

Current Economic Conditions in the Eighth Federal Reserve District

Little Rock Zone

September 24, 2009

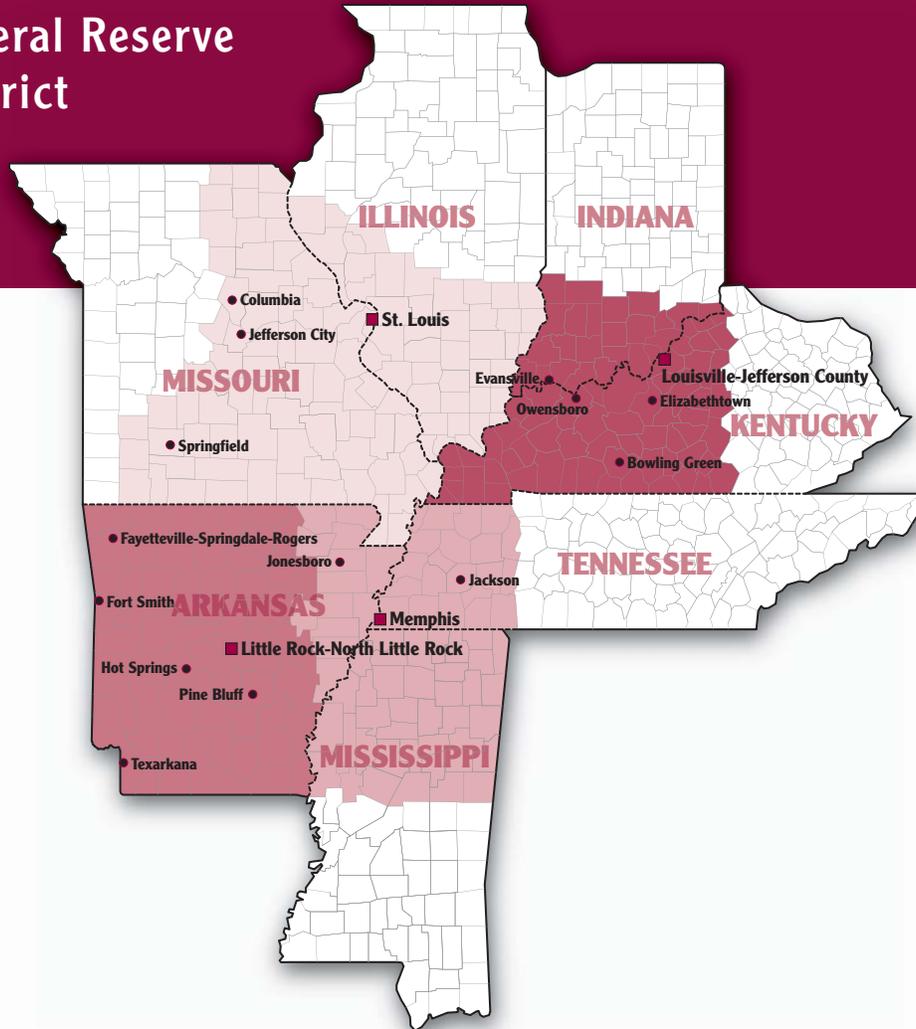
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Eighth Federal Reserve District



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—September 24, 2009

Economic activity in the Little Rock zone has continued to stabilize since the June report. Reports suggest that retail sales have been slow. Manufacturing activity showed signs of improvement, while firms in business support services reported layoffs. Banking conditions have been mixed, with commercial and industrial lending decreasing slightly.

Consumer Spending

Retail sales reports for July and the first part of August were mixed among general retailers and car dealers in the Little Rock zone. Half of the general retailers and 17 percent of the car dealers surveyed indicated that sales were up compared with the same months in 2008. One-third of each group reported decreased sales, and the remaining contacts reported flat sales. Among the general retailers, 75 percent noted that sales levels met their expectations and 25 percent reported sales above expectations. Among car dealers, 17 percent noted that new car sales had increased relative to used car sales, and one-third noted an increase in sales of low-end vehicles relative to high-end vehicles. Half of the general retailers and one-third of the car dealers reported that their inventories were too high, while 17 percent of the general retailers and one-third of the car dealers reported that their inventories were too low. The remaining contacts reported that their inventories were at desired levels. The sales outlook for September and October was mostly optimistic among the general retailers but mostly pessimistic among the car dealers. About 83 percent of the general retailers and 17 percent of the car dealers expect sales to increase over 2008 levels, while 17 percent of the general retailers and 83 percent of the car dealers expect sales to decrease.

Manufacturing and Other Business Activity

Manufacturing in the Little Rock zone has begun to expand slightly since our previous report, with a few firms reporting an increase in new hiring activity. New jobs in expanding firms were slightly more numerous than layoffs at contracting firms. Firms in the aerospace, fabricated metal, furniture, and paper product manufacturing industries announced plans to expand operations and hire new workers. In contrast, contacts in the animal slaughtering/processing, household appliance, rubber product, electrical equipment, and frozen food manufacturing industries reported plans to lay off workers and decrease operations. A firm in plastic product manufacturing announced that it will close a plant in the zone. Contacts in the service sector reported new hires related to government services or as a result of federal stimulus dollars. However, firms in business support services reported layoffs as they consolidated operations.

Real Estate and Construction

In Little Rock, compared with the same period in 2008, July 2009 year-to-date home sales were down by 12 percent and July 2009 year-to-date single-family housing permits declined by 19 percent. Compared with the first quarter of 2009, the second quarter 2009 industrial vacancy rate increased. During the same period, the suburban office vacancy rate increased and the downtown office vacancy rate decreased.

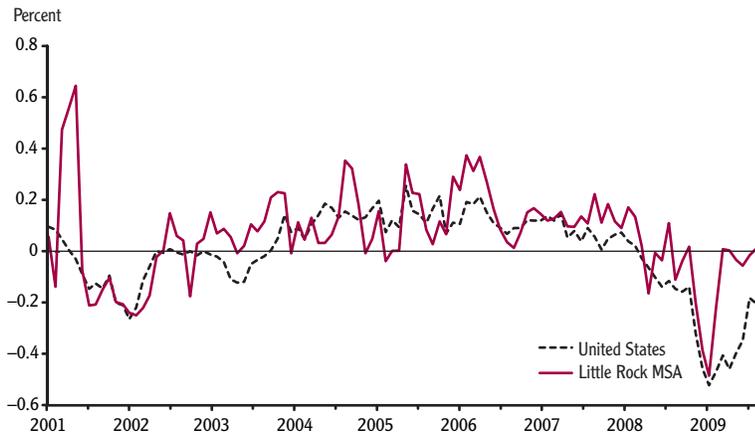
Banking and Finance

Contacts provided mixed reports on local banking conditions. On net, lending activity for commercial and industrial loans decreased slightly, despite a few isolated reports indicating an increase in demand for these loans. Reports on the level of lending to consumers ranged from unchanged to slightly increased. Residential mortgage lending activity decreased slightly, with several contacts indicating that new loan applications and refinancing activity have both slowed since the second quarter. Most contacts reported an increase in delinquencies, although to a lesser extent than earlier in the year. Reports indicate a steady increase in deposits.

Agriculture and Natural Resources

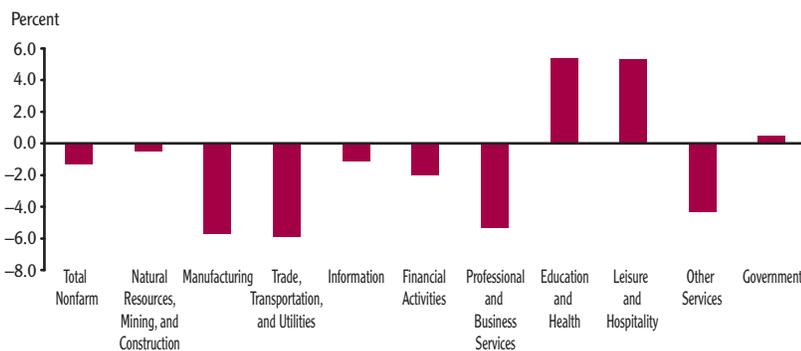
Development of corn, soybean, sorghum, cotton, and rice is behind its normal pace in Arkansas. Since mid-July, corn, soybean, and cotton conditions have declined slightly, but sorghum and rice conditions have improved slightly. In late August, more than 10 percent of the corn, soybeans, and sorghum were rated in poor condition. As of late August, a higher percentage of the pastures in Arkansas were in fair condition or better compared with the same time in 2008. Winter wheat yields were expected to be 18 percent higher. Total production of corn, soybean, rice, and cotton was expected to range from 15 percent lower to 5 percent higher than last year, and total production of sorghum and winter wheat was expected to be at least 60 percent lower than last year.

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



Recent estimates indicate that Little Rock employment growth continues to outperform the national average. Over the three-month period ending in August 2009, Little Rock employment grew at a 0.01 percent monthly rate, while U.S. employment contracted at a 0.21 percent monthly rate.

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



Between August 2008 and August 2009, nonfarm employment growth in the Little Rock MSA was negative in all goods-producing sectors and in all but two service-providing sectors. The only service sectors to show expansion were the education and health services sector (5.4 percent) and leisure and hospitality (5.3 percent). Employment in the manufacturing; trade, transportation, and utilities; and professional business sectors fell by more than 5 percent. Total nonfarm employment fell by 1.3 percent over the period.

Little Rock Zone—MSA Employment and Unemployment

Nonfarm payroll employment percent change,
August 2008–August 2009

| | Nonfarm payroll employment percent change, August 2008–August 2009 | | | Unemployment rate July 2009 |
|--------------------------------------|---|-----------------|-------------------|--------------------------------|
| | Total | Goods producing | Service providing | |
| Little Rock | -1.32 | -3.35 | -1.02 | 6.7 |
| Fayetteville-Springdale-Rogers, Ark. | -1.06 | -3.33 | -0.49 | 6.2 |
| Fort Smith, Ark. | -1.51 | -7.35 | 0.66 | 7.7 |
| Texarkana, Ark.-Tex. | -1.39 | -13.51 | 0.40 | 6.7 |
| United States | -4.10 | -12.41 | -2.54 | 9.7 |

SOURCE: Bureau of Labor Statistics.

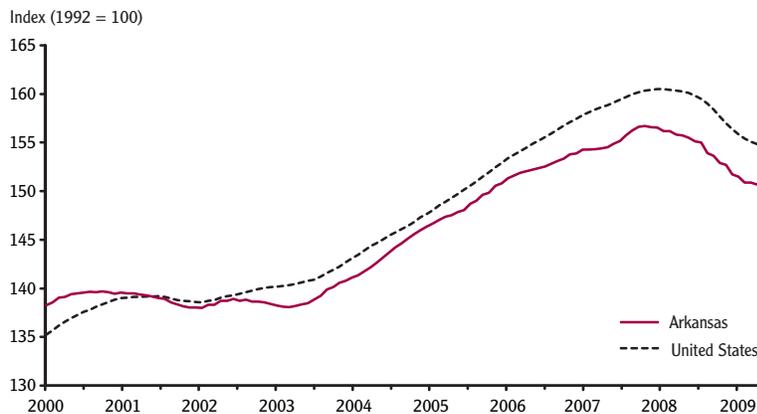
Little Rock Zone—MSA Housing Activity

| | Total building permits, units year-to-date | | House price index, percent change, 2009:Q2/2008:Q2 |
|--------------------------------------|---|-------------------|--|
| | July 2009 | Percent change | |
| Little Rock | 1,807 | -3.7 | 0.52 |
| Fayetteville-Springdale-Rogers, Ark. | 1,151 | -34.1 | -3.94 |
| Fort Smith, Ark. | 444 | 10.2 | 2.55 |
| Hot Springs, Ark. | 22 | -43.6 | -1.99 |
| Pine Bluff, Ark. | 18 | -70.5 | 4.27 |
| Texarkana, Ark.-Tex. | 188 | 97.9 | 4.47 |
| United States | 331,308 | -45.2 | -3.99 |

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

Total residential building permits in July 2009 were lower than a year earlier in all but two MSAs in the Little Rock zone. Permits declined by 70.5 percent in Pine Bluff, by 43.6 percent in Hot Springs, and by 34.1 percent in Fayetteville-Springdale-Rogers. Texarkana, in contrast, saw increases in permits of 97.9 percent, while Little Rock saw a decline of 3.7 percent. Changes in house price indices in the second quarter of 2009 compared with a year earlier were mixed across the MSAs of the zone. Whereas the indices for Little Rock, Fort Smith, Pine Bluff, and Texarkana increased over the period, those for Fayetteville-Springdale-Rogers and Hot Springs decreased.

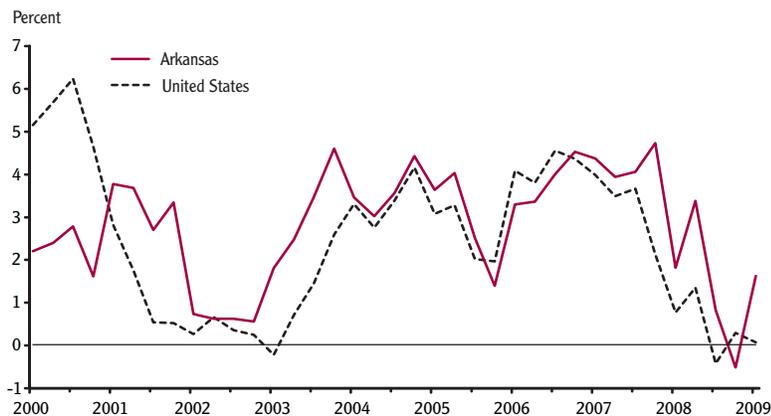
Arkansas Coincident Economic Activity Index



SOURCE: Federal Reserve Bank of Philadelphia.

The Philadelphia Fed's coincident index combines payroll employment, wages and salaries, the unemployment rate, and hours worked into a single index. According to this index, Arkansas has underperformed the country as a whole since 2001. Recently, however, the state's experience has mirrored the nation's. For the 12 months through July 2009, the index declined by 3.2 percent for Arkansas, while it declined by 3.4 for the United States.

Arkansas Real Personal Income Growth Percent Change, Year/Year



SOURCE: Bureau of Economic Analysis.

Personal income growth in Arkansas has tended to keep ahead of national income growth since 2007: Arkansas year-over-year growth in the third and fourth quarters of 2008 was 0.8 and -0.5 percent, respectively, while U.S. personal income growth in those quarters was -0.4 and 0.3 percent. In the first quarter of 2009—the most recent quarter for which there are data—year-over-year income growth in Arkansas was 1.6 percent, compared with a 0.05 percent growth rate for the nation as a whole.

**Residential Mortgage Delinquency Rates for Eighth District States
Percent 90+ Days Delinquent or in Foreclosure, 2009:Q2**

| | All mortgages | Prime | | | Subprime | | |
|-------------------|---------------|------------|------------|-------------|-------------|-------------|-------------|
| | | Total | FRM | ARM | Total | FRM | ARM |
| Missouri | 5.0 | 3.0 | 2.5 | 7.3 | 18.6 | 13.7 | 27.2 |
| Illinois | 8.6 | 5.5 | 4.0 | 13.6 | 29.9 | 19.7 | 40.3 |
| Indiana | 8.4 | 5.0 | 4.2 | 12.5 | 23.8 | 18.3 | 34.3 |
| Kentucky | 5.7 | 3.3 | 2.7 | 9.1 | 20.4 | 15.3 | 31.6 |
| Tennessee | 5.9 | 3.3 | 2.7 | 8.8 | 19.7 | 14.6 | 30.1 |
| Mississippi | 7.4 | 4.2 | 3.6 | 14.0 | 22.6 | 17.9 | 34.1 |
| Arkansas | 4.5 | 2.8 | 2.3 | 8.6 | 17.0 | 13.0 | 25.8 |
| U.S. Total | 8.0 | 5.4 | 3.5 | 15.1 | 26.5 | 17.1 | 38.7 |

NOTE: FRM, fixed-rate mortgages; ARM, adjustable-rate mortgages.

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