

Current Economic Conditions in the Eighth Federal Reserve District

Memphis Zone

March 19, 2008

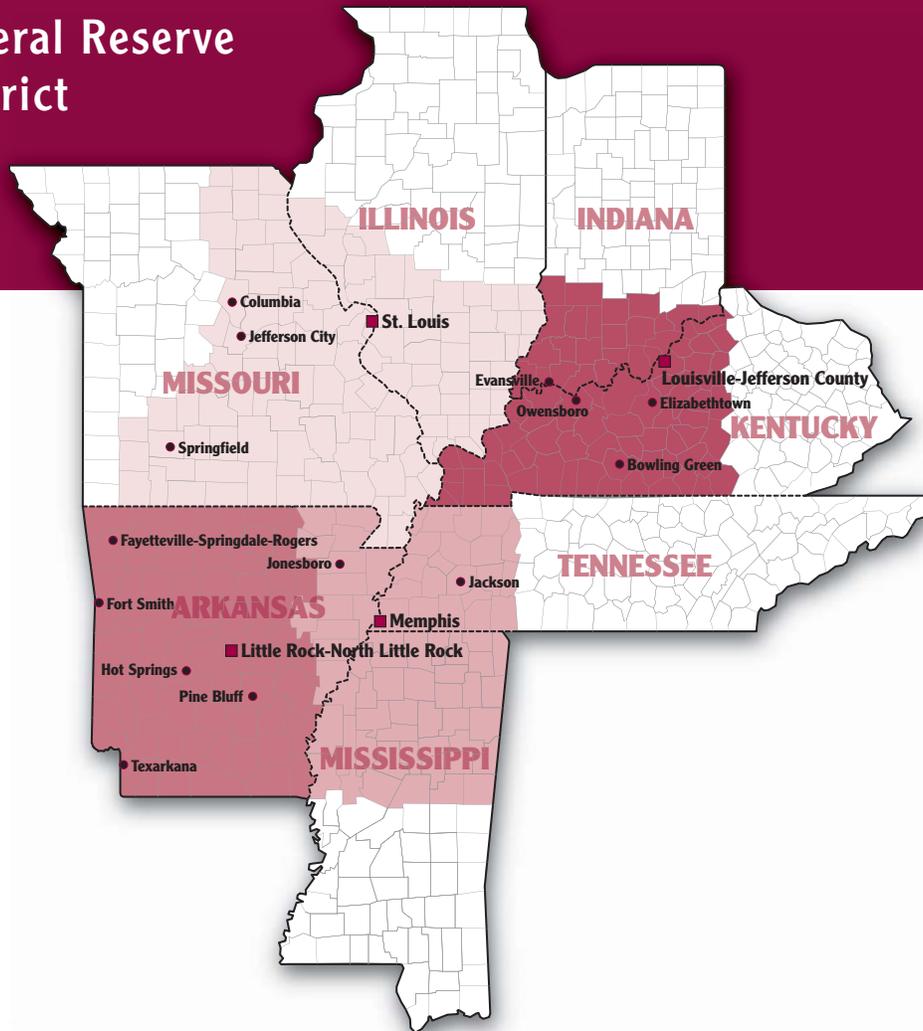
Prepared by the
Center for Regional Economics—8th District (CRE8)
Federal Reserve Bank of St. Louis

CRE8

Center for Regional Economics—8th District



Eighth Federal Reserve District



This report summarizes information on economic conditions in the Memphis zone of the Eighth Federal Reserve District (see map above), headquartered in St. Louis. Separate reports have also been prepared for the Little Rock, Louisville, 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 the metro areas and states of the Memphis zone. These data are the most recent available at the time this report was assembled.

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Memphis Zone Report—March 19, 2008

The pace of economic activity in the Memphis zone slowed during the first quarter of 2008. Except for the manufacturing sector, in which contacts reported increased activity, reports in most other sectors were not so favorable. Retail and car sales reports for January and February 2008 were mostly negative. In contrast with the recent trend, there were signs of weakening in the services sector. Residential home sales continued to weaken, while reports in commercial real estate market were more upbeat. Banking conditions during the third quarter of 2007 were mixed.

Consumer Spending

Sales reports for January and early February were mostly negative among general retailers and car dealers in the Memphis zone. Two-thirds of each group surveyed indicated that sales were down compared with the same two months in 2007, while the remaining contacts indicated that sales were up. Among general retailers, 20 percent noted that sales levels met their expectations. Outerwear was a strong seller, while gift items were moving more slowly. Among car dealers, 67 percent noted that used car sales had increased relative to new car sales. Also, 17 percent reported an increase in high-end vehicle sales relative to low-end vehicle sales, and 17 percent reported recent increases in the use of rebates and incentives.

Half of the car dealers surveyed reported more rejections of finance applications. About 60 percent of the general retailers and 67 percent of the car dealers reported that inventories were at desired levels. The sales outlook for March and April was mixed among general retailers but generally optimistic among car dealers.

Manufacturing and Other Business Activity

Manufacturing activity in the Memphis zone during the first quarter of 2008 grew significantly. Several firms in motor vehicle parts manufacturing reported plans to open new facilities in the zone. Also opening new facilities were firms in chemical manufacturing and household appliance manufacturing. Firms in fabricated metal product manufacturing reported plans to hire additional workers and expand production. In contrast, firms in plastic product manufacturing reported plans to decrease operations and a firm in machinery manufacturing announced that it will close a plant in the zone. During the same period, the service sector showed signs of weakness. In Tunica, Mississippi, February 2008 year-to-date gaming revenues declined with respect to 2007.

Real Estate and Construction

The Memphis residential real estate market continues to be hard-hit. Contacts report rising inventories of homes and a

growing number of foreclosures. Compared with the same period in 2006, December 2007 year-to-date home sales declined 15 percent. Compared with January 2007, January 2008 home sales declined 22 percent. In contrast, conditions in the commercial real estate market continue to be healthy. In Memphis, fourth quarter 2007 industrial vacancy rates declined over the third quarter of 2007; also, fourth quarter 2007 downtown office vacancy rates increased over the third quarter of 2007, while suburban office vacancy rates declined. Contacts in the office and industrial real estate markets in Memphis expect that 2008 will be a good year in terms of occupancy rates and leasing activity.

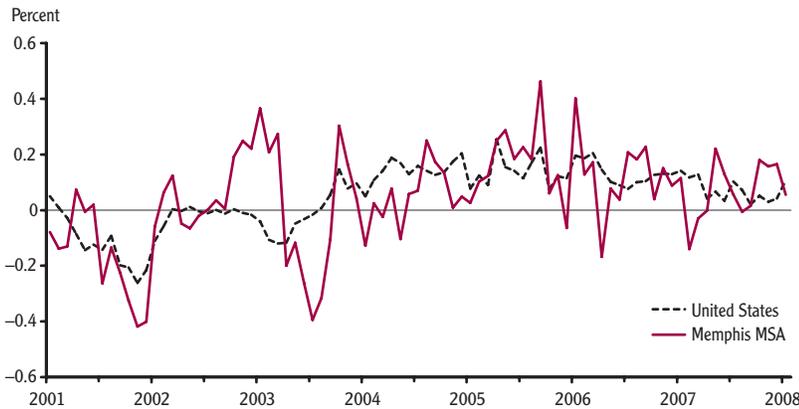
Banking and Finance

Banking conditions in the Memphis zone were mixed during the third quarter of 2007. Contacts reported softened demand for consumer loans. Reports on the demand for business loans ranged from little change to slight increases. Nearly all contacts reported tightened credit standards for all types of loans, citing an uncertain economic outlook. One contact noted that tightened credit standards have led to a decrease in lending activity, as many loan applications have been turned down. Most contacts reported a continued decline in demand for new residential mortgage loans, but there were also reports of a noticeable increase in refinancing activity. Reports from the region on average deposits ranged from no change to modest growth.

Agriculture and Natural Resources

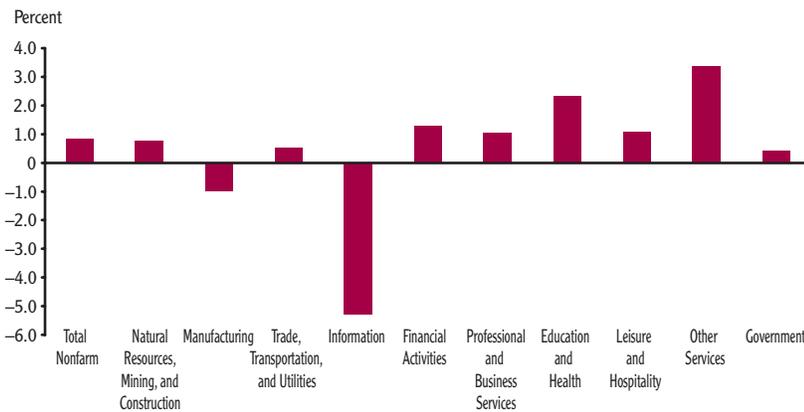
As of mid-December, year-to-date bales of cotton ginned (separated from the seed) in Memphis zone states were down 42 percent from the same period a year earlier; Mississippi had 37 percent fewer and Tennessee had 50 percent fewer bales ginned. The total value of all field crops in the Memphis zone states rose by 21 percent from 2006 to 2007. Mississippi had an increase of 59 percent, while the total crop value in Tennessee declined by 14 percent.

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



Month to month, payroll employment growth in the Memphis MSA tended to move opposite national employment growth in 2007. Nonetheless, the most recent estimates indicate that Memphis employment grew by about the same rate as the country as a whole. (See the table at the top of the final page, which provides recent benchmark revisions of employment data.) But this has not been true for recent months. Over the three-month period ending in January 2008, Memphis monthly employment growth averaged 0.05 percent, while U.S. employment growth averaged 0.10 percent.

Memphis MSA Employment Growth by Sector Year/Year Percent Change, January 2007–January 2008



Between January 2007 and January 2008, employment growth in the Memphis MSA was positive in most sectors. According to the most recent estimates, the strongest sectors were education and health and other services, which saw employment increases of 2.3 and 3.4 percent, respectively. Also, although the number of jobs in the manufacturing sector fell by 1 percent, this drop was mild compared with other large metro areas in the District. The information sector fared worst over the period, losing 5.3 percent of its jobs.

Memphis Zone—MSA Employment and Unemployment

Nonfarm payroll employment percent change,
January 2007–January 2008

	Total	Goods producing	Service providing	Unemployment rate December 2007
Memphis	0.82	-0.39	0.99	5.5
Jackson, Tenn.	1.48	-4.11	3.25	5.4
United States	0.89	-1.48	1.35	4.8

SOURCE: Bureau of Labor Statistics.

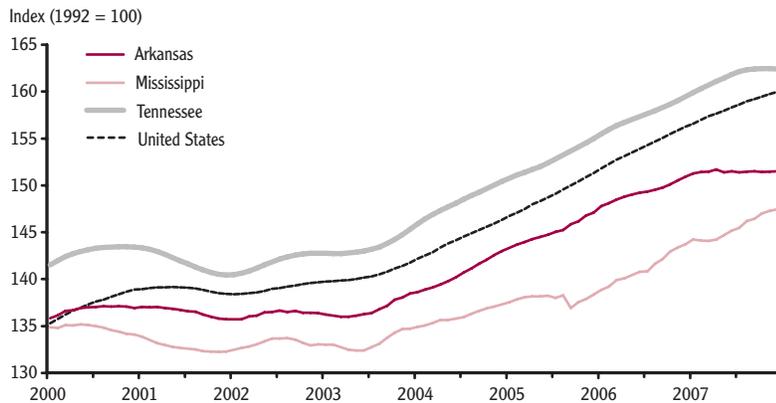
Memphis Zone—MSA Housing Activity

	Total building permits, units year to date		House price index, percent change, 2007:Q4/2006:Q4
	January 2008	Percent change	
Memphis	208	-78.2	1.35
Jackson, Tenn.	13	-89.3	-2.68
Jonesboro, Ark.	41	115.8	0.45
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 MSAs in the Memphis zone. In Memphis and Jackson, Tennessee, permits fell by 78 and 89 percent, respectively, while permits fell by 32 percent nationally. House price indices increased in Memphis and Jonesboro, Arkansas, between the fourth quarters of 2006 and 2007, but fell by 2.7 percent in Jackson.

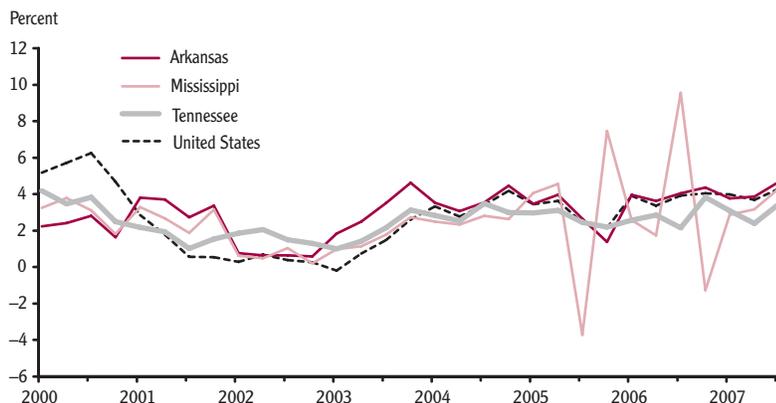
Memphis Area Coincident Economic Activity Index



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, Mississippi and Arkansas have underperformed the country as a whole since 2001, while Tennessee has tended to keep pace with the nation until recently. In 2007 this index rose by 2.4 percent nationally, but only 1.8 and 0.4 percent for Tennessee and Arkansas, respectively. For Mississippi, on the other hand, the index rose by 2.6 percent.

Memphis Area 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, while Tennessee has tended to be just below the national pace. Since Hurricane Katrina in the third quarter of 2005, Mississippi has experienced relatively erratic income growth. By the third quarter of 2007, income growth in Mississippi and Arkansas was slightly above the national growth rate, while it fell short of the national rate in Tennessee.

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.