

Current Economic Conditions in the Eighth Federal Reserve District

Memphis Zone

June 25, 2008

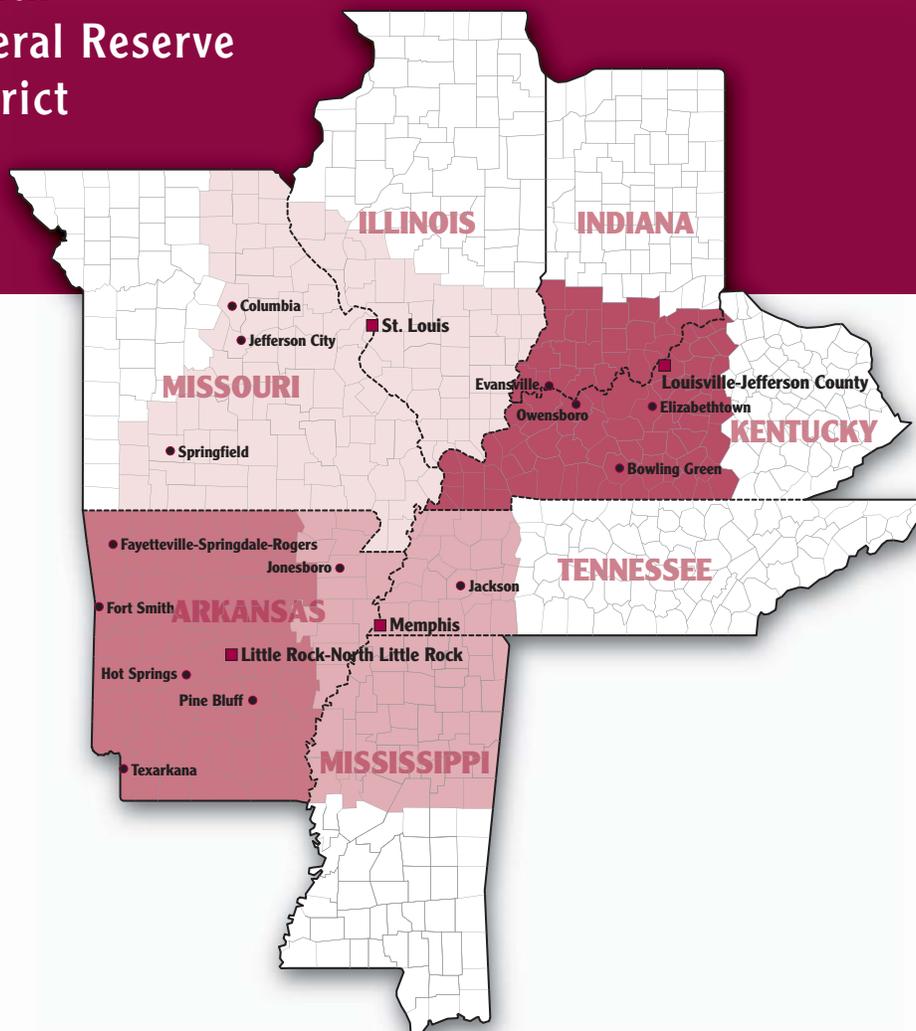
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Eighth Federal Reserve District



This report (known as the *Burgundy Book*) 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—June 25, 2008

Economic activity in the Memphis zone continued to weaken during April and May. Most retailers and car dealers reported lower sales compared with the previous year. Residential home sales and construction continued to decline, but activity in commercial and industrial real estate showed no clear sign of weakening. Reports suggest that manufacturing activity continued to expand, while service sector employment showed mixed signs of recovering from the slowdown earlier in the year. Cool and wet weather conditions have caused delays in agricultural production.

Consumer Spending

Retail sales for April and early May were mostly negative among general retailers and car dealers in the Memphis zone. Two-thirds of the general retailers and 83 percent of the car dealers surveyed indicated that sales were down from a year earlier. Among general retailers, one-third noted that sales levels met their expectations, but the other two-thirds reported that sales were below what they had anticipated. Two-thirds of the general retailers and one-third of the car dealers reported that their inventories were too high, while 17 percent of the car dealers reported too-low inventories. Three-fourths of the general retailers with too-high inventories plan to use more discounting than usual. The sales outlook for the summer was mostly pessimistic among general retailers but optimistic among car dealers.

Manufacturing and Other Business Activity

Manufacturing in the Memphis zone grew significantly in the second quarter of 2008. Firms in food manufacturing, motor vehicle parts, transportation equipment, steel, and furniture manufacturing industries all reported plans to open new facilities. Furthermore, manufacturers of fabricated metal, food, office supplies, and chemicals reported plans to expand existing facilities and operations. In contrast, contacts in furniture and plastic manufacturing reported plans to lay off workers and decrease operations. One firm in transportation equipment manufacturing announced that it will close a plant in the zone.

Employment in some segments of the service sector started to show signs of renewed expansion: Contacts in the business support services reported plans to expand operations and hire additional workers. A firm in the transportation services sector announced plans to build a new facility and hire additional workers.

Real Estate and Construction

During the first four months of the year, home sales in Memphis were down by 18 percent from the same period in 2007. Year-to-date single-family housing permits were down by 53 percent from the previous year. The industrial vacancy rate in Memphis rose slightly in the first quarter of 2008. Office vacancy rates rose in the suburbs but fell downtown. Commercial contractors in Memphis reported a positive business outlook for the next twelve months. Other contacts in Memphis reported that development of industrial projects had slowed. A contact in northeast Arkansas reported that light commercial construction is holding up well and is quite active in some locations.

Banking and Finance

Banking conditions in the Memphis zone were mixed during the first few months of 2008. Contacts reported varying levels of demand for consumer loans, ranging from unchanged to a modest decrease. Reports on the demand for business loans were also mixed. A number of contacts, mostly in urban areas, reported a modest increase in commercial and industrial lending. Contacts in rural regions of the zone reported that a slowing economy has led to decreased business lending. Most contacts reported steady residential loan demand.

Agriculture and Natural Resources

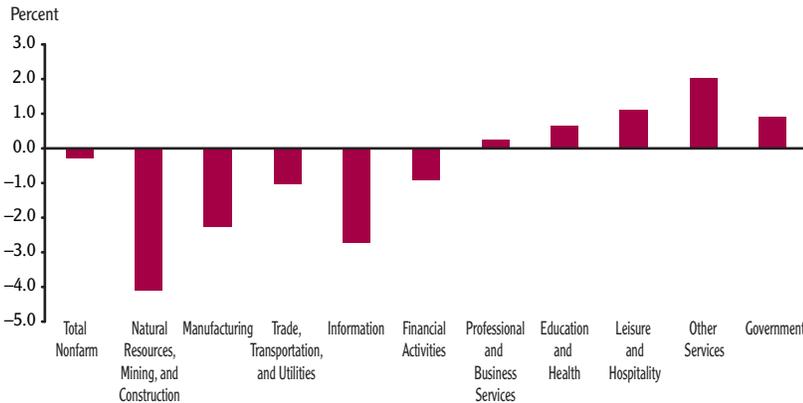
Compared with 2007, farmers in Mississippi and Tennessee intended to plant fewer acres of corn and cotton, but more acres of soybeans this year. Farmers in both states planted more winter wheat in the fall. Wet and cool weather conditions have caused delays in planting and crop growth. At the end of May, farmers in the Memphis zone were nearly finished with corn planting but soybean and cotton planting were behind normal. At the end of May, 91 percent of the winter wheat in Mississippi and 96 percent of the winter wheat in Tennessee was rated in fair condition or better—an improvement over the same time last year. About 92 percent of the pastures in Mississippi and 91 percent in Tennessee were in fair condition or better, far better than a year ago.

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



Recent estimates indicate that Memphis employment has contracted more sharply than the national average in the first part of 2008. Over the three-month period ending in May 2008, Memphis monthly employment contracted at a 0.17 percent rate, while U.S. employment was down at a monthly pace of only 0.06 percent.

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



Between May 2007 and May 2008, employment growth in the Memphis MSA was negative in goods-producing sectors and mixed in the service-providing sectors. According to the most recent estimates, expansion has been ongoing in education and health, leisure and hospitality, and other services, which saw employment increases of 0.6, 1.1, and 2.0 percent, respectively. Other service sectors, including information; financial activities; and trade, transportation and utilities were down over the past year. The number of jobs in the manufacturing sector fell by 2.3 percent. Employment in natural resources, mining, and construction was down by 4.1 percent.

Memphis 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	
Memphis	-0.28	-2.88	0.09	5.5
Jackson, Tenn.	1.12	-2.08	2.08	5.3
United States	0.30	-2.49	0.84	4.8

SOURCE: Bureau of Labor Statistics.

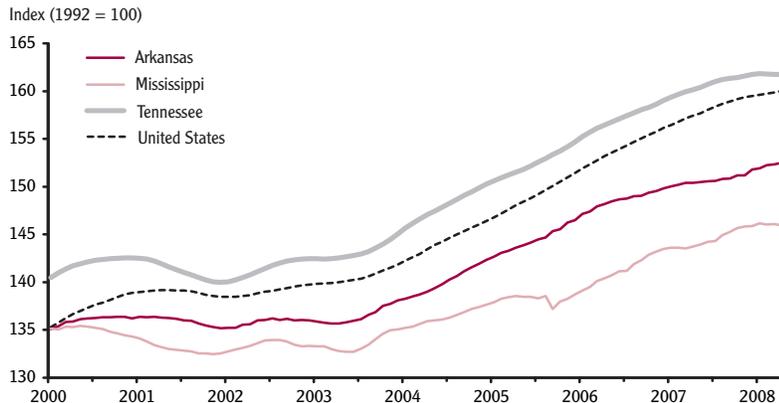
Memphis Zone—MSA Housing Activity

	Total building permits, units year to date		House price index, percent change, 2008:Q1/2007:Q1
	April 2008	Percent change	
Memphis	1,146	-65.1	2.14
Jackson, Tenn.	119	-51.0	1.62
Jonesboro, Ark.	133	7.3	0.19
United States	321,015	-34.6	-0.03

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 65 and 51 percent, respectively, while permits fell by 35 percent nationally. House price indices increased in all of the zone cities during the first quarter of 2008. Prices were up 2.14 percent in Memphis, 1.62 percent in Jackson, and 0.19 percent in Jonesboro from a year earlier. Nationwide, house prices registered a small decrease over the same period.

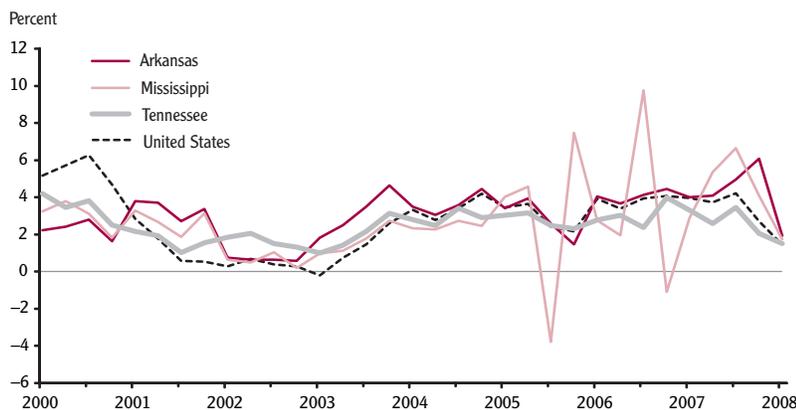
Memphis Area Coincident Economic Activity Index



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. During the first four months of 2008, growth rates have slowed in the Memphis zone states. For April, the index grew by .01, -.06, and .11 percent in Tennessee, Mississippi, and Arkansas, respectively.

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. As of the first quarter of 2008, all three states were showing year-over-year growth in excess of the national average. Arkansas was up 1.9 percent, Mississippi was up 1.7 percent, and Tennessee was up 1.5 percent. For the United States as a whole, personal income growth was 1.4 percent over the same period.

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.