Current Economic Conditions in the Eighth Federal Reserve District

Little Rock Zone

July 2, 2010

Prepared by the
Center for Regional Economics—8th District (CRE8)
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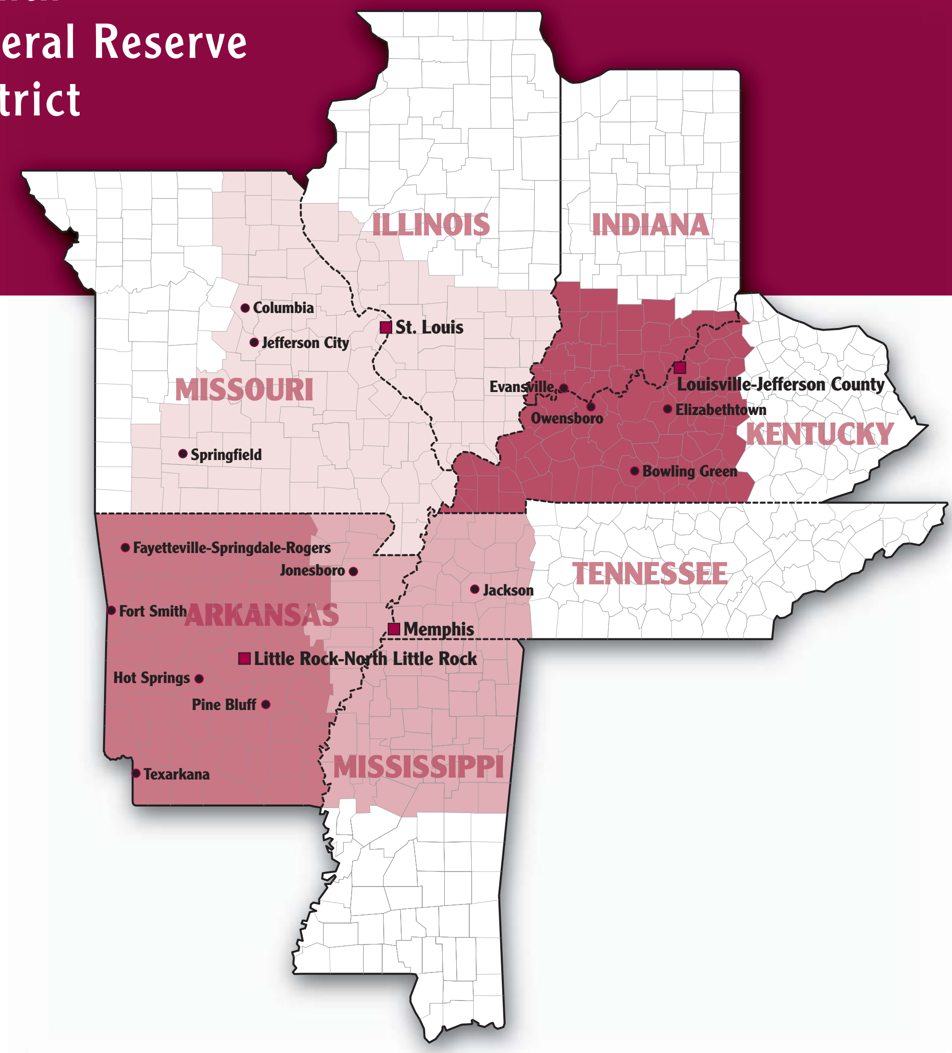
FEDERAL RESERVE BANK OF ST. LOUIS

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/2010/). 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—July 2, 2010

Overall, reports on economic activity in the Little Rock zone have, on balance, been negative. Sales continued to be weak among general retailers but somewhat stronger among car dealers. Manufacturing activity has continued to decline, although the service sector has started to improve. Residential real estate markets are little changed, while commercial and industrial real estate markets have weakened. Contacts in the banking sector reported only slight changes in consumer and commercial lending. Crop production has been ahead of schedule due to favorable weather conditions.

Consumer Spending

Retail sales reports for April and early May were mostly negative among general retailers but mixed among car dealers surveyed in the Little Rock zone. Almost 65 percent of the general retailers and about 20 percent of the car dealers indicated that sales were down compared with the same months in 2009. The remaining general retailers and roughly 40 percent of the car dealers reported increased sales. The sales outlook for the summer was mostly optimistic among the general retailers and mixed among the car dealers. More than 60 percent of the general retailers and roughly half of the car dealers expect summer sales to be higher than their 2009 levels, but nearly 25 percent of the general retailers and 35 percent of the car dealers expect sales to be lower.

Manufacturing and Other Business Activity

Manufacturing activity in the Little Rock zone has continued to decline since our previous report, with several firms announcing job layoffs. A contact in the heating, ventilation, and air conditioning industry announced layoffs in order to cut costs and increase efficiency. A firm in the construction materials manufacturing industry announced plans to close a plant as well as lay off workers due to reduced demand for products. In contrast, a firm in the primary metal manufacturing industry announced a plant opening as well as plans to hire new employees. The service sector has begun to improve since our previous report, with a greater number of new hires than layoffs. A major firm in the telecommunications industry announced fewer job cuts during a recent merger than was previously expected. Uncertainty over health care costs and financial regulations is cited frequently as an explanation for firms' reluctance and inability to expand hiring.

Real Estate and Construction

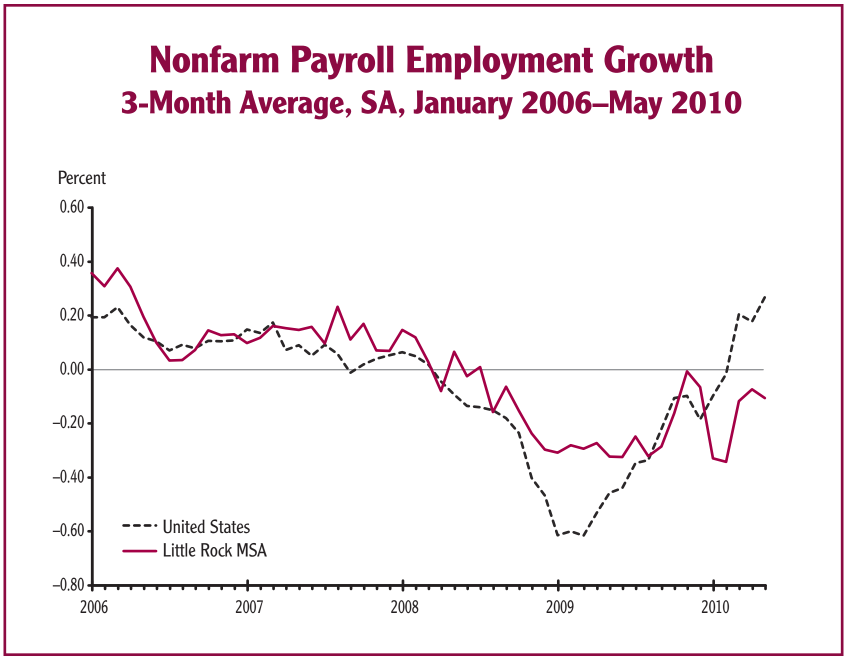
In Little Rock, compared with the same periods in 2009, March 2010 year-to-date home sales were up by 11 percent, and April 2010 year-to-date home sales were up by 19 percent. Compared with the same periods in 2009, March 2010 year-to-date single-family housing permits increased by 38 percent, and April 2010 year-to-date single-family housing permits increased by 39 percent. Compared with the fourth quarter of 2009, the first-quarter 2010 industrial vacancy rate increased. During the same period, the suburban office vacancy rate increased, and the downtown office vacancy rate decreased. A contact in northeast Arkansas noted that the only major construction projects are related to a local university and medical center.

Banking and Finance

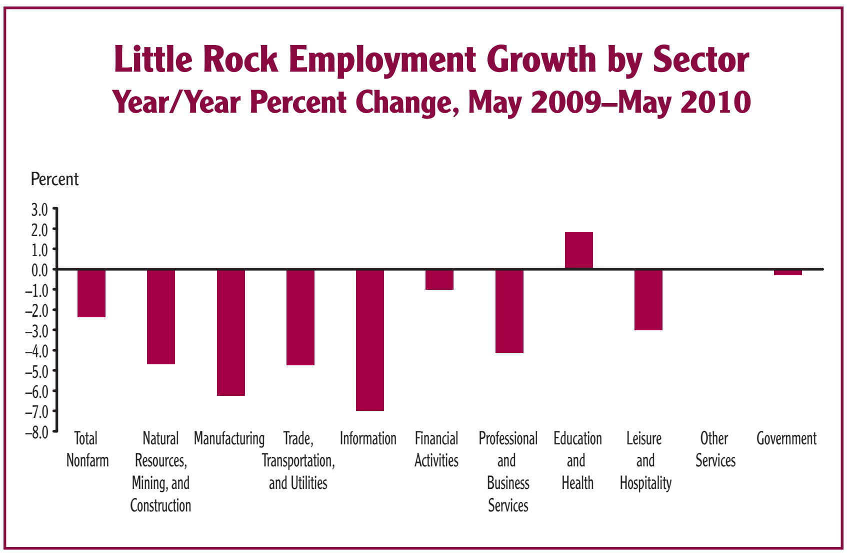
Reports on consumer lending activity varied, from little change to a slight increase. Several bankers reported a slight uptick in demand for consumer loans attributed to seasonal factors. Contacts continued to report a slight decrease in lending activity for commercial loans. One contact reported that the number of inquiries for commercial loans has picked up in recent months and is optimistic that commercial lending activity will increase going forward. Reports on residential mortgage lending activity ranged from no change to a slight decrease. Several contacts noted mortgage interest rates have fallen in recent weeks to levels that should increase lending activity in this category. Contacts reported a steady increase in deposits.

Agriculture and Natural Resources

Farmers in Arkansas intended to plant fewer acres of corn and soybeans this year than in 2009. In contrast, they intended to plant more acres of rice and the same number of acres of cotton and sorghum this year. The number of acres of winter wheat planted in the fall decreased by 51 percent from the previous year's total. Favorable weather throughout the zone early in the reporting period allowed for good progress with planting. At the end of May, planting of corn, sorghum, cotton, and rice was ahead of the 5-year average pace, but planting of soybeans was behind normal. Emergence of the crops was ahead of the normal pace. At the end of May, more than 90 percent of the winter wheat and pastures were rated in fair condition or better, which was better than the ratings last year for winter wheat and similar to last year for pastures.



From the beginning of the recession through the middle of 2009, job losses in the Little Rock MSA were not a steep as for the United States as a whole. In fact, for the beginning of 2009 the rate of job loss in Little Rock was about half that of the rest of the country. More recently, however, job losses in Little Rock have continued while employment has grown in the rest of the country. Over the three-month period ending in May 2010, Little Rock employment contracted at a 0.11 percent monthly rate, while U.S. employment expanded at a monthly rate of 0.26 percent.



Between May 2009 and May 2010, total nonfarm employment in the Little Rock MSA fell by 2.4 percent. This rate of job loss was higher than for the country as a whole, which saw a 0.45 percent decline in employment over the period. Education and health services was the only sector to have seen job growth over the period. Net job losses in excess of 4 percent were the norm across sectors: natural resources, mining, and construction (4.7 percent); manufacturing (6.2 percent); trade, transportation, and utilities (4.7 percent); and professional and business services (4.1 percent). Even the government sector, which was bolstered by the hiring of temporary census workers, saw net job losses over the period.

Little Rock Zone—MSA Employment and Unemployment

	Nonfarm payroll employment percent change, May 2009–May 2010			Unemployment rate May 2010
	Total	Goods producing	Service providing	
Little Rock	**–2.35**	**–5.57**	**–1.93**	**6.8**
Fayetteville-Springdale-Rogers, Ark.	0.25	–6.81	1.91	6.1
Fort Smith, Ark.	–1.94	–3.34	–1.46	7.8
Texarkana, Ark.-Tex.	0.53	–5.97	1.40	7.7
United States	–0.59	–4.45	0.05	9.6

SOURCE: Bureau of Labor Statistics.

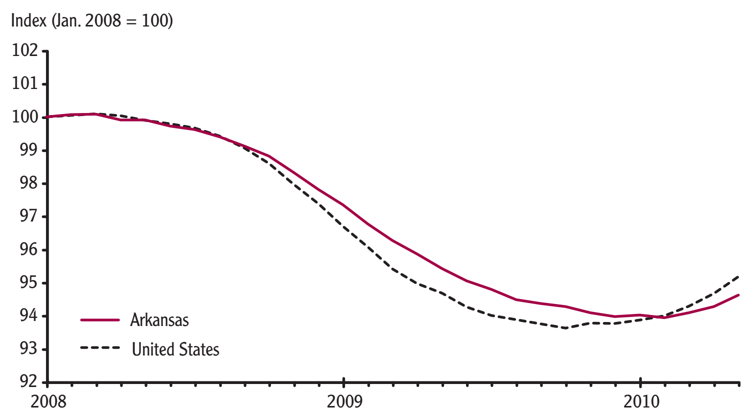
Little Rock Zone—MSA Housing Activity

	Total building permits, units year-to-date: May 2010	Percent change	House price index, percent change, 2010:Q1/2009:Q1
Little Rock	**999**	**–32.1**	**–2.13**
Fayetteville-Springdale-Rogers, Ark.	595	–23.9	–8.90
Fort Smith, Ark.	331	26.3	–3.61
Hot Springs, Ark.	19	35.7	–4.75
Pine Bluff, Ark.	75	971.4	2.49
Texarkana, Ark.-Tex.	39	–76.6	–0.15
United States	255,650	18.3	–6.78

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

Total residential building permits in May 2010 were higher than a year earlier in three of the six MSAs in the Little Rock zone. Permits rose by 26.3 percent in Fort Smith, 35.7 percent in Hot Springs, and nearly 1000 percent in Pine Bluff. Little Rock, Fayetteville, and Texarkana, on the other hand, saw the number of building permits decrease by 32.1 percent, 23.9 percent, and 76.6 percent, respectively. The FHFA house price index fell over the period in five of the MSAs: about 2.1 percent Little Rock, 8.9 percent in Fayetteville, 3.6 percent in Fort Smith, 4.8 percent in Hot Springs, and 0.2 percent in Texarkana. The index for Pine Bluff, on the other hand, rose by about 2.5 percent. Nationwide, this index fell by about 6.8 percent over the period.

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's labor markets were not hit as hard by the recession as was the country as a whole. They have not, however, recovered in 2010 as strongly as the rest of the country. Between December 2009 and May 2010, the index rose by 0.7 for Arkansas and by 1.5 percent for the United States.

Arkansas Real Personal Income Growth

Percent Change, Year/Year

SOURCE: Bureau of Economic Analysis.

As illustrated by the figure, since the beginning of 2007, real personal income growth in Arkansas has tended to be stronger than for the country as a whole. Personal income growth in the United States began to slow in late 2006, well before the start of the recession, but stayed strong in Arkansas until early 2008. The most recent data on real personal income growth is atypical, but is consistent with recent weakness in the Arkansas economy compared with the rest of the country. Between the first quarters of 2009 and 2010 personal income declined by 1.3 percent in Arkansas, whereas for the country as a whole it was effectively unchanged.

2009 Population Estimates for Eighth District Metro Areas

	2009 Population	Change since 2000	Percent change	Natural increase*	Net international migration	Net domestic migration
Large Metro Areas						
St. Louis, Mo.-Ill.	2,698,664	130,326	4.8	105,672	31,067	–43,750
Little Rock-N. Little Rock-Conway, Ark.	610,514	74,974	12.3	36,083	5,166	34,660
Louisville/Jefferson County, Ky.-Ind.	1,162,414	96,163	8.3	48,692	17,024	34,381
Memphis, Tenn.-Ark.-Miss.	1,205,196	99,730	8.3	85,501	20,490	–8,583
Small and Medium Metro Areas						
Bowling Green, Ky.	104,168	16,427	15.8	5,431	3,216	8,347
Columbia, Mo.	145,666	20,568	14.1	9,911	3,801	7,771
Elizabethtown, Ky.	107,550	5,883	5.5	7,708	339	–1,437
Evansville, Ind.-Ky.	342,816	9,095	2.7	9,769	2,051	–657
Fayetteville-Springfield-Rogers, Ark.-Mo.	347,036	117,587	33.9	33,966	13,474	60,883
Fort Smith, Ark.-Okla.	273,177	19,886	7.3	12,336	4,893	4,450
Hot Springs, Ark.	88,068	10,411	11.8	-1,527	692	11,637
Jackson, Tenn.	107,379	6,250	5.8	4,743	1,448	694
Jefferson City, Mo.	140,051	7,387	5.3	6,258	1,169	844
Jonesboro, Ark.	107,762	12,377	11.5	4,796	1,213	6,942
Owensboro, Ky.	109,876	3,760	3.4	4,533	603	–667
Pine Bluff, Ark.	107,348	–6,654	–6.2	2,964	680	–9,785
Springfield, Mo.	368,375	62,525	17.0	16,971	1,903	45,592
Texarkana, Tex.-Ark.	129,754	7,732	6.0	4,219	639	3,610
All U.S. Metro Areas	**232,822,999**	**29,199,634**	**12.5**	**14,793,402**	**8,449,584**	**34,754**

NOTE: *Births minus deaths.

SOURCE: U.S. Census Bureau.