

Current Economic Conditions in the Eighth Federal Reserve District

St. Louis Zone

June 25, 2008

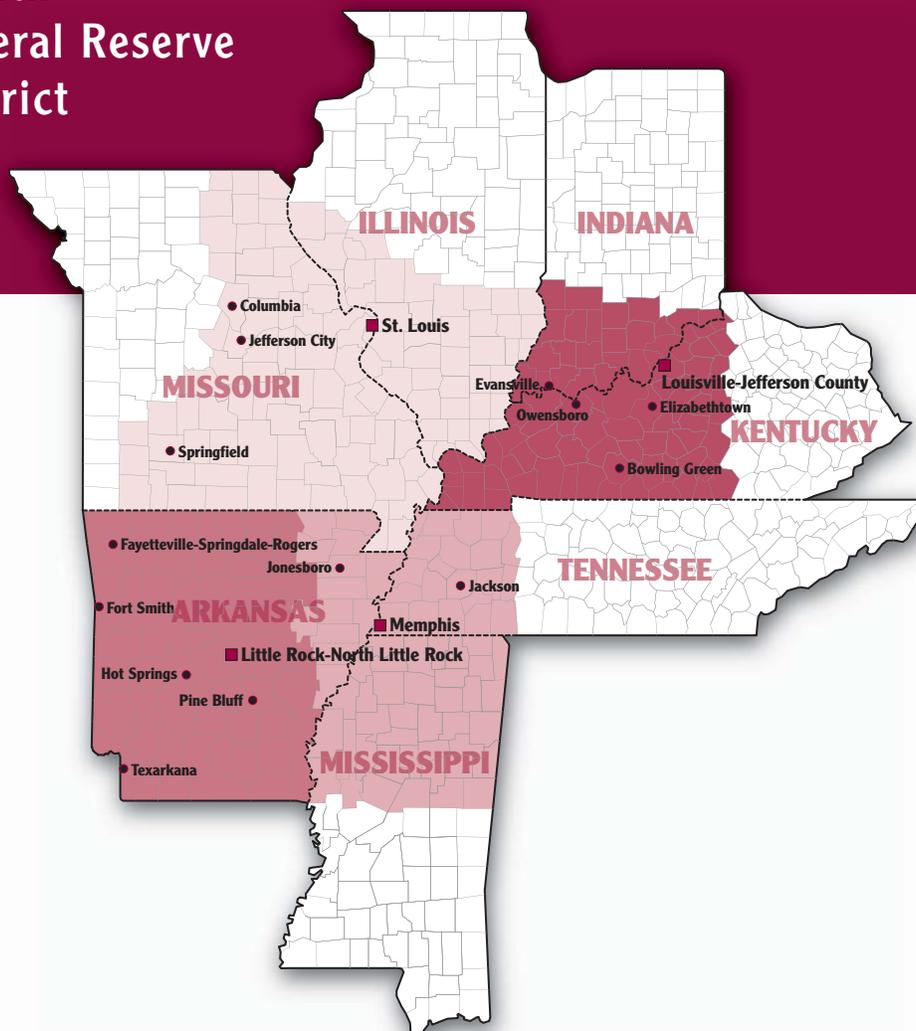
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CRE8

Center for Regional Economics—8th District



Eighth Federal Reserve District



This report (known as the *Burgundy Book*) summarizes information on economic conditions in the St. Louis 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 Memphis 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 St. Louis zone. These data are the most recent available at the time this report was assembled.

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St. Louis Zone Report—June 25, 2008

Overall economic activity in the St. Louis zone has been mixed since our previous report. While consumer spending and activity in the service sector have slowed, manufacturing has expanded. Home sales have fallen, but the industrial real estate market has strengthened. The banking sector reports some positive response to lower interest rates, but uncertainty in economic outlook has had a negative impact. Weather conditions have not been the most favorable for agriculture, but the wheat crop has nevertheless been very good.

Consumer Spending

Sales reports for April and early May were mostly negative among general retailers and car dealers in the St. Louis zone. Half of the general retailers and two-thirds of the car dealers surveyed indicated that sales were down compared with the same months in 2007. Among car dealers, half reported recent increases in rebates and incentives, while the rest reported no change. One-third of the general retailers and one-half of the car dealers reported that their inventories were too high. The sales outlook for the summer was mixed: One-half of the general retailers and one-third of the car dealers expect sales to increase over 2007 levels, while one-third of the general retailers and one-half of the car dealers expect sales to decrease.

Manufacturing and Other Business Activity

Manufacturing in the St. Louis zone continued to expand in the second quarter of 2008. Firms in the chemical and steel manufacturing industries reported plans to open new facilities in the zone and to hire additional workers. In contrast, a firm in the weapons manufacturing industry reported plans to close a plant in the zone. The service sector continued to decline somewhat, as some job losses were reported in the financial services industry.

Real Estate and Construction

Compared with the same periods in 2007, February, March, and April 2008 year-to-date home sales were down (by 13, 16, and 17 percent, respectively). Also, compared with the same periods in 2007, year-to-date single-family housing permits declined (by 41, 42, and 40 percent, respectively). The first-quarter 2008 industrial vacancy rate in St. Louis decreased over the fourth quarter of 2007. Suburban and downtown office vacancy rates also decreased. Contacts reported that while overall commercial development has slowed, suburban office

construction continues apace—especially in St. Louis County. Industrial contracting contacts reported that they are seeing market growth. Several local contacts expressed concern about the pipeline of projects, noting that stricter lending standards have slowed the financing process for developers and delayed projects still in the planning stages.

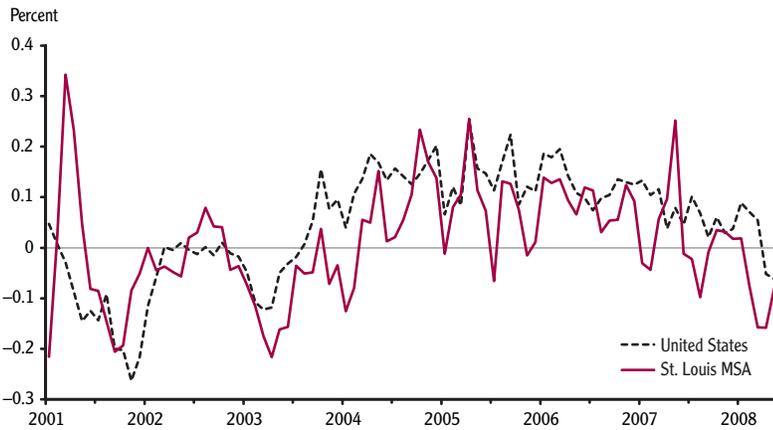
Banking and Finance

Contacts reported varying levels of loan activity in the residential mortgage loan category. One contact noted an influx of residential mortgage loan applications in the second quarter due, in most part, to lower interest rates. However, by early June, a spike in rates had slowed loan activity. Some contacts observed that commercial and industrial lending activity has stagnated in the region, citing an uncertain economic outlook as the likely cause. Reports continue to indicate tightening credit standards, most notably in the consumer loan category. Contacts indicated little to modest growth in deposits.

Agriculture and Natural Resources

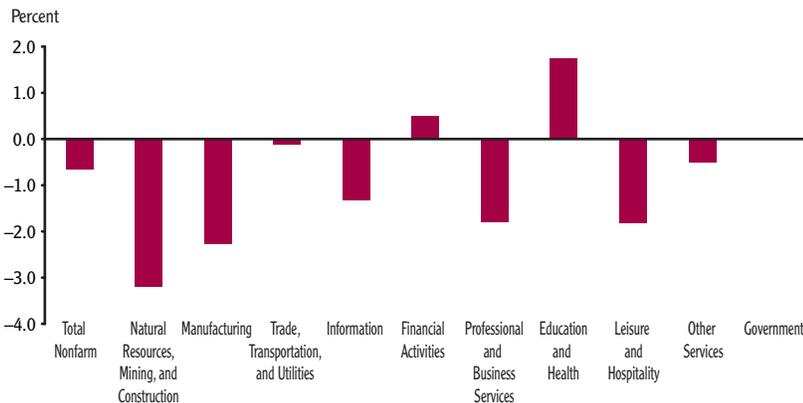
Farmers in Illinois and Missouri intended to plant fewer acres of corn and more acres of soybeans compared with 2007. Farmers in both states planted more winter wheat in the fall. Frequent wet and cool weather conditions since our previous report caused delays in planting and crop growth. At the end of May, farmers in the St. Louis zone were behind their normal planting pace for corn, soybeans, and sorghum; and 91 percent of the winter wheat in Illinois and 85 percent of the winter wheat in Missouri was rated in fair condition or better—an improvement over the same time last year. About 98 percent of the pastures in Illinois and 93 percent in Missouri were in fair condition or better. For Missouri, this is a pronounced improvement over last year.

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



Payroll employment growth in the St. Louis MSA has consistently underperformed the country as a whole in recent years. According to the most recent estimates, the recent reductions in employment have been relatively steep in St. Louis. The three-month average of national employment growth was negative beginning in April, but has been negative for St. Louis since February. Over the three-month period ending in May 2008, St. Louis monthly employment growth averaged -0.08 percent, while U.S. employment growth averaged -0.06 percent.

St. Louis MSA Employment Growth by Sector Year/Year Percent Change, May 2007–May 2008



St. Louis MSA employment growth between May 2007 and May 2008 was negative across nearly all sectors. According to the most recent estimates, the strongest sector was education and health, which saw an employment increase of 1.7 percent. The only other sector to see job growth was financial activities. Natural resources, mining, and construction lost 3.2 percent of its jobs, while manufacturing, information, professional and business services, and leisure and hospitality all saw job losses greater than 1 percent.

St. Louis Zone—MSA Employment and Unemployment

Nonfarm payroll employment percent change,
May 2007–May 2008

	Total	Goods producing	Service providing	Unemployment rate April 2008
St. Louis	-0.66	-2.63	-0.28	5.3
Columbia, Mo.	1.17	-4.30	1.77	3.3
Jefferson City, Mo.	0.12	-3.88	0.72	3.7
Springfield, Mo.	1.39	-0.35	1.67	3.8
United States	0.30	-2.49	0.84	4.8

SOURCE: Bureau of Labor Statistics.

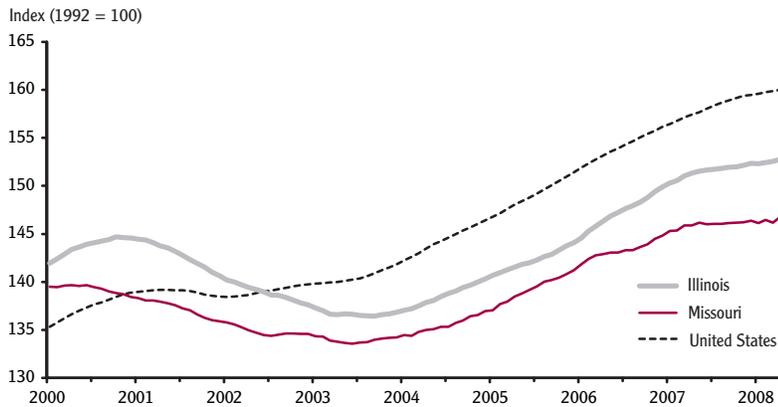
St. Louis Zone—MSA Housing Activity

	Total building permits, units year to date		House price index, percent change, 2008:Q1/2007:Q1
	April 2008	Percent change	
St. Louis	2,138	-47.4	1.71
Columbia, Mo.	253	-36.4	3.28
Jefferson City, Mo.	36	-29.4	3.45
Springfield, Mo.	673	-30.7	1.94
United States	321,015	-34.6	-0.03

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

Total residential building permits in April were lower than a year earlier in every MSA in the zone. For St. Louis the decrease was well above what was experienced by the country as a whole. House price indices, on the other hand, increased in all metro areas between the first quarters of 2007 and 2008 for all four metro areas. Columbia and Jefferson City, in particular, saw relatively strong increases in their indices. In contrast, the same house price index fell slightly over the period for the country as a whole.

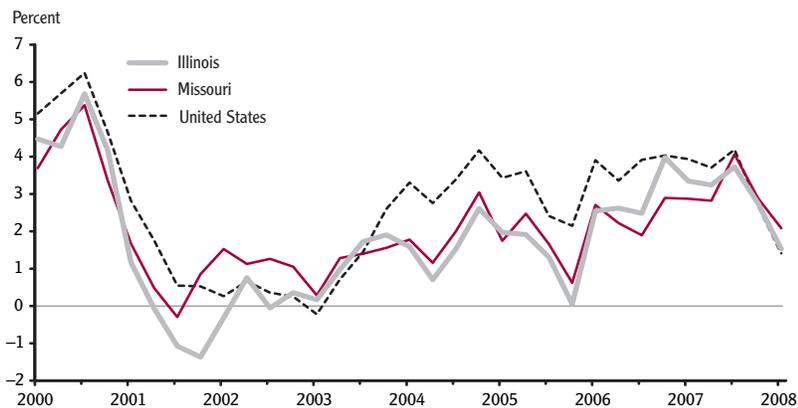
St. Louis Area Coincident Economic Activity Index



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, labor market conditions began to soften in early 2007, several months before similar softening occurred nationwide. Between January and April 2008, however, this index performed somewhat worse at the national level. For the United States it rose by 0.26 percent, while the increases for Missouri and Illinois were 0.45 and 0.30 percent, respectively.

St. Louis Area Real Personal Income Growth Percent Change, Year-Over-Year



SOURCE: Bureau of Economic Analysis.

Personal income growth in Missouri and Illinois had been weaker than in the country as a whole since 2003, and income growth in Missouri had been weaker than in Illinois through most of 2006 and 2007. For the second half of 2007 and into the first quarter of 2008, however, Missouri's income growth has outpaced that of Illinois and the country as a whole, although growth has been roughly halved across the board over the 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.