

[PRINT](#) | [CLOSE WINDOW](#)

Forecast: Prepare for 'Less Worse' Economy

By Northwest Arkansas Business Journal Staff - 12/27/2010

Less worse.

No matter the industry and almost without fail, those are the two words Kathy Deck comes back to when offering a Northwest Arkansas-centric economic forecast for 2011.

Deck, the director of the University of Arkansas' Center for Business and Economic Research, should know. She's followed the fortunes of the local economy during the recently tumultuous times as closely as anyone.

Still, like the rest of the industry leaders interviewed for this forecast, Deck sounded more optimistic than at the same time last year. Most of them seem to believe that, while the heady days of 2006 are long gone, the local economy has hit bottom and begun a slow uptick.

National forecasts are similar, receiving a boost from President Obama's decision to extend Bush-era tax cuts. That was reflected in a recent release by the Federal Reserve Bank of Chicago, which upped its expectation in growth of real domestic product from 2.4 to 3 percent.

Similarly, Pacific Investment Management Co., which runs the world's biggest bond fund, revised its growth forecast, according to a Reuters report. PIMCO increased its projection of economic growth in the fourth quarter of 2011 from 2 to 2.5 percent to 3 to 3.5 percent, compared to the same period this year.

What does that mean locally? Here's what those in the know said:

Residential Real Estate

While some economic sectors in Northwest Arkansas avoided the full impact much of the nation felt during The Great Recession, the residential real estate market absorbed some punishing blows.

Proof comes in no simpler fact than membership in the Arkansas Regional MLS has plummeted from about 3,000 in 2006 to less than 1,800 in 2010. Another hit of 7 to 10 percent is expected in 2011.

There's also the fact the area's list-to-sell ratio has fallen from about 97.5 percent to 95 percent over that same span. That's a 100 percent drop.

The result is a bad news/good news scenario.

"I think another wave of foreclosures is coming," said Barry Graves, sales manager at Weichert Realtors - The Griffin Company, "which is good for buyers now."

Another positive is a flurry of recent activity. Graves said \$102 million in transactions were made in October, according to the MLS.

"I think that's pretty good for a 350,000 population area," he added.

In the end, though, any silver linings are tempered by harsh realities. What's left is cautious optimism.

"We're skimming the bottom," Graves said. "I think next year we're going to slowly start building back up."

The same can be said on a national level. According to a late-November report by Kiplinger, the Washington, D.C.-based publisher of business forecasts, declining home prices have left about 20 percent of mortgage holders owing more on their loan than their house is worth.

Employment

Also according to Kiplinger, about 8.5 million jobs were lost in 2008 and 2009, with only about 1 million added back since the start of the recovery. Those numbers, combined with the expectation only about 1 million will be added in 2011, diminish some of the optimism evident in a Labor Department report indicating business and government job advertisements rose 12 percent from September to October.

Fortunately, Deck said, Northwest Arkansas remained largely insulated from the employment woes that shook much of the country. In terms of recovery, though, local numbers likely will mirror the national ones.

"We're going to trend like the rest of the country," Deck said. "Our numbers just started out at a lower level."

Deck went on to guess unemployment will drop between 0.5 and 1 percent in Northwest Arkansas in 2011. At the October rate of 5.9 percent, the area will remain significantly higher than the "three-point-whatever" it

enjoyed "during the boom," Deck said.

And while Deck believes construction employment will continue to suffer, she saw room for growth in health services, professional services and the leisure and hospitality segments. Many of the leisure and hospitality jobs likely will come in the form of restaurant and hotel workers due to coming attractions like the Crystal Bridges Museum of American Art.

Banking

The Federal Deposit Insurance Corp. reported past-due and nonaccrual loans at the end of the third-quarter were nearly the same as at the end of 2009; the total median was 3.57 percent going into the final quarter of 2010.

Typically, the Arkansas State Bank Department considers anything above 1 percent in that category as a red flag.

But Randy Dennis, president of DD&F Consulting Group in Little Rock, said considering the rest of the country, the Arkansas banking industry is "very fortunate."

"Some banks will struggle. I think regulators will continue to watch banks very closely," Dennis said. But, "I think we'll continue to see Arkansas banks go outside the state for acquisitions."

He noted out-of-state acquisitions made in the last year by Bank of the Ozarks, Centennial Bank, Simmons First Bank and Arvest Bank.

As for in-state?

Dennis expects divestiture of branches and some smaller banks tired of trying to eek out a profit, throwing in the towel.

As for another failure: "It's always possible," Dennis said.

"We're good, but even with good you still see issues. We hope not. Everybody is doing everything they can to avoid [a failure]."

As of Dec. 16, the ASBD said it had 23 banks on its "problem" list. There were a total of 131 banks doing business in Arkansas.

Retail

The National Retail Federation had encouraging news in mid-November, announcing a fourth consecutive month of sales gains.

October's retail sales - which exclude automobiles, gas stations, and restaurants, as defined by the NRF - increased 0.3 percent seasonally adjusted over September and 2.6 percent unadjusted over last year.

The U.S. Commerce Department's numbers for the same period showed a 1.2-percent seasonally adjusted increase over September and 5.4-percent unadjusted year-over-year.

The Commerce Department totals include non-general merchandise categories such as autos, gasoline stations and restaurants.

"While spending throughout the industry was varied, it appears the fourth quarter has gotten off to a solid start," NRF chief economist Jack Kleinhenz said in the release. "October's results are a clear indicator that the economy and consumer spending continue to show marked improvement, even though we expect consumers to proceed with caution."

Wal-Mart Stores Inc., meanwhile, upped its expected earnings for fiscal 2011 as part of its third-quarter report issued in November. The new range of earnings is from \$4.08 to \$4.12 per share, up from its previous outlook range of \$3.95 to \$4.05 per share. The company's adjusted earnings per share for last fiscal year was \$3.73.

Deck said the national consensus for overall retail growth seems to be between 3 and 4.5 percent.

"That's fine and dandy," Deck said, "except when you consider the 10-year average is between 4.6 and 5 percent."

In other words, again, less worse.