

Current Economic Conditions in the Eighth Federal Reserve District

St. Louis Zone

July 2, 2010

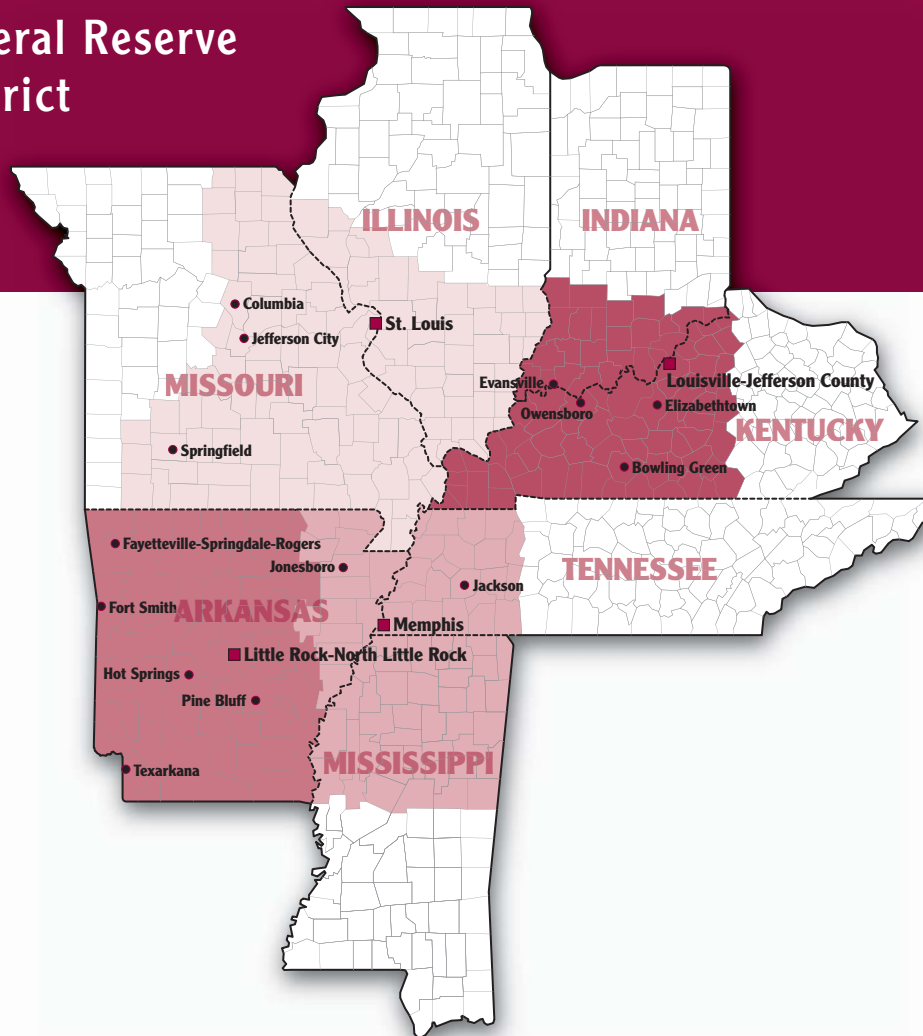
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CRE8

Center for Regional Economics—8th District



Eighth Federal Reserve District



This report (known as the *Burgundy Book*) summarizes information on economic conditions in the St. Louis 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 Memphis 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 the metro areas and states of the St. Louis zone. These data are the most recent available at the time this report was assembled.

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St. Louis Zone Report—July 2, 2010

Reports on economic activity in the St. Louis zone were mixed, with strength in consumer spending and residential real estate, but weakness in the manufacturing and service sectors. A majority of general retailers and car dealers indicated that sales were higher than for the same period last year. Reports from the residential real estate sector were mostly positive, but commercial real estate continued to struggle. The banking sector reported little to no change in lending activity, while farmers reported that the emergence of crops was ahead of normal.

Consumer Spending

Retail sales reports for April and early May were mostly positive among general retailers and car dealers surveyed in the St. Louis zone, an improvement for both groups from our previous report. Nearly 70 percent of the general retailers and more than 80 percent of the car dealers indicated that sales were up compared with the same months in 2009. The remaining respondents reported that sales were similar to last year. The sales outlook for the summer was mostly optimistic among the general retailers and car dealers, which, compared with our previous report, was an improvement for general retailers. More than 80 percent of each group expects sales in the summer to be above their summer 2009 levels. The remaining 20 percent expect sales to be lower.

Manufacturing and Other Business Activity

Manufacturing activity in the St. Louis zone has declined since our previous report, with more contacts indicating reduced employment than indicating new hiring. A large firm in the pharmaceutical and medicine manufacturing industry, for example, announced a significant number of job layoffs. In contrast, two firms in the food and beverage manufacturing industry announced new plant openings as well as new hires. In a reversal of our previous report, the activity in the service sector has been declining. Budget shortfalls have resulted in job layoffs for firms in government services as well as schools. In contrast, firms in the business support services; and computer, computer peripheral, and software industries announced plans to hire new workers. 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

Residential real estate in St. Louis has shown signs of recovery. Compared with the same period in 2009, April 2010 year-to-date home sales and single-family housing permits were 9 per-

cent and 56 percent higher, respectively. Commercial real estate, on the other hand, has continued to weaken. Compared with the previous quarter, the first-quarter 2010 industrial vacancy rate was higher, as was the downtown office vacancy rate. The suburban office vacancy rate did not change over the period. A contact in St. Louis expects commercial property foreclosures to rise, while another expects little to no speculative industrial construction to take place in 2010.

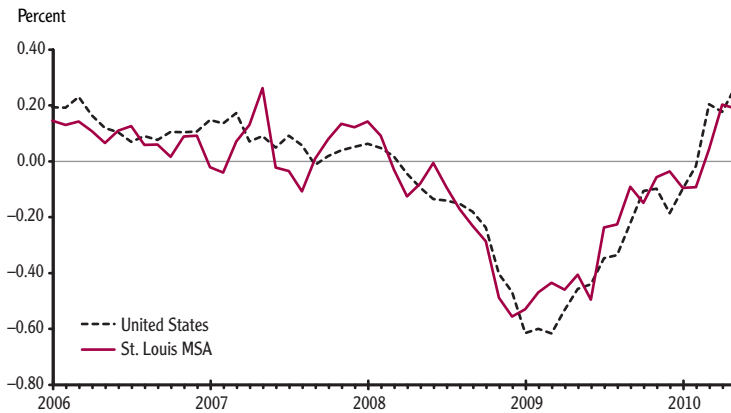
Banking and Finance

Overall lending activity in the St. Louis zone was relatively unchanged from previous reporting periods. Reports indicated little to no change in both consumer and commercial lending activity. Contacts noted a spike in consumer loan inquiries but little new loan originations. Multiple contacts attributed the sluggish commercial loan market to continued cautiousness by area businesses in seeking loans to fund new capital spending. Residential mortgage lending activity decreased modestly. One contact noted that refinancing activity in this sector has decreased markedly compared with the same time last year. Despite a few bankers noting a slight increase in the number of projects approved for financing, most reports continue to indicate declining activity in commercial real estate lending. Contacts reported little change to a steady increase in deposits.

Agricultural and Natural Resources

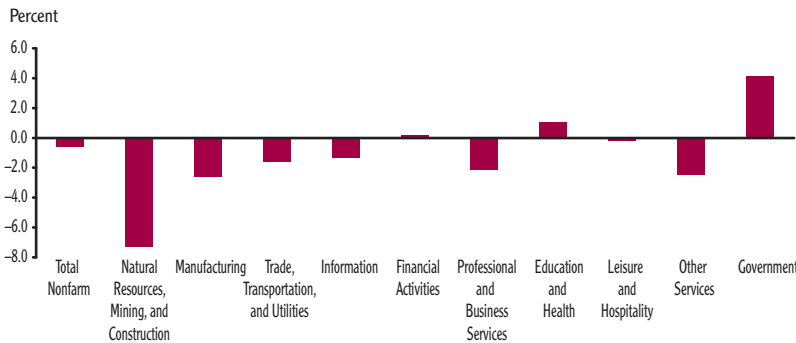
Recent rains throughout the zone caused some fieldwork delays, especially in Missouri. At the end of May, farmers in the St. Louis zone states were ahead of or on par with their 5-year average pace for corn planting, but behind normal with their planting of soybeans and sorghum. In Missouri, planting of cotton and rice was ahead of normal. At the end of May, about 70 percent of the winter wheat in both states was rated in fair condition or better, which was worse than the same time last year. More than 90 percent of the pastures in both states were in fair condition or better, which was similar to the same time last year.

Nonfarm Payroll Employment Growth 3-Month Average, SA, January 2006–May 2010



Since the beginning of the recession, payroll employment growth in the St. Louis MSA has largely tracked that of the United States as a whole. On a three-month moving average basis, St. Louis payroll employment growth has been positive through most of 2010, although its growth has not quite kept pace with that of the rest of country. Most recently, over the three-month period ending in May 2010, St. Louis employment expanded at a 0.19 percent monthly rate, while U.S. employment expanded at a monthly rate of 0.26 percent.

St. Louis MSA Employment Growth by Sector Year/Year Percent Change, May 2009–May 2010



Between May 2009 and May 2010, total nonfarm employment in the St. Louis MSA fell by 0.6 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. Net job losses in St. Louis were experienced in most sectors, with the largest declines occurring in natural resources, mining, and construction (7.3 percent); manufacturing (2.6 percent); other services (2.5 percent); and professional and business services (2.1 percent). Education and health saw a modest increase of 1.0 percent while employment in the government sector grew by 4.1 percent, a figure inflated by temporary census workers.

St. Louis Zone—MSA Employment and Unemployment

Nonfarm payroll employment percent change,
May 2009–May 2010

| | Nonfarm payroll employment percent change, May 2009–May 2010 | | | Unemployment rate May 2010 |
|---------------------|---|-----------------|-------------------|-------------------------------|
| | Total | Goods producing | Service providing | |
| St. Louis | -0.61 | -4.29 | -0.03 | 9.7 |
| Columbia, Mo. | 0.00 | -1.37 | 0.12 | 6.2 |
| Jefferson City, Mo. | 0.13 | -4.26 | 0.72 | 7.0 |
| Springfield, Mo. | 1.14 | -2.75 | 1.64 | 8.2 |
| United States | -0.59 | -4.45 | 0.05 | 9.6 |

SOURCE: Bureau of Labor Statistics.

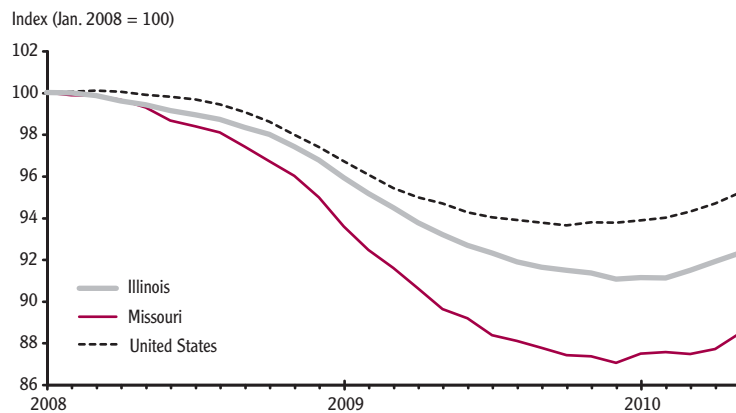
St. Louis Zone—MSA Housing Activity

| | Total building permits, units year-to-date | | House price index, percent change, 2010:Q1/2009:Q1 |
|---------------------|---|----------------|--|
| | May 2010 | Percent change | |
| St. Louis | 2,400 | 45.2 | -4.98 |
| Columbia, Mo. | 241 | -14.5 | -1.57 |
| Jefferson City, Mo. | 73 | 40.4 | -0.34 |
| Springfield, Mo. | 447 | 47.5 | -3.68 |
| 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 four MSAs in the St. Louis zone. Permits rose by 47.5 percent in Springfield, by 45.2 percent in St. Louis, and by 40.4 percent in Jefferson City. Columbia, on the other hand, saw a decrease of 14.5 percent in building permits. The FHFA house price index fell over the period in all four MSAs: by about 5 percent in St. Louis, 1.6 percent in Columbia, 0.3 percent in Jefferson City, and 3.7 percent in Springfield. Nationwide, this index fell by about 6.8 percent over the period.

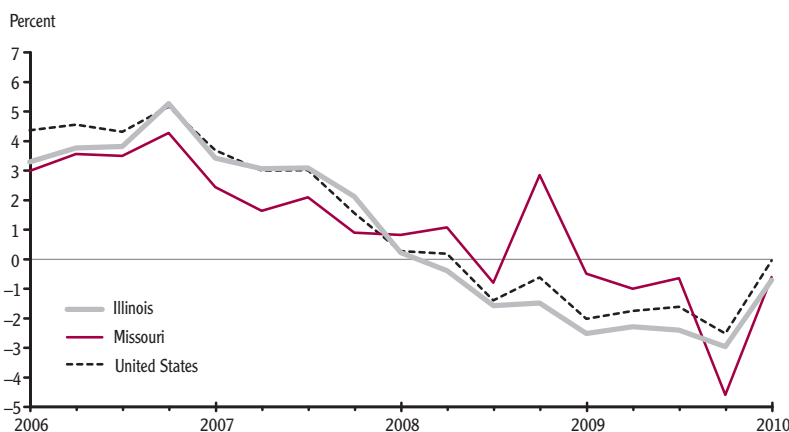
St. Louis Area Coincident Economic Activity Index



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, Missouri and Illinois were both hit harder than the country as a whole by the recession. The index bottomed out at 6.4 percent below its January 2008 level for the United States and by 9 percent and 13 percent for Illinois and Missouri, respectively. Between December 2009 and May 2010, the index rose for Missouri (1.6 percent), Illinois (1.4 percent), and the United States (1.5 percent).

St. Louis Area 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 Illinois has tended to follow that of the country as a whole. During the recessionary period of 2008-09, personal income grew faster in Missouri than in Illinois or the United States, reversing the pre-recession trend. The most recent data indicate that, while personal income for the country as a whole was effectively unchanged between the first quarters of 2009 and 2010, it declined somewhat in Illinois (0.7 percent) and Missouri (0.6 percent) over the period.

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.