

Current Economic Conditions in the Eighth Federal Reserve District

Memphis Zone

December 17, 2008

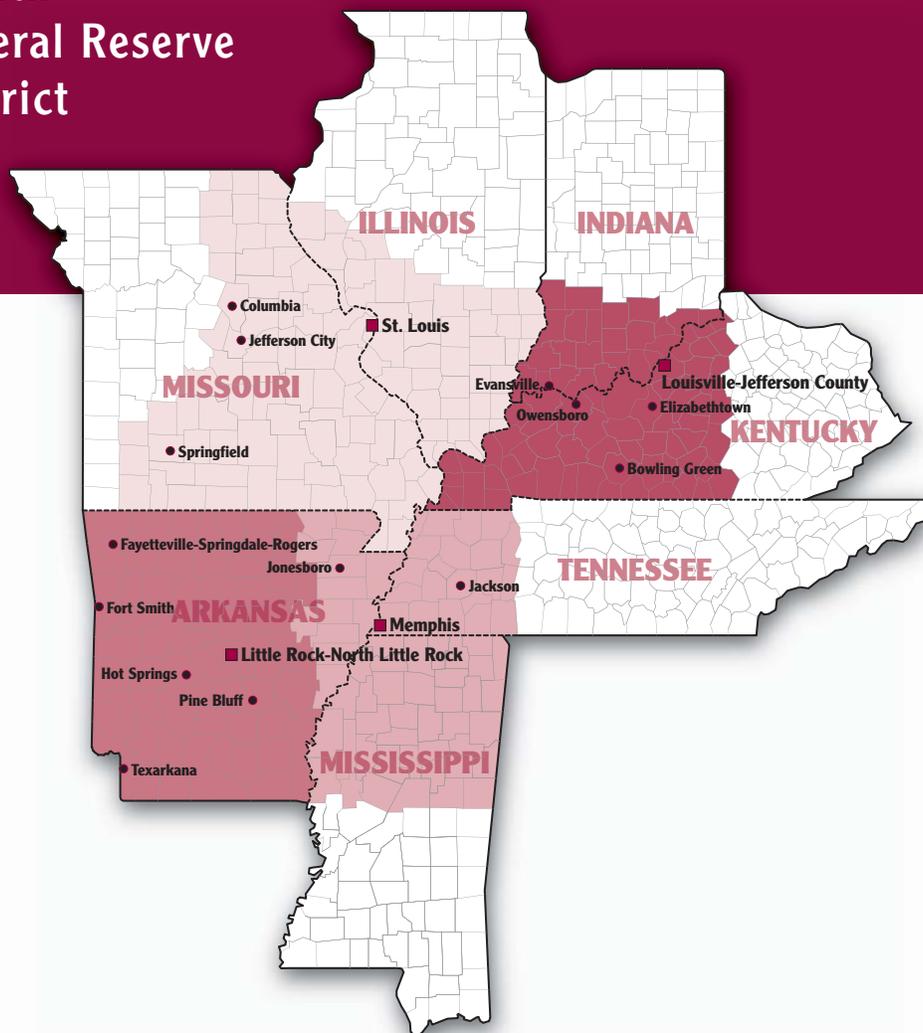
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CRE8

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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 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 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—December 17, 2008

Economic activity in the Memphis zone weakened considerably since the previous report in late September. Retailers reported downturns in sales across the board. Employment in both the manufacturing and service sectors declined. Home sales and construction continued to fall, while the outlook for commercial real estate was mixed.

Consumer Spending

Reports on retail sales were uniformly negative among general retailers and car dealers in the Memphis zone. All of the general retailers and car dealers surveyed indicated that sales were down compared with the previous year. Among the general retailers, 80 percent noted that sales levels were below expectations.

Two-thirds of car dealers reported increased sales of used cars relative to new cars. Also, one-third reported increased sales of low-end cars relative to high-end cars. About 17 percent reported recent increases in rebates, and two-thirds reported lower sales prices. All of the car dealers reported that they are rejecting more financing applications.

About 71 percent of the general retailers and all of the car dealers reported that their inventories were too high. The sales outlook for the rest of 2008 was mostly pessimistic. About 86 percent of the general retailers and 83 percent of the car dealers expect sales for the period to be lower than 2007 levels.

Manufacturing and Other Business Activity

Manufacturing in the Memphis zone continued to decline. Several firms reported plans to consolidate production and lay off workers, including those who manufacture electrical products, appliances, apparel, and plastic products. Some firms in auto parts/automobile manufacturing, building products manufacturing, apparel manufacturing, and fabricated metal manufacturing announced plans for extended layoffs and/or plant shutdowns. In contrast, firms in the aerospace product/parts manufacturing and primary metal manufacturing industries announced plans to expand production and hire additional workers. Also, one firm in the auto parts manufacturing sector announced plans to open two new facilities in the District and to hire additional employees.

The service sector also continued to decline, with firms in the tourism sector reporting lower earnings and firms in education services and financial services announcing plans to lay off workers.

Real Estate and Construction

The residential real estate sector in the Memphis zone continued to decline: Compared with the same period in 2007, October

2008 year-to-date home sales were down by 19 percent, while year-to-date single-family housing permits were down by 57 percent. Reports on the commercial real estate side were mixed. According to a contact in Memphis, total committed projects for 2009 for one of the area's largest commercial contractors are at a record level. However, a Districtwide commercial construction contact reported that backlogs are shortening and interest in new projects has slowed sharply. Although industrial and office vacancy rates in Memphis were down in the third quarter, contacts suggested that this was due to a lack of new industrial construction rather than increasing demand. A contact in Memphis noted that increased interest in rail transportation is likely to benefit their industrial market.

Banking and Finance

Banking conditions in the Memphis zone deteriorated slightly during the past three months. Contacts reported varying levels of demand for consumer loans, ranging from unchanged to a modest decrease. Demand for business loans was generally reported to be down. One exception was agricultural loans, for which increased demand was reported. Half of all contacts reported a continued decline in demand for new residential mortgage loans, but there were also reports of a noticeable increase in refinancing activity. Most contacts reported tightened credit standards across all types of loans. All contacts reported a steady increase in deposits.

Agriculture and Natural Resources

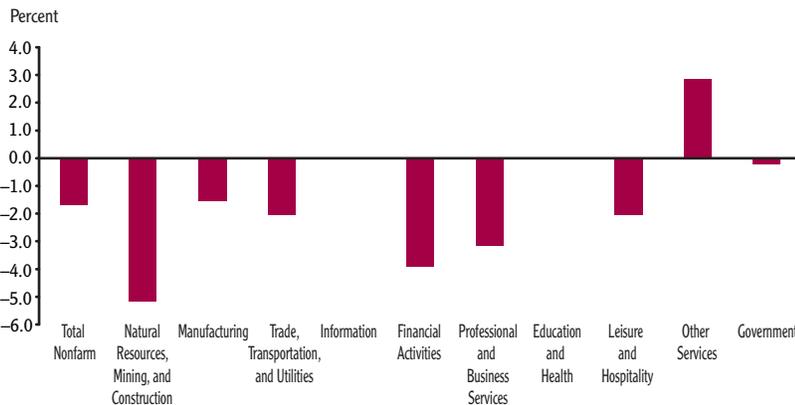
Good weather conditions helped many farmers throughout the Memphis zone make significant progress harvesting their crops. As of mid-November, farmers had harvested all of their corn and rice and at least 95 percent of their soybeans and cotton. November estimates showed that yields for corn, soybeans, rice, and cotton are between 5 percent and 10 percent lower than last year. In Tennessee, however, yields for soybeans and cotton are each about 60 percent higher than last year. As of mid-November, farmers had planted at least 80 percent of their intended winter wheat crop. Crop development was slightly behind normal in Tennessee and Mississippi.

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



Recent estimates continue to indicate that Memphis employment has contracted more sharply than the national average throughout 2008. Over the three-month period ending in October 2008, Memphis monthly employment contracted at a 0.17 percent monthly rate, while U.S. employment fell at a monthly rate of 0.11 percent.

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



Between October 2007 and October 2008, employment growth in the Memphis MSA was negative in all goods-producing sectors and in most service-providing sectors. The only service sector to show ongoing expansion was “other services,” which was up 2.9 percent. Information services and Education and Health services were unchanged from a year earlier. Employment in natural resources, mining, and construction; financial activities; and professional and business services were all down by more than 3 percent.

Memphis Zone—MSA Employment and Unemployment

Nonfarm payroll employment percent change,
October 2007–October 2008

	Total	Goods producing	Service providing	Unemployment rate October 2008
Memphis	-1.67	-2.77	-1.51	7.0
Jackson, Tenn.	0.00	-1.40	0.42	6.7
United States	-0.31	-3.35	0.28	6.1

SOURCE: Bureau of Labor Statistics.

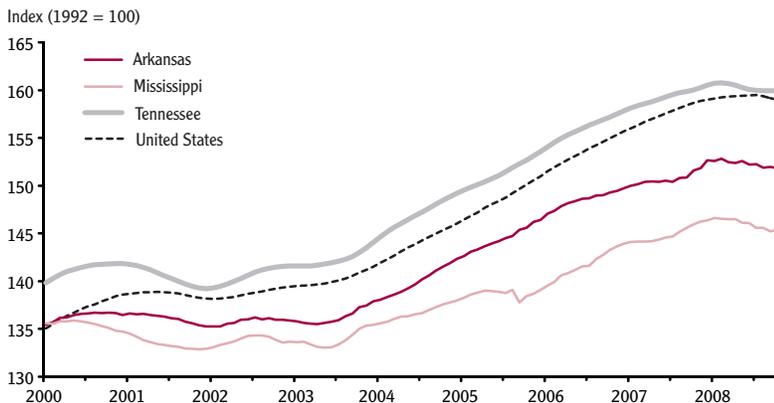
Memphis Zone—MSA Housing Activity

	Total building permits, units year-to-date		House price index, percent change, 2008:Q3/2007:Q3
	October 2008	Percent change	
Memphis	2,994	-56.8	-0.68
Jackson, Tenn.	279	-39.9	-2.63
Jonesboro, Ark.	509	13.1	4.55
United States	812,088	-33.2	-4.00

SOURCE: Bureau of the Census, Federal Housing Financing Authority.

Total residential building permits in October 2008 were lower than a year earlier in two of the three MSAs in the Memphis zone. In Memphis and Jackson, Tennessee, year-to-date permits were down 57 percent and 40 percent, respectively, while permits fell by 33 percent nationally. Permits were up by 13 percent in Jonesboro, Arkansas. As of the third quarter, house price indices showed declines of 0.7 percent in Memphis and 2.6 percent in Jackson. House prices were up by 4.6 percent in Jonesboro. Nationwide, house prices were down by 4 percent over the same period.

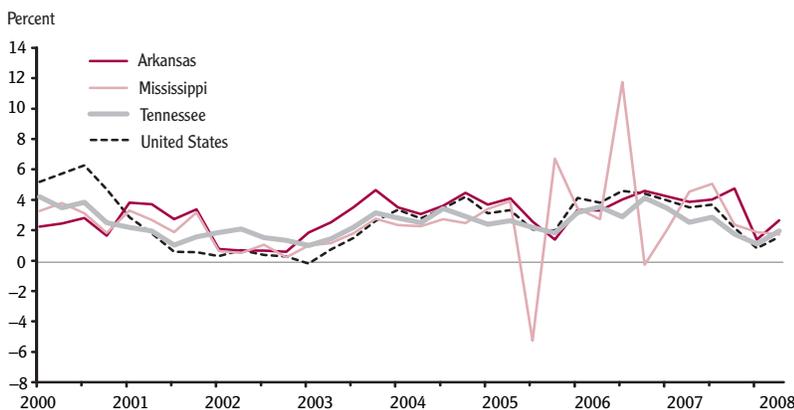
Memphis Area Coincident Economic Activity Index



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 had tended to keep pace with the nation until recently. Through most of 2008, growth rates have slowed in Mississippi and Tennessee. For the twelve months through October 2008, the index grew by -0.06, -0.40, and 0.16 percent in Tennessee, Mississippi, and Arkansas, respectively. Over the same period, the index for the U.S. grew by 0.21 percent.

Memphis Area Real Personal Income Growth Percent Change, Year/Year



SOURCE: Bureau of Economic Analysis.

Personal income growth in Arkansas has tended to keep pace with national income growth since 2004, while Tennessee and Mississippi have 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 second quarter of 2008, all three states were showing year-over-year growth in excess of the national average. Arkansas was up 2.6 percent, Mississippi was up 1.7 percent, and Tennessee was up 1.9 percent. For the United States as a whole, personal income growth was 1.5 percent over the same period.

Year-Over-Year Percent Change in State Tax Revenue

	2007:Q3				2008:Q3			
	Personal income	Corporate income	Sales	Total	Personal income	Corporate income	Sales	Total
Arkansas	7.3	9.3	-2.5	3.2	5.7	-10.7	3.7	4.8
Illinois	5.5	-4.3	-2.9	1.3	3.7	1.5	2.5	2.7
Indiana	7.2	6.2	3.7	5.6	-1.9	-10.5	2.7	-0.6
Kentucky	11.5	-41.4	3.2	2.4	6.6	-49.8	1.6	0.4
Mississippi	9.5	14.4	-3.1	2.7	-1.9	-14.6	2.9	1.2
Missouri	7.3	-2.3	4.8	5.8	2.4	-14.5	-2.5	0.4
Tennessee	—	13.3	3.0	5.9	—	-25.2	-2.0	-4.8
United States	6.3	-2.4	3.1	4.4	1.5	-8.3	-0.7	0.1

NOTE: July-September 08/07 data are preliminary data from early-reporting states collected by the Rockefeller Institute of Government.

SOURCE: The Nelson A. Rockefeller Institute of Government/U.S. Bureau of the Census.

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.