

Current Economic Conditions in the Eighth Federal Reserve District

Little Rock Zone

June 25, 2008

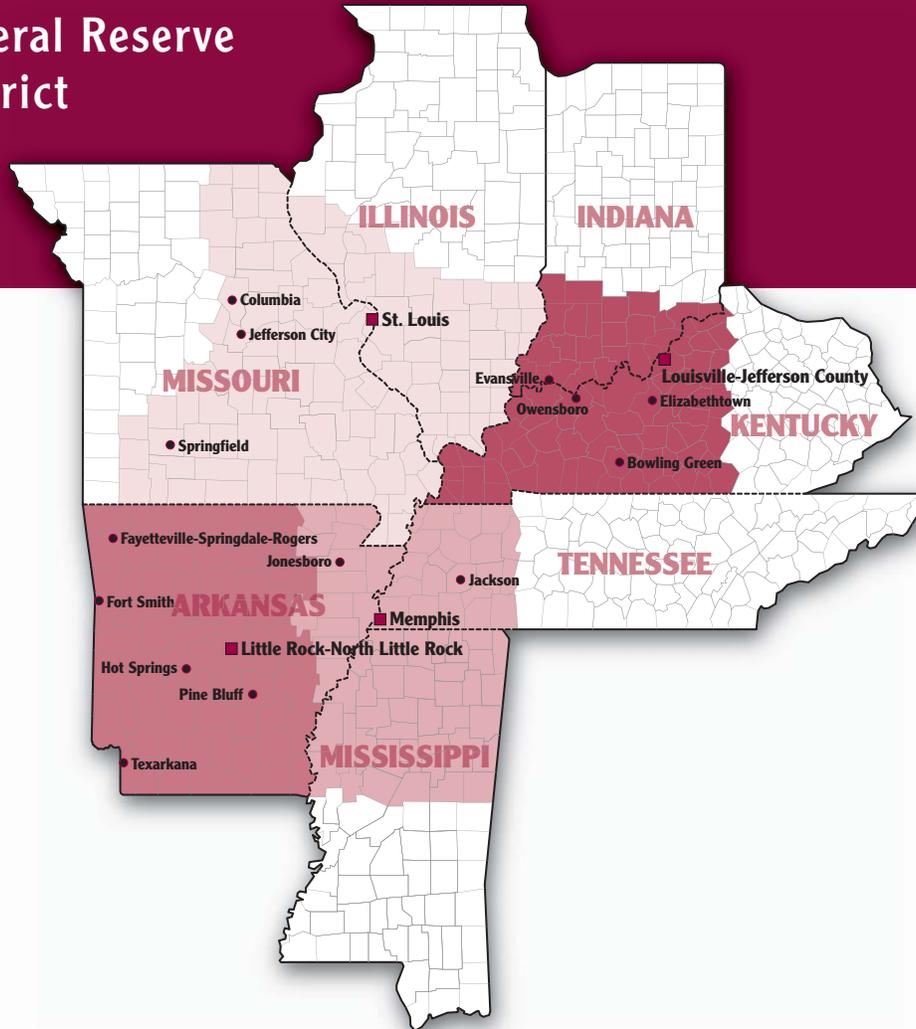
Prepared by the
Center for Regional Economics—8th District (CRE8)
Federal Reserve Bank of St. Louis

CRE8

Center for Regional Economics—8th District



Eighth Federal Reserve District



This report (known as the *Burgundy Book*) 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.

For more information, please contact the Little Rock office:

Robert A. Hopkins, 501-324-8200, robert.hopkins@stls.frb.org

Economists:

Michael Pakko, 314-444-8564, pakko@stls.frb.org

Rubén Hernández-Murillo, 314-444-8588, ruben.hernandez@stls.frb.org

Little Rock Zone Report—June 25, 2008

The pace of economic activity in the Little Rock zone slowed during the second quarter of 2008. Residential real estate conditions continued to deteriorate while commercial and industrial real estate market activity has slowed since our previous report. Manufacturing activity decreased slightly, while the services sector expanded. Banking contacts reported an overall softening in loan demand.

Consumer Spending

Compared with a year ago, retail sales for April and early May declined slightly among general retailers and car dealers in the Little Rock zone. Half of the general retailers and 40 percent of the car dealers surveyed indicated that sales were down compared with the same months in 2007, while one-third of the general retailers and 20 percent of the car dealers reported increased sales. Among general retailers, 60 percent noted that sales levels met their expectations, but 40 percent reported that sales were below what they had anticipated. Among car dealers, one-third noted that used car sales had increased relative to new car sales. One-third of the general retailers and 40 percent of the car dealers reported that their inventories were too high, while 17 percent of the general retailers and 20 percent of the car dealers reported the opposite. The sales outlook for the summer was mixed. Half of the general retailers and half of the car dealers expected sales to increase over 2007 levels, while the other half of the general retailers and one-third of the car dealers expected sales to decrease.

Manufacturing and Other Business Activity

Manufacturing in the Little Rock zone weakened somewhat during the second quarter of 2008, with a large number of job losses caused by the closure of a major food manufacturing facility. Firms in the chemical, plastic, and fabricated metal industries reported plans to open new facilities in the zone. Contacts in the packaging and apparel industries reported plans to expand existing facilities and operations. Firms in these industries reported plans to hire additional workers, most notably in the apparel manufacturing sector. In contrast, contacts in the fabricated metal and wood product industries reported plans to lay off workers and decrease operations. Firms in the food manufacturing and electrical equipment industries announced that they will each close a plant in the zone. The service sector expanded since our previous report. Contacts in the business support services and healthcare industries reported plans to expand operations and hire additional workers. A firm in the financial services sector announced plans to reduce their workforce.

Real Estate and Construction

In Little Rock, compared with the same periods in 2007, year-to-date home sales were down by 16 percent in February, 15 percent in March, and 17 percent in April. Similarly, year-to-date single-family housing permits declined by 30 percent in February, 37 percent in March, and 33 percent in April. The first-quarter 2008 industrial vacancy rate in Little Rock increased slightly over the fourth quarter of 2007. During the same period, the suburban and downtown office vacancy rates also increased. A contact in southwest Arkansas reported that commercial building continues although vacancies in new construction remain. A contact in northwest Arkansas reported that commercial construction slowed during the first quarter. A contact in central Arkansas reported that commercial real estate leasing has become sluggish.

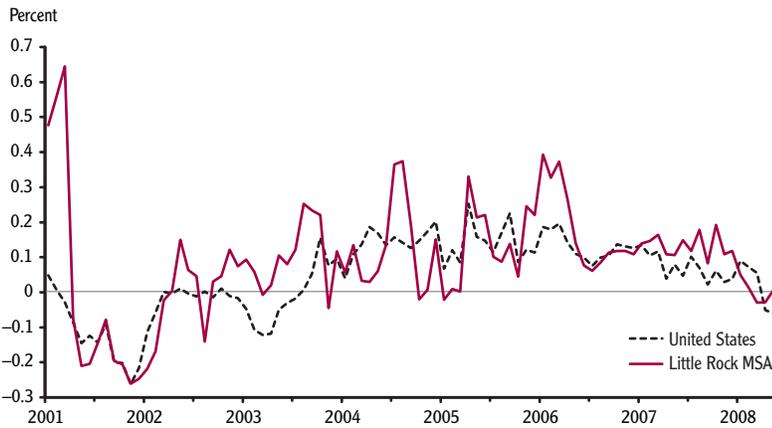
Banking and Finance

Bank contacts reported further deterioration of banking conditions during the second quarter of 2008. Most contacts reported softening of demand in all major loan categories, most notably in the consumer and commercial and industrial categories. A few contacts noted slight increases in demand for residential mortgage loans. Over half of the contacts reported tightening of credit standards on all loans. Contacts reported little to no change in deposits.

Agriculture and Natural Resources

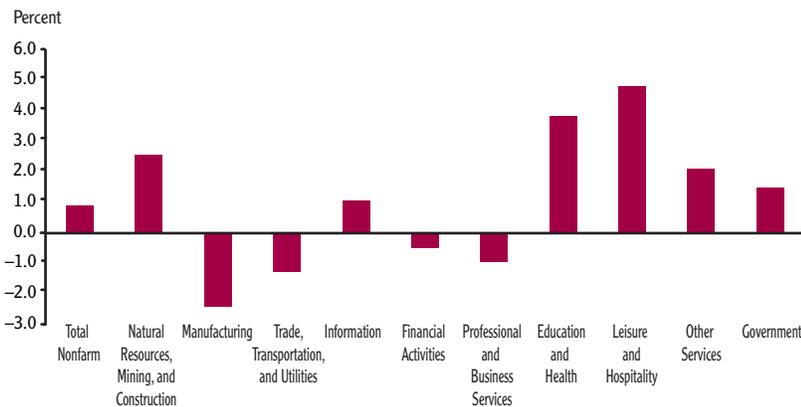
Frequent wet and cool weather conditions since our previous report delayed planting and crop growth. At the end of May, corn planting was finished in Arkansas. Additionally, planting of sorghum, rice, and cotton was nearly complete, although the pace for sorghum and rice was slightly behind normal. Planting of soybeans was behind its 5-year average pace, and emergence of the crop was even further behind. Emergence of sorghum, rice, and cotton was also behind the normal pace.

Nonfarm Payroll Employment Growth 3-Month Average, SA, January 2001–May 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. In recent months, Little Rock employment growth has been stronger than for the country as a whole. Over the three-month period ending in May 2008, Little Rock monthly employment growth averaged 0.0 percent, while U.S. employment growth averaged -0.06 percent.

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



Between May 2007 and May 2008 employment growth in the Little Rock MSA was very strong in several sectors. According to the most recent estimates, employment growth exceeded 3.5 percent in education and health and in leisure and hospitality. The natural resources, mining, and construction sector also grew at an above-average rate over the 12-month period. Countering these gains was a 2.4 percent decline in the number of manufacturing jobs.

Little Rock Zone—MSA Employment and Unemployment

Nonfarm payroll employment percent change,
May 2007–May 2008

	Nonfarm payroll employment percent change, May 2007–May 2008			Unemployment rate April 2008
	Total	Goods producing	Service providing	
Little Rock	0.90	-0.23	1.06	3.9
Fayetteville-Springdale-Rogers, Ark.	0.86	-2.27	1.70	3.5
Fort Smith, Ark.	0.32	-3.65	1.88	4.3
Texarkana, Ark.-Tex.	1.42	-3.90	2.26	3.9
United States	0.30	-2.49	0.84	4.8

SOURCE: Bureau of Labor Statistics.

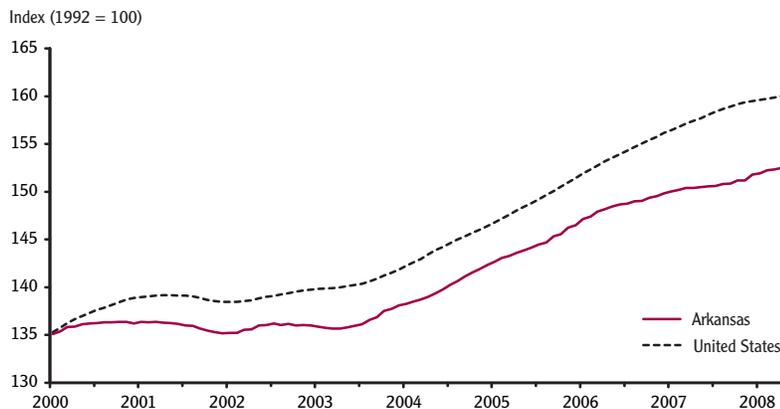
Little Rock Zone—MSA Housing Activity

	Total building permits, units year to date		House price index, percent change, 2008:Q1/2007:Q1
	April 2008	Percent change	
Little Rock	778	-29.2	1.63
Fayetteville-Springdale-Rogers, Ark.	1,278	-1.9	0.41
Fort Smith, Ark.	246	-32.8	3.37
Hot Springs, Ark.	23	-36.1	1.56
Pine Bluff, Ark.	49	133.3	5.78
Texarkana, Ark.-Tex.	53	-32.9	4.13
United States	321,015	-34.6	-0.03

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

Total residential building permits through April were lower than a year earlier in five of the six MSAs in the Little Rock zone. In Little Rock, permits fell by 29 percent, while falling by 35 percent nationally. In Pine Bluff, however, permits increased by 133 percent. House price indices increased in all zone metro areas between the first quarters of 2007 and 2008, and all outperformed the nation as a whole.

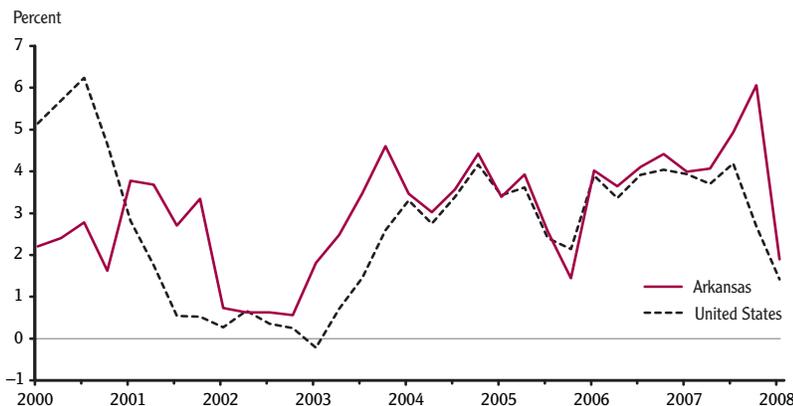
Arkansas Coincident Economic Activity Index



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 has underperformed the country as a whole since 2000. Since 2007, this trend has become more pronounced. Compared with April 2007, in April 2008 this index rose by 1.7 percent nationally, but only 1.4 percent for Arkansas.

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



SOURCE: Bureau of Economic Analysis.

Personal income growth in Arkansas has kept slightly ahead of national income growth since 2006. In 2007, however, the difference in growth rates increased. Year-over-year growth in the third and fourth quarters of 2007 was 4.9 and 6.0 percent in Arkansas, while the U.S. personal income growth in those quarters was 4.2 and 2.7 percent. In the first quarter of 2008, the most recent quarter for which there are data, year-over-year income growth in Arkansas was 1.9 percent, compared with a 1.4 percent growth in the nation as a whole.

2007 Population Estimates for Eighth District Metro Areas

	2007 Population	Change since 2000	Percent change	International migration	Internal (domestic) migration
Large metro areas					
St. Louis, Missouri-Illinois	2,803,707	105,020	3.9	27,436	-35,697
Little Rock-North Little Rock-Conway, Arkansas	666,401	55,883	9.2	3,644	25,220
Louisville/Jefferson County, Kentucky-Indiana	1,233,735	71,760	6.2	12,115	24,698
Memphis, Tennessee-Arkansas-Mississippi	1,280,533	75,329	6.3	13,399	3,086
Small and medium metro areas					
Bowling Green, Kentucky	116,001	11,835	11.4	2,549	5,784
Columbia, Missouri	162,314	16,648	11.4	3,000	6,769
Elizabethtown, Kentucky	111,610	4,063	3.8	-53	-1,207
Evansville, Indiana-Kentucky	349,717	6,902	2.0	1,493	-393
Fayetteville-Springdale-Rogers, Arkansas-Missouri	435,714	88,669	25.5	10,435	52,725
Fort Smith, Arkansas-Oklahoma	289,693	16,523	6.0	3,937	3,497
Hot Springs, Arkansas	96,371	8,303	9.4	451	9,355
Jackson, Tennessee	112,660	5,283	4.9	1,030	1,180
Jefferson City, Missouri	145,686	5,634	4.0	854	493
Jonesboro, Arkansas	116,402	8,640	8.0	913	4,747
Owensboro, Kentucky	112,104	2,229	2.0	310	-1,022
Pine Bluff, Arkansas	101,484	-5,857	-5.5	448	-8,297
Springfield, Missouri	420,020	51,646	14.0	1,485	39,241
Texarkana, Texas-Arkansas	134,215	4,466	3.4	531	1,970

SOURCE: U.S. Census Bureau.