**Economic and Revenue Conditions in Arkansas: June 2017 Update**

**DFA-Economic and Tax Research**

**June 2017**

**Economic Indicators Update**

1. Arkansas Unemployment Rate 3.4% (May) vs. 4.3% at the national level
2. Arkansas Payroll Employment growth (2016 annual Y/Y and May monthly)
   1. Total Nonfarm Employment +1.5%, May at +1.8%
   2. Private Sector +1.9%, May at +2.4%
   3. Government -0.1%, May at -0.6%
   4. Core Sectors +1.9%, May at +2.0% (matching national growth)
   5. Lagging sectors are Retail, Govt., Energy, and Information
3. Personal Income Y/Y Percent change, except as noted
   1. Total Personal Income 2016: +3.2%
   2. Wage and Salary Income 2016: +4.1%
   3. Per Capita Income 2016: +2.8%
   4. Arkansas Per Capita Income as percent of U.S. is 79.4%
   5. Arkansas cost of living as percent of U.S. avg. estimated at 87.5%
4. Inflation is moving above the 2.0% rate by most measures and forecasts
   1. CPI-All Items up 1.3% in CY 2016 with forecast of 2.3% in 2017
   2. CPI-Excluding Food and Energy up 2.2% in CY 2016 and forecast of 2.1% in 2017
   3. But CPI in May monthly results declined
5. Other Metrics
   1. The state population reached 3.0 million in 2017
   2. Prime working age population age 25-54 at 1.14 million, with fractional percentage growth
   3. Estimated labor force participation at 56% (2016)
   4. Percentage of families in poverty 14.2% (+/-0.3) Census estimate
   5. SNAP (food stamp) Households receiving assistance at 170,000 in Q1 2017, down

-14.3% Y/Y and second highest annual decline rate among the states

* 1. Average annual wage income at $41,571 in 2016 Census of Covered Employment and Wages
     1. Projected at $42,523 in CY 2017 (+2.3%)
     2. Projected at $44,228 in CY 2018 (+4.0%)

**Revenue Forecast**

1. Revised forecast issued May 2nd in accordance with state law
   1. A forecast cut of $70 million for FY 2017 was indicated and based on weak revenue collections in Sales Tax, Corporate Income Tax, and projected payout rates in Individual Income Tax refunds in April and early May.
   2. A forecast cut of $29 million for FY 2018 was indicated or $43 million less than the approved Revenue Stabilization Act (RSA) budget level during the regular session. This budget cut applies to a portion of category “B” funding in RSA for FY 2018.
   3. The next forecast update in early December is mandated prior to the next fiscal session in 2018, unless issued earlier by the state CFO.

**Revenue Update**

1. Net Revenues in May 2017 were +$57.8 million above the revised forecast of May 2nd, 2017 but remains below the original forecast by $40 million YTD.
2. All major categories of collections were above forecast and individual income tax refunds were less than expected in May.

**Status Summary**

A variety of current economic indicators show growth rates typical of long economic and business expansions after a slow but continuous recovery from a deep national recession. Wage income growth in Arkansas is accelerating at about the national rate and rivals some of the best years for growth in past expansions. Although taxable consumption as Sales and Use Tax collections has been below expectations in FY 2017 and anomalous compared to income gains, a return to normal income-spending relationships and more consistent consumption growth is expected.

Wage inflation is implied by very low unemployment rates but at varying degrees according to skill levels and occupations. For the general labor force, the broader U-6 definition of unemployment is still high. That alternative unemployment rate at the state level was 7.2% in Q1 2017 and 8.4% at the national level in May estimates. Significant wage inflation is not yet evident in broad indicators. Highly skilled sectors are already observing wage inflation from competitive hiring.

Consumer goods and services inflation is moving higher after a long period of modest inflation in a period of modest global economic recovery in recent years. Growth in total CPI inflation will be subject to volatility in energy and food prices plus the rate of emerging wage acceleration in a prolonged economic expansion. Extended expansion is likely with lower volatility in energy markets, moderate housing recovery, and debt reduction since the financial crisis.