

# **Current Economic Conditions in the Eighth Federal Reserve District**

## **Little Rock Zone**

October 1, 2010

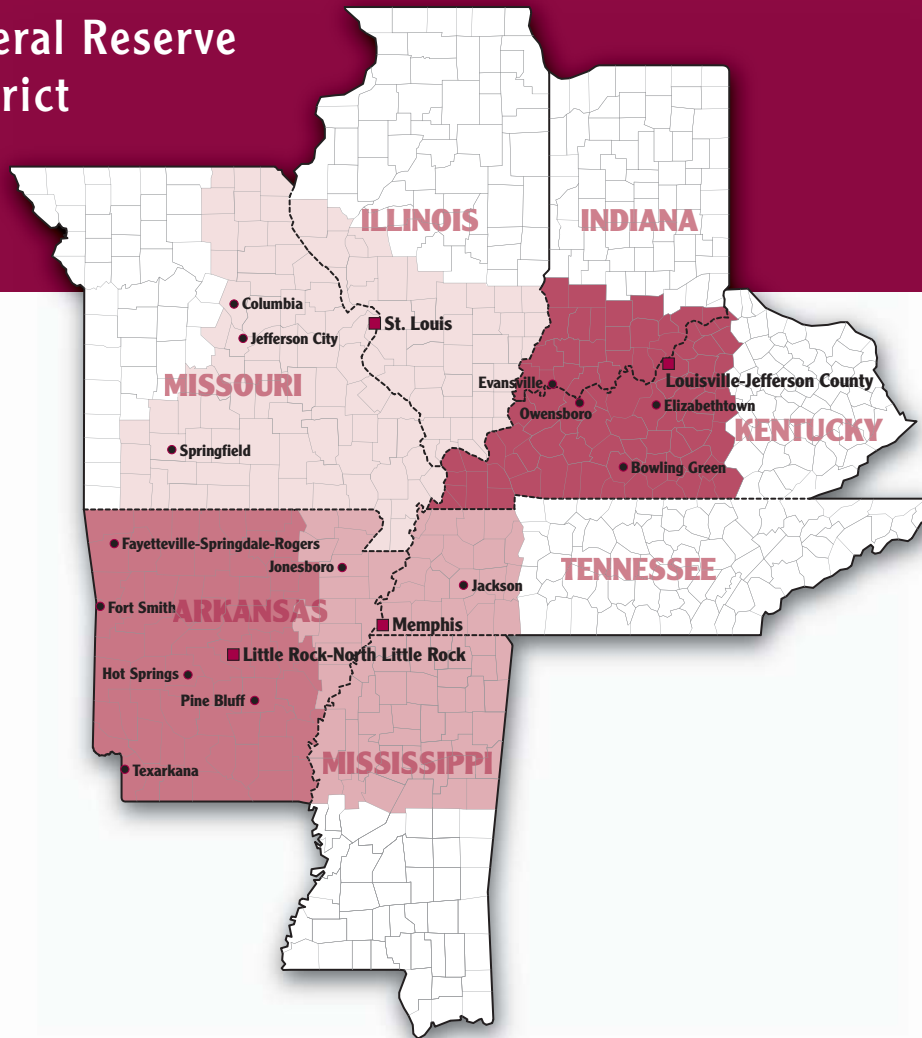
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**CRE8**

Center for Regional Economics—8th District



## Eighth Federal Reserve District



This report (known as the *Burgundy Book*) summarizes information on economic conditions in the 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/](http://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/](http://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—October 1, 2010

Overall, reports on economic activity in the Little Rock zone show some signs of strength, although significant weakness remains. Sales reports were mixed for both general retailers and car dealers. Manufacturing activity has increased, while the service sector has continued to improve. Residential and commercial real estate markets started to improve on a year-over-year basis, while industrial real estate markets remain weak. Contacts in the banking sector reported very little activity in consumer and commercial lending, while the amount of mortgage lending activity has increased slightly.

## Consumer Spending

Retail sales reports for July and early August were mixed among general retailers and car dealers surveyed in the Little Rock zone. For both groups, the news was similar to that included in the previous report. Almost 35 percent of the general retailers and about 45 percent of the car dealers indicated that sales were up compared with the same months in 2009. Less than 20 percent of the general retailers and 30 percent of the car dealers reported decreased sales. The sales outlook for September and October was mildly optimistic among both general retailers and car dealers. About 50 percent of the general retailers and nearly 45 percent of the car dealers expect sales to increase over 2009 levels, but nearly 15 percent of the car dealers expect sales to decrease.

## Manufacturing and Other Business Activity

Manufacturing activity in the Little Rock zone has increased since our previous report, with more firms announcing new hires and plant openings than firms announcing job layoffs and plant closings. Firms in the soap and cleaning compound, food, motor and generator, plastics product, iron and steel pipe, and sanitary paper product manufacturing industries announced plans to expand operations and hire new employees. In contrast, a contact in the primary metal manufacturing industry announced plans to decrease operations and lay off workers in response to poor market conditions in the aluminum industry. The service sector has continued to improve since our previous report, with a greater number of new hires than layoffs. In particular, a major firm in the telecommunications industry announced plans to expand existing operations and hire new workers.

## Real Estate and Construction

In Little Rock, compared with the same period in 2009, July 2010 year-to-date home sales were up by 5 percent and year-to-date single-family housing permits were up by 17 percent.

Between the first and second quarters of 2010, the industrial vacancy rate rose, although the suburban and downtown office vacancy rates fell. Contacts in the south central Arkansas region reported that, without governmental and healthcare projects, there would be no construction activity in the area.

## Banking and Finance

Reports on consumer lending activity varied from little change to a slight decrease. Most contacts reported a decrease in demand for consumer loans. One contact expects consumer loan demand to decline for the remainder of 2010 as economic factors continue to affect consumer confidence. Most contacts reported little to no change in lending activity for commercial loans. Contacts noted that businesses still seem reluctant to take on new debt. Reports on residential mortgage lending activity ranged from no change to a slight decrease. Much of the mortgage activity was due to refinancing, although several contacts noted an increase in new originations. Most contacts reported steady deposit growth. One contact indicated that even troubled banks in the region are reporting strong deposit growth.

## Agriculture and Natural Resources

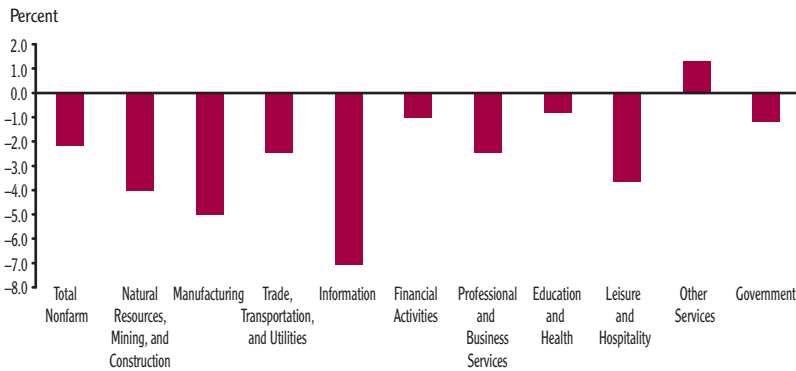
Since mid-July, corn, soybean, rice, cotton, and especially sorghum conditions have declined in Arkansas. In late August, at least 24 percent of the soybeans and sorghum were rated in poor condition, but less than 15 percent of the other crops obtained that rating. As of August 1, yields for corn, soybeans, sorghum, and rice in Arkansas were expected to range from 2 percent higher to 10 percent higher than last year's yields. Cotton and winter wheat yields were expected to be at least 18 percent higher. Total production of corn, soybeans, and rice was expected to range from 2 percent lower to 16 percent higher than last year, and total production of cotton was expected to be 35 percent higher.

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



From the beginning of the recession through the middle of 2009, job losses in the Little Rock MSA were not as 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, employment growth in Little Rock has lagged behind the country as a whole. Over the three-month period ending in August 2010, Little Rock employment contracted at a 0.29 percent monthly rate while U.S. employment contracted at a monthly rate of 0.08 percent.

### Little Rock Employment Growth by Sector Year/Year Percent Change, August 2009–August 2010



Between August 2009 and August 2010, total nonfarm employment in the Little Rock MSA fell by 2.2 percent. This performance was weaker than for the country as a whole, which saw a modest 0.15 percent increase in employment over the period. Other services was the only sector to have seen job growth over the period, and net job losses in excess of 2.5 percent were the norm across sectors: manufacturing (5.0 percent); natural resources, mining, and construction (4.0 percent); trade, transportation, and utilities (2.5 percent); and professional and business services (2.5 percent).

### Little Rock Zone—MSA Employment and Unemployment

Nonfarm payroll employment percent change,  
August 2009–August 2010

	Total	Goods producing	Service providing	Unemployment rate August 2010
<b>Little Rock</b>	<b>-2.17</b>	<b>-4.57</b>	<b>-1.85</b>	<b>7.2</b>
Fayetteville-Springdale-Rogers, Ark.	-0.51	-5.80	0.75	6.7
Fort Smith, Ark.	-0.69	-1.02	-0.57	8.3
Texarkana, Ark.-Tex.	0.90	0.00	1.02	7.6
United States	0.15	-1.38	0.41	9.5

SOURCE: Bureau of Labor Statistics.

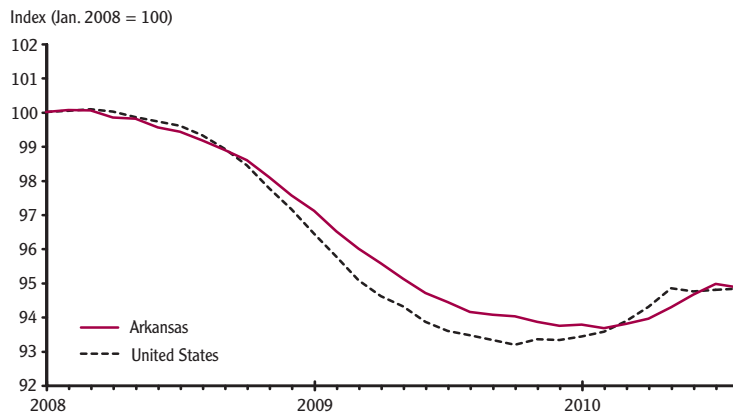
## Little Rock Zone—MSA Housing Activity

	Total building permits, units year-to-date		House price index, percent change, 2010:Q2/2009:Q2
	August 2010	Percent change	
<b>Little Rock</b>	<b>2,632</b>	<b>28.8</b>	<b>0.23</b>
Fayetteville-Springdale-Rogers, Ark.	921	-27.8	-8.35
Fort Smith, Ark.	454	-8.1	-3.53
Hot Springs, Ark.	29	11.5	-8.20
Pine Bluff, Ark.	86	218.5	-0.80
Texarkana, Ark.-Tex.	169	-14.2	0.47
United States	418,181	9.0	-4.95

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

Total residential building permits in August 2010 were higher than a year earlier in three of the six MSAs in the Little Rock zone. Permits rose by 28.8 percent in Little Rock, 11.5 percent in Hot Springs, and 218.5 percent in Pine Bluff. Fayetteville, Fort Smith, and Texarkana, on the other hand, saw the number of building permits decrease by 27.8 percent, 8.1 percent, and 14.2 percent, respectively. The FHFA house price index fell over the period in four of the MSAs: about 8.4 percent in Fayetteville, 3.5 percent in Fort Smith, 8.2 percent in Hot Springs, and 0.8 percent in Pine Bluff. The index for Little Rock and Texarkana, on the other hand, rose by small amounts: about 0.2 percent and 0.5 percent, respectively. Nationwide, this index fell by about 5 percent over the period.

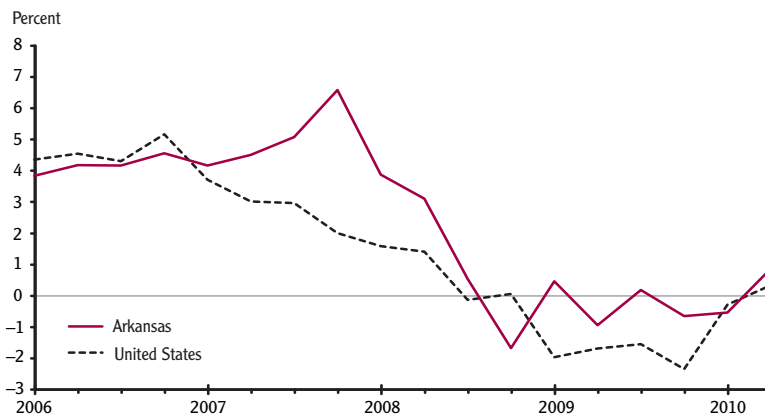
## Arkansas Coincident Economic Activity Index



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 August 2010, the index rose by 1.2 percent for Arkansas and by 1.6 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 mark the return of this trend. Between the second quarters of 2009 and 2010 real personal income rose by 0.8 percent in Arkansas and 0.3 percent nationwide.

**Residential Mortgage Delinquency Rates for Eighth District States**  
**Percent 90+ Days Delinquent or in Foreclosure, 2010:Q2**

	All mortgages	Prime			Subprime		
		Total	FRM	ARM	Total	FRM	ARM
Arkansas	5.2	3.4	3.0	8.9	18.4	14.9	27.3
Illinois	11.1	8.0	6.3	17.7	33.4	24.6	44.5
Indiana	8.8	5.5	4.8	12.2	25.1	20.5	35.2
Kentucky	6.6	4.0	3.4	10.3	22.5	17.9	33.2
Mississippi	8.4	5.3	4.9	14.0	24.7	20.5	36.0
Missouri	5.6	3.6	3.2	7.5	20.2	15.5	29.4
Tennessee	6.6	3.8	3.4	9.3	21.7	16.6	31.8
<b>U.S. Total</b>	<b>9.1</b>	<b>6.8</b>	<b>4.9</b>	<b>17.8</b>	<b>28.3</b>	<b>20.6</b>	<b>40.5</b>

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

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