

The Compass

Fort Smith Regional Economic Report

Presented By:



The Compass Details

The Compass provides information about the local economy — where we are and where we are going. It is a tool to gauge our progress, or how much state and national economic winds have blown us off course. The Compass is comprised of current and leading indicators of progress.

The Current Indicators are:

- Year-on-year percent change in non-farm employment
- Year-on-year change in the metro area unemployment rate
- Year-on-year percent change in sales and use tax collections
- Percent of total employment comprised of goods producing sectors

Each indicator provides insight into the current status of the local economy but no one indicator is sufficient to provide accurate bearings.

Of equal interest to where we are, is where we are headed in the near future. Many of the causes of change in the direction of the local economy are beyond the control of local business and governmental leaders. Our ability to achieve our desired destination depends upon navigating uncertain waters under uncertain conditions. Still, there are indicators that let us see just over the horizon.

The Leading Indicators are:

- Year-on-year percent change in building permit valuation
- Year-on-year percent change in manufacturing employment
- Year-on-year percent change in construction employment
- Year-on-year percent change in hospitality and leisure employment

Together, the indicators provide guidance to local business and government. In the end the success of the Fort Smith area economy depends on stable sustainable growth that ensures employment and income growth. Income and employment growth allows for healthy retail and real estate markets. Income growth also generates necessary revenues for private and public investment in future growth.

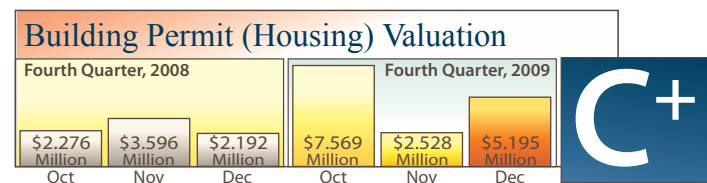
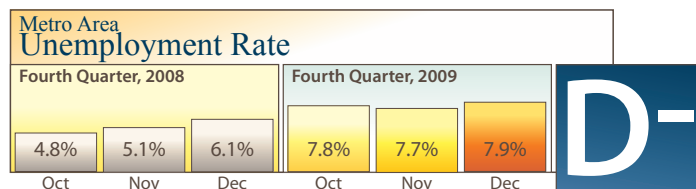
Sponsors of The Compass Report



About the Data

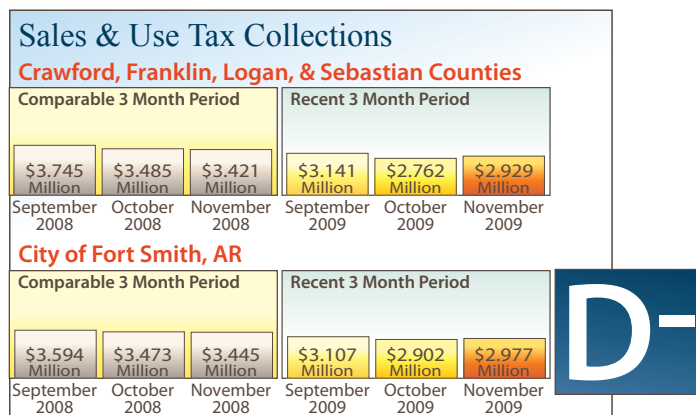
Data for The Compass comes from several sources.

Employment and unemployment data are obtained from the U.S. Department of Labor's Bureau of Labor Statistics. The data are released monthly for the Fort Smith area and is periodically revised. The data comes from surveys of businesses and households. It is not without bias but it is the most consistent and timely employment data available. Optimally, income data would also be available at the metro level on a timely basis. Unfortunately, while the income data are available through the Bureau of Economic Analysis of the U.S. Department of Commerce there, is a considerable lag. This makes the data useful for some purposes but not for creating an index of current economic conditions in the Fort Smith area.



In addition to employment data, residential building permit data are collected from the U.S. Bureau of the Census. These data are also released monthly with only a short lag. Data are available for both the number of permits issued by area as well as value of the permits. While the number of permits is interesting, it does not directly tell how much construction activity is taking place in the Fort Smith area. First, it is important to note that the data are for both single family as well as multi-family construction. While a great deal of variation exists across single family residential by value, when multi-family is included, the number of potential households created by one permit is substantial. Therefore, value represents a better measure in that it provides a better measure of the amount of construction activity taking place. It is also important to note that a great deal of variation in the data exists from month to month.

Finally, local tax data are obtained by the State of Arkansas, Department of Finance and Administration. Specifically, data on sales and use tax collections are pulled on a monthly basis for Crawford, Franklin, Logan, and Sebastian Counties. Unfortunately there is a two-month lag in the data from the department and this must be considered when incorporating the tax data into The Compass.



About Each Indicator

The following section details how the data are used in the generation of each metric and why each metric is preferable for use in the construction of The Compass.

One of the overriding concerns about using monthly economic data are that there are seasonal factors that influence the value in any given month or period of the year. For example, employment data are influenced by the summer break for public and private schools. This means the data either has to be adjusted for seasonal factors or each month must be compared to the same month(s) data for previous years. Therefore, the indicators used are year-on-year percent change.

Sponsors of The Compass Report



Percent change is used because during most periods the value of measures, like number of people employed (or number unemployed during the current downturn), grows. If we focused on absolute values as opposed to percent change it could overstate or understate current conditions given the base has changed considerably over time.

Finally, the indicators are grouped into those that tell us something about the current state of the local economy and those that provide insight into the near-term direction of the local economy. The first indicators discussed in this section are current indicators of economic performance.

Current Indicators (descriptions)

Year-on-year percent change in non-farm employment

Non-farm employment is an often quoted measure of employment growth. Moreover, it is disaggregated into various employment sectors such as manufacturing, education and health services, etc. Change in employment drives population growth. The type of employment being created also determines in large part the change in income that drives growth in retail.

Year-on-year change in the metro area unemployment rate

Like non-farm employment, the local unemployment rate is also often quoted. Increases in the unemployment rate are correlated with declines in consumer confidence. The unemployment rate is an important gauge of the health of the local labor market.

Year-on-year percent change in sales and use tax collections

Sales and use tax collections provide an insight into both the total income and change in total income in an area as well as how consumers are responding to new information about the health of the national and local economy. Obviously, this measure is tied to retail activity.

Percent of total employment comprised of goods producing sectors

This measure tells us about the risk to the local economy from being heavily weighted towards sectors that have been under economic pressure for sometime. One of the fundamental principles of reducing risk is diversification. The Fort Smith economy has been based on manufacturing for decades, but this heavy reliance on one sector for employment and wealth creation has left the region vulnerable. For several years the manufacturing sector in the U.S. has shed employment as technology and international trade have redefined the production process. As the economy of Fort Smith becomes more diversified the risk of a downturn in any one sector causing a catastrophic loss of employment diminishes.

The following indicators provide insight into future growth for the local economy. They were chosen because of their importance as indicators of near-term growth, as well as the timeliness, availability and reliability of the data.

Leading Indicators (descriptions)

Year-on-year percent change in building permit valuation

Residential building is an indicator of current and expected population growth. Moreover, as new households are created they induce growth in retail, education services, health care services and other types of businesses that provide goods and services to households. In addition, new construction provides employment and tax revenues.

Sponsors of The Compass Report



Year-on-year percent change in manufacturing employment

For better or worse, Fort Smith remains a manufacturing town. That implies the near-term economy rises and falls on the performance of the sector. Growth in employment or even stable employment in the sector bodes well for the near-term outlook for the local economy.

Year-on-year percent change in construction employment

The rationale for including construction employment is similar to that for building permits. The employment measure is influenced by changes in the residential and commercial real estate markets. Obviously, new space implies new residents and new businesses.

Year-on-year percent change in hospitality and leisure employment

Growth in the hospitality and leisure sector as measured by growth in employment is included because of the emphasis on creating quality of place in local economic development initiatives. Unlike enplanements/deplanements, which may or may not be tied to activity in restaurants, hotels, and cultural venues, hospitality and leisure employment most certainly are influenced by growth of these activities. Another possible measure is hospitality-related tax collections. While this measure indicates travel into the Fort Smith area, it does not really measure the success of creating quality of place. The goal of quality of place is to create an environment that nurtures high-wage/high-skill job creation and retention.

Understanding The Compass

Determining a letter grade at this point in the evolution of The Compass is more art than science. The strategy is to place the most recent data in historical context. Average values for the percent change over the referenced time period were calculated as were standard deviations for each measure. The more similar current values are to historic averages the more likely the indicator grade is to be a “C.” The further away the observed value, as measured by the standard deviation of the data, the more divergent the grade from “C.” In other words, “C” reflects no change in economic activity, while a “B” or “A” indicate improvement above the historical average, and “D” and “F” indicate a decline in economic activity compared to the historical average.

Current Indicators

Determining the current position of the area economy depends on reading the relative performance of the area economy based on the current indicators. Data for the period 2005-present are used to provide historical reference points for current data. Using an academic scale for each indicator, the current position of the economy is as follows:

- Change in non-farm employment..... **D+**
- Change in metro area unemployment rate **D-**
- Change in sales and use tax collections **D-**
- Concentration of employment in goods sectors **B-**

Current employment measures are the most reliable and timely statistics available to provide a position for the area economy. Non-farm employment gains or losses indicate the ability of the area to sustain current real estate valuations and retail. Prolonged downturns reduce sales tax revenues available to local government to fund programs and public spending. Further, prolonged declines that erode demand for real estate reduce property tax revenues available predominately to area schools.

Sponsors of The Compass Report



The unemployment rate is not simply a measure of the opposite side of the employment equation. The unemployment rate correlates but is not perfectly related to changes in employment. It also is widely reported and therefore has a strong impact on local consumer confidence.

Sales and use tax collections provide evidence of how consumer confidence is affecting local consumer behavior. It is the best available measure of retail activity.

Finally, the concentration of the local economy in the goods producing sectors is an indicator of risk. Specifically, even during periods of growth, these sectors have shed employment due to international competition and technological innovation. The long-term prognosis is for these trends to continue. The silver lining to the current downturn may be the hastening of increased diversification in the local economy.

Leading Indicators

Leading indicators provide insight into the near-term direction of the local economy. Again, data for the period 2005-present are used to provide reference points for current data. Using an academic scale for each indicator, the near-term position of the area economy is as follows:

- Change in building permit valuation **C+**
- Change in manufacturing employment **D**
- Change in construction employment **C-**
- Change in hospitality employment **D-**

Building permit valuations in residential are correlated with economic growth. That is as people move into the area to take new employment, they demand housing. Their demand for housing also implies increased demand for durable and non-durable goods, stimulating the retail sector.

Given the preeminence of the manufacturing sector, changes in that sector bleed through the local economy as the “multiplier effect” works its way through the local economy. Manufacturing employment is core employment that drives employment in many service sectors.

Construction employment is similar to building permits in that it indicates the creation of new space for residents or commercial activity. Developers don’t engage in construction unless they perceive the future demand will warrant the investment and obvious risk.

Finally, as the Fort Smith economy pursues quality of place and increased tourism, employment in the hospitality sector indicates the success of those efforts.

2009, Fourth Quarter Overall Grade



"Despite the poor showing in terms of overall performance of the Fort Smith area economy, the recovery is underway. Improved economic data is very likely over the next quarter. Evidence to support this conclusion can be seen in the employment and unemployment data, where the difference between last year and this year's monthly unemployment numbers has been declining. Further, the stability of the residential housing market bodes well for the near future. All told, we have, perhaps, given the regional economy its last grade of D for some time."

A	Major Improvement
B	Minor Improvement
C	No Statistical Change
D	Minor Decline
F	Major Decline

Sponsors of The Compass Report

