Current Economic Conditions in the Eighth Federal Reserve District

Little Rock Zone

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

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Economic conditions in the Little Rock zone softened since the previous report in late September. Retail and auto sales declined in October and the first half of November. Activity continued to decline in manufacturing and residential real estate markets, and banking contacts reported declines in lending activity. In contrast, the service sector expanded slightly.

**Consumer Spending**

Car dealers and general retailers in the Little Rock zone reported weak sales for October and the first half of November. About 83 percent of retailers and all car dealers surveyed indicated that sales were down compared with the same months in 2007. The other 17 percent of retailers reported increased sales. Among retailers, 20 percent noted that sales levels were below expectations, while 20 percent said that sales were above expectations. One-third of car dealers reported increased sales of used cars relative to new cars, half reported increased sales of low-end cars relative to high-end cars, and two-thirds reported increased rejections of finance applications. One-third of the general retailers and two-thirds of the car dealers reported that their inventories were too high, while the remaining contacts reported that inventories were at desired levels. The sales outlook for the rest of 2008 was mixed among retailers but generally pessimistic among car dealers.

**Real Estate and Construction**

In Little Rock, October 2008 year-to-date home sales and single-family housing permits were down by 20 percent and 33 percent, respectively. The industrial vacancy rate for the third quarter of 2008 in Little Rock rose above the rate for the second quarter of 2008. During the same period, the suburban office vacancy rate decreased, while the downtown office vacancy rate increased. A contact in central Arkansas whose firm specializes in general commercial construction reported that the firm’s backlog had decreased from 12 to 6 months as projects have begun to dry up. An industrial construction contact in Little Rock reported that activity has held steady and that the outlook is positive because of the upcoming construction of several facilities related to wind energy.

**Manufacturing and Other Business Activity**

Manufacturing activity in the Little Rock zone continued to decline in October and the first half of November. Contacts in wood product, paper product, and machinery manufacturing announced plans to idle plants and temporarily lay off workers and decrease operations. Firms in printing, primary metal, and appliance manufacturing each announced plans to close a plant in the zone and lay off workers. Finally, manufacturing firms in the fabricated metal, machinery, wood and furniture products, boats, and animal slaughtering/processing industries announced plans to lay off workers. In contrast, firms in electrical equipment and machinery manufacturing related to wind power reported plans to open new facilities in the zone and hire additional workers. A firm in soap/cleaning-compound manufacturing also announced plans to open a new facility and hire additional workers. The service sector expanded slightly: Firms announcing new jobs outnumbered those announcing layoffs. Contacts in business support services reported plans to hire additional workers, while a firm in medical services announced plans to cut jobs and cut costs.

**Banking and Finance**

Contacts provided mixed reports on local banking conditions that included continued declines in commercial and industrial loans and modest declines in residential mortgage lending activity. A number of contacts reported that, as credit standards continue to tighten, they have been much more cautious in extending new loans across all categories. Reports indicated modest growth in deposits, with a number of contacts noting strong competition for deposit funds.

**Agriculture and Natural Resources**

Good weather conditions helped many farmers throughout the Little Rock zone make significant progress with crop harvesting. As of mid-November, Arkansas farmers had harvested all of their corn, sorghum, and rice and at least 94 percent of their soybeans and cotton. November estimates showed that yields for corn, sorghum, rice, and cotton were between 4 percent and 10 percent lower than last year’s yields, but soybean yields were 11 percent higher than last year’s. As of mid-November, farmers in Arkansas had planted nearly the entire intended winter wheat crop. Nearly all of the emerged winter wheat in Arkansas was rated in fair condition or better.
During 2007, payroll employment growth in the Little Rock MSA was stronger than for the nation as a whole. Employment growth slowed during the first part of 2008, but rebounded toward the third quarter of 2008. Over the three-month period ending in October 2008, Little Rock’s monthly employment growth averaged –0.12 percent, while U.S. employment growth averaged –0.11 percent. Over the past 12 months, employment in the Little Rock MSA has increased by 100 jobs, approximately 0.03 percent.

Between October 2007 and October 2008, employment growth remained strong in some service-related sectors, but declined in other service industries and in manufacturing. Employment growth in leisure and hospitality reached 3.5 percent, while growth in education and health services was 1.7 percent. Financial activities declined by 2.9 percent, while trade, transportation, and utilities contracted by 2.4 percent. Manufacturing employment declined 3.6 percent. Total nonfarm employment increased by only 0.03 percent.
Total residential building permits through October 2008 were lower than a year earlier in five of the six MSAs in the Little Rock zone. In Little Rock, permits fell by 12.2 percent. In Pine Bluff, however, permits were up by over 100 percent from the previous year. In the third quarter of 2008, house prices were up in four of the six MSAs. In the Fayetteville-Springdale-Rogers MSA, prices fell by 4.1 percent and in Texarkana prices fell by 1.6 percent. In contrast, house price increases in the other four MSAs ranged from 0.6 percent (Pine Bluff) to 4.3 percent (Hot Springs).

The Philadelphia Fed’s coincident index combines payroll employment, wages and salaries, the unemployment rate, and hours worked in a single index. According to this index, Arkansas has underperformed the country as a whole since 2000. Recent data show an increase in economic activity comparable to the rest of the nation. In the 12 months ending in October 2008, the Arkansas index rose 0.16 percent compared with an increase of 0.21 percent for the nationwide index.

Personal income growth in Arkansas has kept slightly ahead of national income since 2006. In 2007 and the first half of 2008, however, the difference in growth rates increased. The most recently available data indicate that in the first and second quarters of 2008, year-over-year income growth in Arkansas was 1.3 and 2.6 percent, respectively, while the U.S. growth in those quarters was 0.8 and 1.5 percent, respectively.
### Year-Over-Year Percent Change in State Tax Revenue

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<thead>
<tr>
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<th>2007:Q3</th>
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<th>2008:Q3</th>
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<tr>
<td></td>
<td>Personal income</td>
<td>Corporate income</td>
<td>Sales</td>
<td>Total</td>
</tr>
<tr>
<td>Arkansas</td>
<td>7.3</td>
<td>9.3</td>
<td>–2.5</td>
<td>3.2</td>
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<tr>
<td>Illinois</td>
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<td>–4.3</td>
<td>–2.9</td>
<td>1.3</td>
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<td>6.2</td>
<td>3.7</td>
<td>5.6</td>
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<td>3.2</td>
<td>2.4</td>
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<tr>
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</tr>
<tr>
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<tr>
<td>Tennessee</td>
<td>—</td>
<td>13.3</td>
<td>3.0</td>
<td>5.9</td>
</tr>
<tr>
<td>United States</td>
<td>6.3</td>
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NOTE: July-September 08/07 data are preliminary data from early-reporting states collected by the Rockefeller Institute of Government.


In all District states but Arkansas, third-quarter tax revenue growth was lower than it was a year earlier, which mirrors the national experience. For Indiana and Tennessee, total third-quarter 2008 tax revenues were actually lower than they were a year earlier. For the other District states, however, total revenue growth was stronger than the national average.

The largest declines in tax revenue growth tended to be from corporate income taxes. Every state in the District except for Illinois saw double-digit decreases in corporate income tax revenue in the third quarter of 2008 relative to a year earlier. Compared with 2007, year-over-year growth in revenue from personal income taxes was lower for all District states in the third quarter of 2008, although sales tax results were mixed.