

Current Economic Conditions in the Eighth Federal Reserve District

Little Rock Zone

March 18, 2009

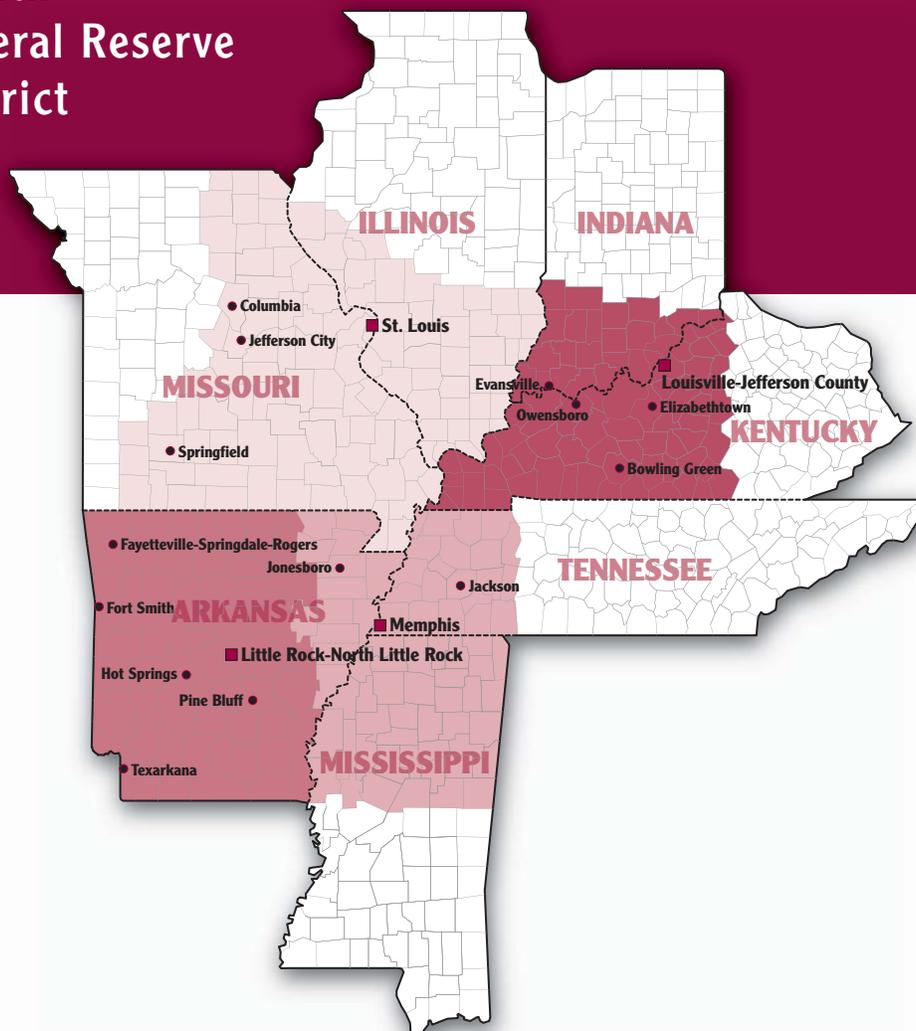
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Eighth Federal Reserve District



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/2009/). 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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Little Rock Zone Report—March 18, 2009

Weak economic conditions have continued to prevail in the Little Rock zone, but some positive developments were evident as well. Home sales and building permits continued to decline, along with further weakening of commercial construction. Manufacturing firms and service sector businesses announced high-profile plant closures and layoffs. Nevertheless, some businesses in the zone announced plans for expansion and the hiring of new workers. A survey of general retailers found that a majority experienced increased sales in January and February compared with a year earlier.

Consumer Spending

Retail sales reports for January and early February were mixed among general retailers and mostly negative among car dealers in the Little Rock zone. About 80 percent of the car dealers surveyed indicated that sales were down compared with the same months in 2008. In contrast, 60 percent of the general retailers reported increased sales, with only 20 percent reporting decreased sales.

Among car dealers, 40 percent noted that new car sales had increased relative to used car sales, while none reported the opposite. Also, 40 percent reported an increase in sales of high-end relative to low-end vehicles. About 60 percent reported recent increases in rebates and incentives, while none reported fewer rebates. About 20 percent reported more rejections of finance applications, but another 20 percent reported fewer rejections.

The sales outlook for March and April was mostly pessimistic among the general retailers and mixed among the car dealers. Two-thirds of the general retailers and 40 percent of the car dealers expect sales to decrease over 2008 levels, while the remaining contacts expect sales to increase.

Manufacturing and Other Business Activity

Manufacturing activity in the Little Rock zone has continued to decline. Firms in machinery manufacturing, electrical equipment manufacturing, and animal processing/slaughtering all announced large layoffs, citing weak product demand and a need to control costs. In addition, firms in steel-product, metal working, and auto parts manufacturing announced job layoffs. Firms in plastics manufacturing, food manufacturing, and footwear manufacturing all closed a plant in the zone. In contrast, a large firm in heavy machinery manufacturing announced plans to build a new facility and hire additional workers; firms in natural gas manufacturing and sugar manufacturing also announced plans to open new facilities in the zone and hire new workers.

Economic activity in the service sector declined, with large job losses from major employers. Some contacts in the financial services and transportation/warehousing industries reported

plans to expand operations and hire additional workers. However, firms in the transportation services and business support services reported plans to lay off workers amidst declining revenue.

Real Estate and Construction

Home sales in Little Rock were down by 22 percent in 2008 compared with 2007. For the same period, single-family housing permits were down by 35 percent. Data for January 2009 show home sales down by 23 percent and single-family housing permits down by 46 percent from the previous year. In the fourth quarter of 2008, the industrial vacancy rate in Little Rock declined from the previous quarter, while suburban and downtown office vacancy rates increased. A contact in northeast Arkansas reported that overall commercial construction is at a standstill.

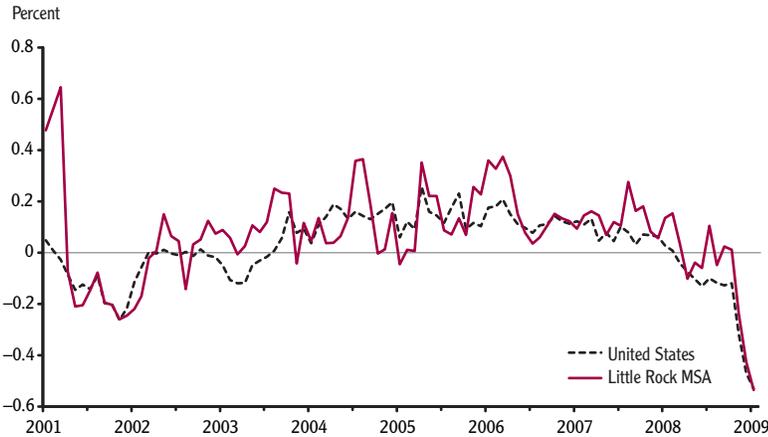
Banking and Finance

Contacts provided mixed reports on local banking conditions. Consumer lending activity declined, residential mortgage lending increased, and there was little or no change in commercial and industrial lending activity. Contacts indicated that both tighter lending standards and a decrease in demand due to economic uncertainty have slowed consumer lender activity. All contacts reporting on residential mortgage lending noted a substantial increase in refinancing activity, but little to no change in lending activity for new mortgage loans. Reports indicate little to no change in deposits.

Agriculture and Natural Resources

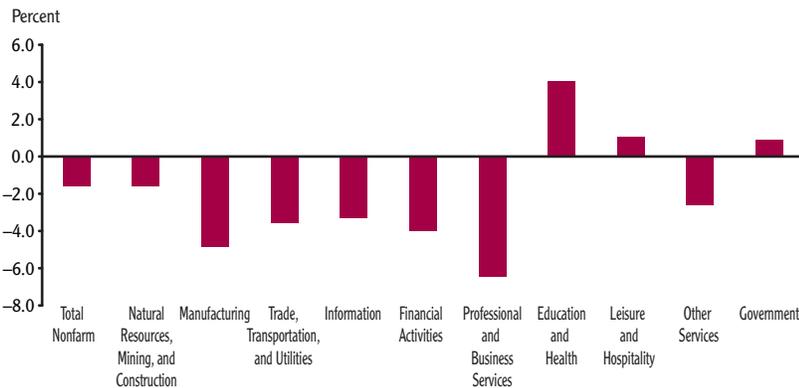
The total value of field crops in Arkansas increased by 10 percent from 2007 to 2008. Across crops, however, changes in prices and production were mixed: Both the price and output of winter wheat increased from 2007 to 2008, while the price and production of cotton decreased. The price of soybeans decreased but production was higher, while the opposite occurred for corn, rice, and sorghum (the price increased but production decreased). Total coal production in Arkansas for 2008 decreased by 29 percent from 2007 levels.

Nonfarm Payroll Employment Growth 3-Month Average, SA, January 2001–January 2009



During much of 2007 and 2008, payroll employment growth in the Little Rock MSA was stronger than for the nation as a whole. Beginning in late 2008, both local and national employment turned sharply downward. The latest figures show that for the three months ending January 2009, employment contracted at a rate of 0.5 percent for both the Little Rock MSA and for the nation as a whole.

Little Rock Employment Growth by Sector Year/Year Percent Change, January 2008–January 2009



Between January 2008 and January 2009, employment in the Little Rock metro area declined in all goods-producing sectors and in most service-providing sectors as well. Employment in education and health continued to grow, expanding by 4 percent. In the leisure and hospitality sector, as well as in government, employment registered small increases over the 12-month period. Professional and business services recorded the largest decline, exceeding 6 percent. Substantial declines were also recorded for information services; financial services; trade, transportation, and utilities; and manufacturing.

Little Rock Zone—MSA Employment and Unemployment

Nonfarm payroll employment percent change,
January 2008–January 2009

	Total	Goods producing	Service providing	Unemployment rate December 2008
Little Rock	-1.59	-3.42	-1.33	4.9
Fayetteville-Springdale-Rogers, Ark.	-0.73	-4.72	0.31	4.6
Fort Smith, Ark.	-1.21	-6.41	0.78	4.7
Texarkana, Ark.-Tex.	1.40	-5.41	2.40	4.7
United States	-2.48	-8.28	-1.39	7.1

SOURCE: Bureau of Labor Statistics.

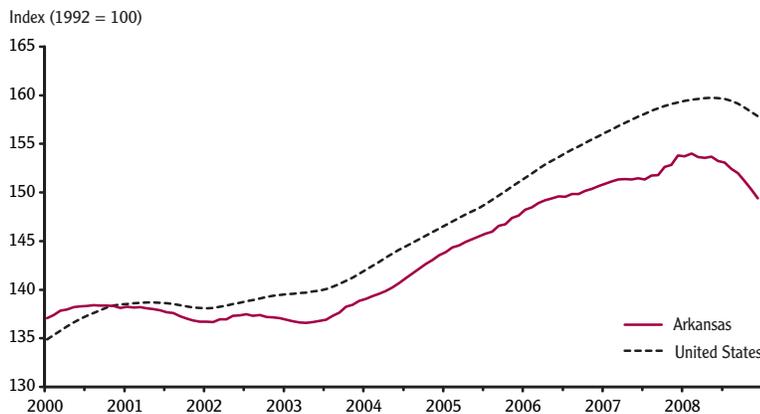
Little Rock Zone—MSA Housing Activity

	Total building permits, units year-to-date		House price index, percent change, 2008:Q4/2007:Q4
	January 2009	Percent change	
Little Rock	420	101.0	1.21
Fayetteville-Springdale-Rogers, Ark.	64	-61.4	-3.04
Fort Smith, Ark.	56	-37.1	0.61
Hot Springs, Ark.	2	-66.7	-2.08
Pine Bluff, Ark.	0	-100.0	-0.76
Texarkana, Ark.-Tex.	4	-78.9	1.06
United States	36,250	-52.3	-4.47

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

Total residential building permits in January were above the previous-year's levels in Little Rock, but were down in all other metro areas in the zone. In Little Rock, permits doubled from the previous year. At the opposite extreme, no permits were issued in Pine Bluff during the month of January. As of the end of 2008, housing prices were down by 2 percent in Hot Springs and 3 percent in the Fayetteville-Springdale-Rogers metro area, compared with the previous year. Prices were also lower in Pine Bluff, but were up from the previous year in Little Rock, Fort Smith, and Texarkana. None of the metro areas in the zone experienced price declines as large as the national average.

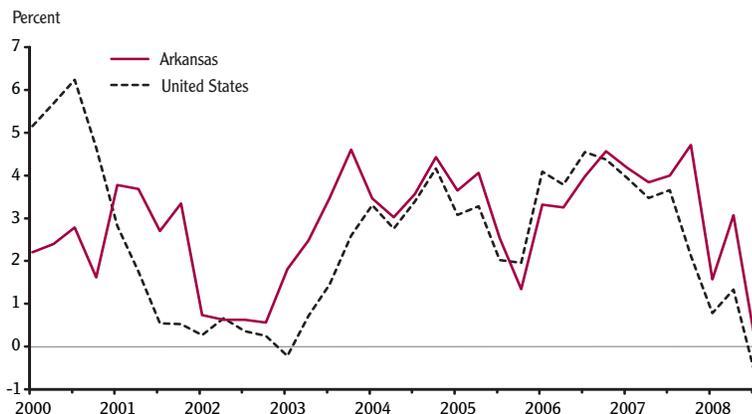
Arkansas Coincident Economic Activity Index



SOURCE: Federal Reserve Bank of Philadelphia.

The Philadelphia Fed's coincident index combines payroll employment, wages and salaries, the unemployment rate, and hours worked in a single index. According to this index, Arkansas has underperformed the country as a whole since 2000. Recent data show a sharp downward turn for both Arkansas and the nation as a whole. In December 2008, compared with the previous year, the index was down by 0.9 percent for the nation and by 2.9 percent for Arkansas.

Arkansas Real Personal Income Growth Percent Change, Year/Year



SOURCE: Bureau of Economic Analysis.

Personal income growth in Arkansas has kept slightly ahead of national income since 2006. During 2007 and 2008, however, personal income growth has slowed sharply. The most recent available data indicate that in the third quarter of 2008, personal income had contracted by 0.6 percent for the nation as a whole (relative to the third quarter of 2007). In Arkansas, the year-over-year growth rate remained slightly positive, registering a 0.2 percent gain.

Annual Revisions of the Metro-Area Employment Data

	December 2007–December 2008				December 2006–December 2007			
	Original estimate as of January 2009		Revised estimate as of March 2009		Original estimate as of January 2009		Revised estimate as of March 2009	
	Thousands	Percent change	Thousands	Percent change	Thousands	Percent change	Thousands	Percent change
Large Metro Areas								
Little Rock–N. Little Rock, Ark.	–5.8	–1.7	–4.7	–1.3	5.2	1.5	5.0	1.5
Louisville, Ky.–Ind.	–16.1	–2.5	–16.9	–2.7	6.9	1.1	4.3	0.7
Memphis, Tenn.–Ark.–Miss.	–15.7	–2.4	–15.7	–2.4	5.4	0.8	–0.1	0.0
St. Louis, Mo.–Ill.	–23.0	–1.7	–19.8	–1.4	2.0	0.1	6.7	0.5
Small and Medium Metro Areas								
Fayetteville–Springdale– Rogers, Ark.	–2.5	–1.2	–2.6	–1.2	0.9	0.4	1.2	0.6
Fort Smith, Ark.–Okla.	–1.6	–1.3	–1.4	–1.1	1.7	1.4	2.1	1.7
Texarkana, Texas–Ark.	1.2	2.1	0.9	1.6	0.7	1.2	0.9	1.6
Bowling Green, Ky.	–0.8	–1.3	–1.5	–2.4	1.8	2.9	1.6	2.6
Evansville, Ind.–Ky.	–2.5	–1.4	–4.6	–2.6	1.4	0.8	–0.2	–0.1
Jackson, Tenn.	–0.9	–1.4	–1.7	–2.7	0.3	0.5	0.0	0.0
Columbia, Mo.	0.0	0.0	1.1	1.2	1.0	1.1	–0.1	–0.1
Jefferson City, Mo.	–1.0	–1.2	–0.7	–0.9	1.5	1.9	1.5	1.9
Springfield, Mo.	0.1	0.1	–4.6	–2.3	5.2	2.6	4.4	2.2

In early March of each year, the Bureau of Labor Statistics carries out a benchmark revision of state and local payroll employment data using information from the more-comprehensive Quarterly Census of Employment and Wages (QCEW). The payroll employment data are revised going back 21 months and the new numbers sometimes show a dramatically different view of local employment experiences. This year, however, data revisions for Eighth District metro areas are relatively small. The revisions for the 2007 and 2008 calendar years are presented in the table. Note that the data for 2008 are subject to revision again in March 2010.