

Current Economic Conditions in the Eighth Federal Reserve District

Memphis Zone

September 24, 2009

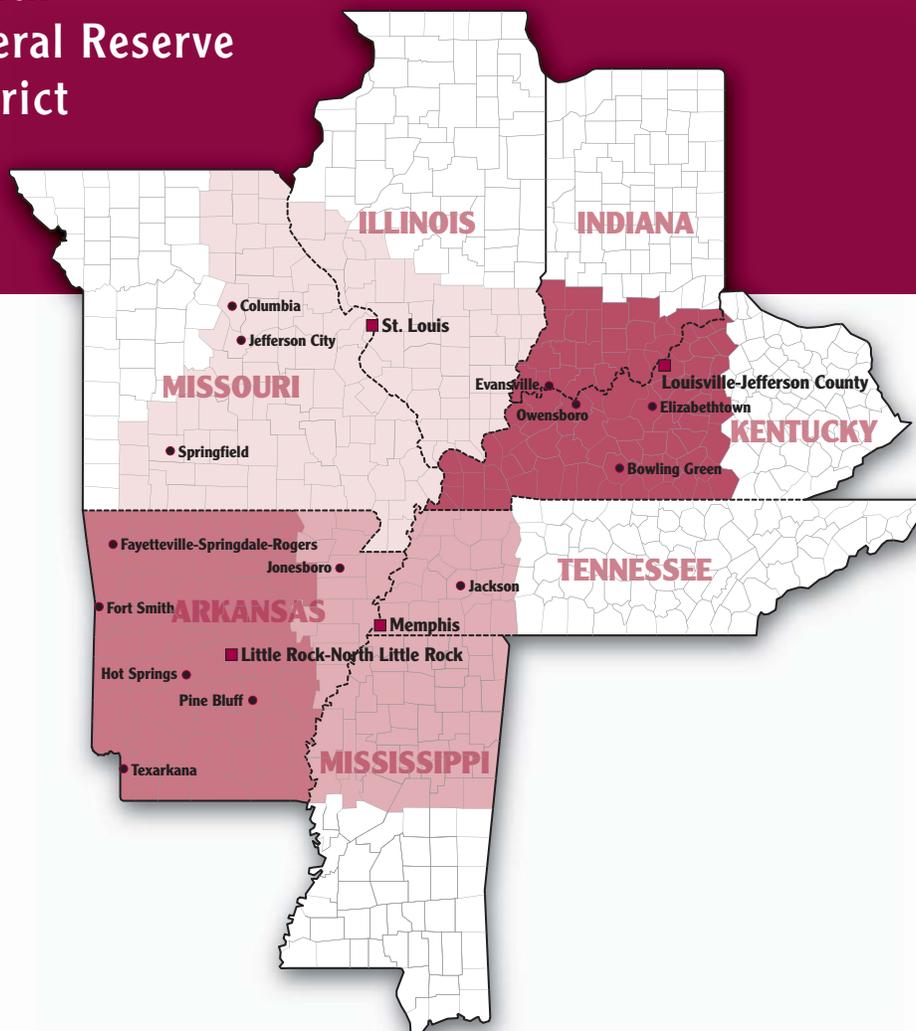
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CRE8

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—September 24, 2009

Economic activity in the Memphis zone continued to weaken during the third quarter of 2009. The majority of general retailers reported a decrease in sales over the same period last year, while one-third of the car dealers reported an increase in sales. Overall activity in manufacturing and services declined. Home sales and construction continued to fall, while banking conditions weakened slightly.

Consumer Spending

Retail sales reports for July and early August were negative among general retailers and mixed among car dealers in the Memphis zone. All of the general retailers and one-third of the car dealers surveyed indicated that sales were down compared with the same months in 2008, while one-third of the car dealers reported increased sales. Among general retailers, half noted that sales were below their expectations and half reported that sales were above what they had anticipated. Among car dealers, one-third noted that new car sales had increased relative to used car sales and 17 percent noted an increase in low-end vehicle sales relative to high-end vehicle sales. One-third of the car dealers reported more rejections of finance applications. The sales outlook for September and October was mostly pessimistic among the general retailers but mixed among the car dealers. About 83 percent of the general retailers and one-third of the car dealers expect sales to decrease from their 2008 levels. Half of the car dealers expect sales to increase.

Manufacturing and Other Business Activity

Manufacturing activity in the Memphis zone continued to decline during the third quarter of 2009, with a larger number of firms reporting job losses and declines in output. Firms in auto parts and auto manufacturing announced large job layoffs and cuts in production, while manufacturers of household appliances and machinery reduced their work force. A firm in paint and adhesive manufacturing closed a plant in the zone, and a firm in rubber tire manufacturing offered buyout packages to 500 employees. In contrast, another manufacturer of rubber tires and a manufacturer of furniture hired new workers and increased production. The service sector continued to decline, with firms in business support and social services reporting job losses.

Real Estate and Construction

The residential real estate market has continued to be weak. Compared with the same months in 2008, June and July 2009 year-to-date home sales in Memphis were down by 17 percent

and 15 percent, respectively. Compared with the same months in 2008, June and July 2009 year-to-date single-family housing permits declined by 51 percent and 49 percent, respectively. Commercial real estate, although weak, performed somewhat better than the residential side. The industrial vacancy rate rose between the first and second quarters of 2009. Over the same period, the downtown office vacancy rate also rose, although the suburban office vacancy rate fell. A contact in the Memphis area reported that new commercial construction is minimal. However, some optimism going forward was expressed by another contact who cited projects planned for 2010.

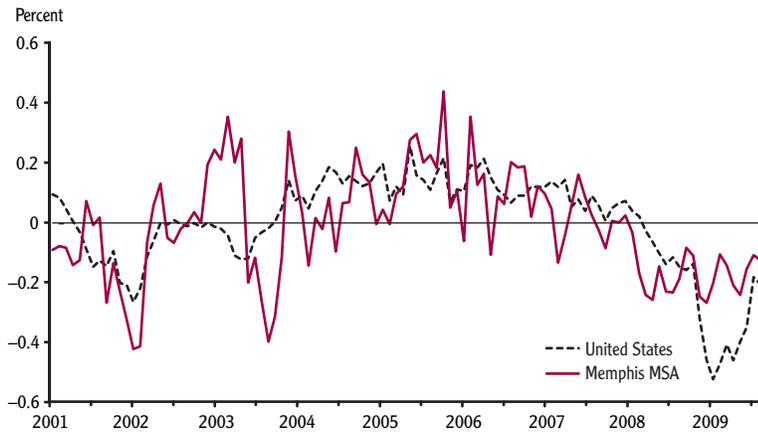
Banking and Finance

Banking conditions in the Memphis zone deteriorated slightly during the past three months. Most contacts indicated a slight decrease in demand for both consumer and business loans. A few contacts noted, however, that they have seen an increase in business loan applications, but restrictive lending standards continue to make it difficult to issue new loans. Reports on residential mortgage activity were mixed, and reports on deposit growth ranged from unchanged to a slight increase. Several contacts noted that delinquency rates continue to rise, but at a slower pace.

Agriculture and Natural Resources

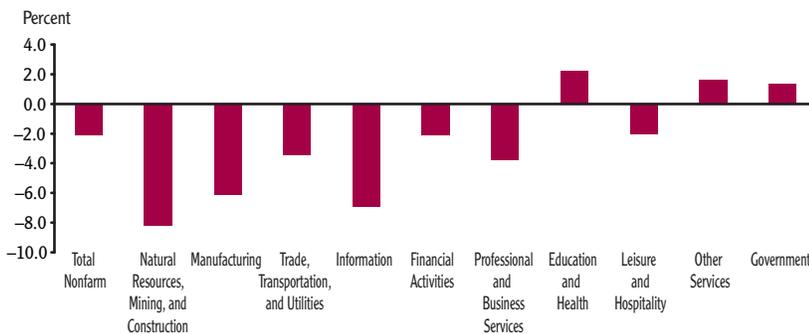
The development of soybeans and cotton is behind the normal pace in Mississippi and Tennessee, as is the development of corn in Tennessee and sorghum and rice in Mississippi. Crop conditions have improved or stayed the same since mid-July for all of the crops except tobacco in Tennessee. As of August, yields for corn, soybeans, rice, and cotton in Mississippi as well as cotton and tobacco in Tennessee were expected to be in the same range as last year. Yields for corn and soybeans in Tennessee were expected to be lower than last year, while winter wheat yields in both states were expected to be higher than last year.

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



Recent estimates indicate that Memphis payroll employment has contracted less sharply than the national average. Over the three-month period ending in August 2009, Memphis employment contracted at a 0.13 percent monthly rate, while U.S. employment contracted at a 0.25 monthly rate.

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



Between August 2008 and August 2009, employment growth in the Memphis MSA was negative in all goods-producing sectors and in most service-providing sectors. Employment expanded in three service sectors: education and health, for which employment increased by 2.3 percent; “other services” (1.6 percent); and government (1.4 percent). The biggest percentage job losses were in manufacturing (6.1 percent); natural resources, mining, and construction (8.2 percent); and information (6.9 percent).

Memphis Zone—MSA Employment and Unemployment

Nonfarm payroll employment percent change,
August 2008–August 2009

	Total	Goods producing	Service providing	Unemployment rate July 2009
Memphis	-2.13	-6.81	-1.49	10.3
Jackson, Tenn.	-3.25	-11.03	-1.04	10.8
United States	-4.10	-12.41	-2.54	9.7

SOURCE: Bureau of Labor Statistics.

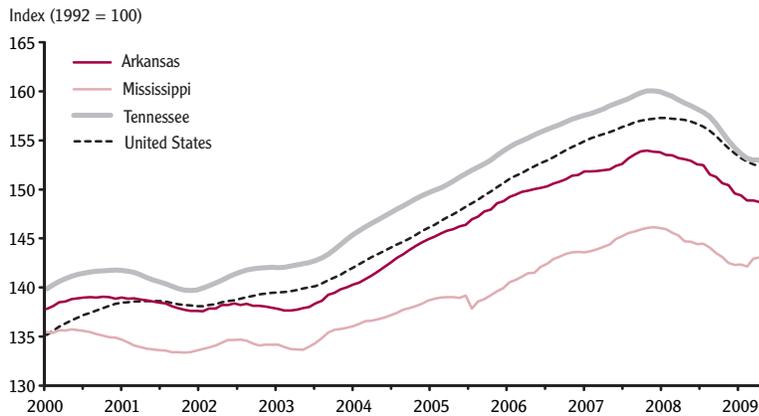
Memphis Zone—MSA Housing Activity

	Total building permits, units year-to-date		House price index, percent change, 2009:Q2/2008:Q2
	July 2009	Percent change	
Memphis	1,248	-44.2	-1.15
Jackson, Tenn.	111	-47.1	1.22
Jonesboro, Ark.	230	-37.5	-0.15
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 of the three MSAs in the Memphis zone. Permits declined by 44 percent in Memphis, by 47 percent in Jackson, Tennessee, and by 38 percent in Jonesboro, Arkansas. According to the FHFA index, house prices declined by 1.2 percent in Memphis in the second quarter of 2009 compared with a year earlier, increased by 1.2 percent in Jonesboro, and remained flat in Jackson. Nationwide, the FHFA index fell by 4.0 percent over the same period.

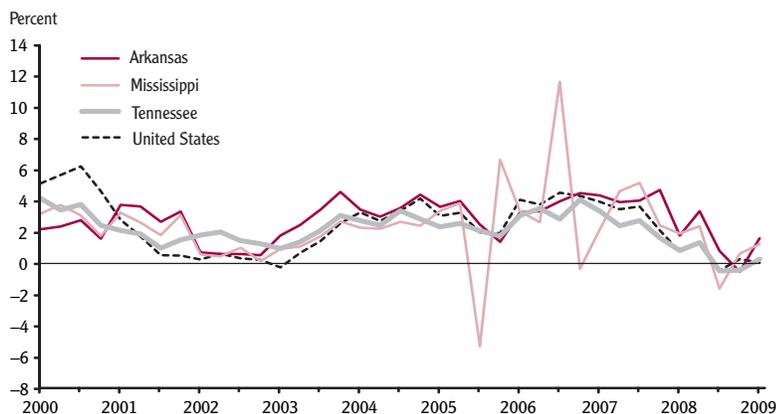
Memphis Area Coincident Economic Activity Index



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. The index decreased in all the zone states from 2008 through May 2009 and increased in June and July 2009 in Tennessee and Mississippi. For the 12 months through July 2009, the index declined by 4.1, 1.5, and 2.7 percent in Tennessee, Mississippi, and Arkansas, respectively. Over the same period, the index for the United States fell by 2.7 percent.

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



SOURCE: Bureau of Economic Analysis.

Since Hurricane Katrina in the third quarter of 2005, Mississippi has experienced more volatile personal income growth than the nation as a whole, while Tennessee and Arkansas have tended to keep pace with the nation. As of the first quarter of 2009, Tennessee, Mississippi, and Arkansas experienced year-over-year growth rates of 0.3, 1.2, and 1.6 percent, respectively. For the nation as a whole, personal income grew by 0.05 percent over the same period.

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.