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The Federal Reserve's Eighth District: Is It Marching In or Out of Step with the National Economy?

ST. LOUIS--Labor markets in the states of the Federal Reserve's Eighth District, as in most of the nation, continue to be extremely tight. The growth of the region's payroll employment, however, has been slower than the national average and, if this trend continues, output is probably going to grow more slowly than it did six months or a year ago, observed Adam M. Zaretsky, an economist with the Federal Reserve Bank of St. Louis.

Zaretsky compared both District and national employment data for the January issue of *The Regional Economist*, the Reserve Bank's quarterly magazine of business and economic issues. The seven states of the Eighth District are Arkansas, Illinois, Indiana, Kentucky, Mississippi, Missouri and Tennessee.

Zaretsky found that the national growth rate of nonmanufacturing employment in the third quarter of 1998 was 2.9 percent. On the other hand, new District jobs in this sector, which employs about 85 percent of the District's workers, were created at only a 0.9 percent annual rate, after rising at a 2.4 percent rate in the second quarter of '98.

"That's a 1.5 percentage point swing in one quarter," he said, "the biggest monthly drop in this growth rate since the second quarter of 1995. That said, it is only one quarter, and the decline came on the heels of a 1 percentage point gain between the first and second quarters of 1998."

At the same time, the data show that employment in the District's manufacturing sector, like that of its national counterpart, has followed a pattern of steady decline. District manufacturing employment fell at a 2.5 percent annual rate in the third quarter of 1998, after a drop of 0.5 percent in the second quarter. This compares to a national decline of 3 percent for the third quarter. "As with the national numbers, though, it's not unusual to see manufacturing employment decline from time to time because manufacturing firms tend to be more affected by the business cycle," said Zaretsky.

Still, Zaretsky concluded that "coupled with the severe turnaround in nonmanufacturing employment, the trend is troubling. With both major employment sectors in decline, the outlook for District output growth is probably a bit weaker than it is for the rest of the country."

(NOTE: State-level economic data for the seven states of the Federal Reserve's Eighth District are available on the inside back cover of every issue of *The Regional Economist*.)

Subscriptions to *The Regional Economist* are free and can be obtained by calling (314) 444-8809. The publication is also available on the St. Louis Fed's web site, www.stls.frb.org

The Federal Reserve Bank of St. Louis has branches in Little Rock, Louisville and Memphis. It serves the Eighth Federal Reserve District, which includes all of Arkansas, eastern Missouri, southern Indiana, southern Illinois, western Kentucky, western Tennessee and northern Mississippi. In addition to serving as a bank for depository institutions and the U.S. government, each Reserve

Bank supervises state-chartered member banks and bank holding companies to foster the safety and soundness of the District's banking and financial institutions and protect the credit rights of consumers, monitors economic conditions in the District and participates in formulating monetary policy.

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