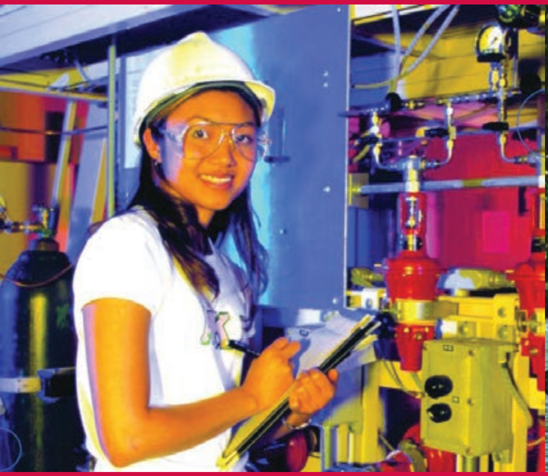
2011

State of the Northwest Arkansas Region 2011 Report

Katherine A. Deck

Mervin Jebaraj
University of Arkansas, Fayetteville

Walton Outreach



2011

State of the Northwest Arkansas Region Report

NORTHWEST ARKANSAS
COUNCIL

UNIVERSITY OF
ARKANSAS
SAM M. WALTON
COLLEGE OF BUSINESS
1871

Center for Business
and Economic Research

Old Main, Fayetteville, Ark.

The Center for Business and Economic Research at the Sam M. Walton College of Business provides excellence in applied economic and business research to federal, state and local government, as well as to businesses currently operating or those that desire to operate in the state of Arkansas. The Center further works to improve the economic opportunities of all Arkansans by conducting policy research in the public interest.

The Northwest Arkansas Council is a nonprofit organization that has been working since 1990 to solve regional problems and develop initiatives to improve the quality of life in Northwest Arkansas.

Willard J. Walker Hall 538 • (479) 575-4151 • cber.uark.edu

Table of Contents

2011 State of the Northwest Arkansas Region

Executive Summary

The Center for Business and Economic Research presents the State of the Northwest Arkansas Region Report, an objective analysis of the area's performance. The report reflects a broad approach to economic development and includes metrics related to innovation, quality of life, and health in addition to measures more often associated with the economy such as employment rates, business growth and income changes. The Northwest Arkansas region's performance over time is measured and compared with the performance of the United States, Arkansas, and four peer regions: Lexington, Kentucky; Gainesville, Florida; Huntsville, Alabama; and Austin, Texas.

Dickson Street Entertainment District,
Fayetteville, Ark.

Northwest Arkansas Snapshot

The Northwest Arkansas region is defined as the Fayetteville-Springdale-Rogers metropolitan statistical area, which includes Benton, Madison, and Washington counties in Arkansas and McDonald County in Missouri. The region includes 51 incorporated cities and 15 unincorporated communities. According to the 2010 U.S. Census, the population of the Northwest Arkansas region was 463,204 and grew at an average annual rate of 2.9 percent over the previous decade. A workforce of over 225,000 produces a diverse array of goods and services worth over $17.5 billion a year. Trade, transportation and utilities; professional and business services; manufacturing, and education and health services account for 64 percent of the region's employment.

The Region During the Past Decade

The Northwest Arkansas region experienced tremendous growth rates during the past decade. In 2008 and 2009 the United States suffered one of the most severe recessions in its history. However, the region's economic strength allowed it to weather the recession and fare better than the state of Arkansas and the nation as a whole.

Jobs

Northwest Arkansas employment peaked at 210,700 in November 2007. At the bottom of the recession in January 2010, the region had lost 15,300 jobs, representing 7.2 percent of employment. This loss was in the middle of the pack of the peer regions considered in this report. However, when the time period from January 2000 to December 2010 is considered, Northwest Arkansas far outpaced its peer communities in job growth, with an increase of 29.8 percent over the decade. The region also had the lowest unemployment rate in its peer group in 2010.

Business Growth

The number of businesses in Northwest Arkansas increased from 8,606 in 2001 to 11,618 in 2010. From 2001 to 2007, the growth rate in business establishments averaged 5.5 percent, but from 2007 to 2010, there was an average annual decline of 0.7 percent in the number of businesses in the region. Both the growth during the pre-recession years and the decline during the recession and post-recession years outpaced the peer regions.

Incomes

Per capita personal income in Northwest Arkansas tends to be higher than those in the rest of the state, but remains below peers and the United States. However, over the past decade, the median household income showed significant improvement, increasing by 14.4 percent from 2001 to 2009.

Federal Research Funds

Nearly $103 million of research and development expenditures were made by the University of Arkansas in 2008, placing the university at the 127th rank among research universities in that year. Research expenditures increased by 31.3 percent from 2001 to 2008, making the growth rate the slowest among the major research institutions in the peer regions of Northwest Arkansas.

Education

Fewer than 25 percent of adults in Northwest Arkansas have attained a bachelor's degree or higher, ranking the region last among peer regions, but better than the Arkansas average. Indeed, all of the Northwest Arkansas peer regions have populations with more than one-third of adults with at least bachelor's degrees.

Cost of Home Ownership and Cost of Living

Home ownership costs in Northwest Arkansas are in the middle of the pack when compared against costs in peer regions. In 2009, home ownership costs accounted for 22.4 percent of household income in Northwest Arkansas and rose steadily through the past decade.

Poverty

The region's poverty rate in 2009 was 17 percent. This placed Northwest Arkansas in the middle of its peer group in terms of poverty. However, since 2000, the poverty rate in Northwest Arkansas has increased by a larger amount than the state, the nation or any of its peer regions.

Commuting Time and Modes of Transportation

74.8 percent of Northwest Arkansas workers spend less than 30 minutes commuting to work, ranking the region second among peer regions. 3.3 percent of the region's workers use alternative modes of transportation to get to work, including biking, walking and mass transit.

Healthy People

82.1 percent of the residents of Northwest Arkansas had health insurance coverage in 2009. This percentage was lower than the health insurance coverage rate in other peer regions with the exception of the Austin MSA. Compared to the rest of the state of Arkansas, the two major counties in the Northwest Arkansas region (Benton County and Washington County) have better health trends in some fields such as access to healthy food, adult smoking and the rate of adult obesity.

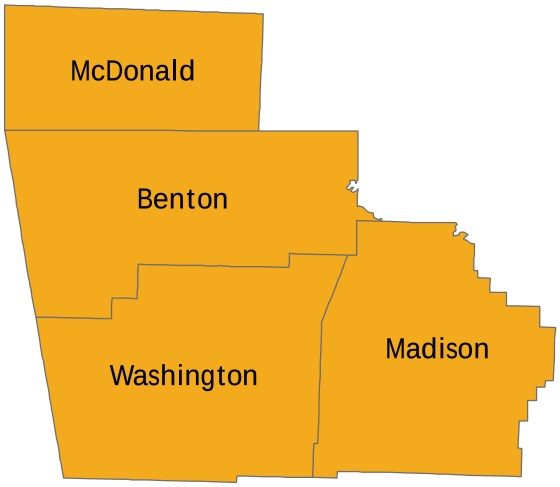
Conclusion

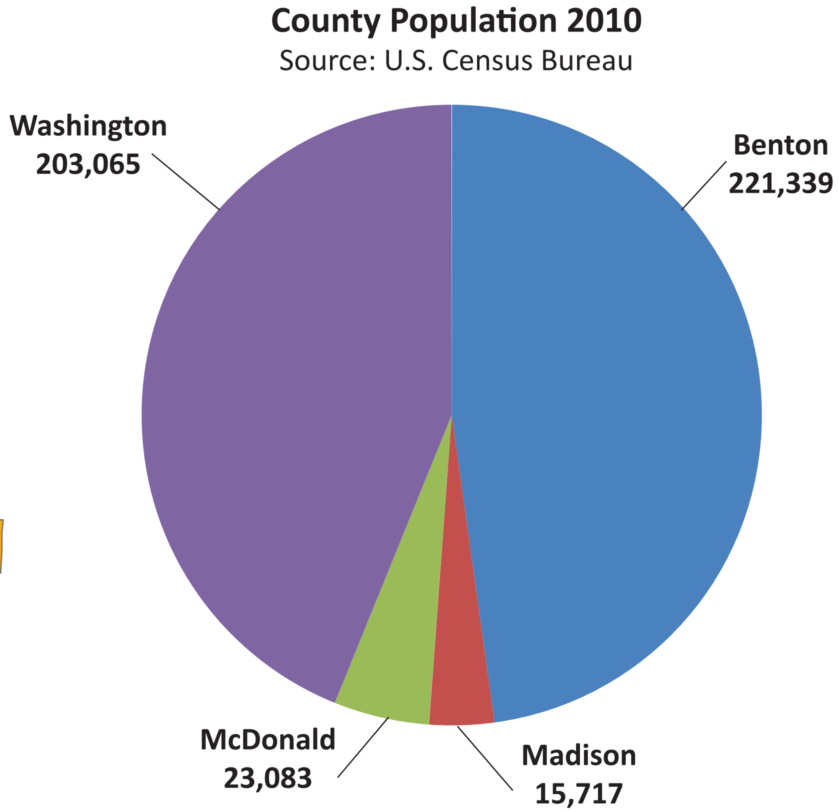
As the population of Northwest Arkansas continues to expand, the 2011 State of Northwest Arkansas report highlights regional successes as well as economic challenges. The region's economic success continues to be a bright spot with high levels of employment growth. However, the region trails its peers in two important categories: educational attainment and federal research funding. In each, the Northwest Arkansas region ranks last in its peer group despite the tremendous private sector job growth. The national recession affected Northwest Arkansas substantially and is a reminder that the region needs to position itself attractively relative to its peers to continue to improve the overall quality of life in the region.

The Northwest Arkansas Region: An Overview

Northwest Arkansas is comprised of Benton, Washington, and Madison counties in Arkansas and McDonald County in Missouri. The region is anchored by the four large cities along the interstate 540 corridor: Bentonville, Rogers, Springdale and Fayetteville. Along with the headquarters of Walmart, Tyson Foods and JB Hunt Transport Services, the University of Arkansas provides a strong center for the region.

2010 Population: 463,204
2000-2010 Population Growth: 33.5%
2010 Employed Workforce: 200,383
2010 Unemployment Rate: 6.3%
2009 Gross Metro Product: $17,637 million
2008 Per Capita Personal Income: $32,537





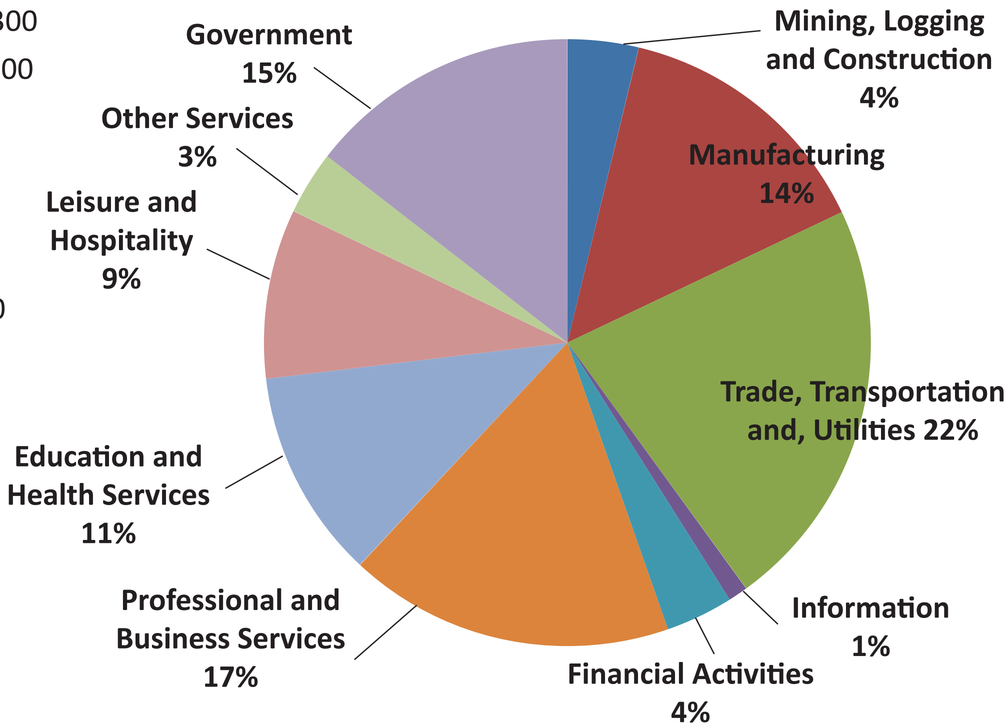
The Northwest Arkansas Region's Economy: Employment by Sector

The region boasts of a diverse array of employment sectors where more than 200,000 employees work. Employment in the Northwest Arkansas economy is led by the Trade, Transportation, and Utilities sector and also has relative strengths in the Professional and Business Services sector, the Government sector and the Manufacturing sector.

February 2011 Snapshot of Regional Employment

Trade, Transportation and, Utilities: 44,300
Professional and Business Services: 34,800
Manufacturing: 28,400
Government: 29,100
Education and Health Services: 22,400
Leisure and Hospitality: 18,100
Mining, Logging and Construction: 7,600
Financial Activities: 7,200
Other Services: 6,900
Information: 2,100

Employment by Sector (February 2011)
Source: U.S. Bureau of Labor Statistics



Northwest Arkansas Region
Employment Dynamics: 2000-2011

Growth Sectors

Professional and Business Services

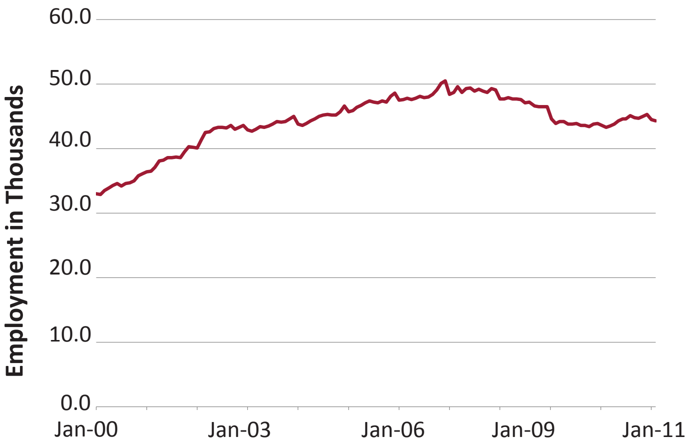
The sector includes employment in establishments that perform professional, scientific and technical activities for others. These services range from legal work, accounting, bookkeeping and payroll to architectural and engineering services. This sector added 11,500 jobs to the Northwest Arkansas economy during the past decade.

Education and Health Services

The Education sector includes employment in private schools, colleges, universities and training centers. The health care sector is composed of employment in establishments that provide healthcare and social assistance for individuals. Employment in this sector has grown from approximately 13,200 in 2000 to 22,400 in 2011.

Leisure and Hospitality

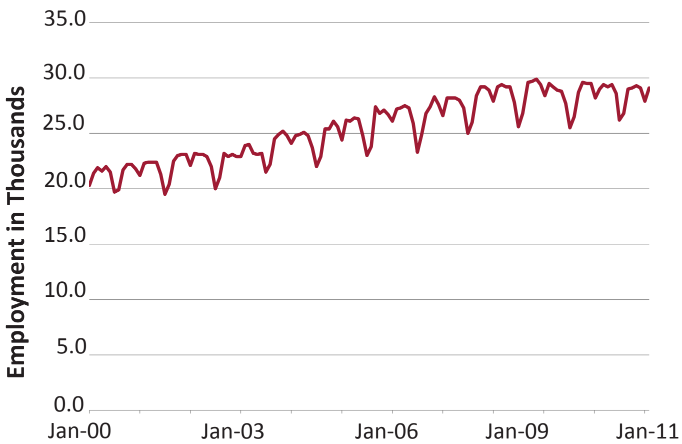
This sector includes employment in a wide range of businesses that operate facilities and provide services to meet cultural, entertainment and recreational interests. The leisure and hospitality sector currently accounts for 9 percent of employment in the Northwest Arkansas economy and added 6,700 jobs over the past decade.



Stable Sectors

Trade, Transportation, and Utilities

In this sector, employment from the wholesale trade, retail trade, transportation, warehousing and utilities sectors are included. As combined, this sector currently represents the largest share of employment in the Northwest Arkansas economy at over 22 percent. At its peak in December 2006, the sector accounted for 50,500 jobs but has since declined to 44,300 jobs in Northwest Arkansas.



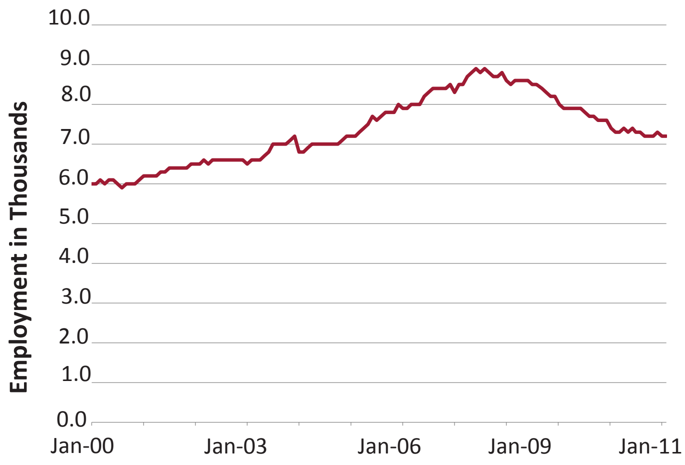
Government

This sector includes employment in various federal, state and local agencies. This sector currently accounts for more than 14 percent of the area's employment but has remained fairly flat since 2008.

Bubble Sectors

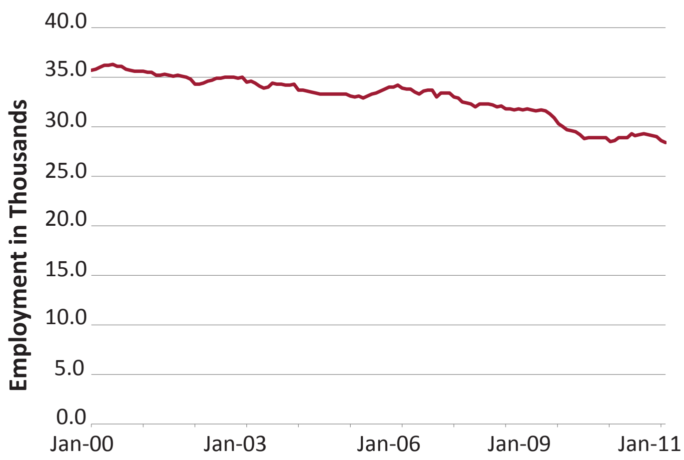
Mining, Logging, and Construction

The Mining sector comprises establishments that extract naturally occurring mineral solids, such as coal and ores; liquid minerals, such as crude petroleum; and gases, such as natural gas. The construction sector comprises establishments primarily engaged in the construction of buildings or engineering projects (e.g., highways and utility systems). Employment in this sector grew rapidly from 2003 and reached a peak of 12,900 jobs in mid-2006. Since then, employment in the sector rapidly declined, thereby adding only 700 jobs in the time period between 2000 and 2011.



Financial Activities

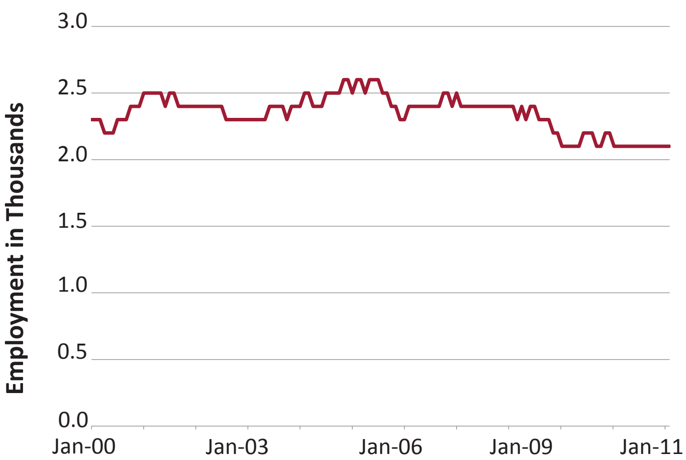
This sector comprises employment related to financial transactions, insurance and real estate activities. While this sector experienced job growth unti the summer of 2007 when jobs peaked at 8,900, employemnt has since declined to 7,200 jobs in 2011.



Declining Sectors

Manufacturing

The Manufacturing sector comprises establishments engaged in the mechanical, physical, or chemical transformation of materials, substances or components into new products. As in many metros around the country, employment in the manufacturing industry has witnessed a steady decline since 2000, losing some 7,300 jobs in the Northwest Arkansas region.



Information

The Information sector comprises establishments engaged in producing and distributing information and cultural products, providing the means to transmit or distribute these products as well as data or communications, and processing data. This sector, which currently represents 1 percent of the employment in Northwest Arkansas, has witnessed a slow decline since 2000.

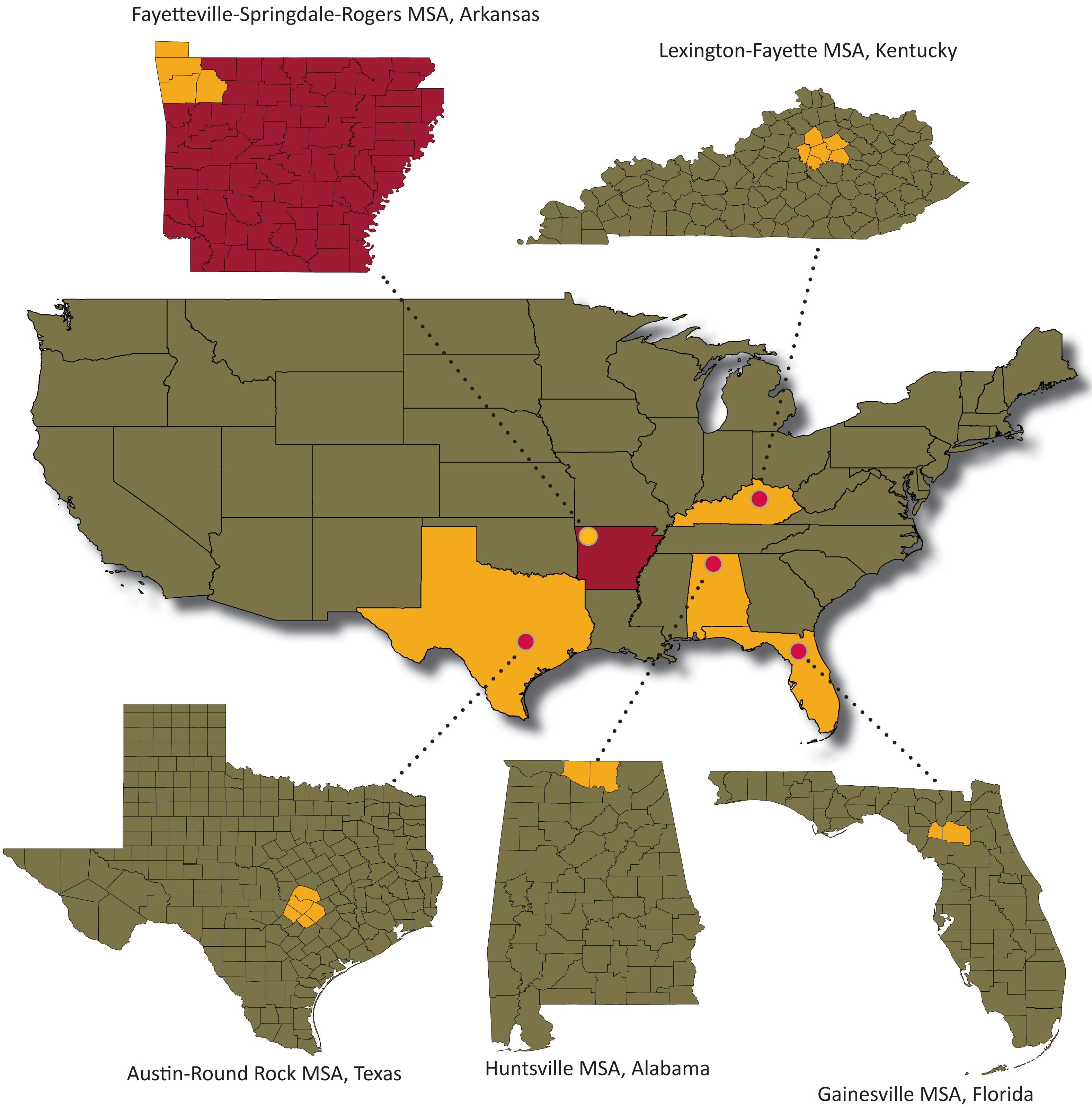
Who are our peers and how are they selected?

In this report we compare Northwest Arkansas (the Fayetteville-Springdale-Rogers MSA) to three peer regions and one aspirational region. The peer regions are the Gainesville MSA in Florida, the Huntsville MSA in Alabama and the Lexington-Fayette MSA in Kentucky. These regions were chosen for their similarity to Northwest Arkansas in terms of key economic and demographic indicators. The Austin MSA in Texas was chosen as an aspirational region because it has experienced similar rates of growth, but is much larger in size and has developed some of the best practices for encouraging community and economic development. The peer regions also have research and innovation occurring at the public universities located in their MSAs.

Peer Regions	2010 Population	Percent of State's Population	Growth 2000-2010
Fayetteville-Springdale-Rogers MSA	463,204	15.9%	33.5%
Lexington-Fayette MSA	472,099	10.9%	15.6%
Gainesville MSA	264,275	1.4%	13.7%
Huntsville MSA	417,593	8.7%	22%
Austin-Round Rock MSA	1,716,289	6.8%	37.3%

Donald W. Reynolds Razorback Stadium,
Fayetteville, Ark.

Overview of Peer Regions



Economic Analysis: How has the Northwest Arkansas Region Fared in the Past Decade?

The Northwest Arkansas region experienced tremendous growth rates during the past decade. Employment levels in the region rose by more than 44 percent, while the unemployment rate averaged about 4 percent. In 2008 and 2009, the United States experienced a severe recession, the most severe economic crisis since the Great Depression, which had an impact on the economy of Northwest Arkansas. However, the region's economic strengths allowed it to weather the recession and fare better than the state of Arkansas and the nation as a whole. The 2011 State of the Northwest Arkansas Region Report examines unemployment, establishment growth, incomes, bankruptcies and building permit activity to understand the recession's impact on the region and its context over the past decade.

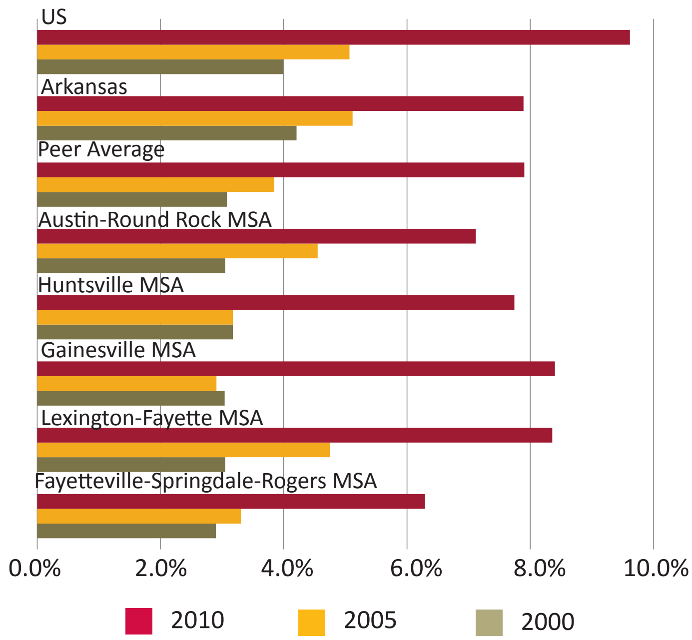
J.B. Hunt Transport Services Inc.,
Lowell, Ark.

Unemployment

The unemployment rate in the Northwest Arkansas region averaged 4.0 percent during the past decade; however, it peaked at 7 percent in 2010 as a result of the recession. While the increase in the unemployment rate is significant, the Northwest Arkansas region fared better than the nation, where the unemployment rate increased 66.5 percent to 9.6 percent from 2008 to 2010. Meanwhile, the unemployment rate in Arkansas increased 49.1 percent from 5.3 percent to 7.9 percent from 2008 to 2010. When compared to its peer regions, Northwest Arkansas experienced the smallest jump in the unemployment rate over the last decade and during the recession from 2008 to 2010.

Unemployment Rate, Annual Average, 2000-2005-2010

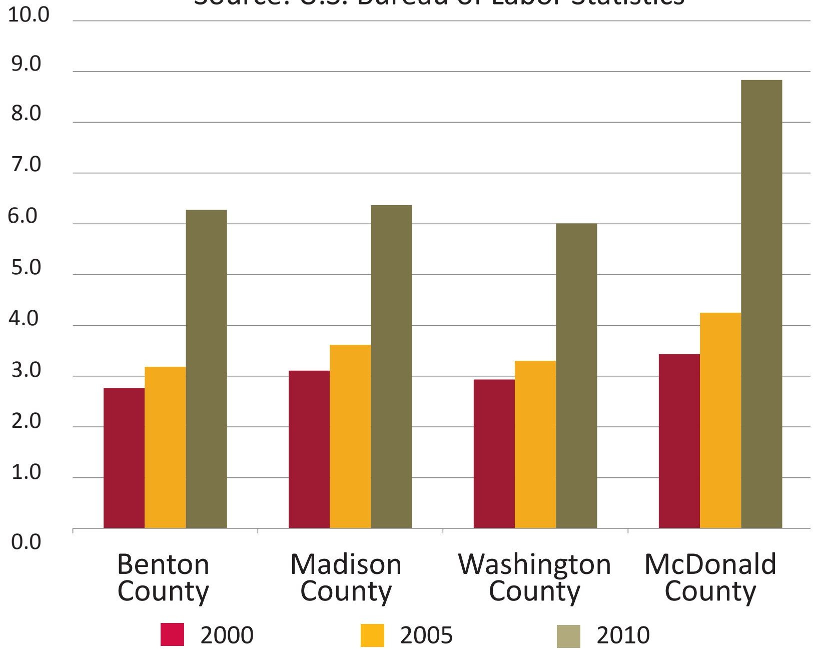
Source: U.S. Bureau of Labor Statistics



Arvest Bank, Rogers, Ark.

Fayetteville-Springdale-Rogers MSA County Unemployment Rates, 2000-2005-2010

Source: U.S. Bureau of Labor Statistics

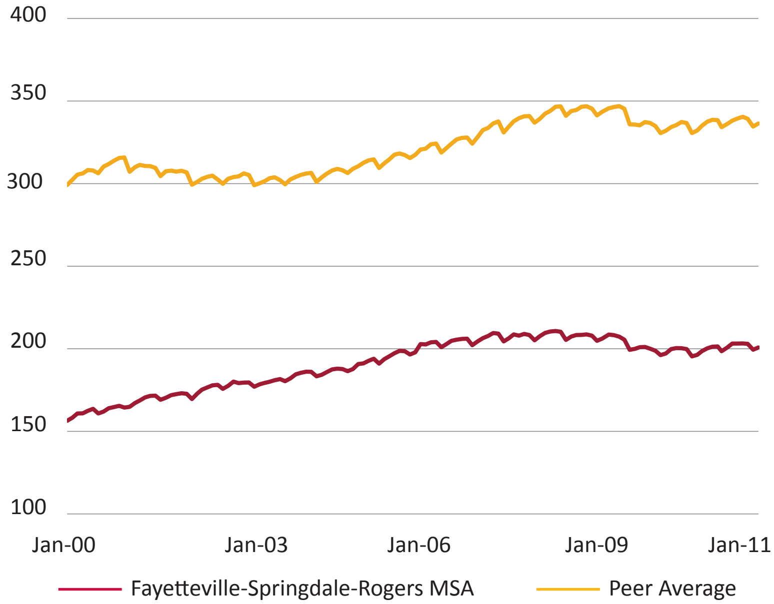


Over the past decade, the unemployment rate rose dramatically in each of the counties in the Northwest Arkansas region. McDonald County in Missouri had significantly higher unemployment than the other Northwest Arkansas counties in Arkansas, over most of the past decade. As a result of the recession, unemployment rates in the counties are almost double what they were in the middle of the past decade.

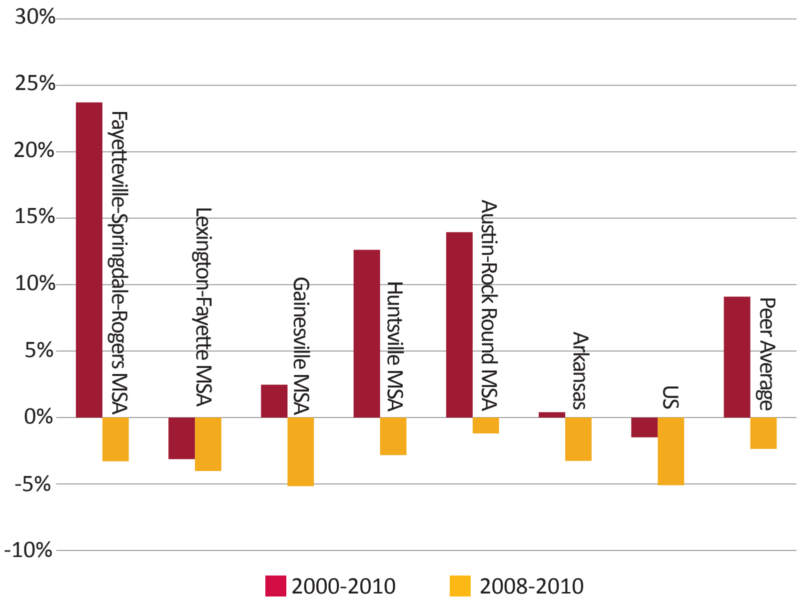
Employment

During the decade from 2000 and 2010, employment in Northwest Arkansas grew at 23.7 percent, a rate that outstripped the peer regions, the state of Arkansas and the nation as a whole. Northwest Arkansas employment peaked at 210,700 in November 2007. At the trough of employment in January 2010, the region had lost 15,300 jobs, representing 7.2 percent of employment. This loss was in the middle of the pack of the peer regions considered in this report.

Employment Levels 2000-2010
Source: U.S. Bureau of Labor Statistics



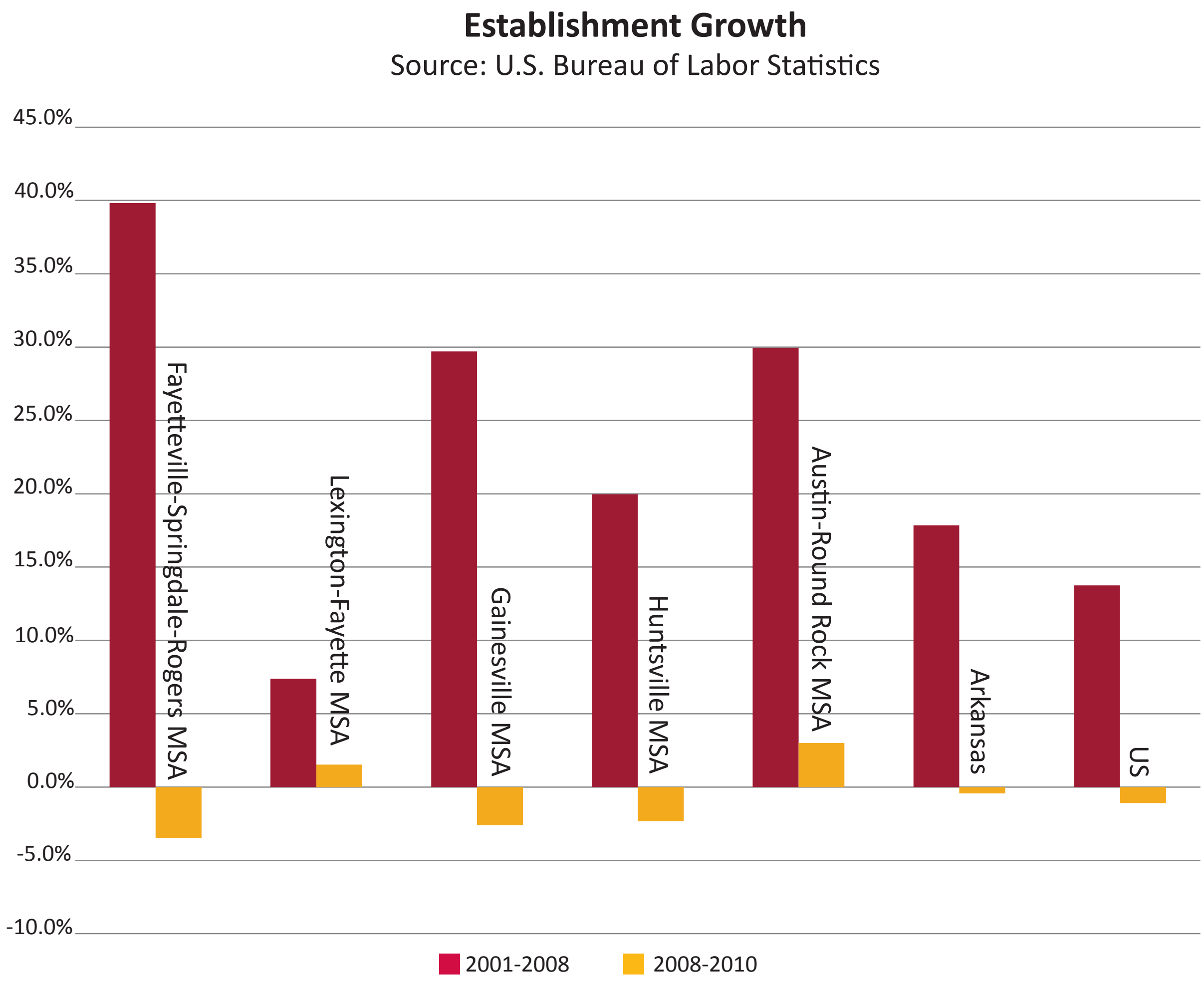
Employment Growth Rate
Source: U.S. Bureau of Labor Statistics



Embassy Suites, Rogers, Ark.

Establishment Growth

The number of businesses in Northwest Arkansas increased from 8,606 in 2001 to 11,618 in 2010. From 2001 to 2007, the growth rate in business establishments averaged 5.5 percent, but from 2007 to 2010, there was an average annual decline of 0.7 percent in the number of businesses in the region. Both the growth during the pre-recession years and the decline during the recession and post-recession years outpaced the peer regions. However, Northwest Arkansas has a lower number of employees per establishment than any of its peer regions. The average number of employees in an establishment is related to the industry mix in the region as some industries like education, healthcare, and others have larger payroll bases per establishment. In 2010, the average number of employees per establishment in Northwest Arkansas was 16.3; this number declined from 19.2 employees per establishment in 2001. Similar declines in average employees per establishment were seen in the peer regions.

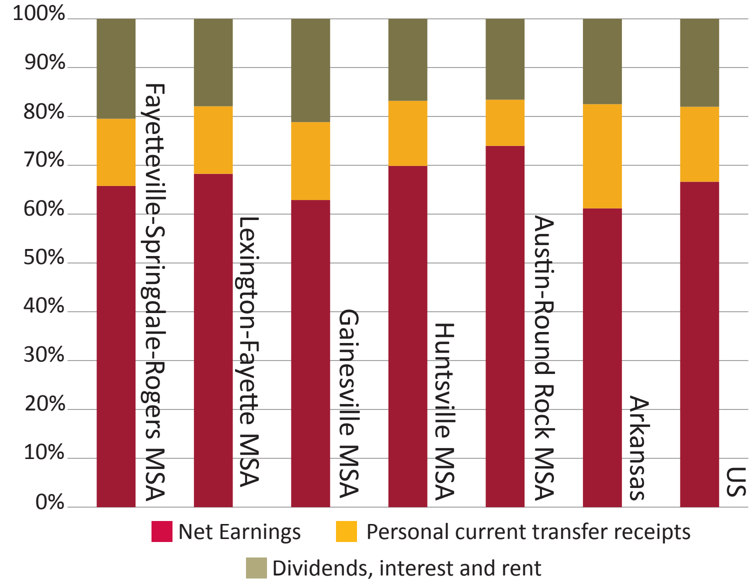


Income

The per capita personal income in Northwest Arkansas tends to be higher than the rest of the state, but lower than peers and the United States. Personal income is comprised of three components namely net earnings (earnings from wages and proprietor's income), personal current transfer receipts (mainly government monies like Social Security, unemployment insurance, etc.) and dividends, interest, and rent. Northwest Arkansas receives a similar portion of income from net-

Total Percent Income Component Distribution

Source: U.S. Bureau of Economic Analysis



Median Household Income in the Fayetteville-Springdale-Rogers MSA, 2001-2009

Source: U.S. Census Bureau

earnings and personal current transfer receipts as the nation as a whole and peer regions except the Austin MSA. However, over the past decade, the median household income in Northwest Arkansas has grown at a remarkable pace. The median income rose by 14.4 percent from 2001 to 2009.

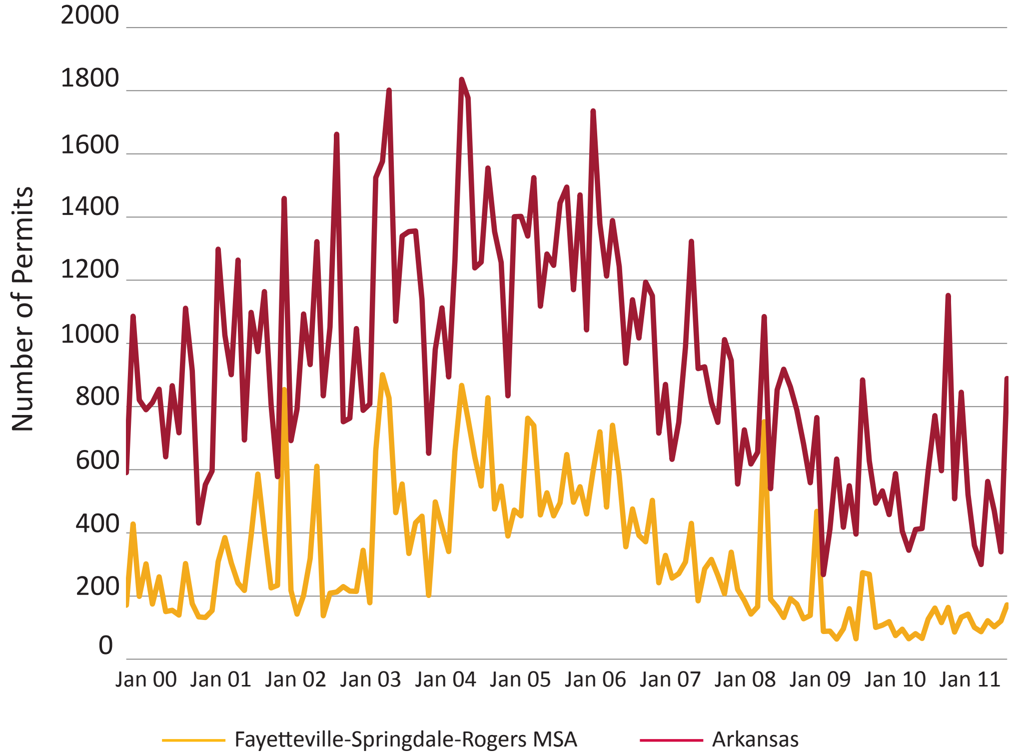
Bankruptcies

The rate and occurrence of bankruptcies provide a good indicator of the general health of the economy of a region. As the recession began in 2008, the number of bankruptcies filed from Northwest Arkansas in the Western District Bankruptcy Court of Arkansas rose by 42.7 percent in 2008 and 32 percent in 2009 but declined by 3.9 percent in 2010. Northwest Arkansas' share of total bankruptcy filings in the state of Arkansas also rose from 11.8 percent in 2007 to 15.4 percent in 2010.

	2007			2008			2009			2010		
	Arkansas	United States	Northwest Arkansas	Arkansas	United States	Northwest Arkansas	Arkansas	United States	Northwest Arkansas	Arkansas	United States	Northwest Arkansas
Total Filings	11,852	850,912	1,401	13,991	1,117,771	1,999	16,583	1,473,675	2,638	16,503	1,593,081	2,536

Building Permits

After showing steady growth for the first part of the last decade, the number of building permits issued in the Northwest Arkansas region began to decline in 2006. Exacerbated by the real estate crash and the recession, the number of permits issued continued to decline into 2011.



The Innovation Economy

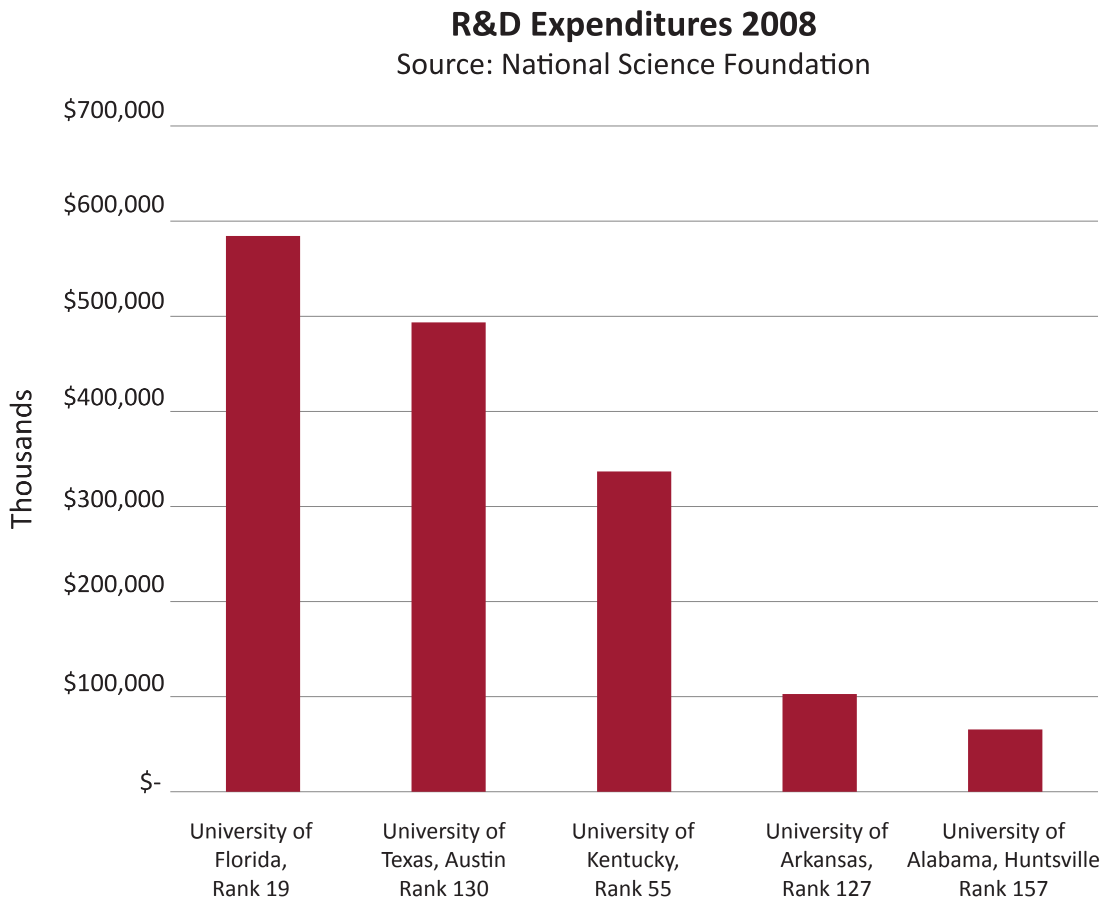
The impact of the recession in Northwest Arkansas creates a sense of urgency related to economic development and the future of the region's economy. In large part, the future of the region's economy hinges on its ability to educate and innovate. The State of the Northwest Arkansas Region Report examines the following metrics to determine how well the region is positioning itself for the future: academic research and development, Small Business Innovation Research/Small Business Technology Transfer Funds, and adult educational attainment.

Tyson Foods Discovery Center, Springdale, Ark.

Federal Research Funds

Nearly $103 million of research and development expenditures were made by the University of Arkansas in 2008, placing the university at 127th rank among research universities in that year. Research expenditures increased by 31.3 percent from 2001 to 2008, making the growth rate the slowest among the major research institutions in the peer regions of Northwest Arkansas. Federal funding serves as an additional source of resources for research and development efforts and boosts the state's transition towards a knowledge-based economy. Higher federal funding represents recognition of the value of university-performed activities at the federal level and shows the actual capacity of the state's academic institutions to perform research at a competitive level.

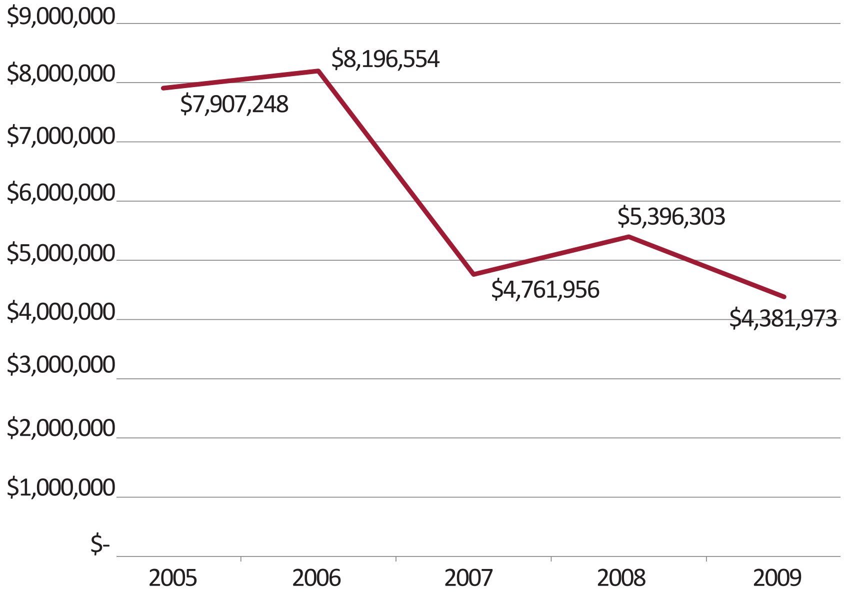
At the University of Arkansas, the Technology Licensing Office (TLO) engages inventors, faculty start-up/spin-out companies, and businesses in transferring inventions into the marketplace. The TLO facilitates the granting of patents and licenses to university faculty and research scientists. From 1987 to August 2009, the TLO worked with 487 invention disclosures and put out 75 invention disclosures with issued patents and 47 disclosures with patents pending. In 2009, the TLO reported $98,400 in royalties distributed to inventors living in Arkansas. In the fiscal year 2008, the office collected gross royalty income of $228,000 and an additional $74,000 from options, license signing fees and milestones.



Small Business Innovation Research and Small Business Technology Transfer Grant

Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) grants provide federal recognition of the region's industrial innovative capabilities. These grants encourage small businesses to engage in research and development processes and therefore promote knowledge based economic development. The Northwest Arkansas Region averaged nearly 24 grants a year and average total grant amount of $6,128,807 from 2005 to 2009.

Northwest Arkansas SBIR/STTR Total Amount Awarded

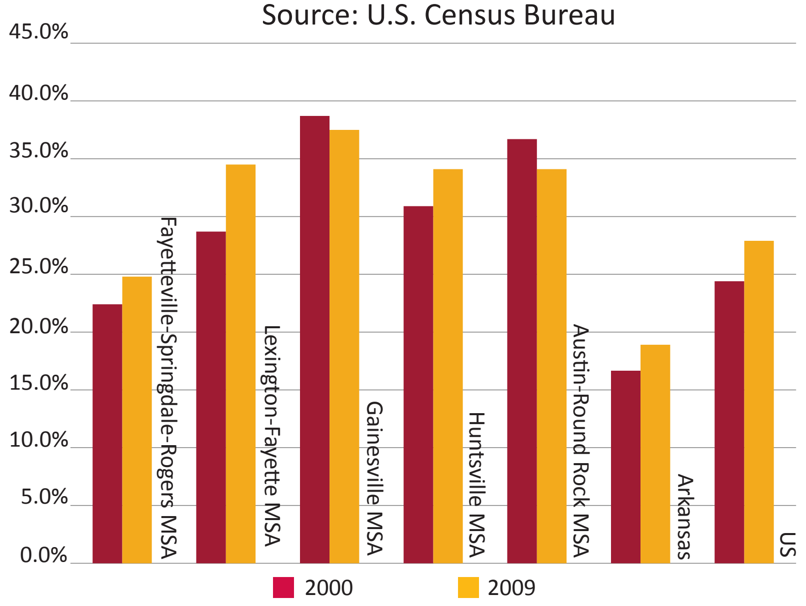


Adult Educational Attainment in the Region

Fewer than 25 percent of adults in Northwest Arkansas have attained a bachelor's degree or higher, ranking the region last among peer regions, but better than the Arkansas average. Indeed, all of Northwest Arkansas peer regions have populations with more than one-third of adults with at least bachelor's degrees.

Bachelor's Degree or Higher in Adult Population

Source: U.S. Census Bureau



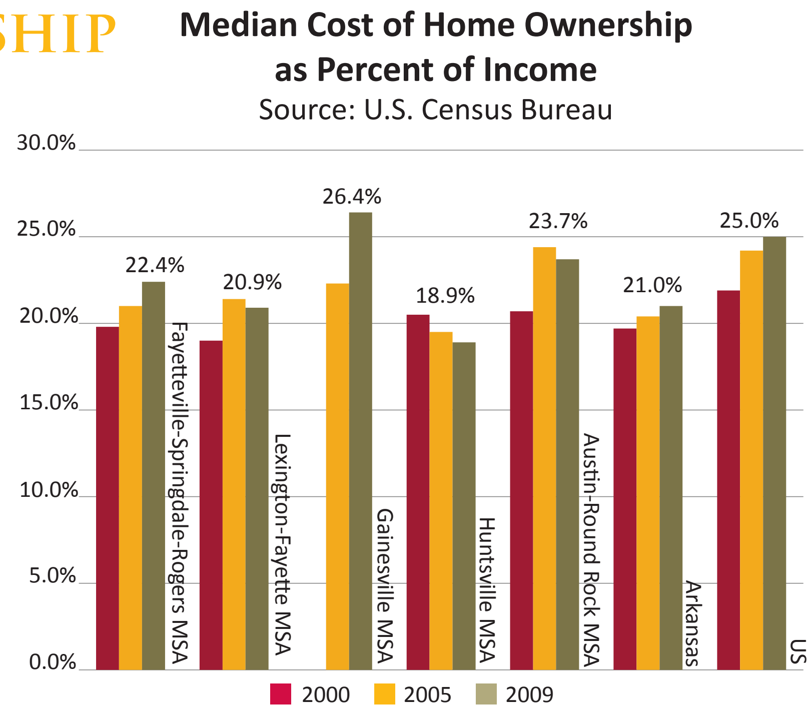
Quality of Life in Northwest Arkansas

Quality of life issues play an important role in attracting and retaining talented human capital in a region. Improvements in the quality of life of any region are both a result of economic development and an investment in the future economic development of a region. In this section of the report, we examine various quality of life indicators such as cost of living, crime, poverty, commuting time, modes of transportation, and health.

Crystal Bridges Museum of American Art,
Bentonville, Ark.

Cost of Home Ownership

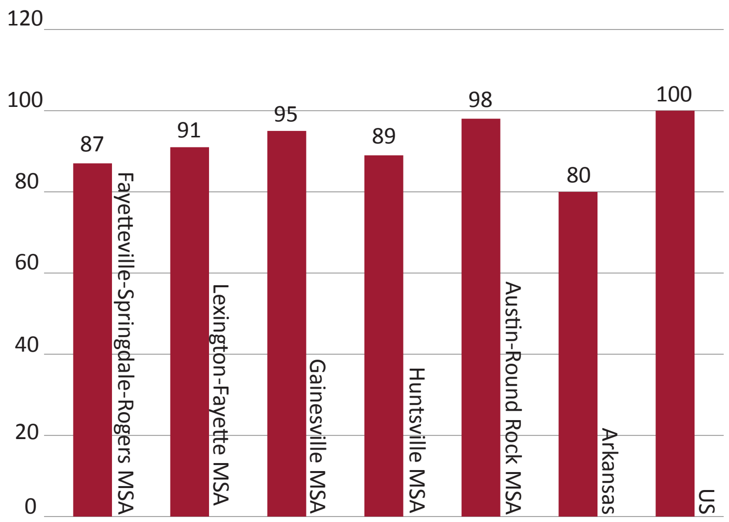
The measure of homeownership costs as a percentage of monthly household income provides an excellent tool for comparing housing affordability. Home ownership costs in Northwest Arkansas are in the middle of the pack when compared to costs in peer regions. In 2009, home ownership costs accounted for 22.4 percent of household income in Northwest Arkansas and rose steadily through the past decade. Meanwhile, with the exception of the Gainesville MSA, other regions saw the cost of home ownership decline in 2009 when compared to 2005 data.



Peel Mansion Museum and Heritage Gardens
Bentonville, Ark.

Pinnacle Hills Promenade,
Rogers, Ark.

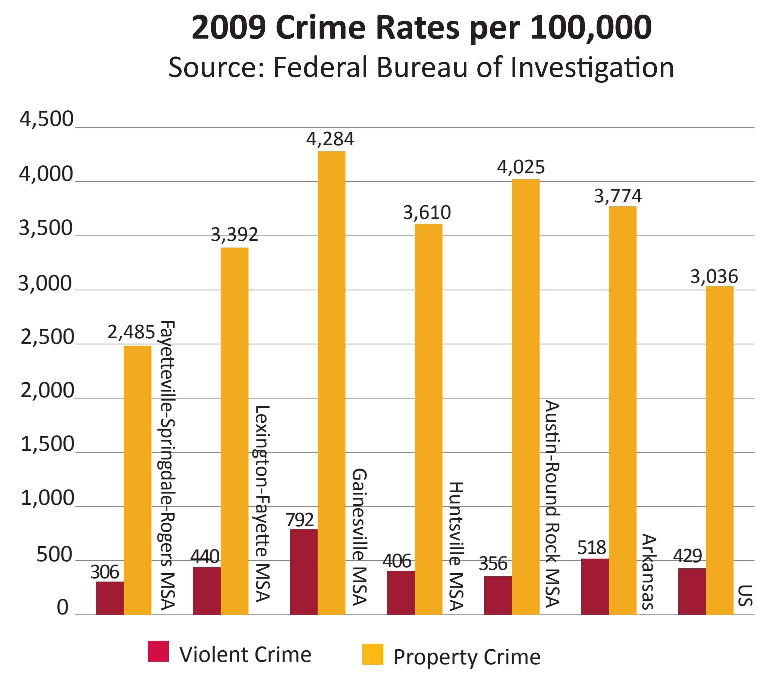
2010 Cost of Living
Source: Sperling's Best Places



The Sperling Cost of Living index is calculated based on the spending categories of housing costs, food and groceries costs, transportation costs, healthcare costs and other costs such as clothing, entertainment, etc. Based on these costs, the Northwest Arkansas Cost of Living Index was 87, compared against the national average of 100. Northwest Arkansas' Index was lower than any of its peer regions in 2010.

Crime

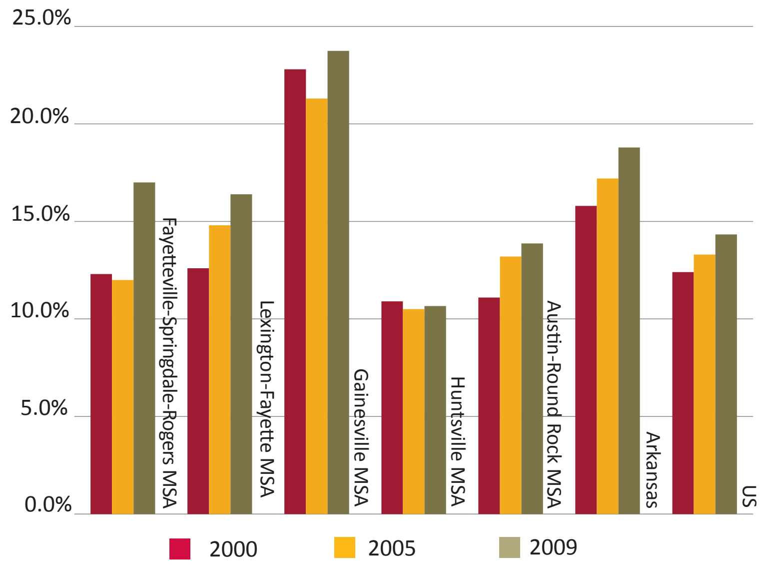
According to data gathered by the Federal Bureau of Investigation, crime rates per 1,000 persons were lower in Northwest Arkansas than in any of the peer regions and in the state and nation. Property and violent crime rates were more than 35 percent lower in Northwest Arkansas than when compared to the peer regions.



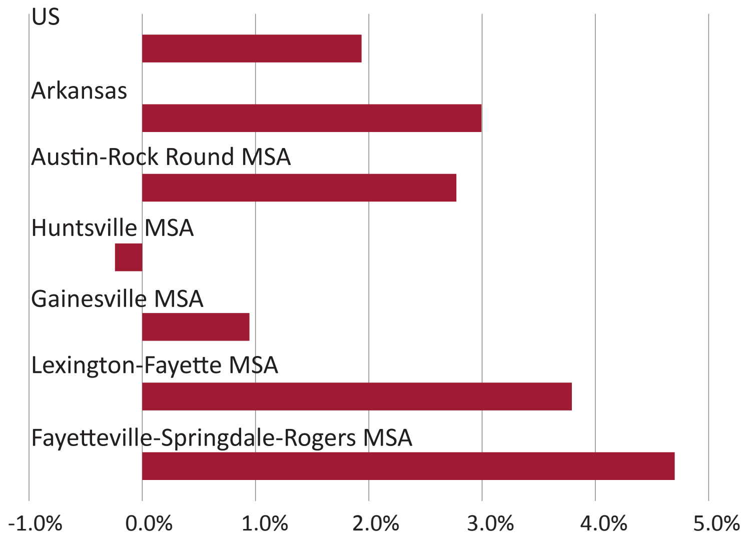
Poverty

The poverty rate in Northwest Arkansas was 17 percent in 2009. This rate was higher than our peer regions with the exception of Gainesville. While the poverty rate in Northwest Arkansas was lower than the rate for the state of Arkansas, it was higher than the national rate of 14.3 percent in 2009. Over the past decade, the poverty rate in Northwest Arkansas rose 4.7 percent, a rate that was faster than any of the peer regions.

Poverty Rates: All Ages
Source: U.S. Census Bureau

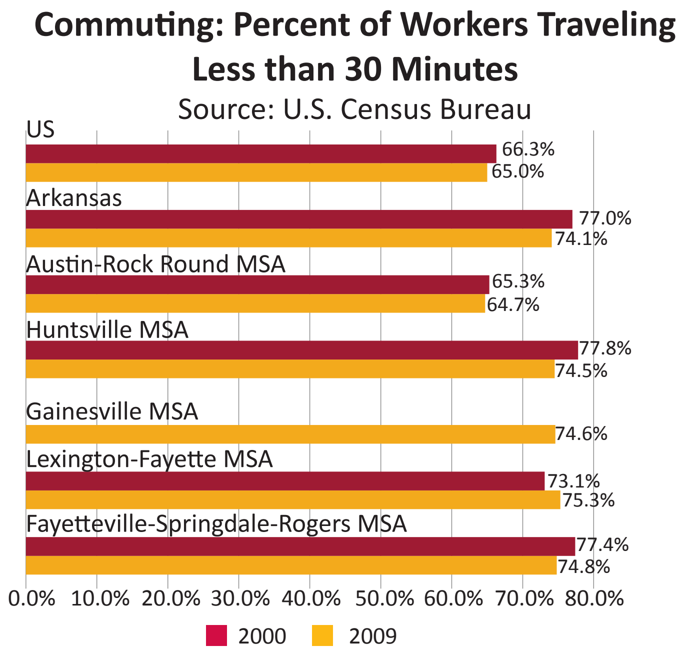


Poverty Rates: All Ages Percent Increase from 2000 to 2009
Source: U.S. Census Bureau



Commuting Trends

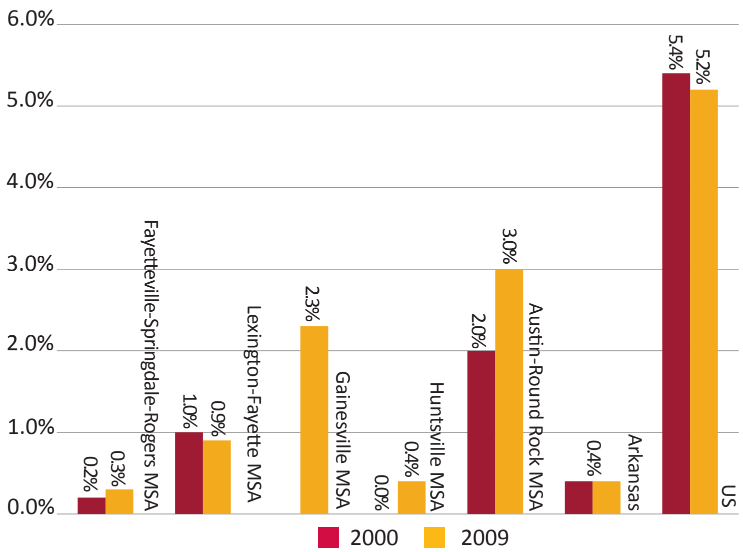
According to data from 2009, 74.8 percent of workers spent less than 30 minutes commuting to work in the Northwest Arkansas region. An approximately equivalent percent of workers from the peer regions also experienced commute times of less than 30 minutes. With the exception of the Lexington-Fayette region, Northwest Arkansas and the other peer region saw a small decline in the percentage of workers who could commute to work in less than 30 minutes.



Over the past decade, the percentage of the working population that biked or walked to work more than doubled in Northwest Arkansas but remained low at 3 percent. The percentage of workers who biked or walked in Northwest Arkansas was higher than in the Huntsville and Austin regions but lower than in the Lexington and Gainesville regions. A very small percentage of workers (0.3 percent) commuted to work using public transit in Northwest Arkansas. Public transit usage among workers in Northwest Arkansas ranked lowest among peer regions, the state and the nation as a whole.

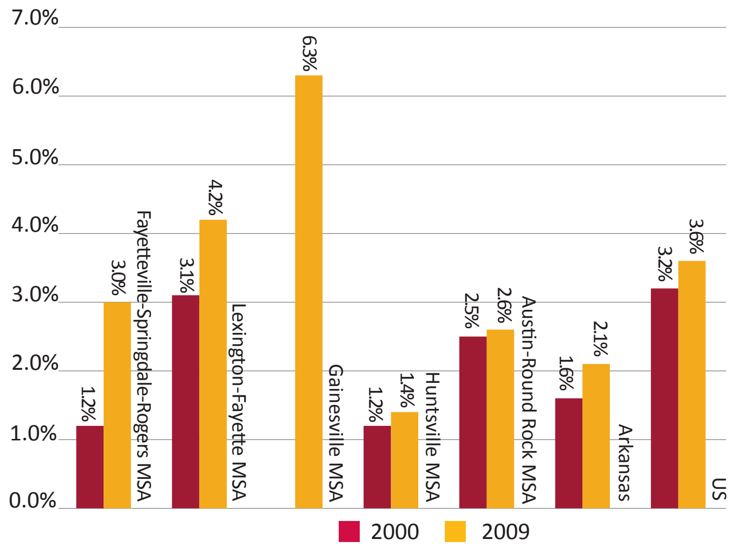
Commuting: Use of Public Transit

Source: U.S. Census Bureau



Commuting: Percent Bike or Walk to Work

Source: U.S. Census Bureau

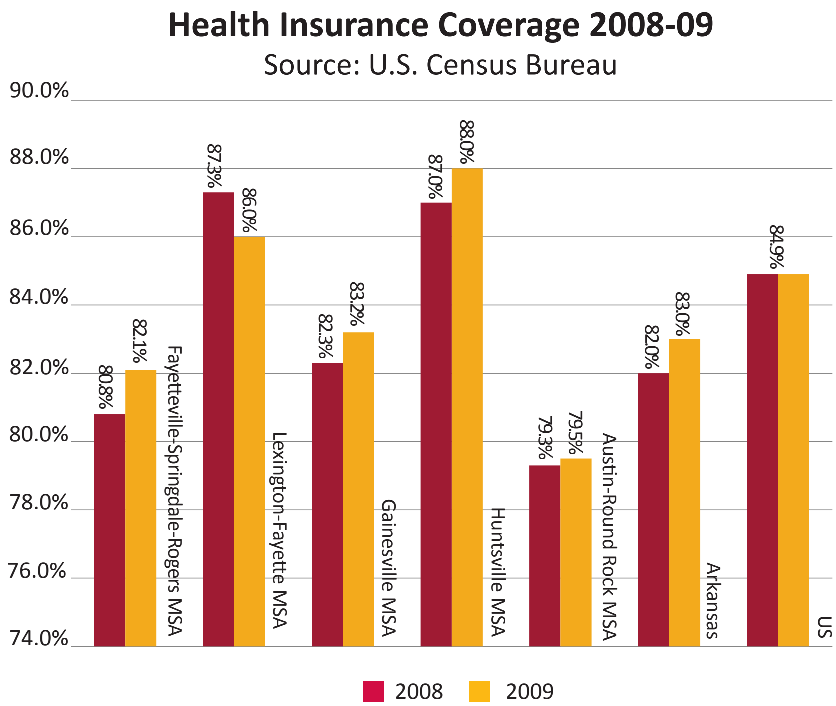


Health Behavior Trends

Compared to the rest of Arkansas, the two most populous counties in the Northwest Arkansas region (Benton County and Washington County) have better health trends in fields such as access to healthy food, adult smoking and the rate of adult obesity. The rate of excessive drinking is higher in Washington County than the state, likely due to the presence of the public university student community.

Health Insurance Coverage

82.1 percent of the residents of Northwest Arkansas had health insurance coverage in 2009. This percentage was lower than the health insurance coverage rate in other peer regions with the exception of Austin. Health insurance coverage data from the Census Bureau are only available from 2008 and Northwest Arkansas's coverage rate increased 1.3 percent during that time. The 2009 coverage rate in Arkansas was lower than the statewide rate and the national rate.





For inquiries related to this report, contact:

Katherine A. Deck
Director, CBER

University of Arkansas
Sam M. Walton College of Business
Center for Business & Economic Research
191 Harmon Ave.
WJWH 545
Fayetteville, AR 72701-1201

(479) 575-4927
kdeck@walton.uark.edu

Mervin J. Jebaraj
Research Assistant

University of Arkansas
Sam M. Walton College of Business
Center for Business & Economic Research
191 Harmon Ave.
WJWH 548
Fayetteville, AR 72701-1201

(479) 575-6077
mjebaraj@walton.uark.edu

Photography courtesy of: Paula Lawrence, Erica Kenney, University of Arkansas Athletics, Bentonville-Bella Vista Area Chamber of Commerce, Fayetteville Chamber of Commerce, Northwest Arkansas Regional Airport, Rogers-Lowell Area Chamber of Commerce, Springdale Chamber of Commerce, Tyson Foods Inc., and Walmart Stores Inc.

The Center for Business and Economic Research would also like to express gratitude to Paula Lawrence and Erica Kenney from the Office of External Relations in the Sam M. Walton College of Business for their assistance in preparing this report.

UNIVERSITY OF ARKANSAS
SAM M. WALTON
COLLEGE OF BUSINESS