

metrotrends

An Information Service of Metroplan

ECONOMIC REVIEW & OUTLOOK 2007

Good Times in Central Arkansas

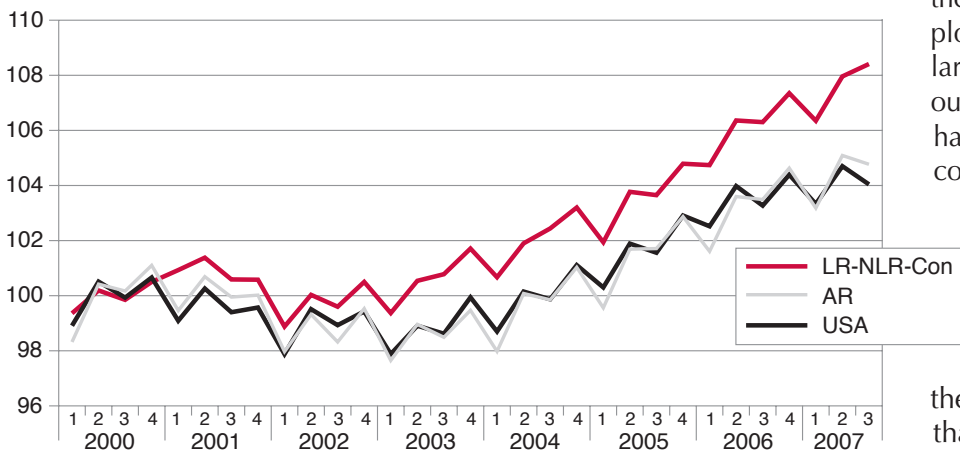
The chart below is an index that compares employment growth since the year 2000. As you can see, employment has grown substantially faster in the local region than it has at state or national levels. The strong local employment picture carries through the third quarter of 2007, in face of a slowdown in state and U.S. employment growth. Despite worries about

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Chart 1

Quarterly Employment Trend 2000-2007
(Not seasonally Adjusted; Index Based on Year 2000 Average=100)



Monthly data for 2007 so far show the area continues exceeding U.S. employment growth. While not spectacular, local employment growth stands out because state and national trends have run even slower during a time of constrained labor force growth.

For the first time in over a decade, the region had an unemployment rate marginally above the U.S. average. This new trend suggests that the local labor force grew even faster than employment, despite tight overall U.S. labor supply.

local firms - the aborted Acxiom buyout, the sale of local telecom giant Alltel, and lagging growth at Dillard's - the local economic news has seldom been better. The region's edge on state and national averages has only widened during the first three quarters of 2007.

Central Arkansas grew jobs at a 2.6 percent rate from 2005 to 2006, outpacing state and U.S. gains of 1.8 percent. This above-average growth continues a trend which began early in the current decade. As the second chart shows, local employment grew 6.2 percent from 2000 to 2006, versus 3.5 percent for the state and 3.3 percent for the U.S. This new trend reverses the trend of 1997-2000, when the central Arkansas region generally under-performed the U.S. average.

The job gains in recent years have been broadly based across several industries. Chart 4, on page 3, shows employment change by industry from the early 2006 through early 2007.

In sectors where the U.S. economy has barely gained jobs, the local region has recorded more substantial growth. The local information sector has been especially prominent, growing by 4.3 percent (400 jobs) over a year while the U.S. economy registered just 0.5 percent job growth in the same sector. Information includes telecommunications, an area of traditional strength in central Arkansas. Regional growth overall was also broadly-based, with gains exceeding the national average in eight of the twelve NAICS 2-digit sectors shown in the chart. Note that the region did not

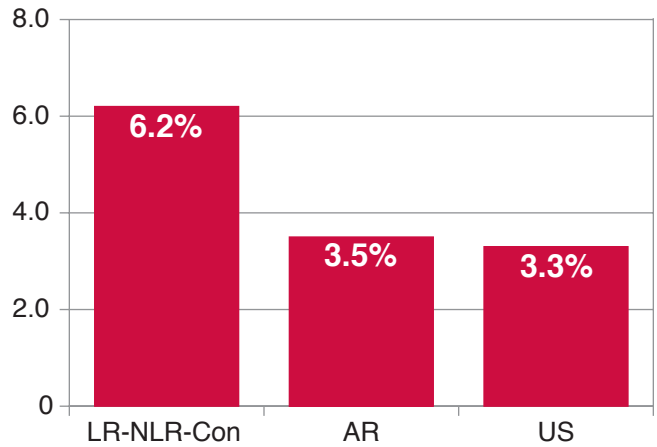
(continued on page 2)

EMPLOYMENT TRENDS



Construction scenes remain common across the region.

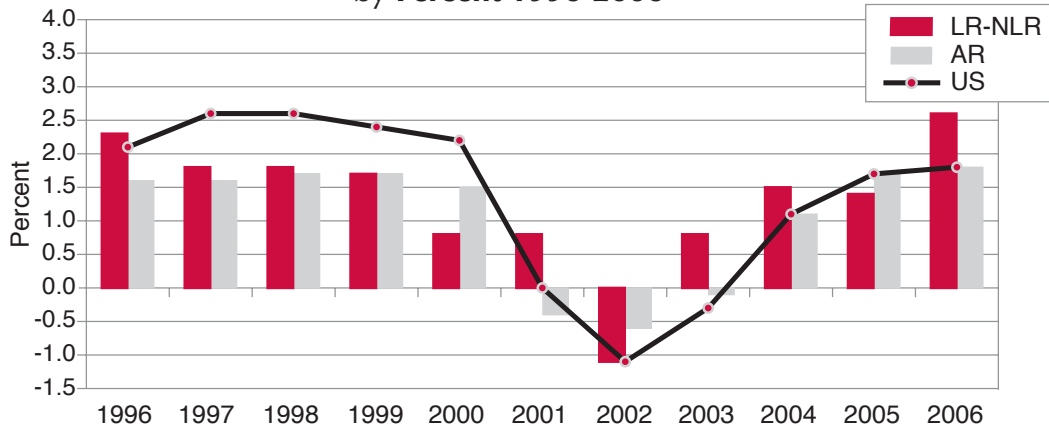
Chart 2
Regional Job Growth
Comparison 2000-2006



fare as well in business services as it has done in the past, when this sector was a regional growth leader.

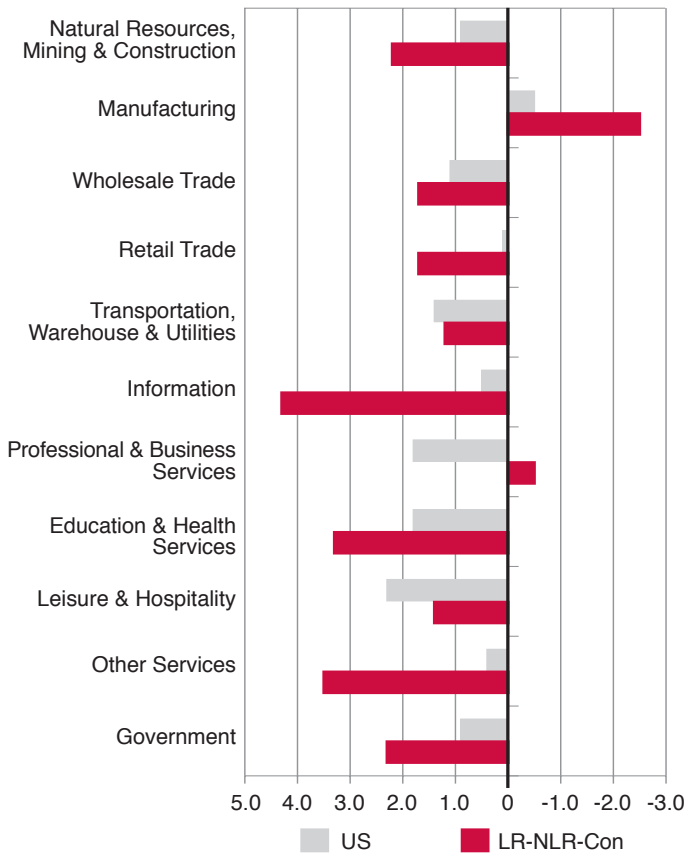
In the manufacturing sector, local job loss rate was sharply higher than the national average. Since the share of local employment in manufacturing runs below the national average, this trend is less severe than it appears at first sight. Local transportation equipment manufacturing showed gains despite loss at the national level, probably bolstered by the region's dynamic aerospace manufacturing industry.

Chart 3
Annual Employment Change
by Percent 1996-2006



EMPLOYMENT TRENDS

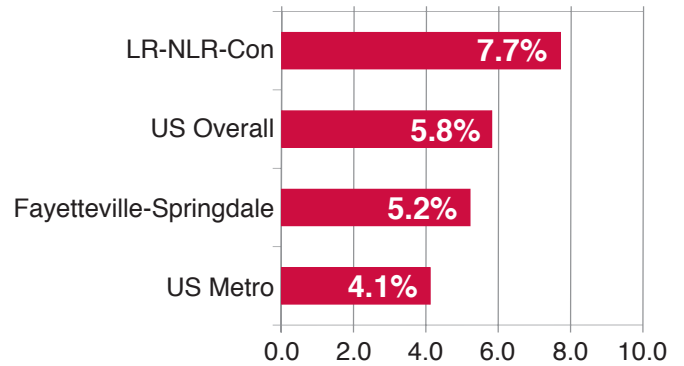
Chart 4
Employment Change by Industry
1st Quarter 2006 - 1st Quarter 2007



The chart below compares per capita income growth for the two largest urban regions in Arkansas with overall U.S. and U.S. metro averages. As you can see, the central Arkansas region continues to hold a lead. While total job growth in the Fayetteville-Springdale-Rogers MSA continues to outpace job growth in central Arkansas, the gain in income per person has been slower.

Source for employment data: Arkansas Department of Workforce Services.

Chart 5
Per Capita Income Growth 2001-2006
(Inflation Adjusted)



Source: U.S. Bureau of Economic Analysis.



The Promenade at Chenal is one of many sizable investments being made in central Arkansas.

THE END OF CHEAP OIL

Storm Clouds in the Old Crystal Ball

Metroplan is in the business of doing long-range planning (25-50 years in the future) for public infrastructure for our central Arkansas metropolitan area. Like all good long-range planners, we have our own crystal ball that we gaze into to try to divine the future. Lately we've been seeing some storm clouds on the horizon. It's hard to tell yet how fast the storm is moving, but it looks like it will be a humdinger when it gets here.

While we don't want to be like Chicken Little, we do think this is important enough to share some information with you. I'm talking about the end of cheap oil. President Bush said "We are addicted to oil." That is only partly true. The United States is addicted to cheap oil, indeed our entire society is based on cheap oil and on the assumption that it will last forever. It will not. There is increasing evidence (as if \$100/barrel crude is not enough) that its end is near if not here already.


Like any issue worth its salt, this one is complex. The world is not on the verge of running out of oil even if nearly all of the giant pools near the surface have been discovered already. There are enormous reserves of unconventional oil in tar sands and oil shales that will be recovered, but at far greater cost in dollars and to the environment. On the demand side, the

rapid industrialization of China and India has driven demand up dramatically. Now that demand is pushing available supply, it opens the door for market speculators (generating more chaotic price movements), and international mischief by oil exporters like Russia, Iran and Venezuela.

The sharp rise in oil prices that we have seen in late 2007 portends a future in which a finite and strategic commodity is chased by a rising tide of billions of people newly arrived in the middle class who want to trade in their bicycles and carts for autos and trucks. Oil will get much, much more expensive in real terms as we advance into this new century.

This issue branches into global warming, global population growth, and economic and military security. We won't go there now. The purpose of the following articles is to give our readers advance notice and some background on an issue that will fundamentally impact all aspects of our daily lives in the future.

Like all storm clouds, however, this one has a silver lining. It provides incredible business opportunities in alternative energy, conservation, telecommunication and transportation. And it provides a challenge for our region to become globally competitive in the future.



Jim McKenzie
Executive Director

Has Petroleum Passed Its Peak?

In 1956, petroleum geologist M. King Hubbert predicted that U.S. oil production would peak by the early 1970's, then decline. Coming at a time when oil use was zooming upward, Hubbert's killjoy prediction seemed absurd. Yet U.S. oil production attained its zenith in 1970, and has been careening downhill most of the time since. Enhanced recovery techniques, computer-assisted geologic imaging, offshore drilling, and production from Alaska's North Slope have not reversed the downward slide. By 2006 U.S. domestic oil production was just 53 percent of its 1970 peak.

The history of U.S. oil production, shown in Chart 6, has eerily resembled the bell-shaped curve of Hubbert's original prediction.¹

Hubbert's central insight was that the production rate of oil (or any other resource) depended on the unproduced fraction remaining in the ground.² So long as the oil so far produced is a tiny share of the total, production can increase rapidly in response to demand. But the economic forces that pull the production curve upward early in the cycle gradually give way to geological constraints that bend it back toward slowdown, peak, and ultimate decline.³

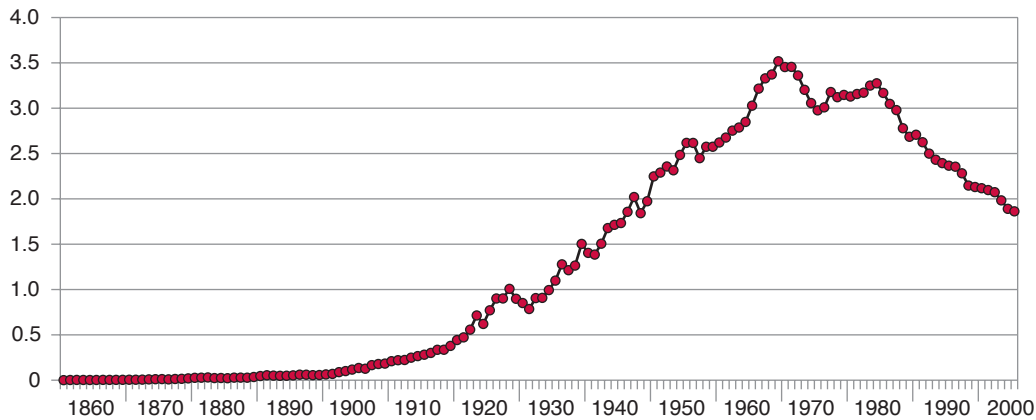
¹ Data for chart from U.S. Energy Information Agency, at <<http://www.eia.doe.gov>>

² For a readable discussion of Hubbert's methodology, see Kenneth Deffeyes, *Beyond Oil: the View from Hubbert's Peak*, 2005.

³ Or, to quote Kenneth Deffeyes, "the oil production rate depends linearly on the fraction of the total oil that remains to be produced." *Beyond Oil*, p. 42.

THE END OF CHEAP OIL

Chart 6
Annual U.S. Oil Production 1859-2006
(Billion bbl)



In 1969 Hubbert forecast that world oil production, then still accelerating, would top out a similar bell curve and begin declining shortly after the year 2000. In this view, recent world production figures shown in Charts 7 and 8 are revealing a peak that may already be past - Hubbert's future could be our present. Global oil production per capita actually peaked nearly twenty years ago – in 1979 – and has been slowly declining ever since.⁴

Advocates of a more optimistic view of oil supply point out that Hubbert's curve may only be valid for areas, like the United States, that have been extensively explored.⁵ Historically, the petroleum industry has alternated between cycles of surplus and shortage. Low prices in the late 1990's and early 2000's slowed oil exploration and research. In this view, today's shortage represents the lengthy lead time between price hikes and renewed production growth. In many parts of the world, political limitations and inhibited markets may have prevented adequate exploration. More oil is there, but it will take time – and higher prices – to get to it.

Why Oil Will be Constrained in Any Case

The prospect for oil over the next few decades looks daunting. The United States today imports about 65 percent of its oil. Domestic oil production peaked 27 years ago, and barring a revolution in conserva-

Chart 8
Monthly World Oil Production 2005-2007
(Million bbl/day)

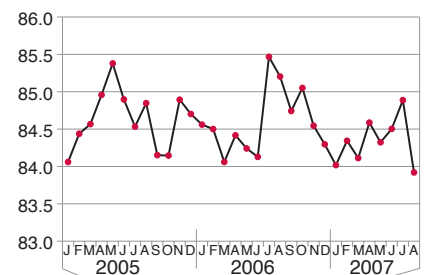
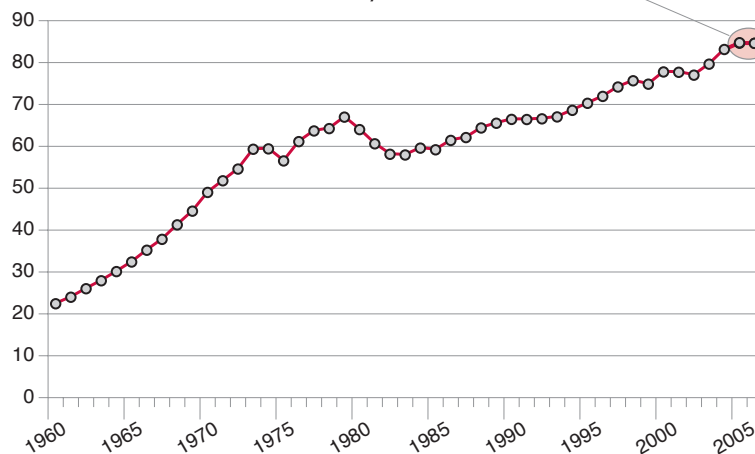


Chart 7
World Oil Production 1960-2006
(Million bbl/day)



⁴ Albert E. Bartlett, "Thoughts on Long-Term Energy Supplies," Physics Today, July 2004.

⁵ Leonardo Magueri, The Age of Oil, Praeger Publishers, 2006, p. 205.

THE END OF CHEAP OIL

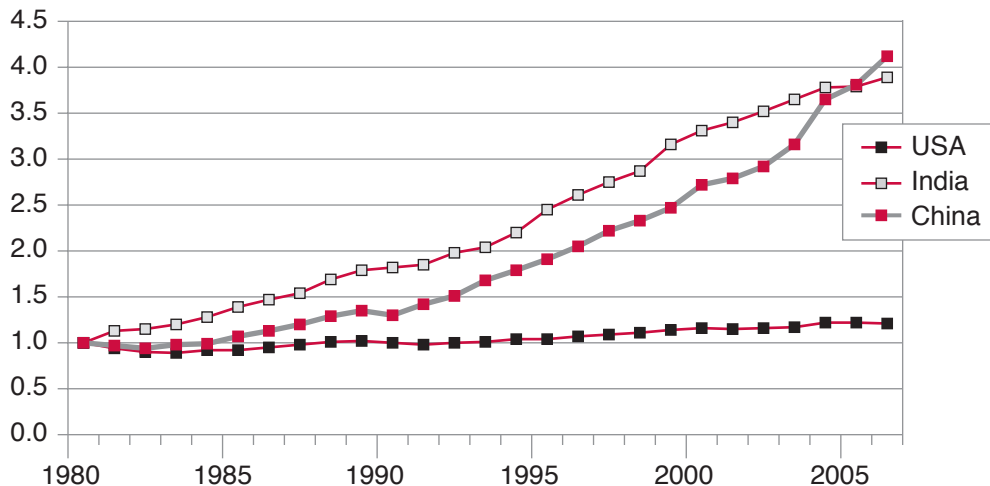
tion technology, the U.S. will have to import a rising share of oil to keep up with demand growth. Imports of 65 percent may give way to 70 percent, then 75 percent. Yet even a rise in imports will not cancel legitimate concerns about global warming and other environmental issues, which remind us that fossil fuels come with high external costs not reflected in their market price.

Meanwhile, oil demand is soaring in China, India, and other parts of the developing world, while global supply has – at least for the moment – stopped growing. The chart below shows that, while U.S. petroleum consumption has risen about 20 percent since 1980, oil use has quadrupled in the booming economies of China and India, and further demand growth is a certainty. Today’s high oil prices – still cheaper than bottled water – may look trifling in years to come. Just as important, our country’s oil future increasingly depends on countries not always friendly to our own political or economic aspirations. Keep an eye on energy markets. They will play a pivotal role in years to come.



We cannot pump conventional oil forever, and alternatives like tar sands and oil shale are very expensive and environmentally destructive to extract.

Chart 9
**Proportional Growth in Oil Consumption Since 1980
for the U.S.A., China, and India**
(based on index in which each country's 1980 consumption =1.0)



THE REGIONAL ENERGY QUESTION

The Energy Question in Central Arkansas

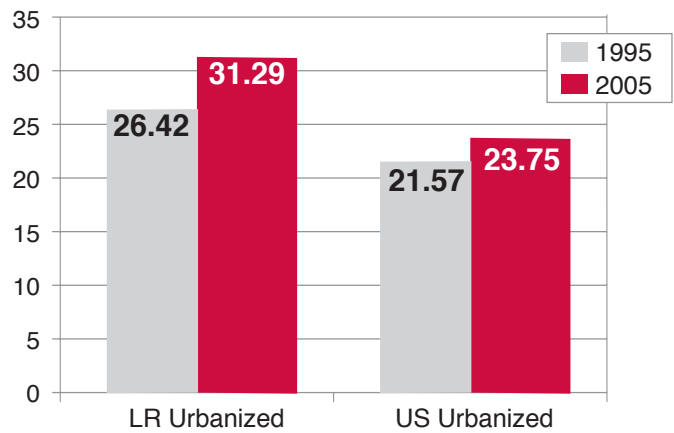
How does the central Arkansas region stack up as a petroleum user? Not well. Despite its reviving core, on the whole the central Arkansas urban area is a low-density region, with a higher-than-average dependence on cheap oil. Local residents rely heavily on their single-occupancy vehicles, drive more miles than average, and use alternative modes – transit, bicycles, walking – at even lower rates than the national average. The chart at right compares daily



vehicle-miles traveled (VMT) by local residents of our region compared with the U.S. average for urbanized areas. As you can see, local VMT per capita run above average, and have grown faster than average. The Little Rock Urbanized Area ranks twenty-third among the 135 largest U.S. urbanized areas by VMT per capita.¹ This places us in the top 17 percent, roughly equal to the much larger Atlanta and Dallas urbanized areas.

We do a lot of driving in central Arkansas. What are the implications of our auto-intensive lifestyles? According to a recent study by the Surface Transportation Policy Project, areas like ours pay less than average for housing, but more for transportation.² Among the 47 U.S. metro areas between 500,000 and 1 million population, the Little Rock-North Little Rock-Conway

Chart 10
Daily Vehicle-Miles Traveled
per Capita 1995-2005



MSA has the lowest housing costs for home-owning households, at just 17.7 percent of household income.³ Long commutes in our low-density region probably help keep housing affordable, by allowing local workers to choose from a large supply of housing within commuting range. We make smaller mortgage payments, and compensate by driving more miles - and paying more for fuel.

So long as fuel costs remain tolerable, this arrangement works to our advantage, and central Arkansas remains a competitive, low-cost region. But, in years to come, an increasingly troubled global energy outlook may put our lifestyles under pressure for change.

Percent of Workers Commuting by Travel Mode in 2006 LR-NLR-Conway MSA vs. the U.S. Average

Commuting Mode	U.S. Average	LR-NLR-Con MSA	LR-NLR-Con MSA Rank Among All 359 Metros	LR-NLR-Con MSA Rank Among 47 Mid-Sized Metros ⁴
Drove Alone	76.0%	81.7%	147 (top 41%)	17 (top 36%)
Used Public Transportation	4.8%	0.9%	197 (bottom 45%)	31 (bottom 34%)
Used Bicycle or Walked	3.3%	1.9%	266 (bottom 25%)	33 (bottom 29%)

Source: American Community Survey 2006, ranking by Metroplan.

¹ Federal Highway Statistics 2005, Federal Highway Administration.

² Driven to Spend: Pumping Dollars Out of Our Households and Communities, Surface Transportation Policy Project, June 2005. Available online at <http://www.transact.org>

³ U.S. Bureau of the Census, American Community Survey 2006. The U.S. average was 21.6 percent. The Baton Rouge Metro area was tied with LR-NLR at 17.7 percent of household income.

⁴ Refers to the 47 U.S. metro areas with 500,000 to 1 million population in 2006.

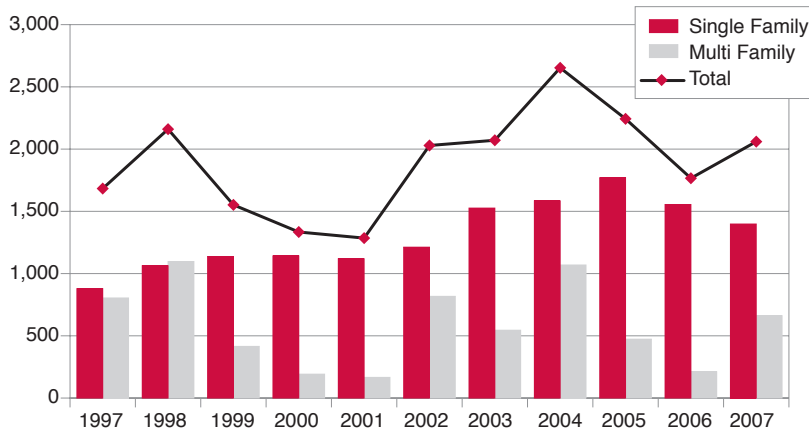
HOUSING CONSTRUCTION TRENDS

Local Housing Construction and the National Downturn

Local housing construction continued slowing during the first half of 2007. The chart below shows that the number of single-family units permitted during the first half of the year was down again compared with the same time period in 2005 and 2006. Multi-family construction rebounded from a very slow performance

Chart 11

**LR-NLR-Conway Housing Unit Permits
First Six Months of Each Year 1997-2007**



strong years 2004-2005 as a base. As you can see, by the third quarter of 2007, U.S. construction had dropped to an index value of about 59, or 59 percent the average 2004-2005. Construction in Little Rock-NLR-Conway had dropped to an index value of about 66.¹

Housing markets showed pronounced local variations. Cabot single-family construction has fallen off by slightly over half in just two years, from a peak of 247 units during the first six months of 2005 to just 122 units during the first half of 2007.

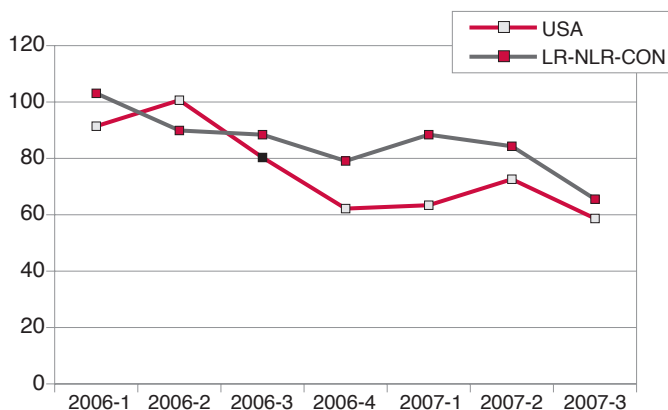
Conway and Maumelle have also seen construction drop by 27 and 33 percent, respectively, in just a year since the first half of 2006. Bryant, Jacksonville and North Little Rock have, by comparison, seen housing construction rise somewhat over the first six months of 2006.

mance in early 2006, with 662 new units permitted during the first half of 2007.

While the pace of local single-family construction is the slowest since 2002, the region has fared slightly better than the national average. The chart below compares U.S. and central Arkansas quarterly single-family housing construction based on an index that uses the

Chart 12

**Quarterly Single-Family Housing Permit
Trend Index 2006 - Late 2007**



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.

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¹ This data set uses preliminary local housing permit counts to carry the data set through the third quarter of 2007.

HOUSING CONSTRUCTION TRENDS

LR-NLR-Conway Housing Unit Permits First Six Months of Each Year 1997-2007

Single-Family	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Benton	57	84	76	127	103	128	217	218	230	290	241
Bryant	63	74	86	90	110	121	92	61	91	50	82
Cabot	93	139	140	157	160	159	209	243	247	145	122
Conway	167	218	240	211	208	219	287	248	266	236	170
Jacksonville	39	38	37	41	67	41	69	90	60	63	85
Little Rock	230	265	287	283	239	276	331	390	494	441	414
Maumelle	147	145	157	139	130	141	164	149	177	136	91
North Little Rock	37	33	43	30	38	32	37	40	61	60	70
Sherwood	46	67	71	64	64	95	120	145	144	134	123
Single-Family Total	879	1,063	1,137	1,142	1,119	1,212	1,526	1,584	1,770	1,555	1,398
Multi-Family	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Benton	0	0	5	8	24	0	0	0	0	0	0
Bryant	2	0	4	4	0	0	0	0	0	0	412
Cabot	0	0	20	0	0	144	0	14	0	130	0
Conway	184	236	67	50	17	237	39	189	72	68	10
Jacksonville	7	1	58	80	0	114	4	2	4	0	16
Little Rock	609	634	261	42	64	263	278	864	97	9	208
Maumelle	0	0	0	0	0	0	168	0	0	0	0
North Little Rock	2	0	0	0	0	59	56	0	300	2	16
Sherwood	0	226	0	8	61	0	0	0	0	2	0
Multi-Family Total	804	1,097	415	192	166	817	545	1,069	473	211	662
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total Housing Units	1,683	2,160	1,552	1,334	1,285	2,029	2,071	2,653	2,243	1,766	2,060
Percent Single-Family	52.2	49.2	73.3	85.6	87.1	59.7	73.7	59.7	78.9	88.1	67.9
Percent Multi-Family	47.8	50.8	26.7	14.4	12.9	40.3	26.3	40.3	21.1	11.9	32.1

AEDC List of New and Expanded Industries LR-NLR-Conway MSA 2006

NAICS 2-Digit Category	NAICS Code	SIC Code	Company	City	New or Exp	Product
31-33 - Manufacturing	311111	2047	Claudia's Canine Cuisine	Maumelle	E	dog and cat food
	32562	2844	L'Oreal USA Products, Inc.	N. Little Rock	E	cosmetics
	326291	3061	Rubber Gasket Co. of America	N. Little Rock	E	molder rubber goods
	331311	2819	Almatis, Inc.	Bauxite	E	alumina chemical products
	3678	334417	Molex, Inc.	Maumelle	E	electronic connectors
54 - Profess/Sci/Tech	541511	7371	IntelliTrans LLC	Conway	N	computer programming
55 - Management of Cos.	55111	8741	Family Life	Little Rock	N	corporate headquarters
56 - Admin/Support	561421	7389	One Cloverleaf LLC	Sherwood	N	call center

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

PERMIT VALUE TRENDS

Construction Values Sagged in 2006

The value of regional construction fell during 2006. The total drop-off from 2005 to 2006 was about 7 percent. The bulk of the decline was in the value of new residential construction (single- and multi-family together), which dropped nearly 22 percent from 2005 to 2006. By comparison, the other two indices – residential modification and non-residential – increased in value. Nonresidential construction also increased 10.8 percent from 2005 to 2006, pulled along by several large projects like the Dickey-Stephens ballpark in North Little Rock.

Construction values increased in both Saline and Lonoke Counties, but these increases were more than offset by sizable declines in Pulaski and Faulkner Counties.

Chart 13

LR-NLR-Conway MSA Building Permit \$ Values 1996-2006

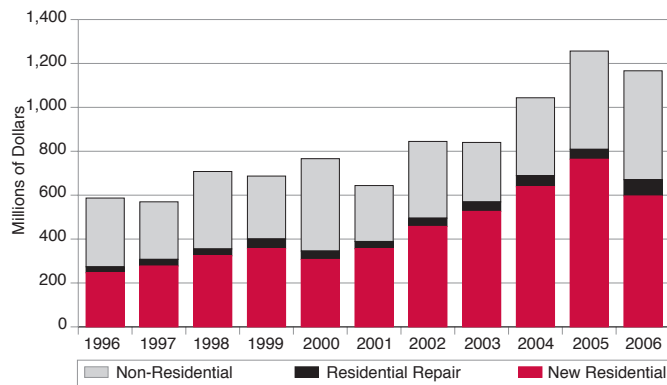


Chart 14

LR-NLR-Conway MSA Building Permit \$ Values by County 1996-2006

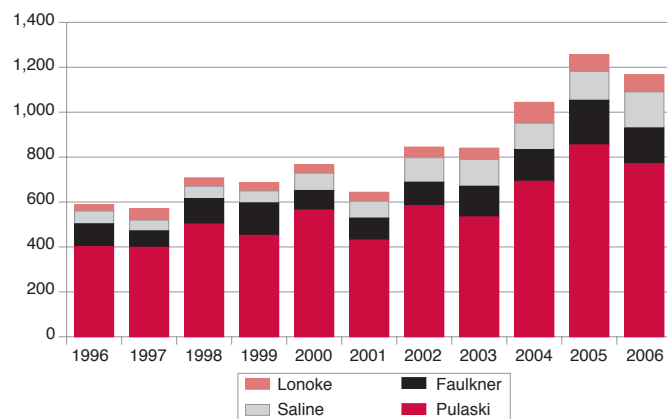
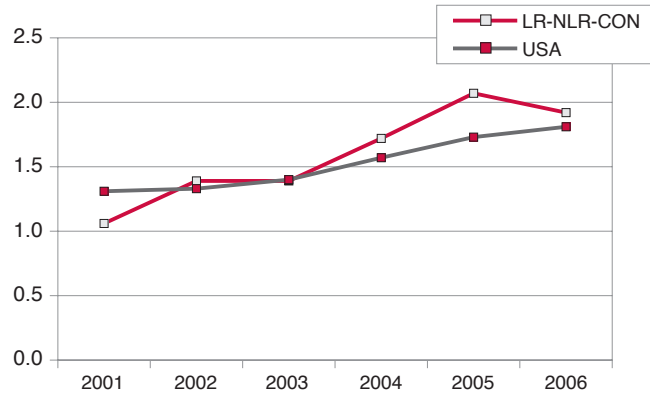


Chart 15

Index of Construction \$ Value USA vs. LR-NLR-Conway MSA 2001-2006



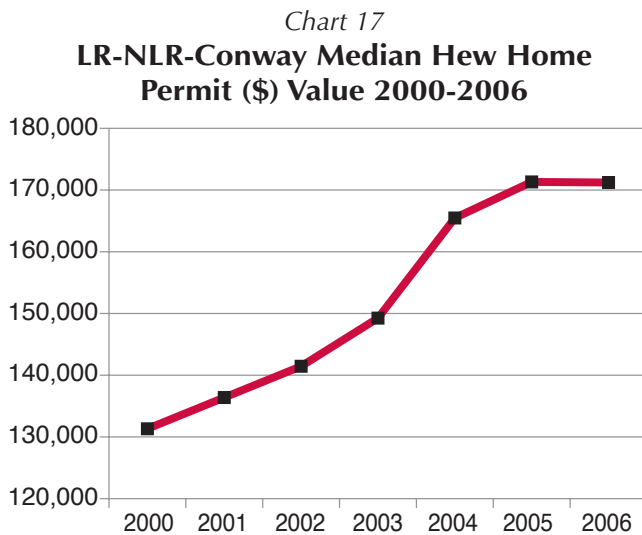
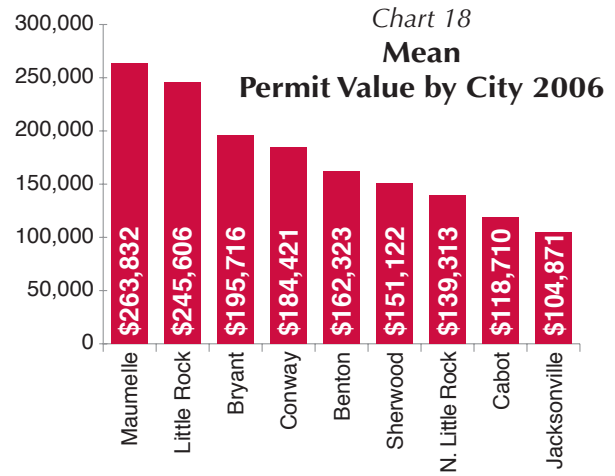
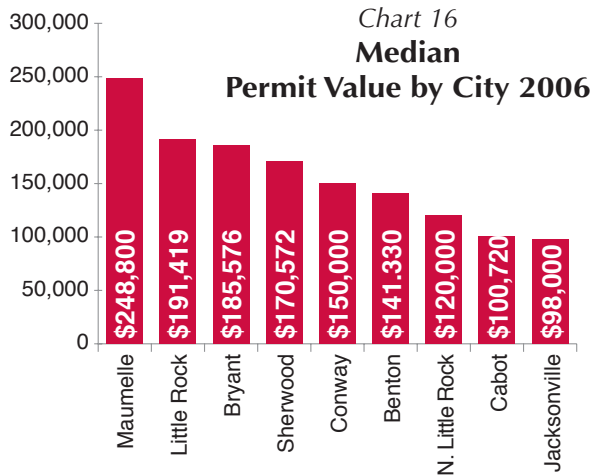
The chart above compares US and central Arkansas trends in construction value using an index based on average construction value 1995-2000. The region has generally outpaced U.S. construction values across these years, although 2006 marked a downturn locally, while total U.S. construction values continued to climb.

The impact of the housing downturn can be seen in the fall-off in average new home permit value. As Chart 17 shows (opposite page), median new home value dropped slightly from 2005 to 2006, its first decline since Metroplan began keeping records for median new home value in 2000. Similar trends occurred in national new home values.

Chart 16 on facing page shows median single-family housing permit value for new construction in 2006. Maumelle tops the list by a wide margin. A recent change is the emergence of Bryant, which now has the third-highest median new construction values in the region.¹ The bulk of the region's most affordable new homes can be found in North Little Rock, Cabot and Jacksonville.

¹ Note that mobile homes in Bryant are not counted in the median housing permit value figures.

PERMIT VALUE TRENDS



New Data on Hot Springs Village

The unincorporated community of Hot Springs Village has volunteered its building permit data to assist Metroplan with tracking regional trends. Metroplan will begin blending Hot Springs Village figures into future *Metrotrends* publications. In the meantime, here are some summary statistics for single-family housing construction in Hot Springs Village during 2005 and 2006.

Hot Springs Village Single-Family Housing Permits

	2005	2006
Units Permitted	253	299
Median Value	\$212,000	\$228,250
Mean Value	\$231,921	\$245,687

SOCIOECONOMIC STATISTICS

	LR-NLR-Con MSA	Faulkner	Grant	Lonoke	Perry	Pulaski	Saline
Average Resident Employment	322,925	50,350	8,350	29,800	4,775	183,775	45,875
%Unemployment	4.7	4.5	4.9	4.3	5.0	4.8	4.5
New Industries**	3	1	0	0	0	2	0
Expanding Industries**	5	0	0	0	0	4	1
Assessed Valuations (\$)	8,095,600,487	1,119,088,678	160,117,821	638,683,101	77,116,965	5,212,104,126	1,125,724,582
Real Estate (\$)	5,809,684,812	813,856,628	104,704,806	479,740,421	51,531,890	3,647,342,440	868,745,323
Personal Property (\$)	1,861,929,543	268,660,170	42,773,795	123,136,605	17,350,305	1,247,792,184	222,340,584
Utility & Carrier	423,986,132	36,571,880	12,639,220	35,806,075	8,234,770	316,969,502	34,638,675
Bank Deposits (\$)*	10,612,599,000	1,139,037,000	81,799,000	849,711,000	119,103,000	8,104,901,000	318,048,000
Bank Assets (\$)*	8,292,205,000	922,571,000	72,322,000	650,019,000	92,278,000	6,315,890,000	239,125,000

Sources: Arkansas Department of Workforce Services, Arkansas Economic Development Commission, Arkansas Assessment Coordination Department, and FDIC.

* Bank data exclude assets and deposits held by banks serving the area but based outside the four-county Little Rock-North Little Rock MSA.

Bank deposit data represent June 30, 2007

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

ECONOMIC OUTLOOK 2008

The central Arkansas metropolitan area was recently ranked "one of the top ten markets to watch" in office space by Sperry Van Ness, while Moody's Investment called the Little Rock area the second most diverse economy in the U.S. Despite changes affecting regional corporate leaders and portents of national downturn, central Arkansas is thriving. Local growth is spread among several industries, with a few areas of concentrated strength. Natural gas exploration in the Fayetteville Shale Play, which includes northern Faulkner County, has jump-started the region's mining sector. Local performance has been strong in Information (NAICS 51), including telecommunications, broadcasting, and data processing industries. Information industries may gain a critical edge from the region's low cost structure, coupled with urban sophistication that often surprises visitors. Other strong sectors include education, health services, and non-profit grant-making and religious institutions.

Risks remain. Local single-family housing indicators have sagged to barely above the national average. Possible national recession and high energy prices will challenge local prosperity. The region skirted past ozone non-attainment during 2007, but local air pollution data remain ominous. During 2008 ozone levels could easily reach non-attainment, resulting in federal regulations that could dampen the economic climate.

Experience in other urban regions suggests that transformations in the corporate landscape can make talented workers leave established firms to form innovative new start-ups. County Business Patterns data suggest that local business establishments have risen in number somewhat more quickly than the national average. If these figures hint at a growing trend, the real secret behind rising local prosperity might just be a blossoming of old-fashioned entrepreneurship.



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