

Current Economic Conditions in the Eighth Federal Reserve District

Memphis Zone

March 19, 2010

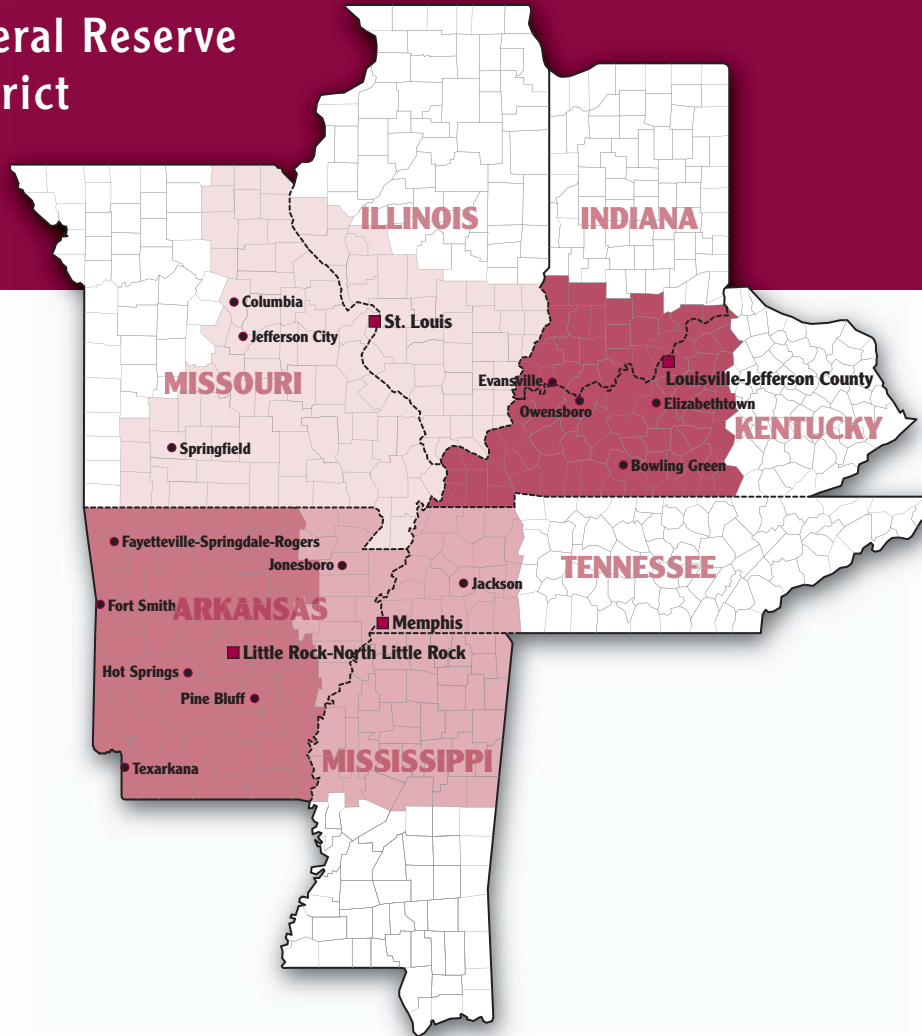
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CRE8

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 19, 2010

Most sectors of the economy of the Memphis zone continue to struggle, although the manufacturing sector appears to be a bright spot. Large majorities of general retailers and auto dealers reported sales decreases on a year-over-year basis. Reports from manufacturing firms tend to indicate increased employment and output, although reports from the service-providing firms suggest the opposite for that sector. The Memphis residential real estate market has continued to weaken, but the commercial real estate market shows signs of improvement. Contacts in the banking sector tended to report increasing deposits and little to no change in consumer lending activity.

Consumer Spending

Retail sales reports for January and early February were mostly pessimistic among general retailers and car dealers surveyed in the Memphis zone. Around 70 percent of each group indicated that sales were down compared with the same months in 2009, whereas roughly 15 percent of the general retailers and the remaining 30 percent of car dealers reported increased sales. The sales outlook for March and April was mostly optimistic among the general retailers and mostly pessimistic among the car dealers. Almost 60 percent of the general retailers and about 20 percent of the car dealers expect sales to increase over 2009 levels, but the remaining car dealers expect sales to decrease.

Manufacturing and Other Business Activity

Manufacturing activity in the Memphis zone has increased since our previous report, with a large number of firms reporting expansion and new hiring. Firms in fabricated metal product manufacturing; shoe and apparel manufacturing; and furniture manufacturing all announced plans to open a new facility and hire additional employees. Other firms in aerospace product manufacturing; cosmetic manufacturing; and heating, ventilation, and air conditioning manufacturing also announced plans to expand existing operations and hire additional workers. In contrast, the service sector reversed gains in our previous report. Firms in transportation and warehousing services and in business support services cut workers, citing lower demand.

Real Estate and Construction

Compared with the same periods in 2008, December 2009 year-to-date home sales in Memphis were down by 10 percent, while December 2009 year-to-date single-family housing permits declined by 32 percent. Compared with the third quarter of 2009, the fourth-quarter 2009 industrial vacancy rate decreased. During the same period, the suburban office vacancy rate decreased and the downtown office vacancy rate remained the

same. A contact in Memphis noted that the focus now is on retaining tenants rather than recruiting new ones. Another contact in Memphis does not expect the industrial real estate market to improve until signs of a more sustainable recovery are evident.

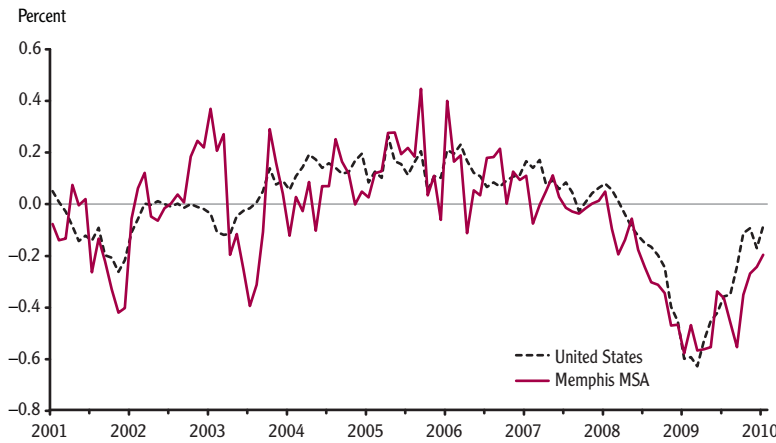
Banking and Finance

Banking conditions in the Memphis zone remained relatively unchanged over the past three months. Most contacts indicated little to no change in consumer loan demand. Several noted a recent surge in applications for small consumer loans, however. Reports indicated a slight decrease in business loan demand. One contact noted that credit lines to area businesses have contracted, thus making it difficult for small firms to find financing. Reports on residential mortgage lending activity were mixed. One contact noted that mortgage loan income was much higher in 2009 than in 2008. In contrast, a number of contacts noted a slight decrease in applications for new residential mortgage loans in recent months. Commercial real estate lending remains weak with contacts reporting little to no lending in this category. Reports indicate a slight increase in deposits.

Agriculture and Natural Resources

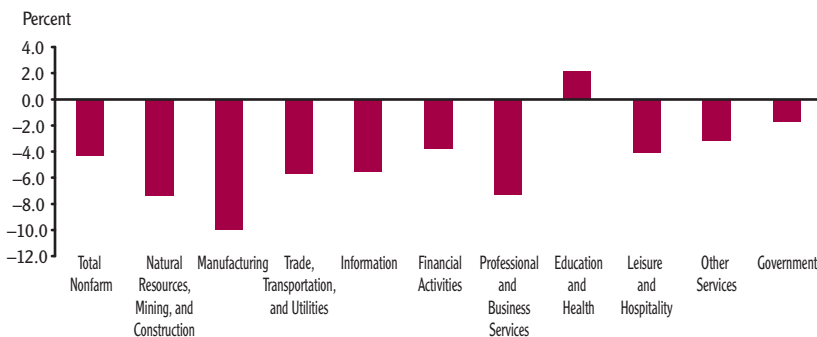
Total coal production in Mississippi and Tennessee for 2009 increased by 9 percent from its 2008 level. Between 2008 and 2009, the total value of field crops declined in Mississippi by 22 percent and was unchanged in Tennessee. Across crops, changes in prices and production were mostly negative. The price and production of corn, soybeans, and sorghum in Mississippi; tobacco in Tennessee; and winter wheat in both states decreased from 2008 to 2009, but the price and production of soybeans in Tennessee increased. The price of rice in Mississippi and corn in Tennessee decreased while production of both crops increased. Conversely, the price of cotton increased while production decreased in both states.

Nonfarm Payroll Employment Growth 3-Month Average, SA, January 2001–January 2010



According to revised data (see the table on the last page of this report), Memphis job growth over the course of the recession has been weaker than for the country as a whole. For the latter half of 2009 Memphis employment growth began recovering, but more slowly than for the rest of the country. Over the three-month period ending in January 2010, Memphis employment fell at a 0.2 percent monthly rate, while U.S. employment fell at a 0.09 percent monthly rate.

Memphis MSA Employment Growth by Sector Year/Year Percent Change, January 2009–January 2010



According to revised data, between January 2009 and January 2010 nonfarm employment in the Memphis MSA fell by 4.4 percent, with net job losses for all but one sector. Natural resources, mining, and construction; manufacturing; and professional and business services were the hardest-hit sectors, each losing more than 7 percent of employment. Education and health services was the only sector to see employment expansion over the period, a modest gain of 2.2 percent.

Memphis Zone—MSA Employment and Unemployment

Nonfarm payroll employment percent change,
January 2009–January 2010

	Total	Goods producing	Service providing	Unemployment rate December 2009
Memphis	-4.36	-9.21	-3.72	10.6
Jackson, Tenn.	-4.10	-11.29	-2.16	11.4
United States	-3.24	-11.09	-1.89	10.0

SOURCE: Bureau of Labor Statistics.

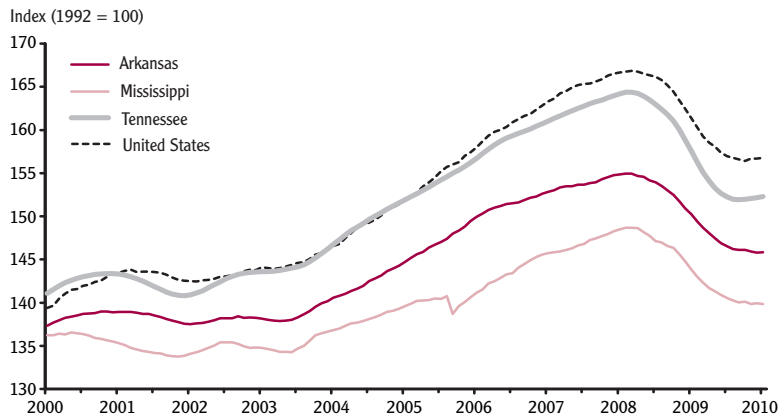
Memphis Zone—MSA Housing Activity

	Total building permits, units year-to-date		House price index, percent change, 2009:Q4/2008:Q4
	January 2010	Percent change	
Memphis	118	-58.3	-3.39
Jackson, Tenn.	12	50.0	-2.75
Jonesboro, Ark.	33	135.7	0.19
United States	39,479	8.9	-4.66

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

In terms of total residential building permits issued in January 2010, two of the three zone MSAs performed much better than the country as a whole. Jonesboro and Jackson saw increases in permits over year-earlier levels, while Memphis, on the other hand, saw a 58 percent decrease in permits. For the fourth quarter of 2009, the house price declines in Memphis and Jackson were somewhat smaller than the national average, while Jonesboro saw a small increase in its house price index.

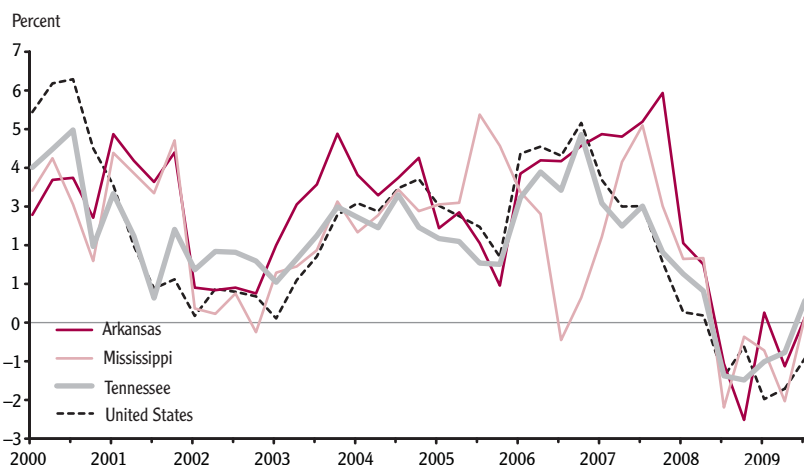
Memphis Area Coincident Economic Activity Index



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, Tennessee has tended to underperform the country as a whole during the recession. Recently, however, Tennessee has seen increases in this index. The indices for Mississippi and Arkansas have begun to level off in the last couple months. Between October 2009 and January 2010, the index rose by 0.22 percent for Tennessee but fell by 0.20 percent for Arkansas and 0.18 percent for Mississippi. Over the same period, the index rose by 0.26 percent for the United States.

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



SOURCE: Bureau of Economic Analysis.

Throughout the end of 2008 and early 2009, personal income growth in Arkansas, Mississippi, and Tennessee has roughly followed that of the United States. More recently, personal income rose for all three states while continuing to fall for the country as a whole. In the third quarter of 2009—the most recent quarter for which there are data—year-over-year income growth in Arkansas, Mississippi, and Tennessee was 0.1 percent, 0.13 percent, and 0.55 percent, respectively. For the United States, personal income fell by about 1 percent over the same period.

Annual Revisions of the Metro Area Employment Data

	December 2008–December 2009				December 2007–December 2008			
	Original estimate as of January 2010		Revised estimate as of March 2010		Original estimate as of January 2010		Revised estimate as of March 2010	
	Thousands	Percent change	Thousands	Percent change	Thousands	Percent change	Thousands	Percent change
Large Metro Areas								
Little Rock-N. Little Rock, Ark.	-3.9	-1.1	-10.1	-2.9	-4.7	-1.3	-3.9	-1.1
Louisville, Ky.-Ind.	-12.6	-2.1	-20.0	-3.2	-16.9	-2.7	-15.2	-2.4
Memphis, Tenn.-Ark.-Miss.	-15.7	-2.5	-31.5	-5.0	-15.7	-2.4	-22.3	-3.4
St. Louis, Mo.-Ill.	-33.8	-2.5	-42.6	-3.2	-19.8	-1.4	-34.2	-2.5
Small and Medium Metro Areas								
Fayetteville-Springfield-Rogers, Ark.	-1.6	-0.8	-4.9	-2.4	-2.6	-1.2	-4.8	-2.3
Fort Smith, Ark.-Okla.	-1.3	-1.0	-6.7	-5.5	-1.4	-1.1	-3.2	-2.5
Texarkana, Tex.-Ark.	-1.2	-2.0	-1.6	-2.8	0.9	1.6	-0.1	-0.2
Bowling Green, Ky.	-3.8	-6.1	-3.1	-5.0	-1.5	-2.4	-2.2	-3.4
Evansville, Ind.-Ky.	-4.3	-2.5	-6.9	-3.9	-4.6	-2.6	-2.3	-1.3
Jackson, Tenn.	-1.9	-3.1	-3.7	-6.1	-1.7	-2.7	-1.5	-2.4
Columbia, Mo.	-0.9	-1.0	-1.1	-1.2	1.1	1.2	0.0	0.0
Jefferson City, Mo.	-2.1	-2.6	-1.6	-2.0	-0.7	-0.9	-0.6	-0.7
Springfield, Mo.	-0.9	-0.5	-6.4	-3.2	-4.6	-2.3	-5.5	-2.7

NOTE: 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, most metro areas in the Eighth District saw large downward revisions for 2009, indicating that employment had been hit much harder by the recession than was previously estimated. The revisions for the 2008 and 2009 calendar years are presented in the table. Note that the data for 2009 are subject to revision again in March 2011.