

# University of Arkansas

## Arkansas Newswire

### Center Study Takes Updated Look at Economic Impact of Fayetteville Shale Activity

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*Says economic impact exceeds 2008 projections*

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FAYETTEVILLE, Ark. — The economic impact of natural gas production in the Fayetteville Shale has exceeded projections made in 2008, despite sharply lower gas prices and indications of lower expenditures in the area in 2012 than in 2011. A study released Tuesday, June 5, provides updated economic impact figures generated by the activities of the natural gas industry concentrated in the north central region of Arkansas.

The study, conducted by the Center for Business and Economic Research in the Sam M. Walton College of Business at the University of Arkansas and sponsored by the Arkansas State Chamber of Commerce, projects the economic impact of the Fayetteville Shale activities in a nine-county area in 2012 alone to include \$4 billion in total economic activity and more than 16,000 jobs.

The study, which follows up on a 2008 study by the Center for Business and Economic Research, indicates that companies initially made conservative estimates for their Fayetteville Shale expenditures and that natural gas production in the Fayetteville Shale increased more than projected despite lower than expected gas prices over that time.

In 2008, exploration and production companies planned to invest almost \$9.9 billion in Fayetteville Shale activities from 2008 to 2011. According to the new survey, companies said they invested more than \$12.7 billion during that time – 29 percent more than had been planned.

“When we conducted our 2008 economic impact study of the effects of the development of the Fayetteville Shale, the industry participants were facing a very different economic environment,” said Kathy Deck, director of the Center for Business and Economic Research. “Natural gas prices were in the \$6 to \$10 range, whereas in 2012, natural gas prices hover around \$2. Despite this challenging price environment, the exploration and production companies invested even more in their Fayetteville Shale properties than their five-year plans indicated back in 2008. Our current study presents a retrospective

and shows how important the economic impact of the natural gas industry in the Fayetteville Shale was for the overall economic health of Arkansas during the national recession and recovery.”

According to the center’s 2012 report, exploration and production activities related to the Fayetteville Shale from 2008 to 2011 generated more than \$18.5 billion in total economic activity, exceeding the 2008 projections of \$14.2 billion. Total annual state employment from Fayetteville Shale activity increased from 14,500 to more than 22,000 from 2008 to 2011, higher than the 2008 projection of between 11,000 and 12,000.

Overall, from 2008 to 2011, almost \$2 billion in state and local taxes from permit fees and severance, property, income, sales and other taxes were collected as a result of Fayetteville Shale activities. This is higher than the \$1.2 billion projected in the 2008 study, following higher than projected expenditures by companies in the area and higher total employment.

The current study says that from 2004 to 2011, 4,878 drilling permits were issued in Fayetteville Shale counties by the Arkansas Oil and Gas Commission, generating fees to the state of almost \$1.5 million, and the state received more than \$90.8 million in severance tax revenues from activity in the region.

According to 2012 responses, exploration and production expenditures are projected to be lower in 2012 than in 2011 by 23.8 percent due to sustained lower natural gas prices. However, projected expenditures are still 5.8 percent higher than the level of expenditures for 2012 that companies estimated in 2008.

The report says Fayetteville Shale activities of the oil and gas industry have been important to Arkansas because:

- Average annual pay in the oil and gas extraction industry was \$74,555 in 2010, twice the average pay of all industries in the state.
- Mineral leases and royalty payments provide additional income to Arkansas residents. The study says that over the 2008-2011 period more than \$1.2 billion in mineral
- The higher average annual pay, income from leases and royalties and other factors result in higher personal incomes, which lead to larger personal expenditures, increasing sales tax collections.
- The mining, quarrying and oil and gas extraction industry had the highest growth rate in payroll employment among all industries in Arkansas. From 2001 to 2010, mining, quarrying and oil and gas extraction industry employment increased 116.8 percent, from 3,855 to 8,358 payroll employees, while overall employment in the state increased by 0.6 percent, or 6,920 employees.

“To put this in perspective, from 2001 to 2010, the state of Arkansas experienced only tepid growth in employment. Without the employment associated with the exploration

and development of the Fayetteville Shale, Arkansas would have suffered a 'lost decade' where employment at the end of the period was lower than employment at the beginning," Deck said.

Deck's research team combined information from industry participants with publicly available employment statistics and tax data to use as inputs to the IMPLAN input/output model. This widely used economic model allows the estimation of economic multipliers on direct expenditures in an economy by computing indirect (supply chain) and induced (personal expenditure) effects.

The nine Arkansas counties included in the Fayetteville Shale area by the report are Cleburne, Conway, Faulkner, Franklin, Independence, Jackson, Pope, Van Buren and White. The complete Fayetteville Shale economic impact study can be found at <http://cber.uark.edu> (<http://cber.uark.edu>).

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