REGIONAL
ECONOMIC BRIEFING

An Examination of Current Economic Conditions in the Nation and in Arkansas

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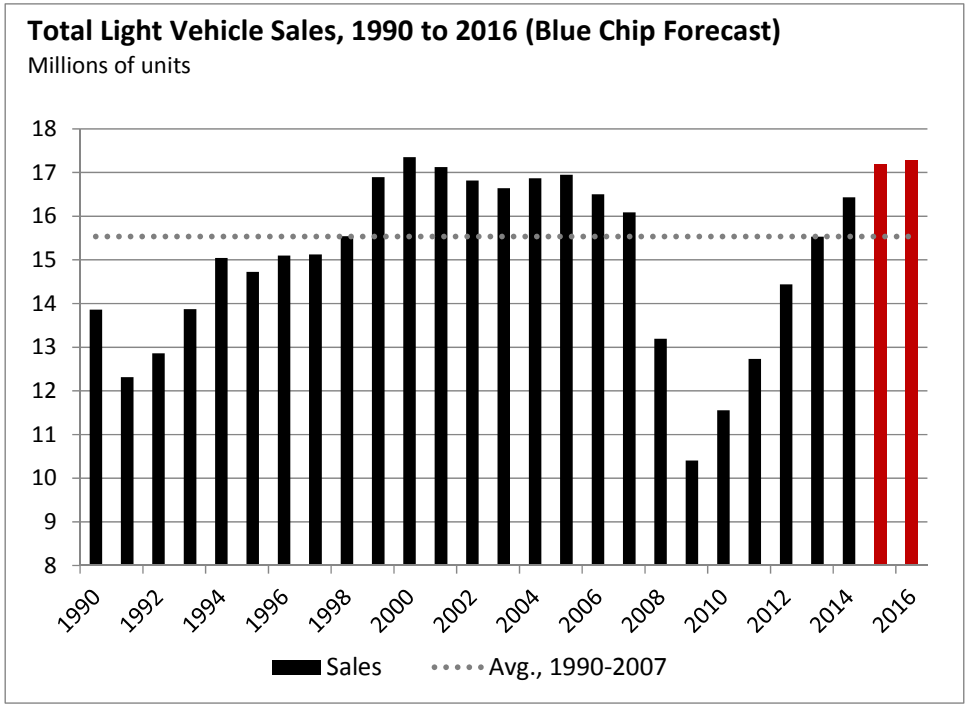
Disclaimer

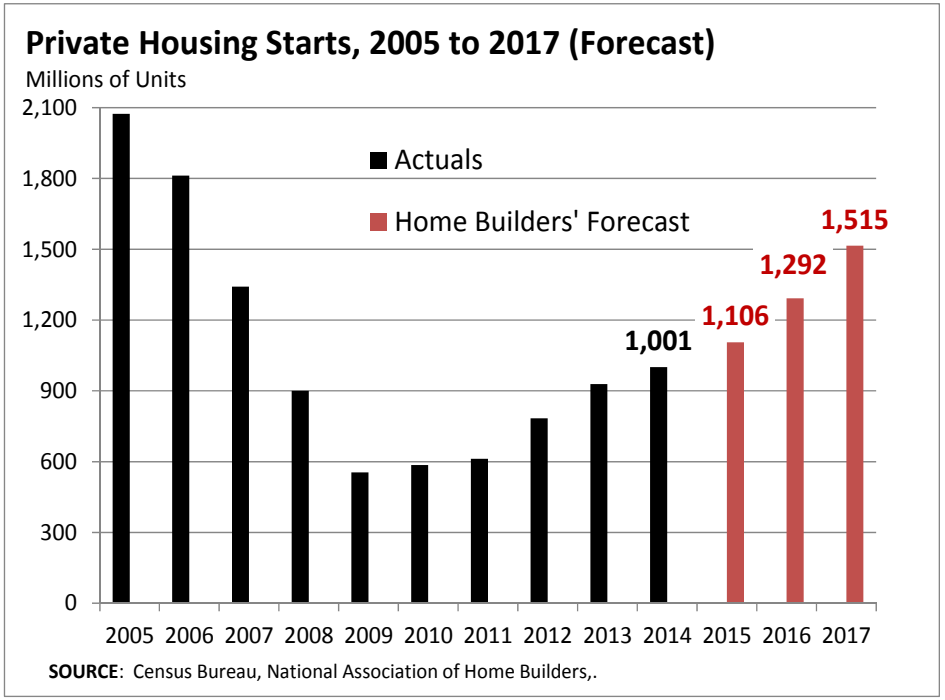
The views we will express are our own and do not necessarily reflect the positions of the Federal Reserve Bank of St. Louis or the Federal Reserve System.

A Brief on the U.S. Economy

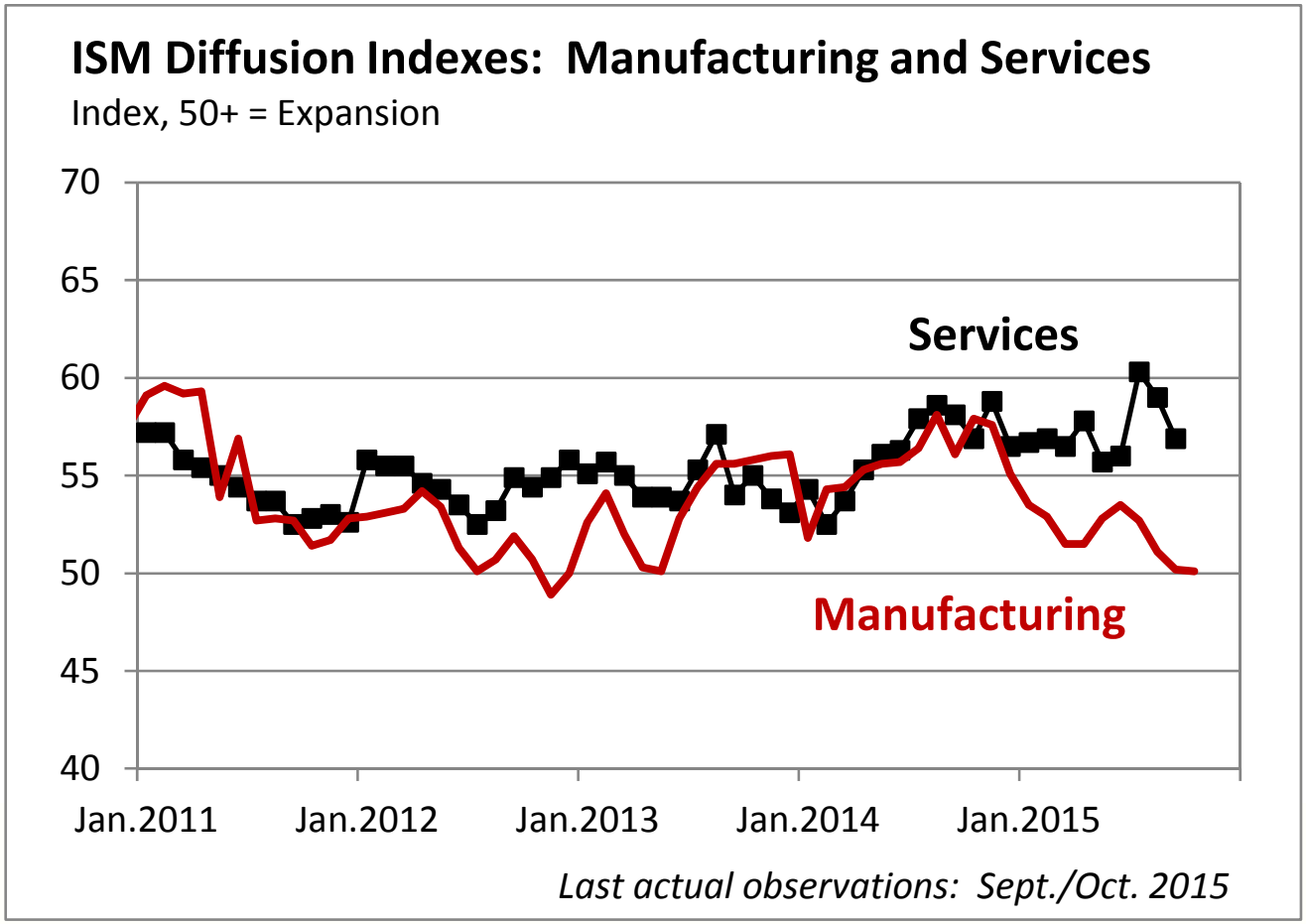
- The economy is into the seventh year of expansion.
- The song remains the same . . . Modest growth, low inflation, an extremely easy monetary policy.
- Sources of strength: Consumers, labor markets, housing, state and local governments.
- Areas of concern: Manufacturing, energy, and farm sectors; increased economic uncertainty.

Consumer spending on big-ticket items remains strong.





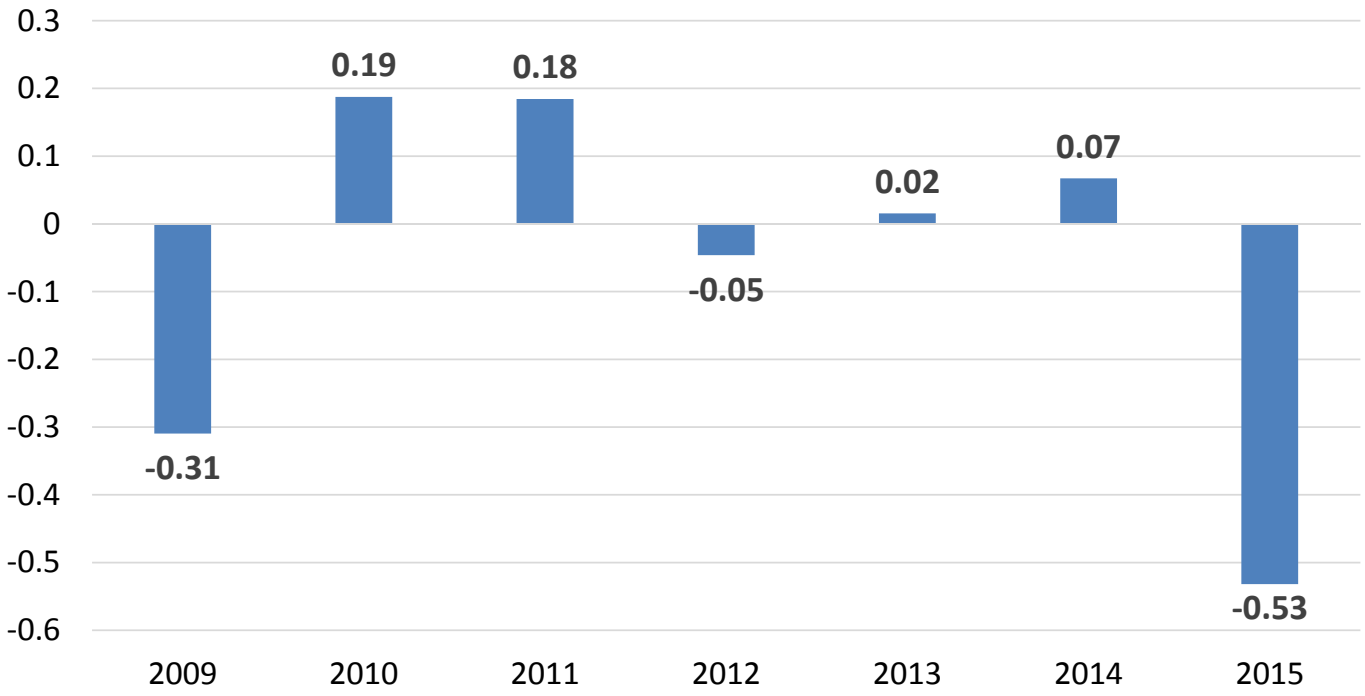
The services sector is exhibiting stronger growth than manufacturing.



Business investment has borne the brunt of the plunge in crude oil prices.

Estimated Direct Contribution to Real GDP Growth from Oil Exploration and Mining Activity

Percentage points



SOURCE: Author's calculations using data from the Bureau of Economic Analysis

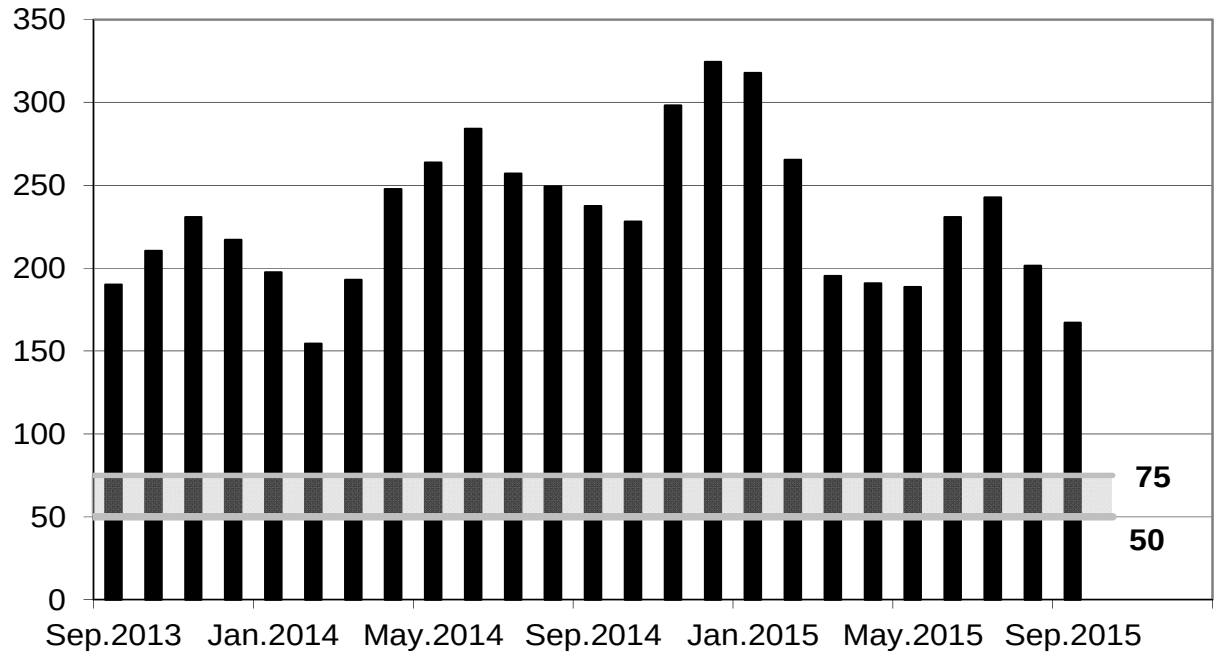
U.S. Labor Markets

- Healthy job growth and a falling unemployment rate indicate solid labor market conditions.
- Many have fretted about weak nominal wage growth, but real wage gains have been solid.
- A rebound in labor productivity growth is necessary for continued real wage gains.
- Many have also fretted about the recent slowing in job growth, but this was inevitable.

Employment gains are well above the rate required to keep the unemployment rate constant.

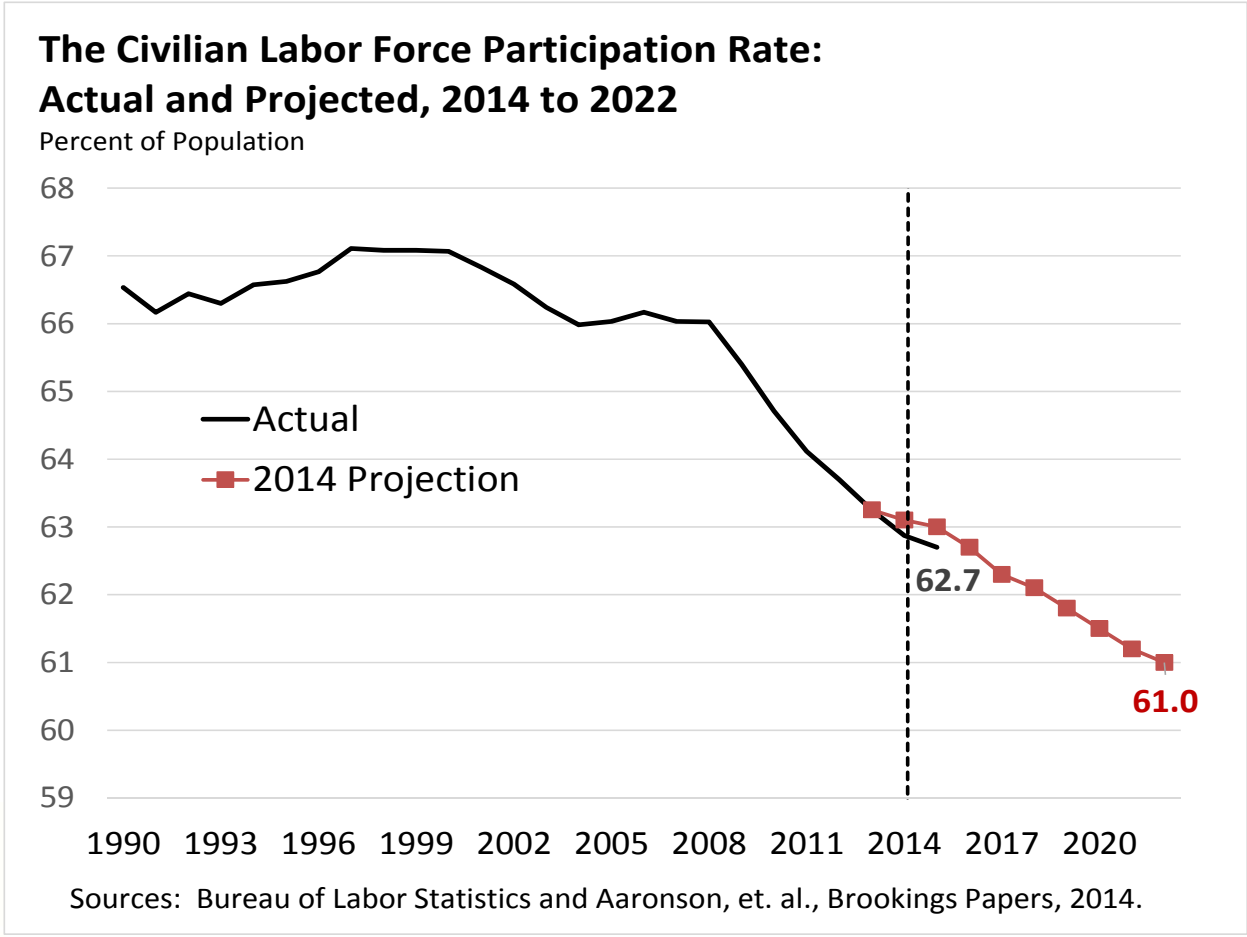
Monthly Change in Nonfarm Payroll Employment and an Estimate of the Trend Growth of Employment

Thousands, 3-Month Averages



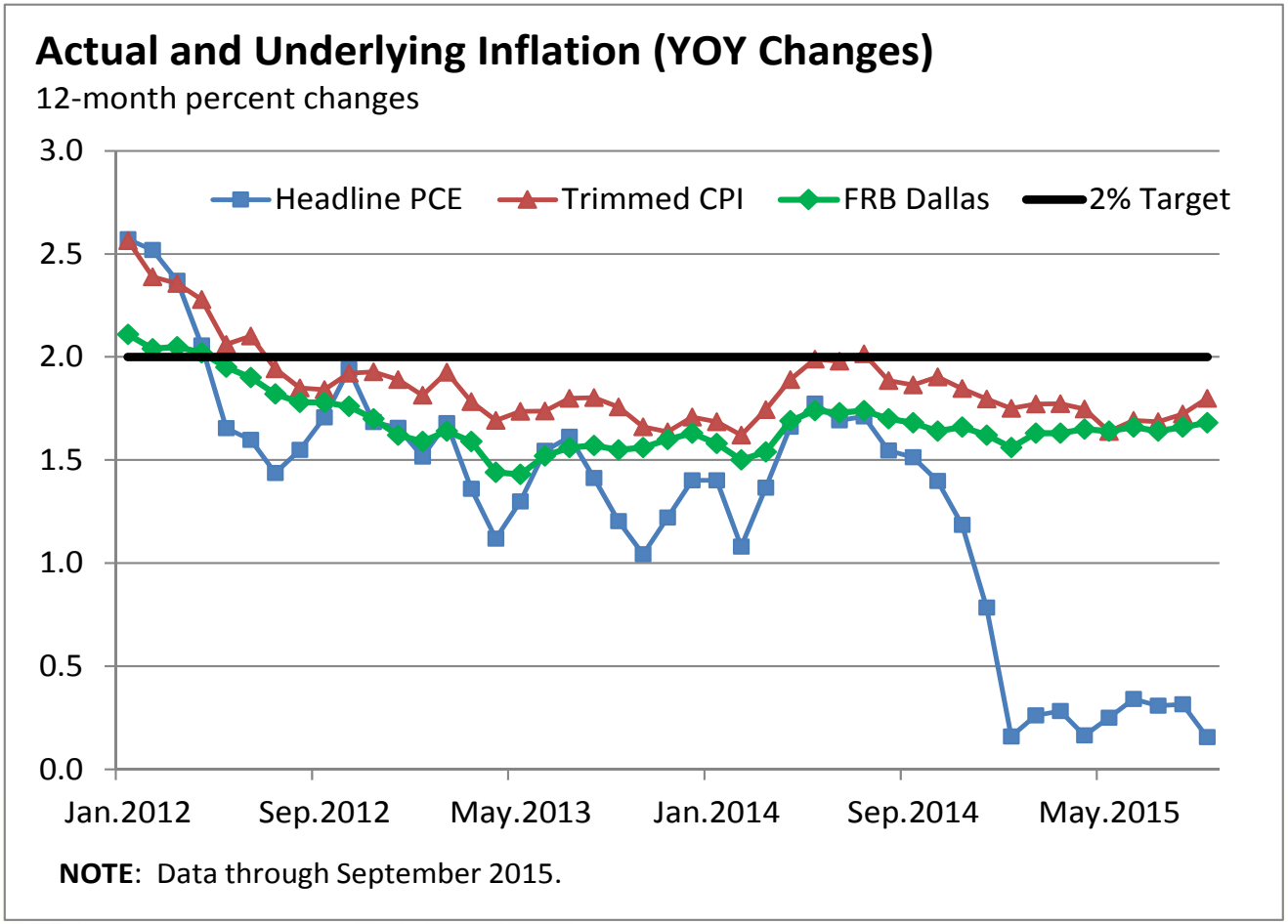
NOTE: Actual data through September 2015. Trend estimates from Aaronson, et. al, 2014.

The participation rate peaked in 2000 and it is projected to keep falling over the medium term.



Sources: Bureau of Labor Statistics and Aaronson, et. al., Brookings Papers, 2014.

A yawning gap! Headline inflation is temporarily low because of falling oil prices.



Will the FOMC lift-off in 2015?

- The majority of FOMC participants still see lift-off by year's end. Markets are less sure.
- The FOMC wants to see sustained real GDP growth and continued improvement in labor market conditions.
- The FOMC also wants to see inflation returning to the target (2%), though perhaps not immediately.

The Near-Term Outlook: Good Times, Bad Times

- Trend-like growth (2% to 2.5%). Consumer spending and housing activity are sources of strength.
- Manufacturing growth positive but relatively weak. A pickup in global growth will help.
- Forecasters expect job gains to be well above 100,000, which will push the unemployment rate lower.
- Inflation returns to underlying levels in 2016. Oil prices a wildcard.

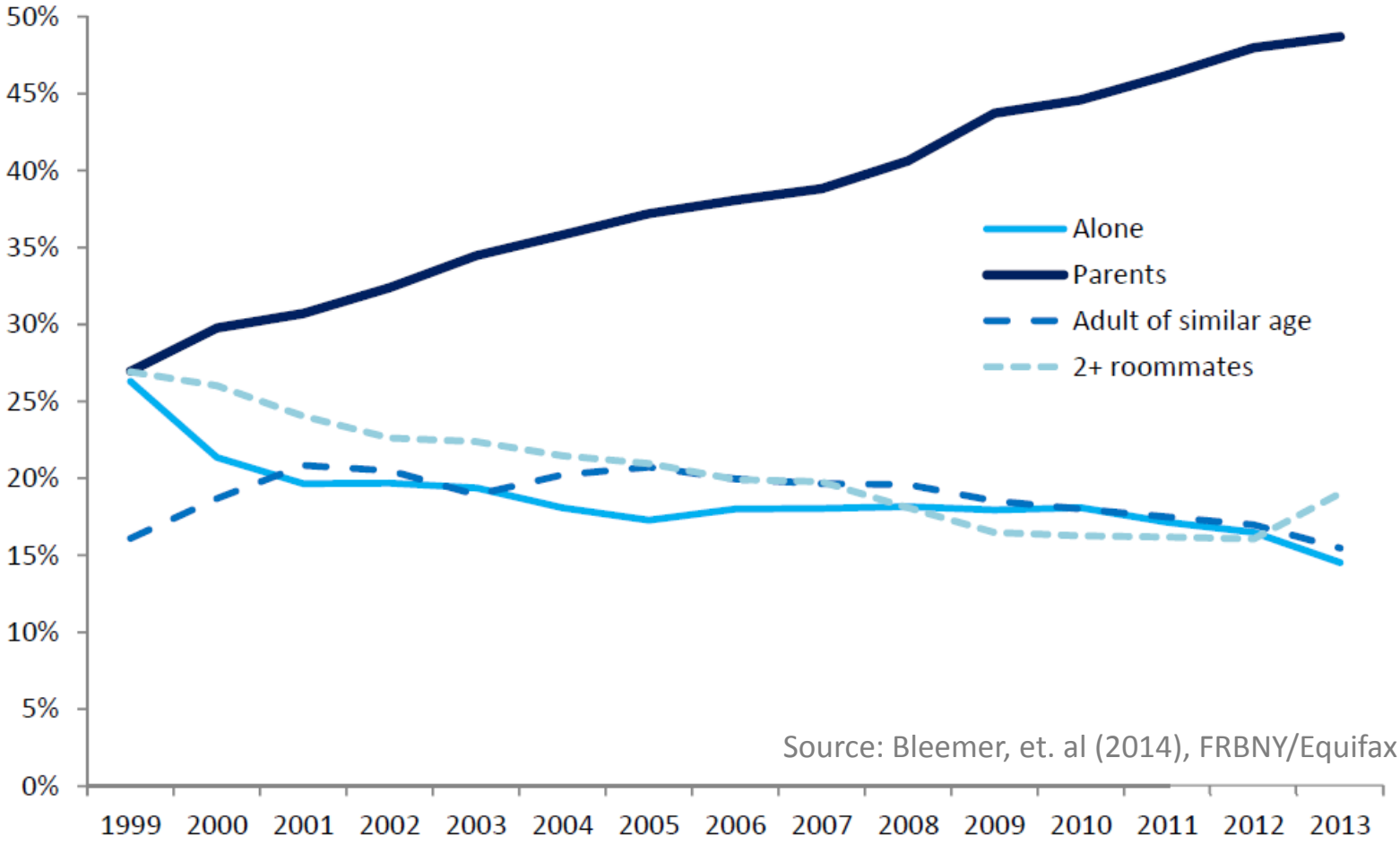
Risks to the economy and alternative views of the outlook.

- "We are not expecting the unexpected!"
- A hard landing in China. Global growth slows further, dollar strengthens, oil and commodities sell off.
- The Fed lift-off is viewed as a positive "news shock" . . . the markets begin to worry that the Fed is behind the curve.
- Froth in various asset markets.

“Leaving the nest” is more common in Arkansas than in the nation

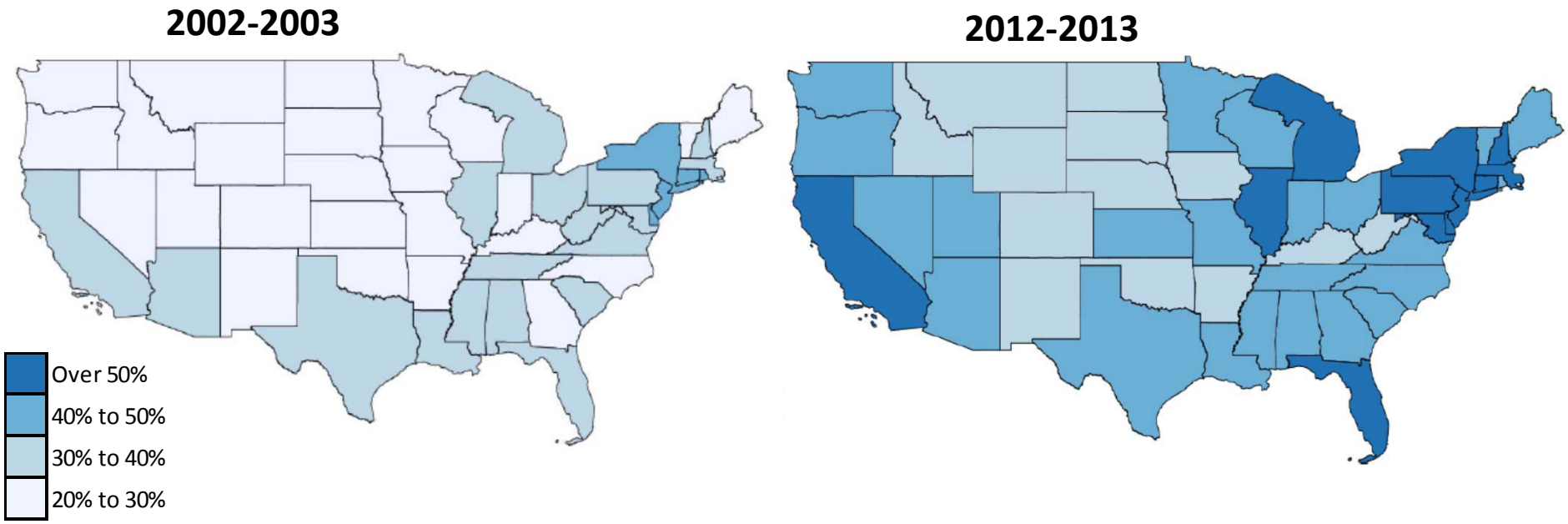
Charles S. Gascon
Regional Economist

Almost half of 25 year olds are living with their parents



Parental co-residence increased 49 of the 50 States over the decade

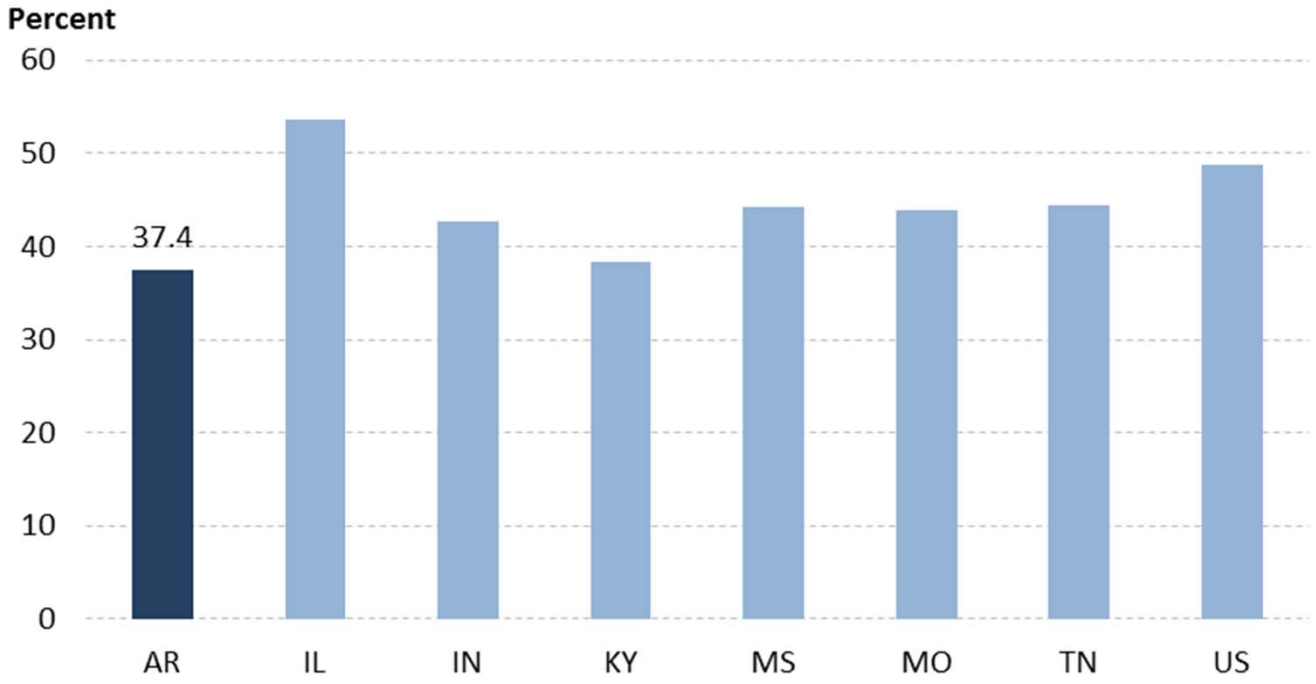
Percentage of 25 year olds living with parents



Source: Bleemer, et. al (2014), FRBNY/Equifax

Arkansas has the lowest rate of co-residence among states in the District

Percentage of 25 year olds living with parents in 2012-2013



Source: Canon and Gascon (2015), FRBNY/Equifax

Four factors driving the upward trend and cross state differences:

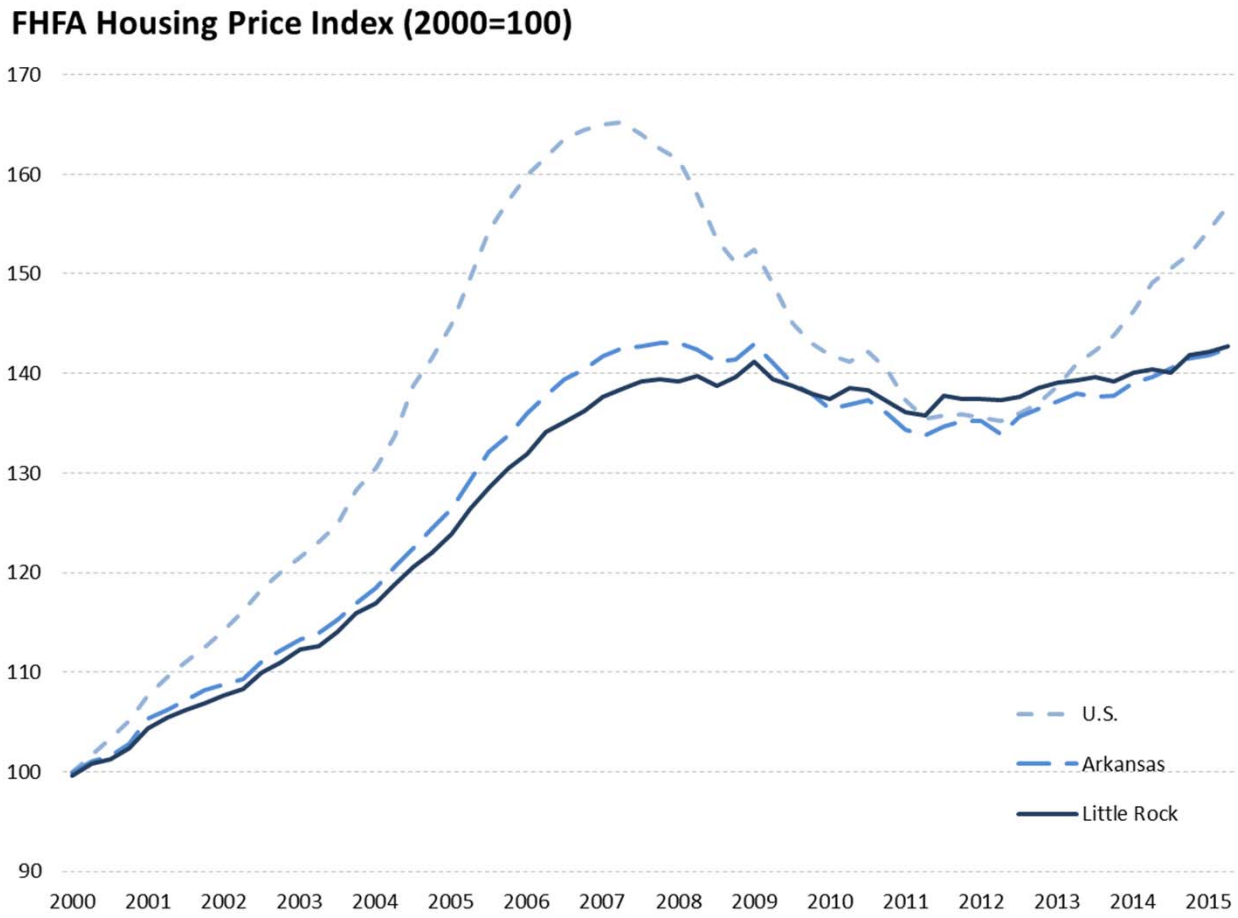
- Demographics- Marriage
- Housing market paradox
- Labor markets
- Student debt

Marriage rates are higher in Arkansas

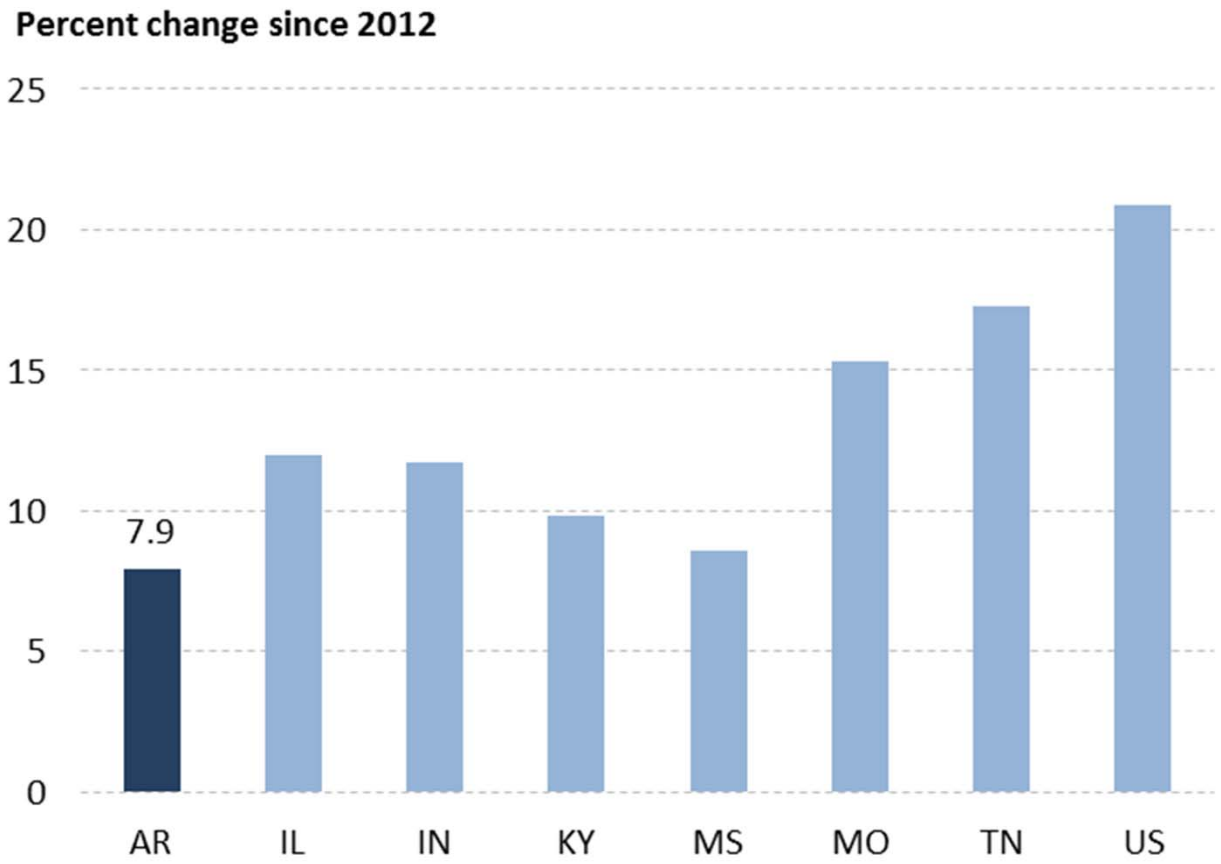
	Arkansas	United States
Marriage Rate		
Men	55%	52%
Women	49%	48%
Median Age at First Marriage		
Men	26	28
Women	24	26

Source: Pew Research/ 2008 ACS

What is keeping first time buyers our of the market?



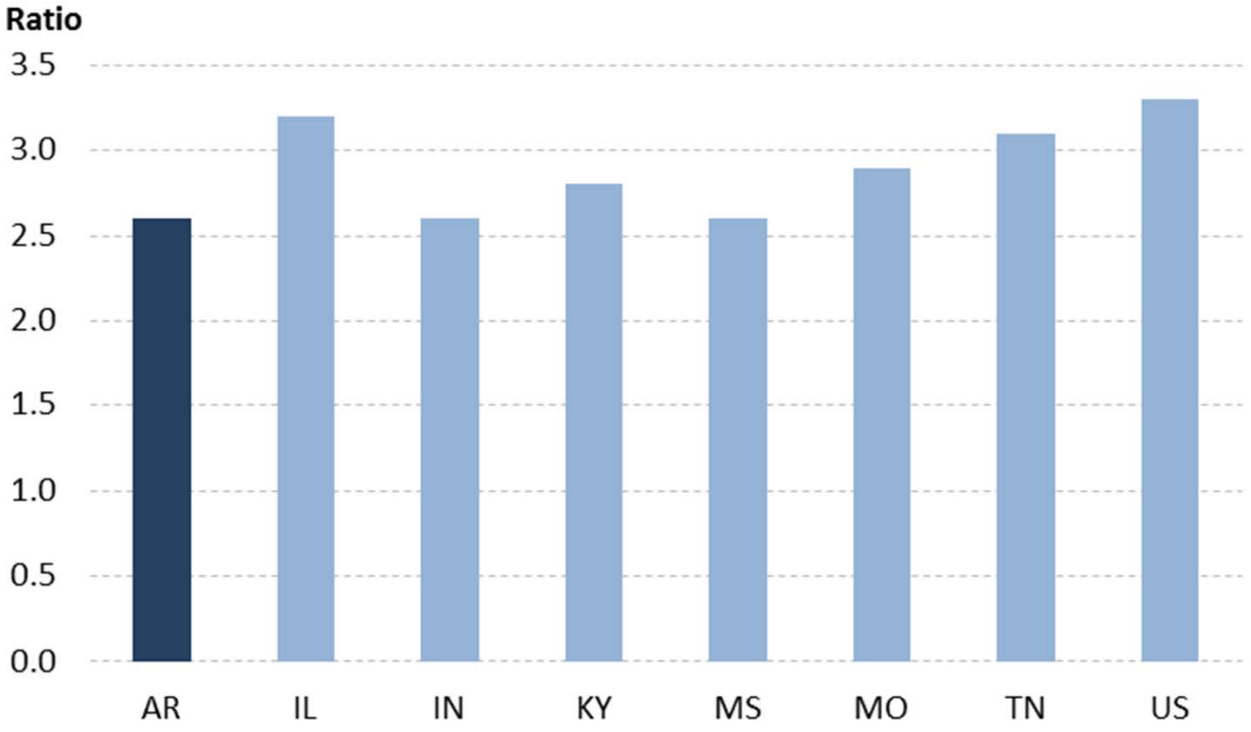
…and slower than regional house price growth



Source: Canon and Gascon (2015), FHFA

Homes are more affordable in Arkansas

Median house price to median household income



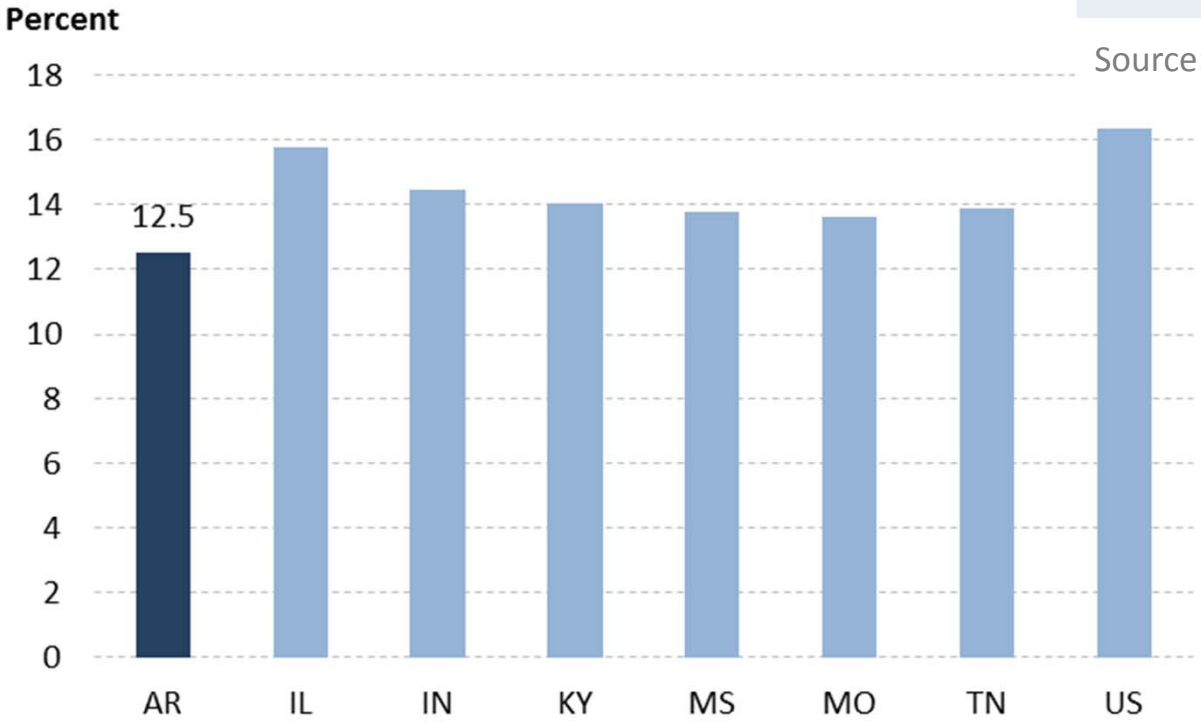
Source: Canon and Gascon (2015)

Rent growth is slower and overall housing costs are lower

Y/Y Rent Growth (2015:Q3)	
Little Rock	2.4%
U.S Average	4.2%

Source: REIS

Share of income spent on housing



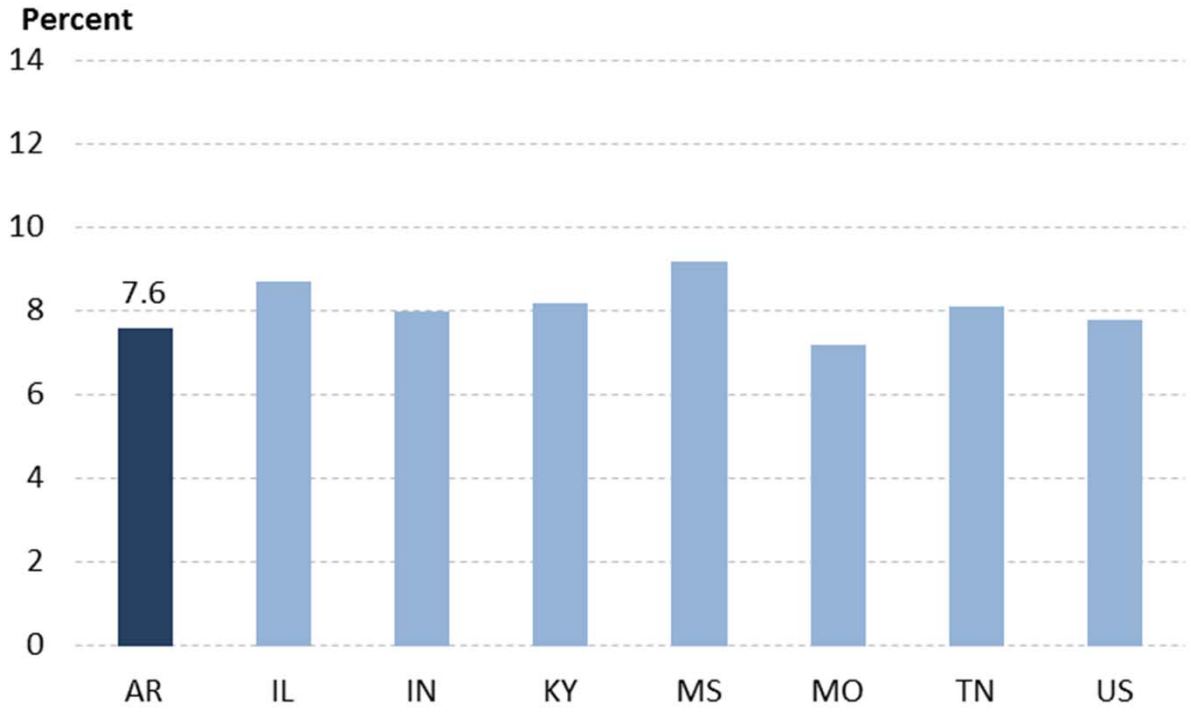
Source: BEA and authors calculations

Labor market for recent college graduates has deteriorated since 2001

- Underemployment of recent graduates has risen since 2001
- The share working "good high paying" jobs not requiring a degree has dropped sharply since 2000
- The share of working part-time has increased steadily since 2001

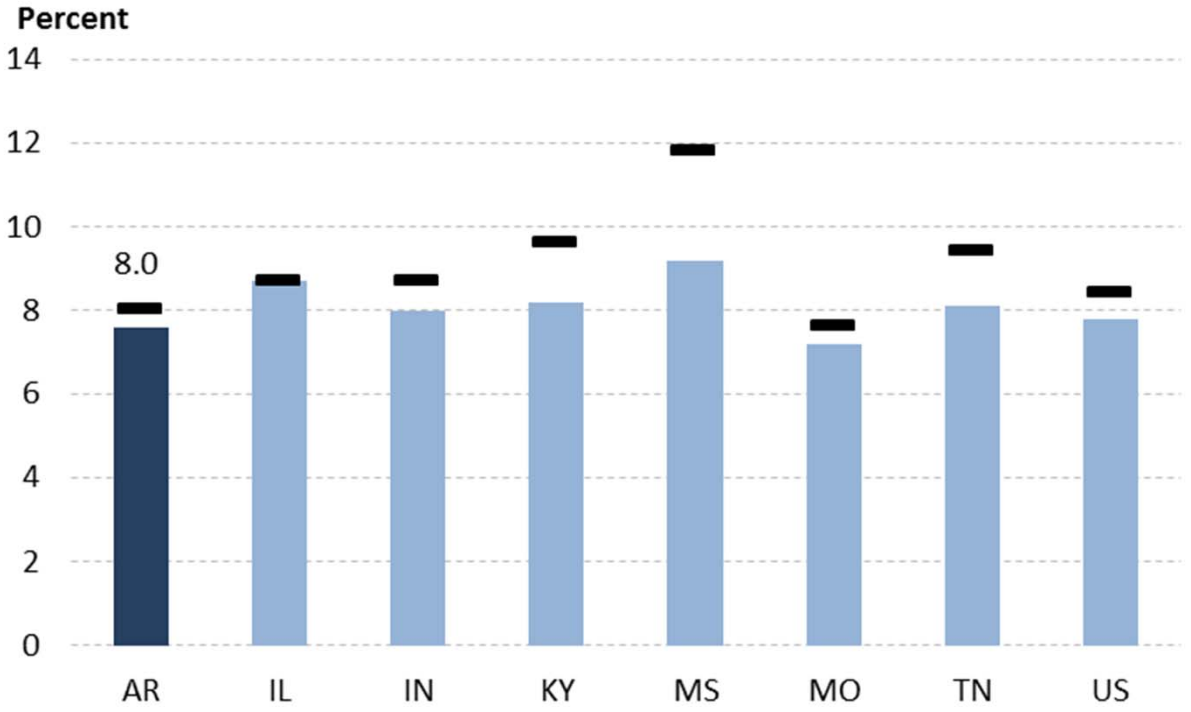
Source: Abel et.al (2014)

Arkansas post-recession unemployment rates: one of the lowest in the District



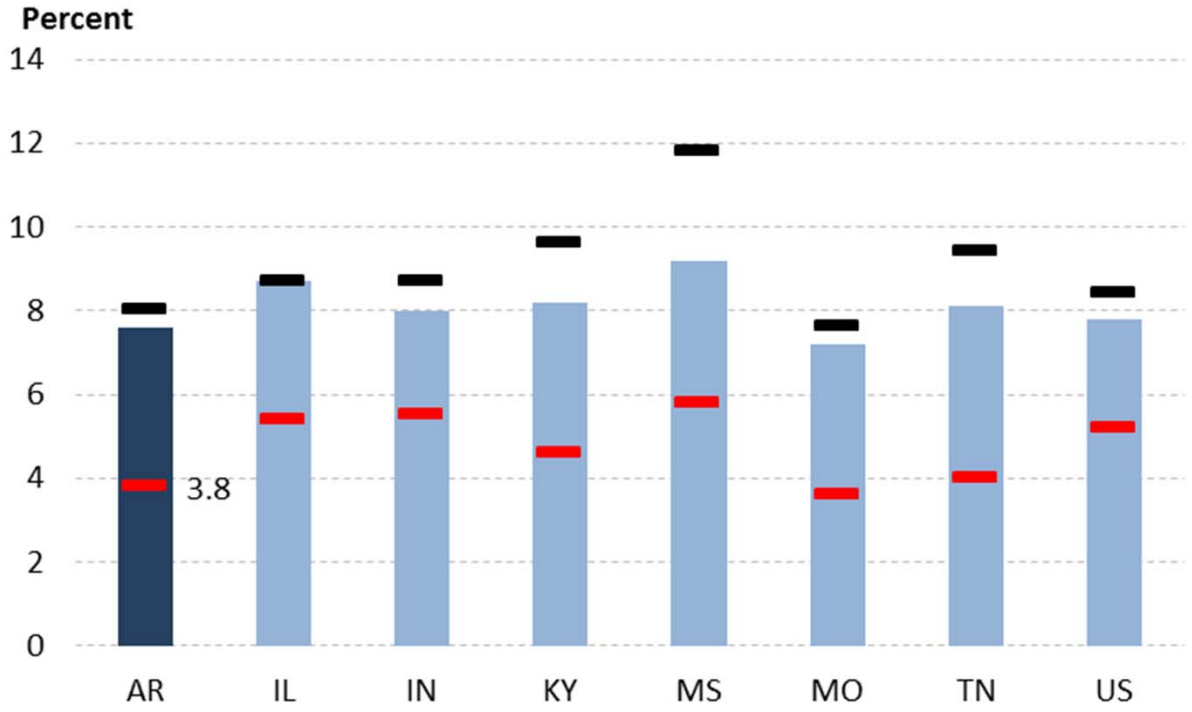
Note: 2011-2014 Average

..and the youth unemployment rate is only slightly higher



Note: 2011-2014 average, workers age 21 to 27

Despite difficulties, recent graduates experience better labor market outcomes



Note: 2011-2014 average, workers age 21 to 27

Impact of student debt

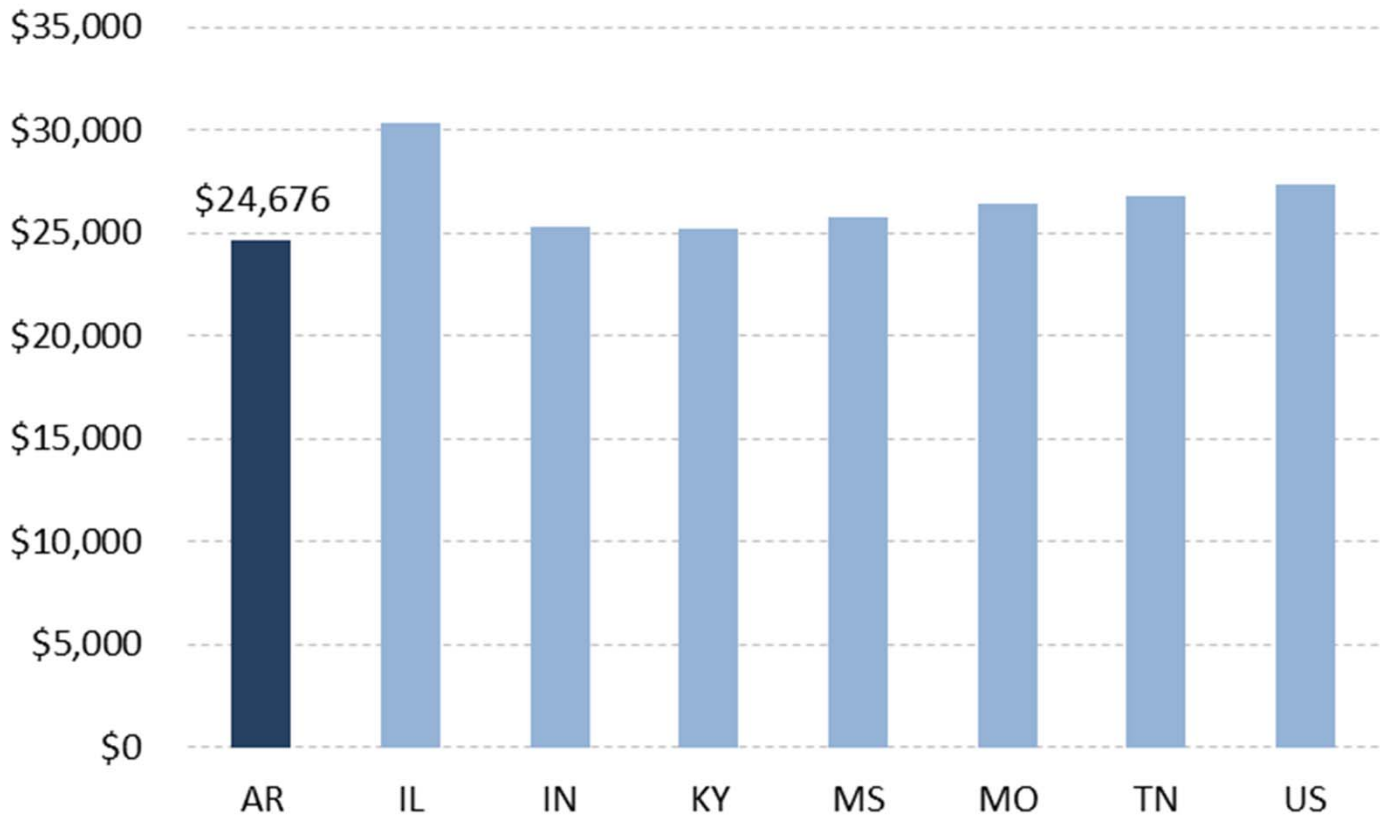
- Debt leads to *delayed* home purchases
- Debt increases the probability of co-residence
- Delinquency rates on student debt are very high…reducing credit availability

Student debt balances per capita are higher in Little Rock

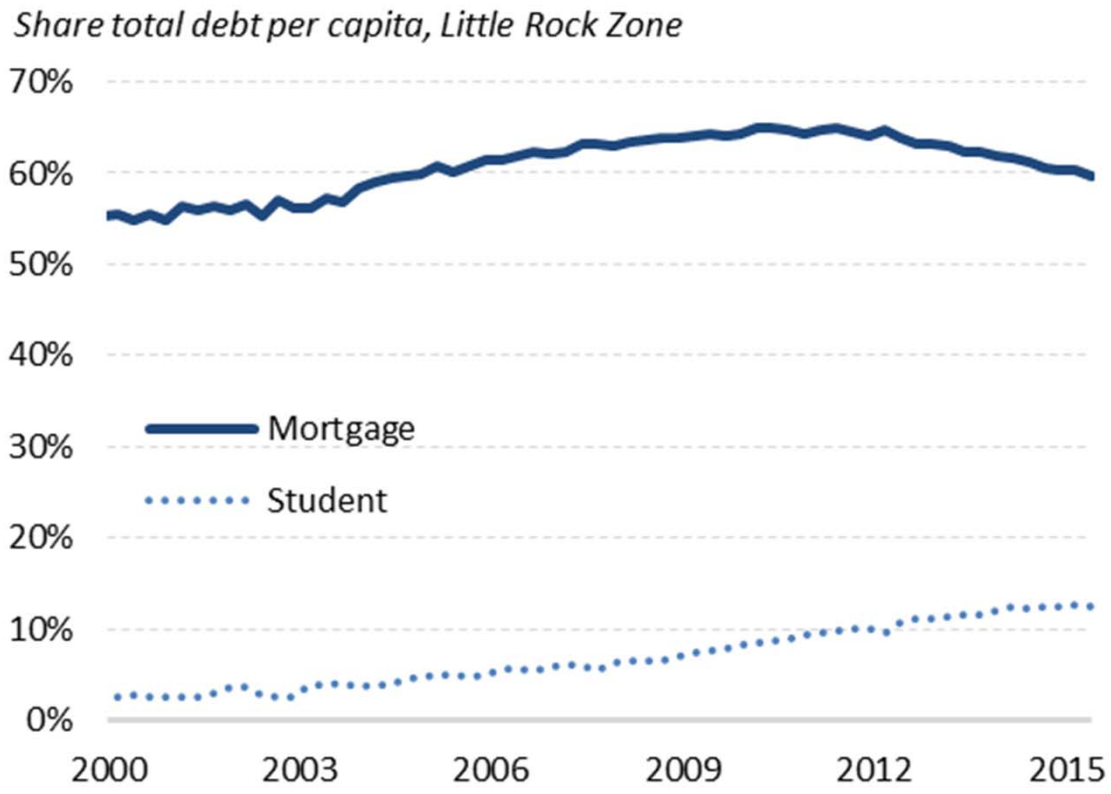
	Little Rock	Arkansas	United States
All Ages	$5,989	$2,669	$4,817
Age 25 to 34	$13,534	$9,213	$11,105

Source: FRBNYCCP/Equifax

Debt per borrower (age 25-34) is even higher…but it doesn't average $100k



Borrowers replacing mortgage for student debt, and it's not necessarily a bad thing.



Source: FRBNY Consumer Credit Panel and Equifax.

Key points

- Around half of 25 year-olds are living with parents
- It's probably not due to the recession.
- Rates are lower in AR for a variety of reasons.
- It's not necessarily a bad thing for the economy in the long-run.