

Current Economic Conditions in the Eighth Federal Reserve District

Little Rock Zone

March 19, 2008

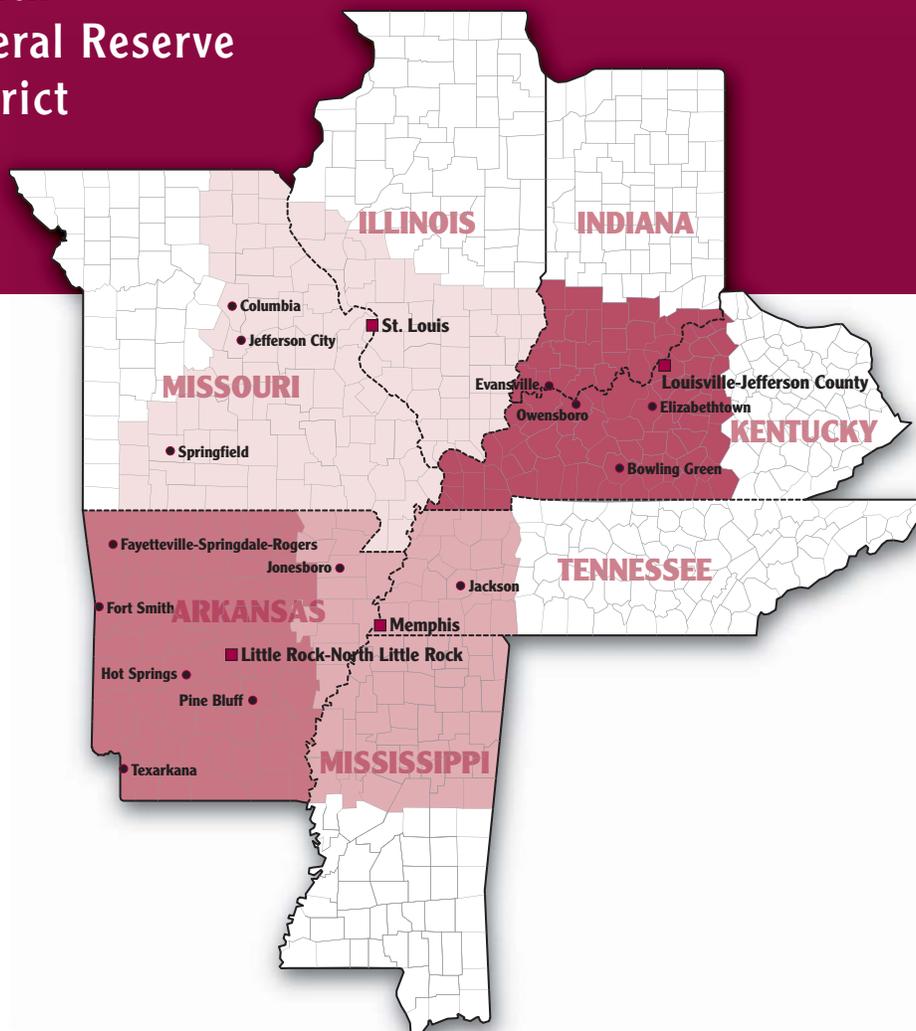
Prepared by the
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Federal Reserve Bank of St. Louis

CRE8

Center for Regional Economics—8th District



Eighth Federal Reserve District



This report summarizes information on economic conditions in the Little Rock zone of the Eighth Federal Reserve District (see map above), headquartered in St. Louis. Separate reports have also been prepared for the Louisville, Memphis, and St. Louis zones and can be downloaded from the CRE8 web site (research.stlouisfed.org/regecon/).

The first section of this report summarizes information provided by various contacts within the District and is similar to the type of information found in the Fed's Beige Book (federalreserve.gov/fomc/beigebook/2008/). The period covered by this section coincides roughly with the two Beige Book periods immediately preceding this report. The second section includes government-provided data for Arkansas and the metro areas of the Little Rock zone. These data are the most recent available at the time this report was assembled.

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Little Rock Zone Report—March 19, 2008

Economic conditions in the Little Rock zone were mixed. The residential housing markets remained sluggish, but commercial and industrial real estate markets have remained relatively robust. Problems in the housing sector have shown signs of spilling over into banking, with a softening of loan demand reported. The consumer spending outlook was mixed. Manufacturing employment has been expanding somewhat, while service sector employment has weakened. Agriculture and natural resource extraction have generally been bright spots in the Arkansas economy.

Consumer Spending

Retail sales for January and early February were mixed among general retailers and car dealers in the Little Rock zone. One-third of the general retailers and half of the car dealers surveyed indicated that sales were down compared with last year, while one-third of each group reported that sales were up. Among general retailers, half noted their sales levels met their expectations, while half noted their sales levels did not. Among car dealers, 83 percent noted that used car sales had increased relative to new car sales. Two-thirds of the respondents reported recent increases in rebates and incentives.

About 33 percent reported more rejections of finance applications, but none of the contacts reported more acceptances. About 17 percent of the general retailers and half of the car dealers reported that inventories were at desired levels, while 50 percent of the general retailers and the other half of the car dealers reported that inventories were too high. One-third of the general retailers reported that inventories were lower than planned. The sales outlook for March and April was generally positive among general retailers and mixed among car dealers.

Manufacturing and Other Business Activity

Manufacturing in the Little Rock zone expanded slightly during the first quarter of 2008. Firms in food manufacturing, oil and gas field machinery manufacturing, and sanitary paper product manufacturing reported plans to open new facilities and hire workers. Firms in transportation equipment manufacturing and fabricated metal product manufacturing reported plans to lay off workers. One firm in machinery manufacturing announced it will close a facility in the zone. The service sector showed signs of weakness, with job losses reported in educational services.

Real Estate and Construction

Little Rock home sales in 2007 were down 15 percent from 2006. Sales in January 2008 were down 13.5 percent from

January 2007. Commercial and industrial development continued to expand. The industrial vacancy rate in Little Rock declined in the third quarter of 2007. In addition, both downtown and suburban office vacancy rates declined. Through November, year-to-date commercial construction permits in Little Rock were up more than twofold from the same time last year. Tighter credit conditions were expected to exacerbate the commercial inventory situation in northwest Arkansas.

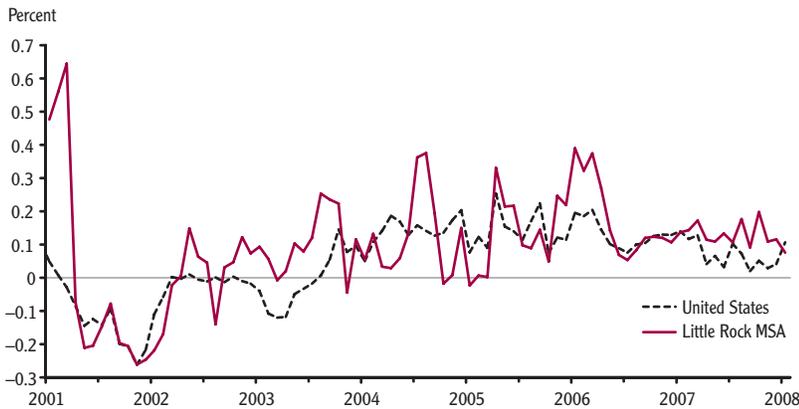
Banking and Finance

Banking conditions in the Little Rock zone deteriorated during the first quarter of 2008. Nearly all contacts reported continued softening in demand for consumer loans. Reports on business loan demand ranged from unchanged to slightly weaker. Contacts indicated that demand for mortgage loans continues to be weak. Over half of the contacts reported tightening credit standards on all loans, citing an uncertain economic outlook and a reduced tolerance for risk as reasons for the change. All contacts reported little to no change in deposits.

Agriculture and Natural Resources

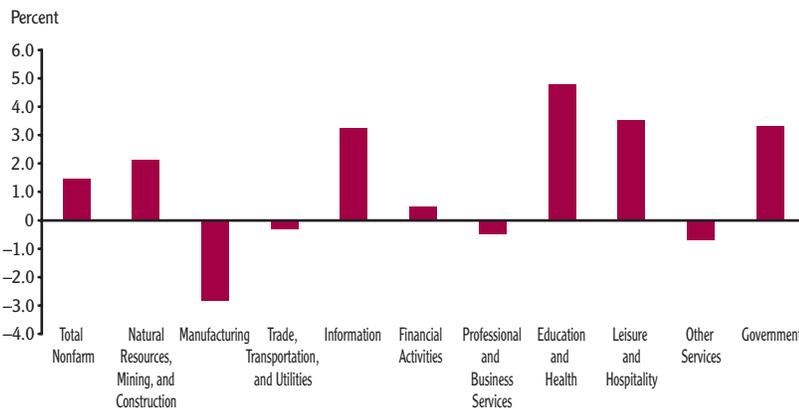
The total value of all field crops in Arkansas rose by 32 percent from 2006 to 2007. The increased values mostly reflect higher prices of major crops in 2007 than in 2006, especially corn (37 percent), soybeans (53 percent), winter wheat (41 percent), and sorghum (49 percent). Total production volume increased for corn, sorghum, and winter wheat. Strength in row crop prices has boosted land prices and farm equipment sales. In contrast, bales of cotton ginned in Arkansas were down almost one-quarter in 2007 relative to 2006. The timber industry in south central Arkansas is suffering from a serious downturn, with the cost of harvesting timber exceeding the sales price. The Fayetteville Shale play continues to have a very positive impact on the central Arkansas economy, with ripple effects boosting sales for both industrial suppliers and retail service providers.

Nonfarm Payroll Employment Growth 3-Month Average, SA, January 2001–January 2008



In 2007, payroll employment growth in the Little Rock MSA was stronger than for the nation as a whole. The most recent estimates indicate that the number of jobs in Little Rock increased by 5,200, or 1.5 percent, during the year. (See the table at the top of the final page, which provides recent benchmark revisions of employment data.) In recent months, however, Little Rock employment growth has been weaker than for the country as a whole. Over the three-month period ending in January 2008, Little Rock monthly employment growth averaged 0.07 percent, while U.S. employment growth averaged 0.10 percent.

Little Rock Employment Growth by Sector Year/Year Percent Change, January 2007–January 2008



Between January 2007 and January 2008 employment growth in the Little Rock MSA was very strong in several sectors. According to the most recent estimates, employment growth exceeded 3 percent in education and health, leisure and hospitality, government, and information. The natural resources, mining, and construction sector also grew at an above-average rate over the 12-month period. Countering these gains was the nearly 3 percent decline in the number of manufacturing jobs, primarily in durable goods industries.

Little Rock Zone—MSA Employment and Unemployment

Nonfarm payroll employment percent change,
January 2007–January 2008

	Nonfarm payroll employment percent change, January 2007–January 2008			Unemployment rate December 2007
	Total	Goods producing	Service providing	
Little Rock	1.47	-0.69	1.79	4.6
Fayetteville-Springdale-Rogers, Ark.	0.93	-4.04	2.32	3.9
Fort Smith, Ark.	1.22	-4.48	3.56	5.6
Texarkana, Ark.-Tex.	1.44	-3.95	2.30	4.7
United States	0.89	-1.48	1.35	4.8

SOURCE: Bureau of Labor Statistics.

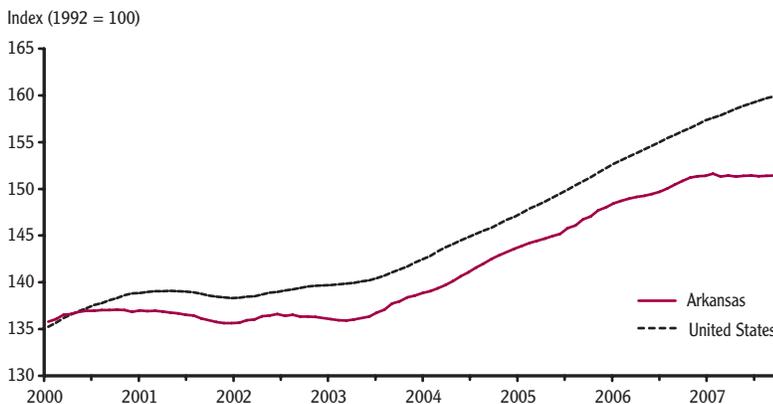
Little Rock Zone—MSA Housing Activity

	Total building permits, units year to date		House price index, percent change, 2007:Q4/2006:Q4
	January 2008	Percent change	
Little Rock	209	-14.7	3.85
Fayetteville-Springdale-Rogers, Ark.	166	-38.7	0.41
Fort Smith, Ark.	89	23.6	3.53
Hot Springs, Ark.	6	-33.3	9.57
Pine Bluff, Ark.	28	833.3	4.44
Texarkana, Ark.-Tex.	19	90.0	6.96
United States	75,933	-32.4	0.84

SOURCE: Bureau of the Census, Office of Federal Housing Enterprise Oversight.

Total residential building permits in January were lower than a year earlier in two of the three largest MSAs in the Little Rock zone. In Little Rock and Fayetteville-Springdale-Rogers, Arkansas, permits fell by 15 and 39 percent, respectively, while permits fell by 32 percent nationally. House price indices increased in all zone metro areas between the fourth quarters of 2006 and 2007, and all but Fayetteville-Springdale-Rogers saw much higher increases than did the nation as a whole.

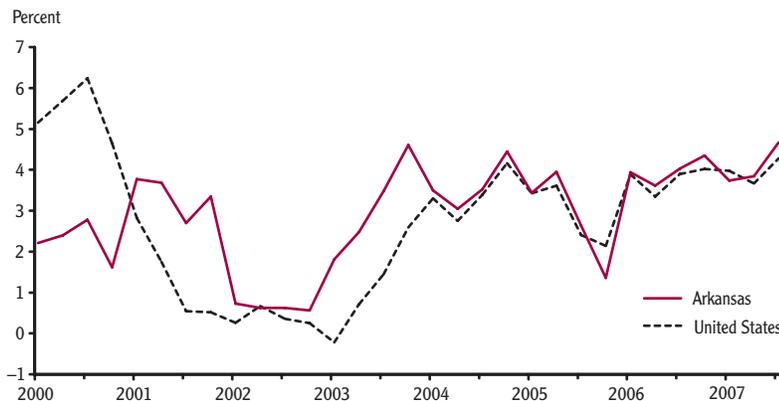
Arkansas Coincident Economic Activity Index



SOURCE: Federal Reserve Bank of Philadelphia.

The Philadelphia Fed's coincident index combines payroll employment, wages and salaries, the unemployment rate, and hours worked into a single index. According to this index, Arkansas underperformed the country as a whole during the recessionary period of 2000-03, but then tended to keep pace during the recovery and expansion period of 2004-06. In 2007, however, this index rose by 2.4 percent nationally, but only 0.4 percent for Arkansas.

Arkansas Real Personal Income Growth Percent Change, Year-Over-Year



SOURCE: Bureau of Economic Analysis.

Personal income growth in Arkansas has tended to keep pace with national income growth since 2004. This was true even in 2007, when other measures saw Arkansas begin to lag behind the performance of the rest of the country. In fact, for the most recent quarters for which there are data, year-over-year income growth in Arkansas was 3.8 and 4.6 percent in the second and third quarters of 2007, respectively. U.S. personal income growth in those quarters was 3.6 and 4.3 percent.

Metro Area Employment Growth December 2006 to December 2007

	Revised estimate as of March 2008	
	Change (in thousands)	Percent change
Large metro areas		
Little Rock–North Little Rock, Arkansas	5.2	1.5
Louisville, Kentucky-Indiana	6.9	1.1
Memphis, Tennessee-Arkansas-Mississippi	5.4	0.8
St. Louis, Missouri-Illinois	2.0	0.1
Small and medium metro areas		
Fayetteville-Springdale-Rogers, Arkansas	0.9	0.4
Fort Smith, Arkansas-Oklahoma	1.7	1.4
Texarkana, Texas-Arkansas	0.7	1.2
Bowling Green, Kentucky	1.8	2.9
Evansville, Indiana-Kentucky	1.4	0.8
Jackson, Tennessee	0.3	0.5
Columbia, Missouri	1.0	1.1
Jefferson City, Missouri	1.5	1.9
Springfield, Missouri	5.2	2.6

NOTE: These are the most recent benchmark revisions from March 11, 2008. See CRE8 Occasional Paper #2008-01 for a discussion of these revisions (<http://research.stlouisfed.org/regecon/occasionalpapers.html>).

SOURCE: Bureau of Labor Statistics.

Foreclosures, 2007

	Percentage of households, 2007	Percent change from 2006
Little Rock–North Little Rock, Arkansas	0.95	15.52
Louisville, Kentucky-Indiana	0.60	-12.05
Memphis, Tennessee-Arkansas-Mississippi	2.14	30.35
St. Louis, Missouri-Illinois	1.28	58.11
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Arkansas	0.51	26.44
Illinois	1.25	25.29
Indiana	1.03	11.31
Kentucky	0.27	23.45
Mississippi	0.11	91.65
Missouri	0.91	80.93
Tennessee	0.98	24.56
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United States	1.03	74.99

SOURCE: RealtyTrac.