	1	0	5	0
Expanding Industries**	22	2	1	0	0	19	0
Assessed Valuations ($)	8,808,282,466	1,215,186,165	167,630,629	698,468,028	79,699,270	5,647,316,854	1,247,311,419
Real Estate ($)	6,489,074,479	890,359,506	108,741,529	526,376,673	53,650,488	4,098,229,791	974,108,509
Personal Property ($)	1,871,573,909	289,216,630	46,161,925	135,037,660	17,557,302	1,209,221,914	238,097,705
Utility & Carrier	447,634,078	35,610,029	12,727,175	37,053,695	8,491,480	339,865,149	35,105,205
Bank Deposits ($)*	9,119,863	1,100,562	75,715	684,666		7,000,217	258,703
Bank Assets ($)*	11,817,989	1,241,749	86,182	928,435		9,221,622	340,001

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 four-county Little Rock-North Little Rock-Conway MSA. Bank deposit data represent June 30, 2008

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

Housing Construction Trends

Central Arkansas Housing Unit Permits

First Six Months of Each Year 2005-2008

	2005		2006		2007		2008	
	Single-Family	Multi-Family	Single-Family	Multi-Family	Single-Family	Multi-Family	Single-Family	Multi-Family
Benton	230	0	290	0	241	0	159	0
Bryant	91	0	50	0	82	412	71	10
Cabot	247	0	145	130	122	0	62	0
Conway	266	72	236	68	179	19	126	212
Hot Springs Villlage	125	0	150	0	115	0	50	0
Jacksonville	60	4	63	0	85	16	35	25
Little Rock	494	97	441	9	414	208	211	278
Maumelle	177	0	136	0	91	0	115	2
North Little Rock	61	300	60	2	79	16	49	120
Sherwood	144	0	134	2	123	0	91	0

AEDC List of New and Expanded Industries
LR-NLR-Conway MSA 2007

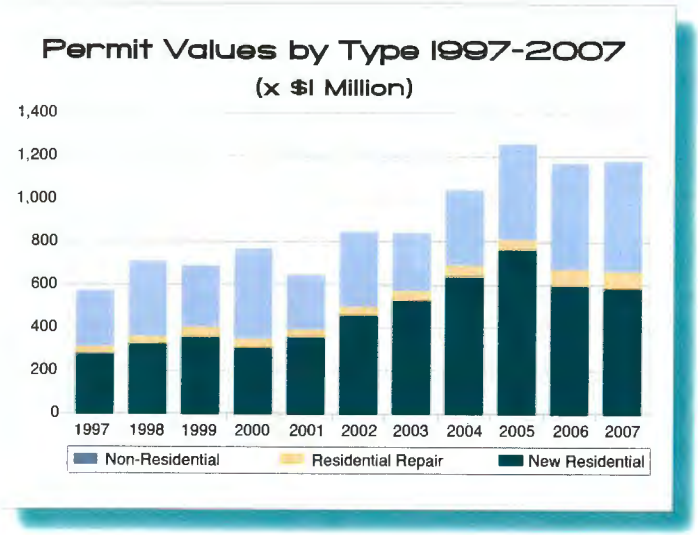
NAICS 2-Digit Category	NAICS	Company	City	New or Expand	Product/Service
31-33 - Manufacturing	31111	Novus Arkansas, Inc.	Little Rock	E	Animal feed ingredients
	31323	Kimberly Clark Corp.	Maumelle	E	Non-woven fabrics
	3219	M3 Millwork & Moulding Co.	Mayflower	N	Millwork & wood mouldings
	323116	Custom Direct LLC	Little Rock	E	Check printing
	324122	GS Roofing Products Co., Inc.	Little Rock	E	Roll roofing products
	326113	Anchor Packaging, Inc.	Little Rock	E	Plastic containers & film
	32614	Progressive Foam Technolgy	Conway	N	Polystyrene
	32619	Snap-On Equipment Services	Conway	E	Plastic auto part
	326199	Ring Container Technologies	Little Rock	E	Plastic containers
	327991	3M Company	Little Rock	E	Roofing granules
	33123	Kimberly Clark Corp.	Maumelle	E	Baby wipes
	33123	Chicopee, Inc. (PGI)	N. Little Rock	E	Non-woven fabrics
	332312	Lexicon, Inc.	Little Rcok	E	Steel fabrication
	332313	Boyd Metals of Little Rock, Inc.	Little Rock	E	Fabricated metal
	33291	Kohler Company	Sheridan	E	Plumbing fixtures
	333132	England Oil Field Services, Inc.	England	N	Oil field equipment
	333415	Essick Air Products, Inc.	Little Rock	E	A/C and heating equipment
	333611	LM Glasfiber	Little Rock	N	Windmill blades
	334511	AGL Laser Control Systems	Jacksonville	N	Navigational control systems
	336411	Dassault Falcon Jet	Little Rock	E	Aircraft
	336412	Hawker Beechcraft Corp.	Little Rock	E	Aircraft parts
	336413	Custom Aircraft Cabinets	N. Little Rock	E	Aircraft interior parts
48-49 - Trans & Whs	49311	Alliance Parts Warehouse	N. Little Rock	E	Distribution center
51 - Information	51421	Acxiom Corp.	Conway	E	Data processing & hosting
54 - Prof/Sci/Tech	541611	Science Applications Intl. Corp.	Little Rock	N	Mgt, scientific & tech services
	541611	Entergy Services, Inc.	Little Rock	N	Office sector/management
55 - Mgt of Companies	551111	Vsurance	Little Rock	N	Corporate headquarters
	5511	Fidelity National Info. Services	Little Rock	E	Corporate headquarters
56 - Admin/Support Serv.	561321	SBC internet Services, Inc.	Little Rock	E	Technical support center

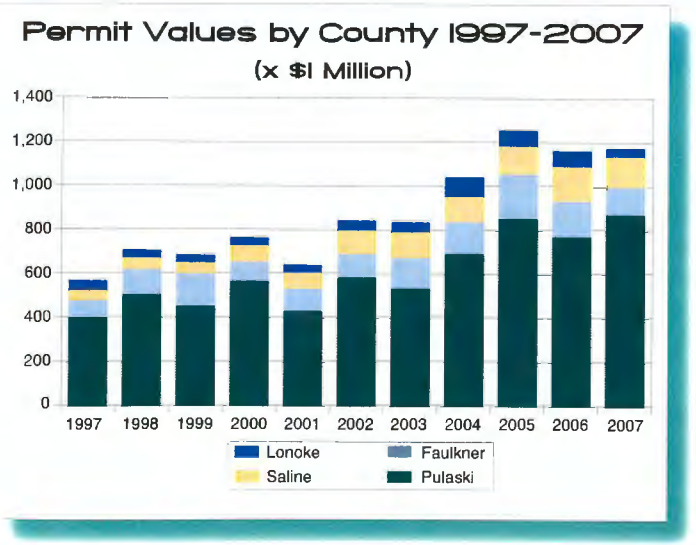
Source: Arkansas Economic Development Commission; conversion from SIC to NAICS by Metroplan.

Construction Value Trends

The value of regional construction edged up slightly in 2007, helped by an uptick in nonresidential construction. The value of new housing construction continued to slide. The drop in new residential construction value was caused by weakness in single-family housing, muted somewhat by the strongest performance in multi-family housing since 2004. Nonresidential construction was especially strong in the City of Little Rock, which accounted for over $311 million – about 60 percent of total nonresidential construction in the region. The majority of this construction in the capital city was for public and private projects of an institutional nature – churches and other religious institutions, hospitals, and schools. North Little Rock ranked second highest, with $90 million in nonresidential projects, while Conway had about $53 million in nonresidential construction.

Broken down within the region, overall construction value gained a bit in Pulaski County, while total construction investments ran slower in the outlying counties during 2007 than the previous year. The slowdown was especially pronounced in Lonoke County, where a total construction value of $41 million was down 46 percent from the year before and less than half its performance in 2004.





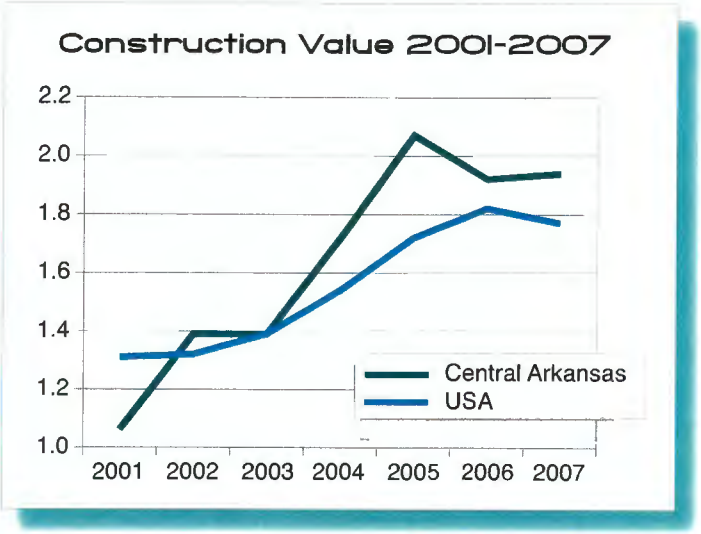


Chart represents an index in which average total construction value for years 1995-2000=1.0. Data from Metroplan and U.S. Census Bureau.

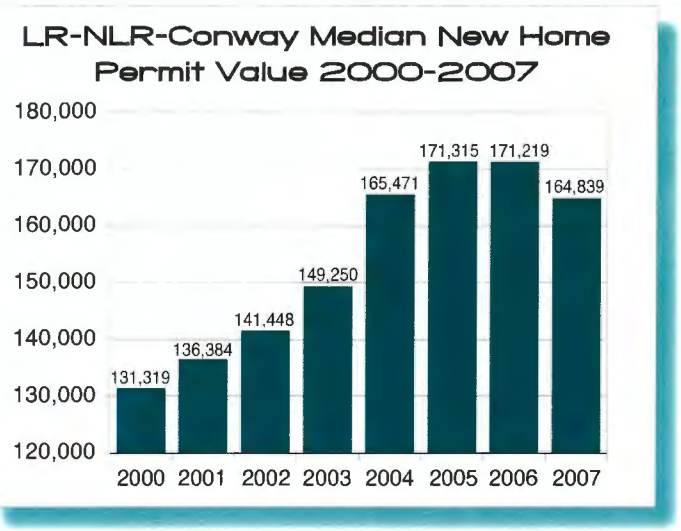
While local construction showed little gain over the past year, central Arkansas nonetheless outpaced the national average for overall construction. The chart above compares US and central Arkansas trends in construction value using an index based on average construction value 1995-2000. Construction in central Arkansas gained value slightly, while the U.S. average dropped from 2006 to 2007.

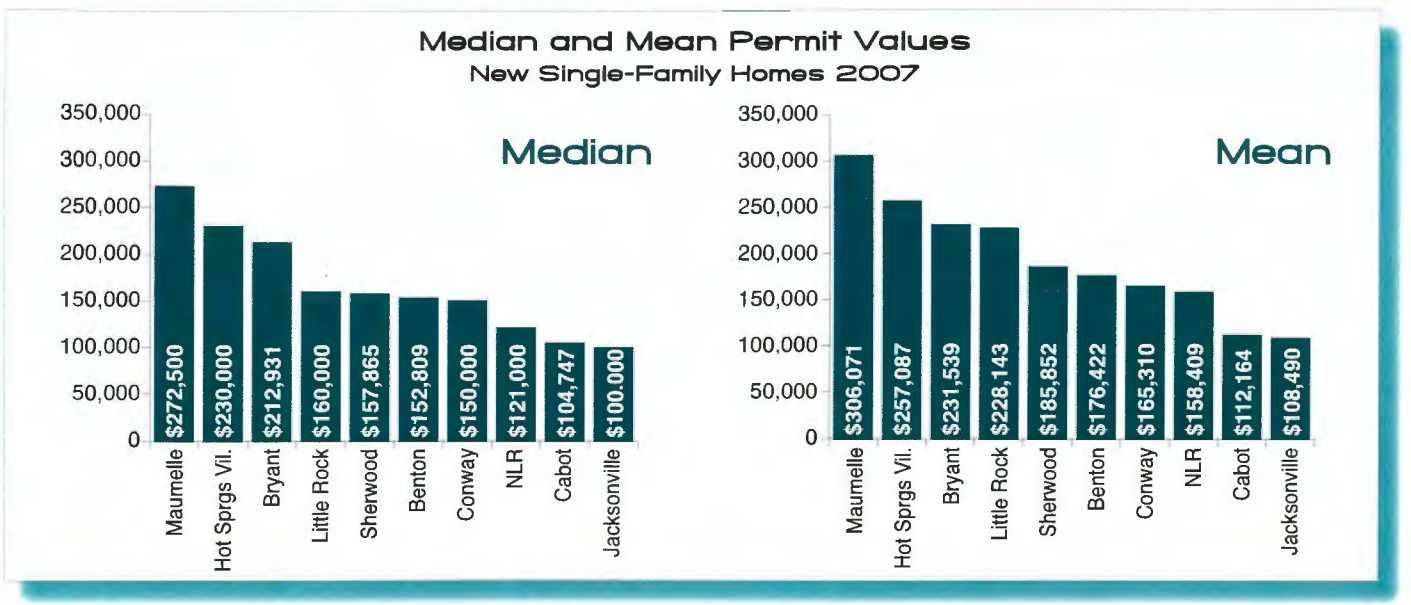
Locally, the national housing downturn has clearly impacted the average value of new single-family homes. The chart at above right on the facing page shows the median value at the permit stage for new single-family housing units in the four-county region. As you can see, median value barely dropped 2005-2006, but fell more steeply from 2006 to 2007. The housing devaluation trend is hitting new construction, not just existing units. This

Permit Value Trends

unprecedented trend would look even starker if values were adjusted for inflation.

The charts below show median and mean value for single-family housing permits by city in 2007. This year's chart adds the unincorporated community of Hot Springs Village. As you can see, Maumelle units were the most expensive, followed by Hot Springs Village, Little Rock, and Bryant. The region's best new home bargains were in Cabot and Jacksonville. Median value (below left) gives the better picture of typical cost per unit, because mean value (below right) can be distorted by a handful of exceptionally high (or low) values. **M**





Economic Outlook 2008

Thanks to rising energy exports and local economic diversity, central Arkansas has not been hit too hard – so far – by the global economic storm. U.S. unemployment may peak early next year around 7.5 percent, while economic growth could resume by the middle of 2009 – if oil prices remain under $100/bbl.[1] Since recessions are often economic turning-points, we may soon witness structural economic changes emerging from today's hard times.

The year 2008 has seen major local success with attracting new firms, particularly in the exciting area of manufacturing parts for the nascent wind power industry. Central Arkansas benefits from its location about midway between the three primary wind-power regions of the U.S. – (1) the American west and plains region, (2) the Gulf of Mexico, and (3) the northeastern U.S. and maritime Canada, with good connections to all three via railroads, highways, and (to all but the first) water transportation. The largest windmill blades exactly match the 200-ft. length of river barges utilizing Little Rock's

[1]Economy.com forecast data presented at UALR Economic Forecast Conference, Little Rock, November 5, 2008.

Outlook, *continued on page 12*

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Economic Review & Outlook 2008

Little Rock-North Little Rock-Conway MSA

Outlook, *continued from page 8*

slackwater harbor.[2] After years of retrenchment, local manufacturing may continue a comeback thanks to advantageous location, more favorable international exchange rates, and higher transoceanic transport costs.

Other local trends remain partly obscured behind lame housing markets and global financial-sector turmoil. Retail over-building in Pulaski County has yielded vacancies in centers old and new, including western Little Rock, North Little Rock's once-vibrant McCain Mall, and elsewhere.

Multi-family construction has defied trends with near-normal construction levels, concentrating mostly in Little Rock, North Little Rock, Conway and Bryant. Pulaski County's apartment occupancy grew nearly a full percentage point, from 92.3 percent in 2007 to 93.2 percent in 2008 - an impressive gain in economic hard times.[3]

In a time of unstable energy costs and growing environmental crisis, policies and investments that encourage sprawling, unplanned growth run the same risks of overvaluation – and sudden collapse – that have afflicted national housing markets. Designs and developments that recognize the human scale and maximize infrastructure already in place look like a safer bet. During these times of crisis and transformation, the way forward looks hazy but decidedly different from the recent past.

> *The illiterate of the 21st century will not be those who cannot read and write, but those who cannot learn, unlearn, and relearn.*
> Alvin Toffler

[2]Background on local competitive advantage courtesy of Mr. Paul Latture, Executive Director of the Little Rock Port Authority.

[3]Data courtesy of The Multi-Family Group LLC, cited in Arkansas Business, October 27, 2008.