Current Economic Conditions in the Eighth Federal Reserve District

St. Louis Zone

October 1, 2010

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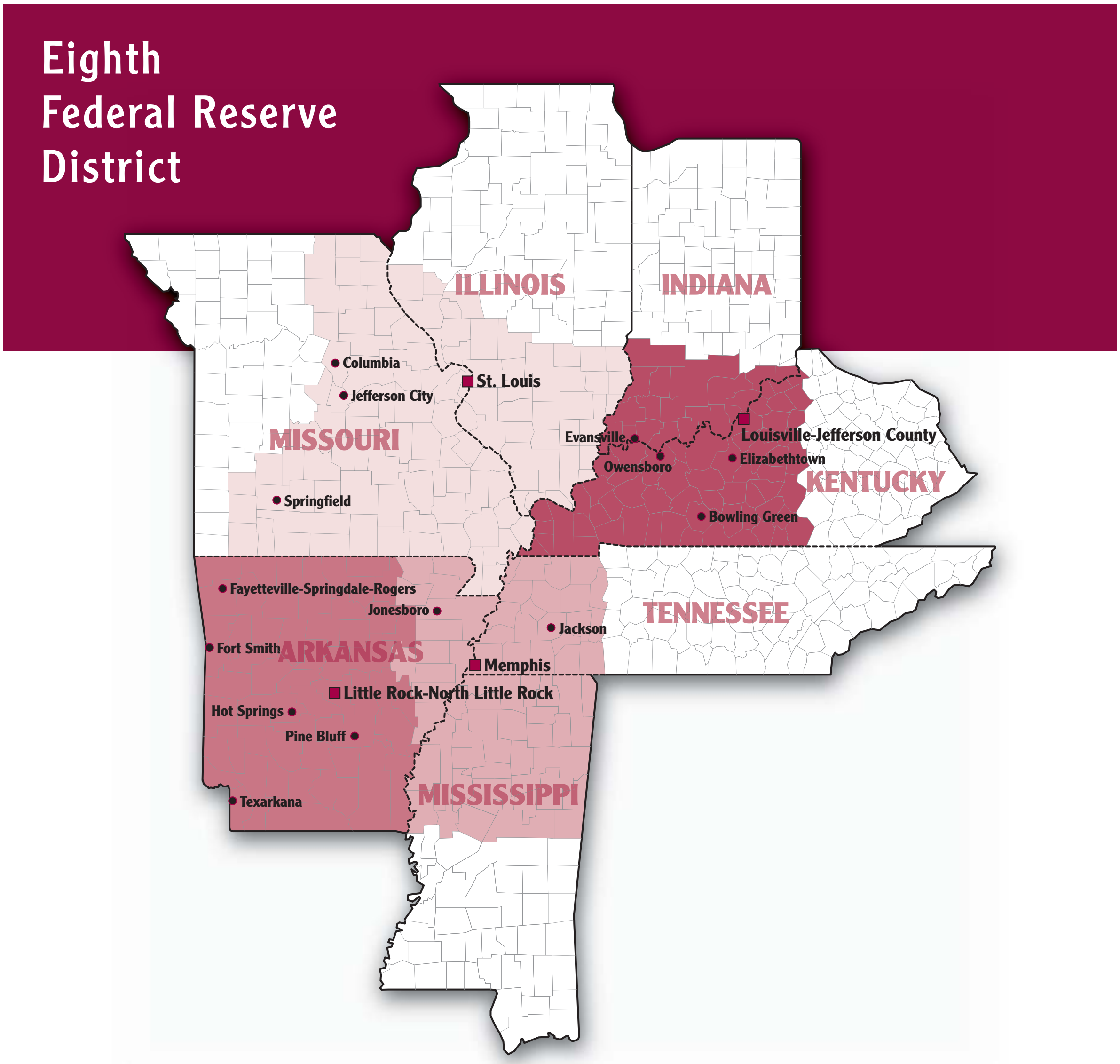
FEDERAL RESERVE BANK OF ST. LOUIS



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—October 1, 2010

The economy of the St. Louis zone has been showing few signs of expansion. A majority of general retailers and car dealers saw sales decrease or hold steady over the previous year, and the recent expansion of the manufacturing sector has moderated. Although the service sector strengthened somewhat, the overall picture suggests continued weakness. Residential real estate has yet to see much of a recovery, while the banking sector reported little to no change in lending activity.

Consumer Spending

Retail sales reports for July and early August were mixed among general retailers and car dealers surveyed in the St. Louis zone and weaker than in our previous report. Nearly 40 percent of the general retailers and roughly half of the car dealers indicated that sales were down compared with the same months in 2009. Another 20 percent of general retailers and about 15 percent of the car dealers reported that sales for July and early August were similar to sales a year earlier. The sales outlook for September and October was mixed among general retailers, but somewhat optimistic among car dealers. Roughly half of the general retailers and almost 70 percent of the car dealers expect sales to increase over 2009 levels.

Manufacturing and Other Business Activity

Overall, manufacturing activity in the St. Louis zone has been fairly stable since our previous report, with a similar number of announcements of job layoffs as those of new hires. A major firm in the polystyrene foam product manufacturing industry announced a plant closing alongside a significant number of job layoffs. In contrast, firms in the soap and cleaning compound, aerospace products and parts, and brick and structural clay tile manufacturing industries announced plans to open new plants and hire workers. The service sector has improved somewhat since our previous report. Contacts in the business support services, telecommunications, government services, restaurant, and software publisher industries announced plans to expand existing operations and hire new workers. In contrast, contacts in the casino, business support services, and janitorial services announced plans to decrease operations and lay off workers.

Real Estate and Construction

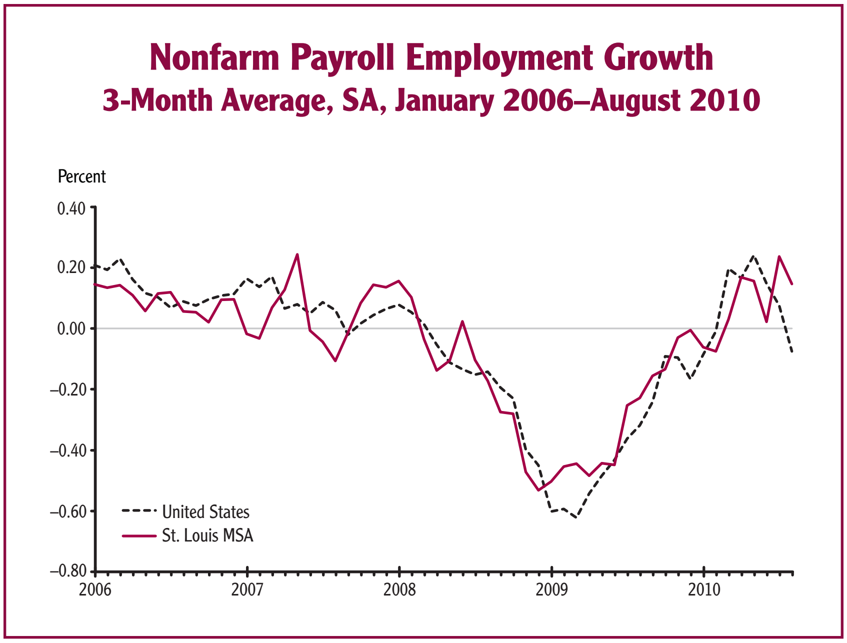
The residential real estate market in St. Louis continued to languish in July compared with a year earlier: Home sales were 1 percent lower and single-family housing permits were 18 percent above the extremely low levels of 2009. The market for industrial real estate has improved, while markets for other commercial real estate has weakened: Second-quarter industrial vacancy rates were lower than in the previous quarter, but suburban and downtown office vacancy rates increased over the same period. A contact in St. Louis reported that limited construction activity is expected to drive improvement for the office market's vacancy rate during the rest of 2010.

Banking and Finance

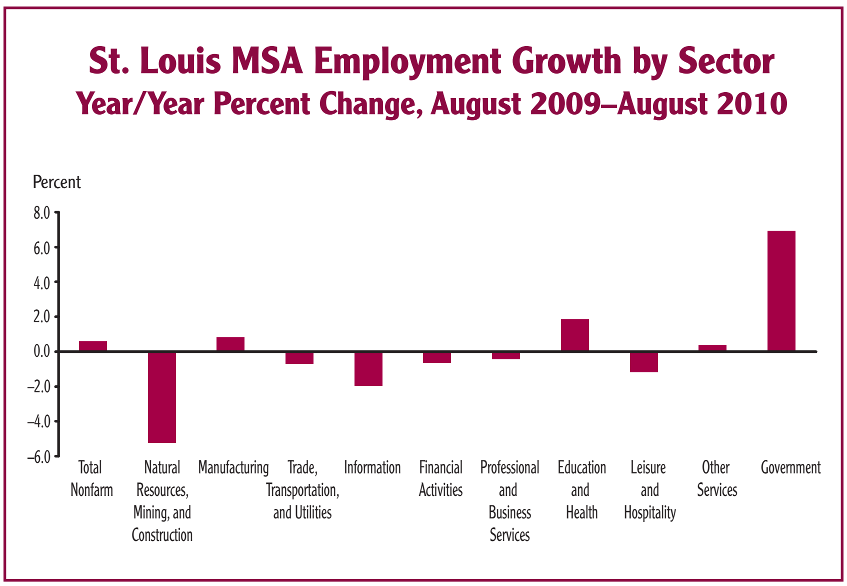
Overall lending activity was relatively unchanged from previous reporting periods. Most contacts reported no change or a slight decrease in demand for consumer loans. One contact noted that he expects the consumer lending market to remain sluggish until uncertainty over the economy wanes and consumer confidence increases. Commercial and industrial lending activity was basically unchanged. Lending activity in the residential mortgage market increased, but contacts indicated that most of the increase was due to refinancing and not new homes. Contacts continue to report declining activity in commercial real estate lending. Most contacts reported that credit standards were basically unchanged across all types of loans. Reports on deposit growth varied from flat to a steady increase.

Agriculture and Natural Resources

Except for corn and soybeans in Illinois and rice in Missouri, crop conditions have deteriorated since mid-July, mostly notably cotton in Missouri. In late August, at least 23 percent of the corn, soybeans, and cotton in Missouri were rated in poor condition, but less than 15 percent of the other major crops in Illinois and Missouri obtained that rating. As of August 1, yields for corn, soybeans, and winter wheat in both states as well as rice and cotton in Missouri were expected to range from 6 percent lower to 7 percent higher than last year's yields. Sorghum yields were expected to be at least 10 percent higher than last year in both states. Total production of corn, soybeans, and sorghum in both states as well as rice and cotton in Missouri was expected to range from 1 percent lower to 22 percent higher than last year. Total production of winter wheat in both states was expected to be at least 60 percent lower than last year.



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 and has recently outpaced that of the rest of country. Over the three-month period ending in August 2010, St. Louis employment expanded at a 0.14 percent monthly rate, while U.S. employment contracted at a monthly rate of 0.08 percent.



Between August 2009 and August 2010, total nonfarm employment in the St. Louis MSA increased by 0.6 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. By far the biggest changes occurred in two sectors: Employment in natural resources, mining, and construction fell by 5.2 percent, whereas employment in the government sector is estimated to have risen by 6.9 percent. The increase in the government sector number is most likely due to quirks in the timing of the re-employment of public school teachers, however, and not to actual increases in employment.

St. Louis Zone—MSA Employment and Unemployment

	Nonfarm payroll employment percent change, August 2009–August 2010			
	Total	Goods producing	Service providing	Unemployment rate August 2010
St. Louis	**0.58**	**–1.46**	**0.91**	**9.6**
Columbia, Mo.	0.91	–1.37	1.12	6.4
Jefferson City, Mo.	–0.52	–1.09	–0.44	7.1
Springfield, Mo.	2.09	1.41	2.18	8.3
United States	0.15	–1.38	0.41	9.5

SOURCE: Bureau of Labor Statistics.

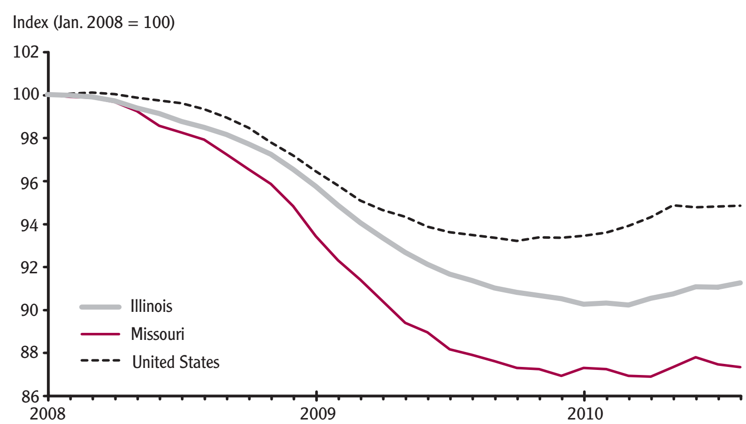
St. Louis Zone—MSA Housing Activity

	Total building permits, units year-to-date		House price index, percent change,
	August 2010	Percent change	2010:Q2/2009:Q2
St. Louis	**3,913**	**17.9**	**–3.81**
Columbia, Mo.	372	–16.6	–0.40
Jefferson City, Mo.	125	11.6	0.93
Springfield, Mo.	763	27.4	–2.83
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 four MSAs in the St. Louis zone. Permits rose by 27.4 percent in Springfield, 17.9 percent in St. Louis, and 11.6 percent in Jefferson City. Columbia, on the other hand, saw a decrease of 16.6 percent in building permits. The FHFA house price index fell over the period in three of the four MSAs in the St. Louis zone: by about 3.8 percent in St. Louis, 0.4 percent in Columbia, and 2.8 percent in Springfield. Nationwide, this index fell by about 5 percent over the period.

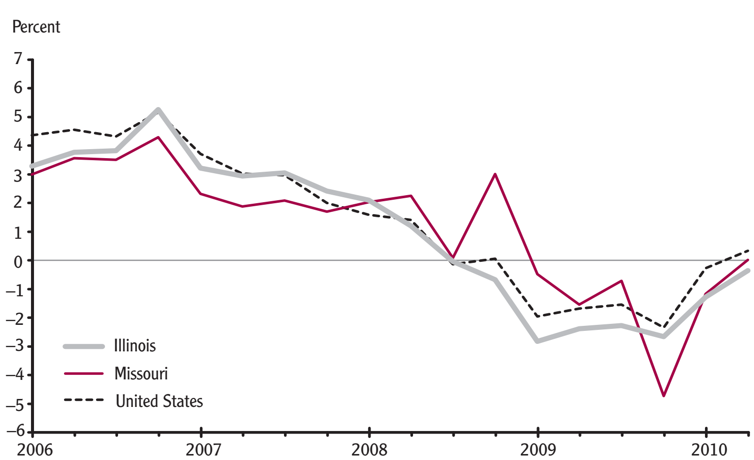
St. Louis Area Coincident Economic Activity Index



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. In 2010, the index has been stronger for the country as a whole than it has for Missouri and Illinois. Between December 2009 and August 2010, the index rose for the United States by 1.6 percent, but only 0.8 percent and 0.5 percent for Illinois and Missouri, respectively.

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 growth for the country as a whole was 0.3 percent between the second quarters of 2009 and 2010, it declined by 0.4 percent in Illinois and remained relatively unchanged for Missouri.

Residential Mortgage Delinquency Rates for Eighth District States

Percent 90+ Days Delinquent or in Foreclosure, 2010:Q2

		Prime			Subprime		
	All mortgages	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
U.S. Total	**9.1**	**6.8**	**4.9**	**17.8**	**28.3**	**20.6**	**40.5**

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

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