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National Signs of Recovery Aside, Northwest Arkansas' Future Flat

By Northwest Arkansas Business Journal Staff - 12/26/2011

Throughout America's recent recession, state economists, business leaders and industry insiders repeated a refrain that's offered only minimal consolation during trying times.

Kathy Deck, the director of the University of Arkansas' Center for Business and Economic Research, touched on that same theme recently when asked to talk about an economic forecast for the state - and more specifically, Northwest Arkansas. Deck spoke first in terms of employment.

"Throughout the recession and the recovery, Arkansas has outperformed the United States in terms of unemployment, in terms of losses," Deck said. "We lost less."

Then came a thought that offered even less solace.

"But as the United States begins to recover, the gap between us and the rest of the country is narrowing again," Deck said. "When I run my models and try to project what employment's going to look like in 2012 and beyond, I see a flat trend from where we are now. I don't see a whole lot of recovery happening in the state.

"I don't see further net losses, but it's awfully flat. Flat means tough times for people."

Unfortunately, Deck isn't the only one who envisions a "flat" future. Those in the know in various other industries used the same word, prompting a lukewarm overall forecast. Here's a look at what they said:

Construction

Associated Builders and Contractors had not-so-encouraging news in mid-November, predicting 2012 would be slow for the construction industry.

One of the state's top industry leaders considered that to be accurate as far as Northwest Arkansas is concerned, too.

"Based on what we have seen, I think it's going to be a fairly flat year," said Bill Hannah, president and CEO of Nabholz Construction Corp. in Conway.

Hannah gauged his assessment on two factors - the activity of design firms and the number of both requests for proposals and requests for quotes.

Right now in Northwest Arkansas, there is an increase in requests, Hannah said. But, he added, the design firm activity being generated is stale.

Sam Hollis, president of Milestone Construction Co. in Springdale, said he expects work from the private sector to trend upward.

"For the past three or four years, it's been really nonexistent for everybody," he said. "I mean there has been some, but compared to six or seven years ago, everybody pulled the reins in. We're starting to get more private work."

Replacing the education work and the uncertainty swirling in the health care market are the industry's top challenges, Hannah said.

"Education, in particular, has been very good for all contractors, but that money is starting to dwindle," he said.

There is potential in manufacturing and industrial work.

"We've seen an increase in that type of work the last year and a half," he said.

Banking

Randy Dennis, president of DD&F Consulting Group in Little Rock, sounded a hopeful note when first asked to offer a 2012 forecast for Arkansas' banking industry.

"We work all over the country, and it's a delight to be in Arkansas," Dennis said. "Arkansas has done very well compared to a lot of other states."

Even so, he also acknowledged a challenging climate for financial institutions. Many Arkansas banks, Dennis said, are "burdened with liquidity."

"They have tons of cash that's earning nothing," he said. "It's going to take economic growth to move the borrowing. Right now, it's a waiting game."

Due to the conditions, Dennis said he believes banks should be "cautiously opportunistic," even as he recognized some have grown irreparably weary.

"We're seeing banks across the country raising their hands and saying, 'Take me out, Coach,'" Dennis said.

Deck agreed more mergers and acquisitions could be in the works in Arkansas, especially for smaller banks hamstrung by burdensome legislation like the Dodd-Frank Act.

Deck also said even relatively healthy banks will continue to feel the adverse effects of the real estate crash and ensuing legislation.

"I think they have already taken huge hits and swallowed the pain from the boom," Deck said. "Now it's a matter of surviving in a climate where there just isn't that much activity."

Commercial Real Estate

The commercial real estate market started picking up steam in 2011, and looks poised to keep that momentum going next year.

Butch Gurganus, a Certified Commercial Investment Member and principal at Colliers International, said suppliers of Wal-Mart Stores Inc. are leading the way in leasing office space, especially in Bentonville.

"They're all taking a little more office space than is needed right now because they plan to grow," he said.

The return of Wal-Mart's apparel division to Bentonville after two years in New York also is having an effect, he said. Employees who'd remained in Northwest Arkansas and worked out of their homes are now looking to lease office space.

Gurganus said the big surprise has been increased interest in industrial space.

Potential buyers like HVAC and construction-related businesses are touring warehouses and other industrial properties, he said.

"They may not have done the deal yet, but two years ago, there were zero tours," he said.

Most of the commercial properties being sold are bank-owned, and Gurganus said several more distressed properties are likely to revert to bank ownership in the coming year.

With the exception of a few targeted projects like Cabela's, he doesn't foresee much commercial construction next year.

Overall, Gurganus expects 2012 to be a good year for people who aren't overleveraged, since there are plenty of bargain properties available.

"And that can happen because the banks are wanting to lend money again," he said.

Retail

Kiplinger, the Washington, D.C.-based consumer finance publisher, said in a Dec. 14 report that retail sales growth will slow to about 6 percent next year from this year's 8 percent.

"Even if the payroll tax cut is extended, which we expect, consumers will keep a tighter grip on their wallets in 2012," the report states. "With wages stagnant, disposable income is unlikely to grow enough to keep up with this year's sales growth, which appears to be winding up with a flourish this holiday season."

Claudia Mobley, director of the Center for Retailing Excellence at the University of Arkansas, said as long as shoppers feel positive about the direction the economy's moving in, sales will be strong.

"Going into an election year, people tend to get optimistic and think, 'Things are going to get better; I can go ahead and spend my money.' That's a possibility," she said. "But if something unforeseen happens, some economic or natural disaster, for instance, that could all go by the wayside."

The biggest question facing today's retailers, she said, is how they will combine technology with their bricks and mortar as consumers grow more adept at using technology such as mobile devices in their everyday lives.

"I read an article that said people use the store as a showroom to find an item they like, and go home and buy it online," Mobley said. "If that's the case, retailers need to have an online presence."

She said it's very easy for even a small retailer to have an e-commerce site.

"There's very little investment for that," she said. "If you've already got a store, you have inventory and a place to ship it from."

Mobley said the basics of retailing remain the same: providing quality goods and excellent customer service.

"What's new is the ways that we reach people and keep up with their needs and wants," she said. "Those are constantly changing."

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