

Current Economic Conditions in the Eighth Federal Reserve District

Little Rock Zone

December 23, 2010

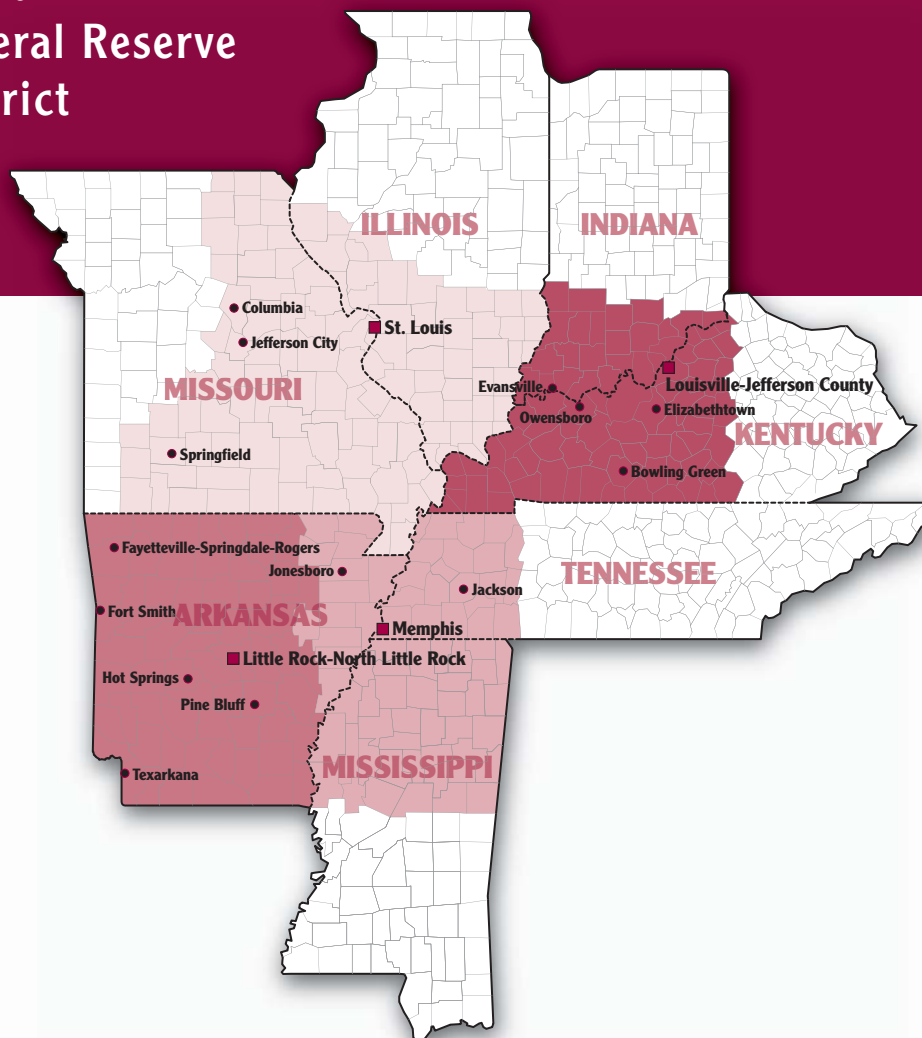
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Eighth Federal Reserve District



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—December 23, 2010

At the close of November, the annual growth of employment, building permits, and housing prices was –1.9 percent, 18.8 percent, and –0.5 percent in the Little Rock MSA and 0.7 percent, 5.8 percent, and –1.2 percent in the nation. The annual growth of personal income was 2.9 percent in Arkansas and 2.1 percent in the nation. In the past three months, local employment increased by an average of 0.1 percent per month, while the nation's remained constant. The unemployment rate in Little Rock (7 percent) was substantially lower than the nation's (9.5 percent). According to all indicators except annual employment growth, Little Rock has outperformed the nation. This view coincides with mildly positive anecdotal reports from car dealers but contrasts with somewhat negative reports by retailers, bankers, and construction firms in the area.

General Retailers

- October and early November sales increased compared with the same time last year for one out of six contacts; sales decreased for two out of three contacts.
- Sales met or exceeded expectations for two out of five contacts.
- Sales were expected to increase in this quarter relative to the same time last year for half of the contacts.

Car Dealers

- October and early November sales increased compared with the same time last year for two out of three contacts.
- Sales were expected to increase in this quarter relative to the same time last year for five out of six contacts.

Manufacturing

- Plastics, construction machinery, and electronics contacts plan to add workers and plants.
- Wiring, air conditioning, and primary metals contacts plan to decrease operations and employment.

Services

- A contact in health care plans to expand operations and hire workers.
- Architecture and business support contacts plan to decrease operations and employment.

Real Estate

- Home sales for January through October were 6 percent lower than last year's.
- Single-family housing permits for January through October were 10 percent higher than last year's.

- Between the second and third quarters, industrial and suburban office vacancy rates increased, while downtown office vacancy rates decreased.

Construction

- A contact noted slow commercial construction activity.
- A contact in southeast Arkansas reported few commercial construction projects.

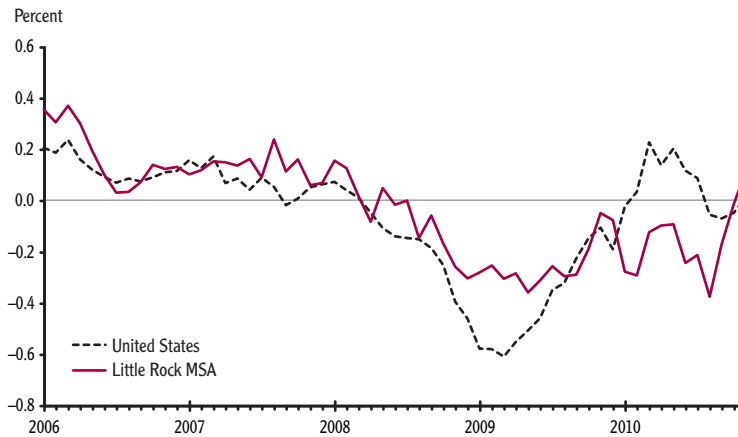
Banking and Finance

- Consumer and business lending activity declined, with customers in both categories seeming reluctant to take on large amounts of new debt.
- Residential mortgage lending activity increased slightly because of an increase in refinances and isolated reports of an increase in new loans.
- Little or no change was reported in deposits.

Agriculture

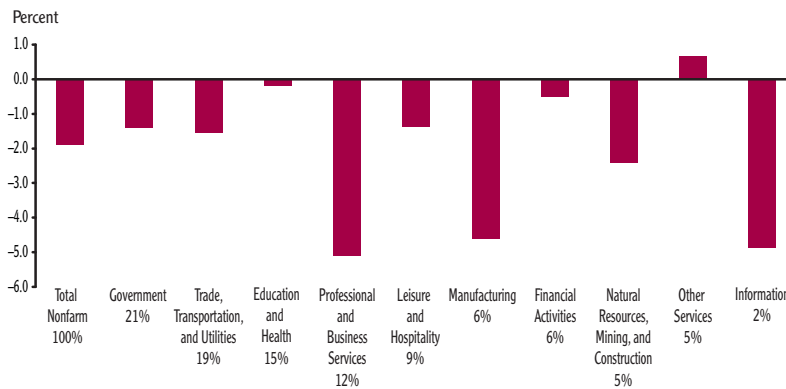
- Weather conditions were warmer and drier than usual in Little Rock over the past quarter.
- The harvest progressed ahead of schedule in the zone: At least 10 percent more of soybeans and cotton were harvested by early November, in comparison with the average completion rate over the past 5 years.
- Corn and cotton yields increased by 1 percent or more from 2009, while yields for soybeans, sorghum, and rice decreased from the previous year.
- Progress on winter wheat planting and crop growth was ahead of the 5-year average, with 77 percent of the crop rated as fair or better.

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



Little Rock’s recession-related decline in employment, centered on January 2009, was milder than in the nation overall. However, the recovery started much later in Little Rock, where the first positive growth rate was observed in November 2010. Average monthly employment growth was 0.11 percent in Little Rock during the past three months, while it was 0.01 percent in the nation.

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



Employment growth by sector during the past 12 months distinguishes general trends from sector-specific trends in Little Rock’s economic performance. Annual employment fell by 1.9 percent in this zone, compared with a 0.7 percent increase for the United States. The three largest sectors in the Little Rock MSA are Government; Trade, Transportation, and Utilities; and Education and Health, accounting for 21 percent, 19 percent, and 15 percent of employment. Growth in these three sectors was –1.4 percent, –1.5 percent, and –0.2 percent, respectively. Sectoral and aggregate employment changes in the Little Rock MSA moved primarily in the same negative direction. The Other Services sector had the best performance in Little Rock (0.6 percent) and accounts for 5 percent of employment in this area.

Little Rock Zone—MSA Employment and Unemployment

	Nonfarm payroll employment percent change, November 2009–November 2010			Unemployment rate October 2010
	Total	Goods producing	Service providing	
Little Rock	-1.90	-3.66	-1.67	7.0
Fayetteville-Springdale-Rogers, Ark.	-1.29	-4.59	-0.55	6.5
Fort Smith, Ark.	-1.02	-1.38	-0.91	8.2
Texarkana, Ark.-Tex.	2.14	3.23	2.00	7.3
United States	0.64	0.34	0.69	9.5

NOTE: Sector-level employment data are not available for Hot Springs, Ark., or Pine Bluff, Ark.; as a result, these MSAs are not included in the previous chart or in this table.
SOURCE: Bureau of Labor Statistics.

Employment contraction in the Little Rock zone is substantial in the Little Rock, Fayetteville-Springdale-Rogers, and Fort Smith MSAs. This holds for both goods-producing and service-providing activities. The highest unemployment rate in the Little Rock zone was registered in the Fort Smith MSA at 8.2 percent. This unemployment rate is still lower than the 9.5 percent rate registered for the United States.

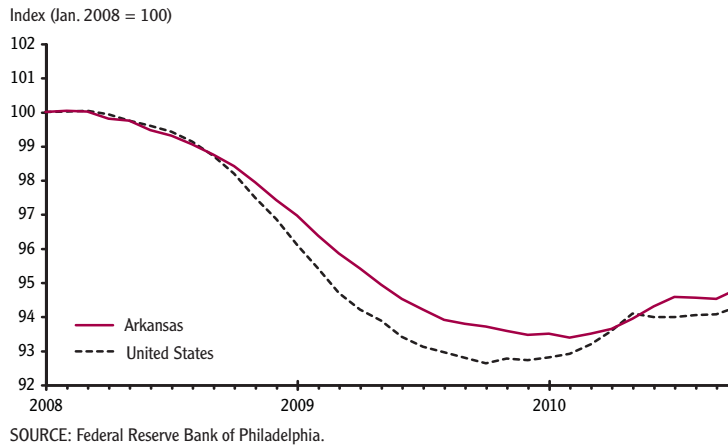
Little Rock Zone—MSA Housing Activity

	Total building permits, units year-to-date		House price index, percent change, 2010:Q3/2009:Q3
	October 2010	Percent change	
Little Rock	2,966	18.8	-0.47
Fayetteville-Springdale-Rogers, Ark.	1,043	-29.0	-2.17
Fort Smith, Ark.	541	-19.6	0.11
Hot Springs, Ark.	34	6.3	-5.42
Pine Bluff, Ark.	93	69.1	1.20
Texarkana, Ark.-Tex.	182	-29.7	-2.27
United States	510,880	5.8	-1.19

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

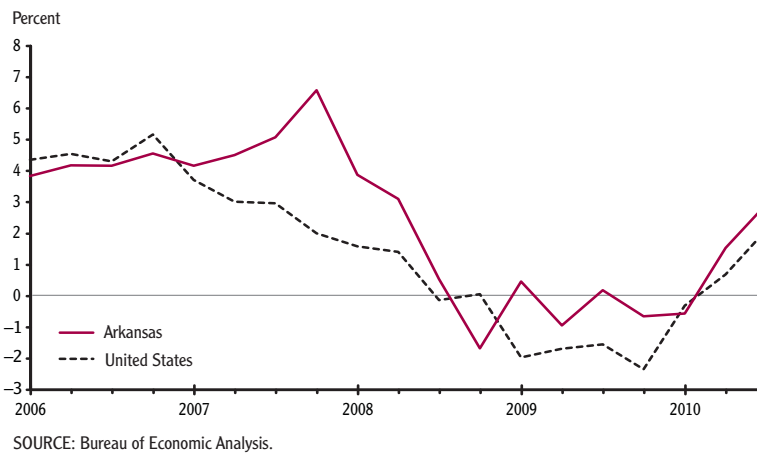
The 18.8 percent expansion of building permits in the Little Rock MSA contrasts with contractions in the Fayetteville-Springdale-Rogers, Fort Smith, and Texarkana MSAs. This expansion was remarkable compared with a 5.8 percent expansion for the United States. The 0.5 percent house price decline in the Little Rock MSA contrasts with the house price increases in the Fort Smith and Pine Bluff MSAs. The house price decline was mild compared with the 1.2 percent decrease for the United States. The greatest increase in building permits was registered in the Pine Bluff MSA, while the greatest decline was registered in the Texarkana MSA. The greatest increase in house prices was also registered in the Pine Bluff MSA, while the greatest decline was registered in the Hot Springs MSA.

Arkansas Coincident Economic Activity Index



The Philadelphia Fed's coincident index combines information on payroll employment, wages, unemployment, and hours of work to give a single measure of economic performance. This index gives an idea of the state economic environment in which Little Rock operates. Arkansas's coincident index reveals a milder impact of the recession and a quicker recovery compared with the nation. The index bottomed at 93.4 for Arkansas, while it bottomed at 92.6 for the United States. Current values of the index suggest that economic activity in Arkansas is at 94.8 percent of its pre-recession levels, while it is at 94.3 percent in the nation. In summary, the state economic environment of the Little Rock zone should roughly coincide with the nation's.

Arkansas Real Personal Income Growth Percent Change, Year/Year



In Arkansas, personal income growth was well above the nation's for several periods before the recession (around June 2007). The recession's impact on Arkansas's personal income has also been milder and the recovery stronger than in the nation. Between the third quarter of 2009 and the third quarter of 2010, personal income grew 2.9 percent in Arkansas and 2.1 percent in the nation.