

Current Economic Conditions in the Eighth Federal Reserve District

Memphis Zone

March 18, 2009

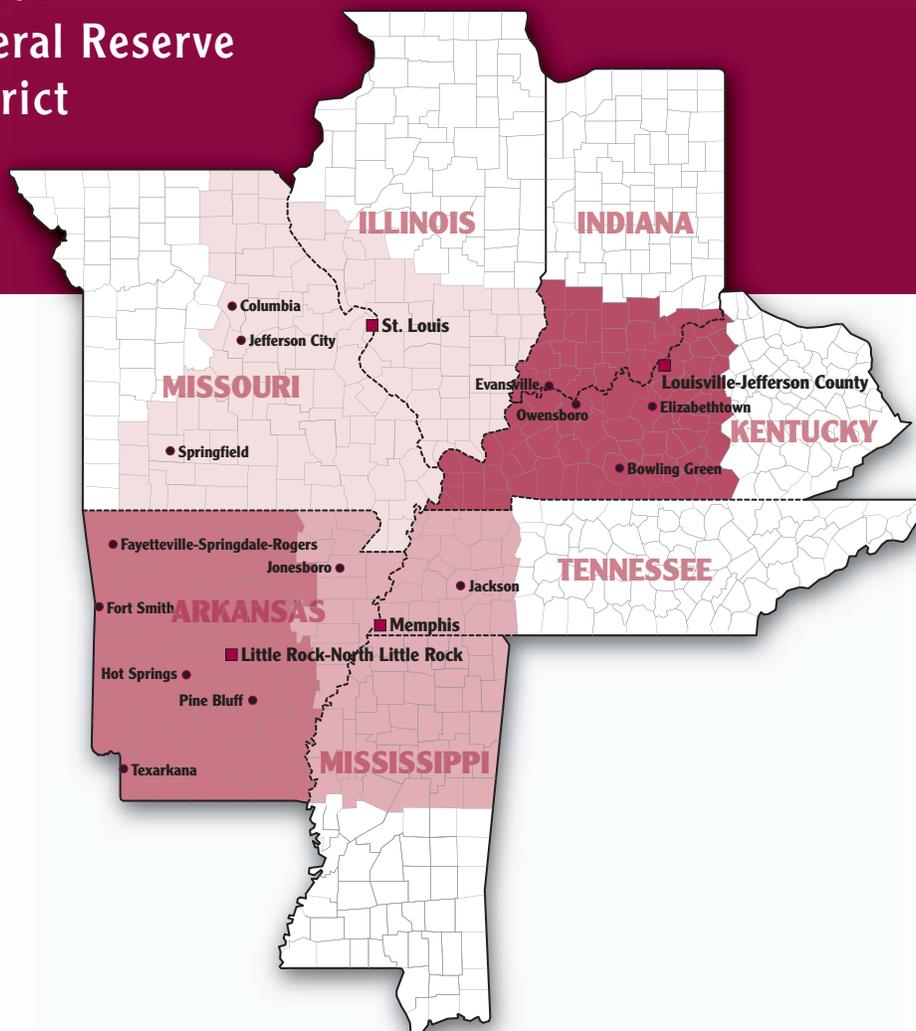
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CRE8

Center for Regional Economics—8th District



Eighth Federal Reserve District



This report (known as the *Burgundy Book*) summarizes information on economic conditions in the 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/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 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—March 18, 2009

Economic activity in the Memphis zone weakened further since the December report. Retail and auto sales declined in January and early February. Manufacturing reports were mixed, and the service sector continued to decline. Home sales and construction continued to fall, and banking conditions worsened.

Consumer Spending

Retail sales reports for January and early February were negative among both general retailers and car dealers in the Memphis zone. Nearly all of the contacts surveyed indicated that sales were down compared with the same months in 2008. Among general retailers, 60 percent reported that sales were below what they had anticipated, while 40 percent reported that sales met their expectations. Car dealers tended to note that used car sales had increased relative to new car sales. Half reported an increase in sales of low-end relative to high-end vehicles. Car dealers also reported more rejections of finance applications. About 57 percent of the general retailers and half of the car dealers reported that their inventories were too high, while 14 percent of the general retailers and 17 percent of the car dealers reported that inventories were too low. Nearly all of the general retailers and 83 percent of the car dealers expect sales to decrease in March and April over 2008 levels, while the remaining car dealers expect sales to increase.

Manufacturing and Other Business Activity

Manufacturing activity in the Memphis zone was mixed from December 2008 through February 2009. Firms in the auto parts and wood-product manufacturing industries announced plans to lay off workers and cut production. Firms in paper-product manufacturing and furniture manufacturing announced plans to close facilities in the zone, and a firm in auto manufacturing abandoned plans for a new facility. In contrast, firms in the transportation, household appliance, and airplane manufacturing industries announced plans to expand their existing facilities, hire new workers, and increase production. Some contacts in furniture manufacturing expressed optimism that a new foreign trade zone designation would lower costs and improve business. The service sector continued to decline, with a large number of firms announcing job layoffs. Contacts in the leisure/hospitality, transportation, medical, educational, business support, and information services industries announced plans to cut jobs. Additionally, a large firm in transportation services announced pay cuts for a significant part of its workforce.

Real Estate and Construction

Memphis 2008 home sales were down by 19 percent compared with 2007, while January 2009 sales were down by 39 percent compared with January 2008. Single-family housing permits declined 59 percent in 2008 from the previous year, while January 2009 single-family housing permits declined 57 percent compared with January 2008. The fourth-quarter 2008 industrial vacancy rate increased in Memphis relative to the third quarter. During the same period, the suburban and downtown office vacancy rates decreased. A contact in Memphis reported that Shelby County, Tennessee, has had no new industrial construction since late 2007 and that no new industrial construction is slated for DeSoto County, Mississippi, for the whole of 2009.

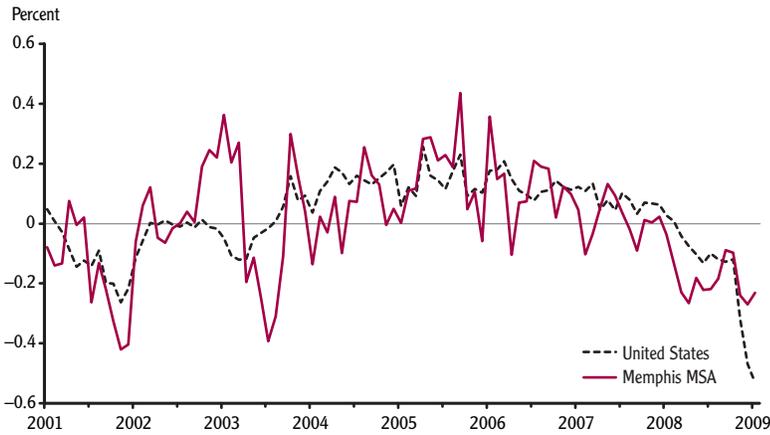
Banking and Finance

Banking conditions in the Memphis zone deteriorated during the past three months. Most contacts reported little change in demand for consumer loans. All contacts reported a decline in the demand for business loans. Contacts indicated that lower rates have helped increase residential mortgage lending activity, but also noted that most of the activity has been refinances. Most contacts indicated little to no change in the demand for new residential mortgage loans. Reports indicate a slight increase in deposits.

Agriculture and Natural Resources

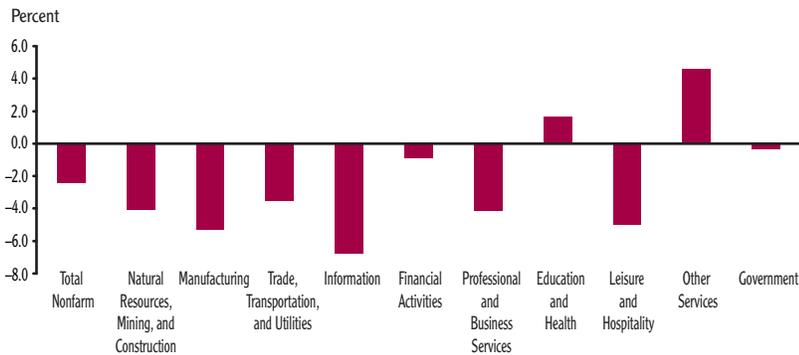
Total coal production in Mississippi and Tennessee for December was 20 percent lower than year-earlier levels, and total coal production for 2008 decreased by 16 percent from 2007 levels. The total value of field crops in the Memphis zone states increased 24 percent from 2007 to 2008. The price and production of winter wheat in Mississippi and Tennessee increased from 2007 to 2008, and the prices of corn and cotton increased but production decreased. The price of soybeans increased in Mississippi and decreased in Tennessee, while production increased in both states. The price of sorghum decreased in both states, while production decreased in Mississippi but increased in Tennessee. Also, the prices and production of rice in Mississippi and tobacco in Tennessee increased.

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



Recent estimates indicate that Memphis employment has contracted less sharply than the national average. Over the three-month period ending in January 2009, Memphis monthly employment contracted at a 0.23 percent monthly rate, while U.S. employment fell at a monthly rate of 0.53 percent.

Memphis MSA Employment Growth by Sector Year/Year Percent Change, January 2008–January 2009



Between January 2008 and January 2009, 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 expansion was the education and health services sector, which increased by 1.7 percent, and the “other services” category, which increased by 4.6 percent. Employment in the trade, transportation, and utilities sector declined by 3.5 percent, while employment in both professional and business services and in leisure and hospitality services fell by more than 4 percent.

Memphis Zone—MSA Employment and Unemployment

Nonfarm payroll employment percent change,
January 2008–January 2009

	Total	Goods producing	Service providing	Unemployment rate December 2008
Memphis	-2.44	-4.89	-2.10	7.6
Jackson, Tenn.	-2.14	-8.70	-0.21	7.6
United States	-2.48	-8.28	-1.39	7.1

SOURCE: Bureau of Labor Statistics.

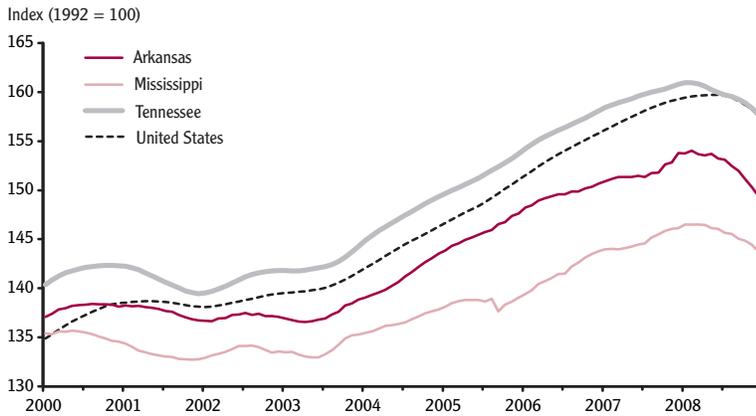
Memphis Zone—MSA Housing Activity

	Total building permits, units year-to-date		House price index, percent change, 2008:Q4/2007:Q4
	January 2009	Percent change	
Memphis	283	36.1	-2.89
Jackson, Tenn.	8	-38.5	0.99
Jonesboro, Ark.	14	-65.9	1.59
United States	36,250	-52.3	-4.47

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

Total residential building permits in January 2009 were lower than a year earlier in two of the three MSAs in the Memphis zone. Permits declined by 39 percent in Jackson, Tennessee, and declined 66 percent in Jonesboro, Arkansas. In contrast, permits increased by 36 percent in Memphis. House prices declined by 2.9 in Memphis in the fourth quarter of 2008 compared with a year earlier, while house prices increased by 1 percent in Jackson and 1.6 percent in Jonesboro. Nationwide, house prices were down by 4.5 percent over the same period.

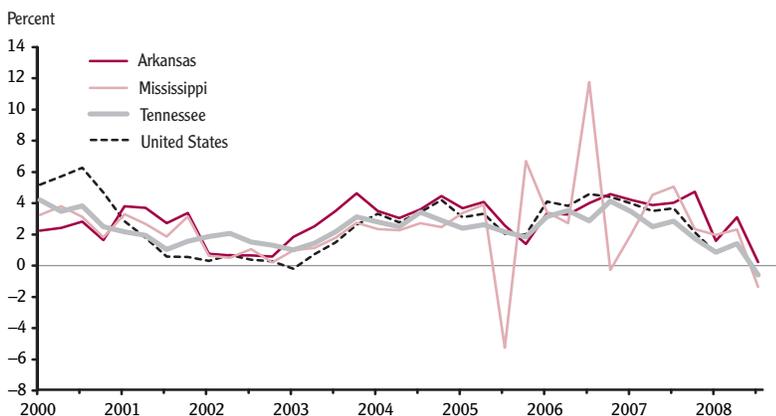
Memphis Area Coincident Economic Activity Index



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 has tended to keep pace with the nation. Through most of 2008, 12-month growth rates slowed in all the zone states. For the 12 months through December 2008, the index declined by 1.9, 1.6, and 2.8 percent in Tennessee, Mississippi, and Arkansas, respectively. Over the same period, the index for the United States fell by 0.9 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 more volatile income growth. As of the third quarter of 2008, only Arkansas showed positive year-over-year growth of 0.2 percent. Mississippi fell the lowest with a decline of 1.4 percent, while Tennessee was down by 0.7 percent. For the U.S. as a whole, personal income declined 0.6 percent over the same period.

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.