Current Economic Conditions in the Eighth Federal Reserve District

St. Louis Zone

September 17, 2008

Prepared by the
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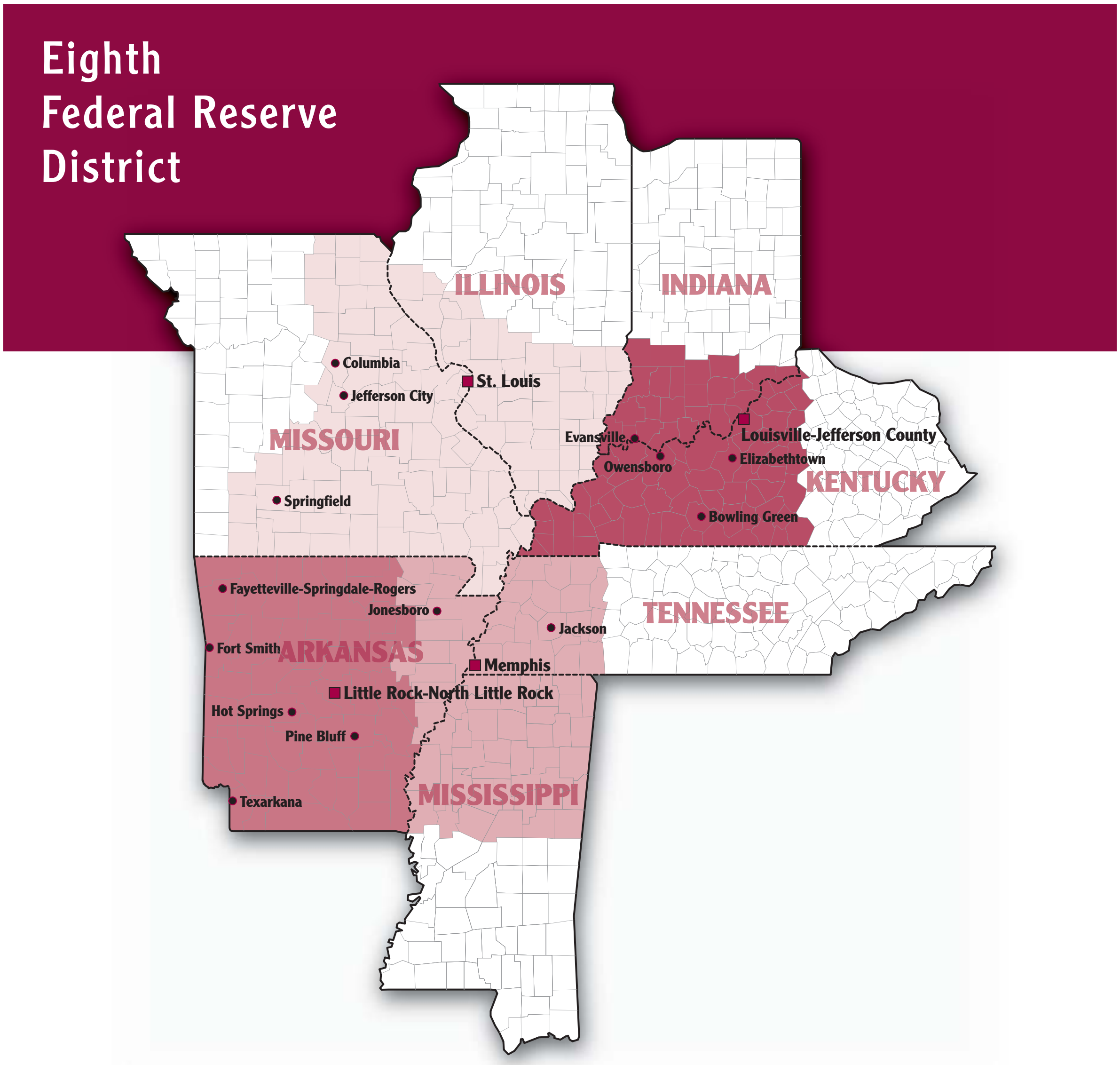
FEDERAL RESERVE BANK OF ST. LOUIS



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—September 17, 2008

The overall picture for the St. Louis zone is somewhat negative. Car dealers generally reported negative news, while general retail was more mixed. Manufacturing and services saw job cuts. Home sales declined compared with sales in the corresponding period of 2007, but commercial real estate performance was mixed. Lending activity was weaker, although consumer lending seemed to hold its ground. The agriculture and natural resources sector continues to be strong.

Consumer Spending

Two-thirds of the general retailers and 83 percent of the car dealers surveyed indicated that sales in late July and early August were down compared with the same months in 2007. Among general retailers, one-half noted that sales levels met their expectations. One-third of car dealers reported increased sales of used cars relative to new cars and 83 percent reported increased sales of low-end cars relative to high-end cars. A significant percentage reported more rejections of finance applications. One-third of the general retailers and 20 percent of the car dealers expect their September and October sales to increase over their 2007 levels, while 17 percent of the general retailers and the other 80 percent of the car dealers expect sales to decrease.

Manufacturing and Other Business Activity

Led by the auto manufacturing industry, manufacturing activity in the St. Louis zone declined during the third quarter of 2008. A major firm announced plans to close its assembly plant in the St. Louis area and cut a production shift for other car models, which resulted in significant job losses. Furthermore, firms in the auto parts manufacturing industry announced plans to close two plants and lay off employees due to weak demand. However, one contact in the auto parts manufacturing industry announced plans to expand operations into an existing building and to hire additional workers for the space. The service sector also continued to decline, with firms in the financial services, health care services, business support services, and travel assistance services all announcing plans to reduce their workforce.

Real Estate and Construction

July year-to-date home sales were down in St. Louis by 16 percent compared with the same period last year. Also, compared with the same periods in 2007, July year-to-date single-family housing permits declined by 41 percent. The commercial real estate market in the St. Louis zone was mixed during the second quarter of 2008, with a lower industrial vacancy rate than in the first quarter. During the same period, the suburban office vacancy rate decreased, but the downtown office vacancy rate increased.

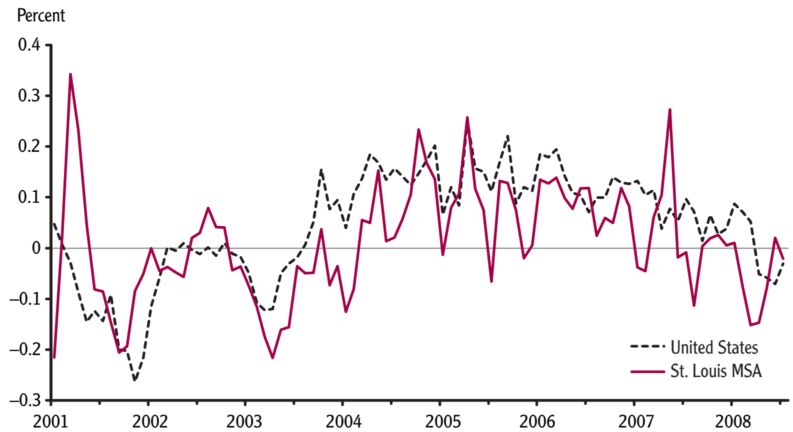
Banking and Finance

A number of contacts reported continued declines in commercial and industrial lending activity. They noted that the availability of credit to businesses has been limited due to tightened credit standards. Reports also indicate some weakening of lending activity in the residential mortgage loan category. One contact noted that loan activity in this category was well below average activity experienced during the summer months of the past three years. Reports on consumer lending were mixed, with most contacts reporting little to no change.

Agriculture and Natural Resources

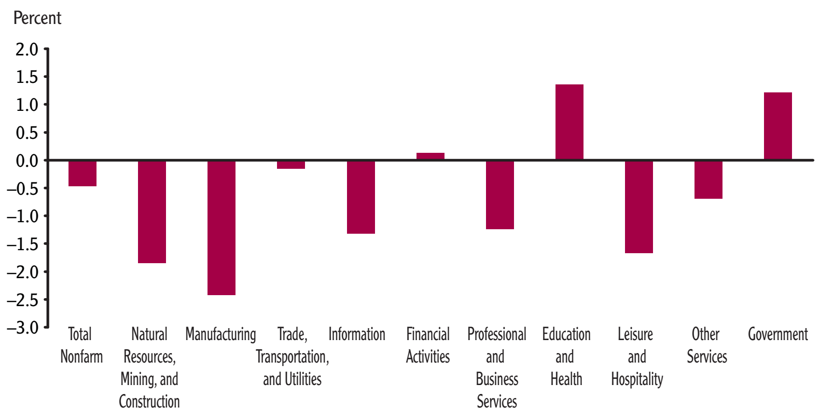
Partly due to late planting this year, development of corn, soybeans, and sorghum is behind the normal pace in Illinois and Missouri, as is cotton development in Missouri. Rice development in Missouri is ahead of normal. As of mid-August, at least 90 percent of the pastures in Illinois and Missouri were in fair condition or better, which was comparable to the end of May but much better than the ratings in 2007. Also, compared with August 2007, a higher percentage of the corn, soybean, and sorghum crops in both states and cotton and rice in Missouri were rated in fair condition or better. Conditions for these crops have improved or stayed the same since mid-July (except for cotton in Missouri, which declined slightly). Currently, at least 10 percent of the corn, soybeans, and cotton in Missouri are rated in poor condition. Winter wheat yields were expected to be 14 percent higher in Illinois and 16 percent higher in Missouri.

Nonfarm Payroll Employment Growth
3-Month Average, SA, January 2001–July 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, this trend has reversed. Although the recent three-month average of employment growth has generally been negative for both St. Louis and the nation as a whole, St. Louis's recent growth exceeded the national rate slightly. Over the three-month period ending in July 2008, St. Louis's monthly employment growth averaged –0.02 percent, while U.S. employment growth averaged –0.03 percent.

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



Although job losses have lessened recently, on a year-over-year basis St. Louis MSA sectoral employment growth rates for July 2007 and July 2008 were mostly negative. Most recent estimates show education and health to have been the strongest sector, at 1.4 percent, followed by government, at 1.2 percent. The largest decline was in manufacturing, which lost 2.4 percent of its jobs. Natural resources, mining, and construction; information; professional and business services; and leisure and hospitality all showed declines greater than 1 percent.

St. Louis Zone—MSA Employment and Unemployment

	Nonfarm payroll employment percent change, July 2007–July 2008			Unemployment rate
	Total	**Goods producing**	**Service providing**	**June 2008**
St. Louis	**–0.46**	**–2.19**	**–0.12**	**7.2**
Columbia, Mo.	1.00	–7.45	1.98	5.0
Jefferson City, Mo.	0.00	–4.76	0.73	5.6
Springfield, Mo.	1.77	–1.03	2.24	5.3
United States	0.19	–2.64	0.74	6.0

SOURCE: Bureau of Labor Statistics.

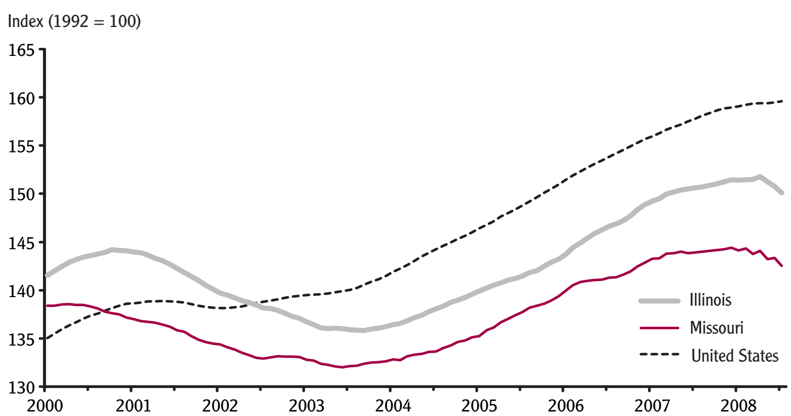
St. Louis Zone—MSA Housing Activity

	Total building permits, units year-to-date		House price index, percent change, 2008:Q2/2007:Q2
	July 2008	Percent change	
St. Louis	**3,825**	**–45.2**	**0.78**
Columbia, Mo.	450	–41.7	–0.48
Jefferson City, Mo.	68	–38.2	3.68
Springfield, Mo.	1,262	–23.3	1.65
United States	604,303	–32.1	–1.71

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

Total residential building permits in July were lower than a year earlier in every MSA in the zone. For St. Louis the decline was well above that experienced by the country as a whole. The house price index fell slightly for Columbia between the second quarter of 2007 and 2008, but increased in the other three metro areas in the zone. Jefferson City, in particular, saw a relatively strong increase. Over the same period, in contrast, the index fell for the nation as a whole.

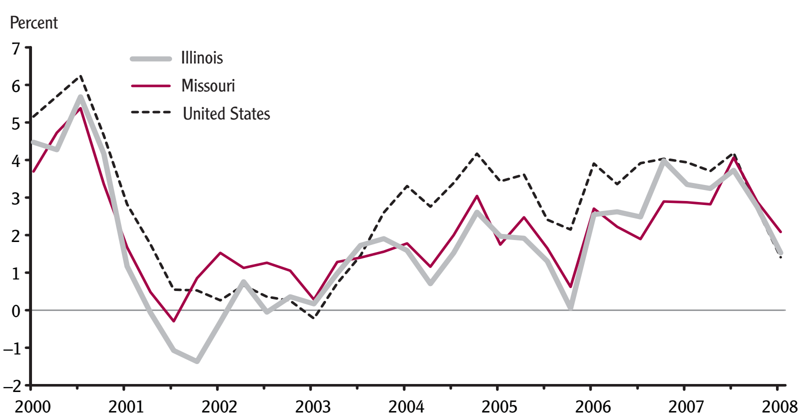
St. Louis Area Coincident Economic Activity Index



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 in the St. Louis zone began to soften in early 2007, several months before similar softening occurred nationwide. Between April and July 2008, this index has performed better at the national level. For the United States it rose by 0.15 percent, while it has decreased by 1.1 percent for both Illinois and Missouri.

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

Residential Mortgage Delinquency Rates for Eighth District States

Percent 90+ Days Delinquent or in Foreclosure, 2008:Q2

FRM (fixed rate mortgages) ARM (adjustable rate mortgages)

		Prime			Subprime*		
State	**All mortgages**	**Total**	**FRM**	**ARM**	**Total**	**FRM**	**ARM**
Missouri	3.1	1.5	1.1	4.7	13.2	7.2	20.8
Illinois	4.7	2.3	1.4	6.3	20.1	11.3	27.9
Indiana	5.7	2.9	2.2	9.2	18.5	12.3	27.8
Kentucky	4.0	1.9	1.4	6.4	15.8	9.9	26.1
Tennessee	3.7	1.7	1.3	6.4	12.6	7.8	20.4
Mississippi	5.0	2.5	1.9	10.1	16.1	11.6	25.1
Arkansas	2.7	1.5	1.0	6.1	11.4	7.8	18.1
U.S. total	**4.5**	**2.4**	**1.3**	**6.8**	**17.9**	**9.6**	**26.8**

NOTE: *The Mortgage Bankers Association divides the sample of conventional mortgages into prime and subprime categories based on whether the servicer handles primarily prime or subprime loans. Therefore, there are some prime loans in the subprime sample and some subprime loans in the prime sample.

SOURCE: Mortgage Bankers Association, National Delinquency Survey/Haver Analytics.

One of the symptoms of the ongoing problems in the nation's housing markets is a sharp rise in mortgage delinquencies and home foreclosures. From the second quarter of 2007 through the second quarter of 2008, the percentage of mortgages with more than three consecutive missed monthly payments or in foreclosure rose from 2.5 percent to 4.5 percent.

The table above summarizes the data for Eighth District states as of the second quarter of 2008. The data show that our region has suffered along with the nation. In fact, three Eighth District states have had higher proportions of delinquencies than the national average—Illinois, Indiana, and Mississippi. But the other states in the region—Arkansas, Kentucky, Missouri, and Tennessee—have fared better than the national average. Arkansas, in particular, has experienced a much lower rate of delinquencies and foreclosures than the rest of the country has.

For both the nation and the District, there are distinct differences in the pattern of delinquencies across various types of mortgages. Fixed-rate mortgages (FRM) have lower delinquency and foreclosure rates than do adjustable-rate mortgages (ARM). Moreover, the rate of delinquencies and foreclosure is much higher for subprime loans than for prime loans, and the rates for subprime ARMs are much higher than the rates for subprime FRMs. These patterns are clear in each of the Eighth District states. In fact, those states that have delinquency and foreclosure rates above the national average for all mortgages taken together tend to have rates above the national averages for each category of mortgage loans as well.