
Business

AN EIGHTH DISTRICT PERSPECTIVE

SUMMER 1984

Economic Expansion Continues in Early 1984

Economic activity in the Eighth District generally matched the robust pace of the national economy in early 1984. At the national level, real GNP, industrial production and retail sales continued to expand at rapid rates. The unemployment rate fell to 7.5 percent in May and average hours worked in manufacturing increased. Despite the strong rise in economic activity, the pace of inflation increased only moderately as consumer prices rose at a 4.3 percent rate from January through April of this year compared with a 3.8 percent rate for 1983.

In our District, the strength of the recovery varied from state to state. The indexes of general business, which combine measures of manufacturing output, non-manufacturing output, retail sales, value of construction and farm income, rose in each of the states. The year-to-date increase in business activity ranges from 8.8 percent in Arkansas to 5.2 percent in Missouri. The relatively rapid pace set by Arkansas is described in more detail on the next page.

Retail Sales

Department store sales in the District continued to be above year-ago levels in each of the first four months of the year, and indications are that May sales continued the same pattern. Leading stores indicate that the year-to-date gain was in the 12 percent to 15 percent range. The gains were broadly based, with clothing and appliances moving particularly well. Retailers indicate that, while inventories are higher than at this time a year ago, they are, in most cases, not burdensome since they will accommodate greater sales volume.

Automobile sales have been strong. Several dealers reported all-time record monthly sales in March, which were broken again in April. Reports indicate that sales in May continued to be lively.

Year-to-date new car sales probably increased 15 percent to 20 percent over the same period a year ago. Dealers claim that sales would have been larger if sufficient popular models had been available. Sales of used cars and trucks also have been vigorous.

Manufacturing

Industrial activity continued to expand during the first four months of 1984. Orders were up, backlogs were increasing, and some firms implemented capital spending plans. Most capital spending continued to be directed toward eliminating "bottlenecks" or otherwise improving productivity, but some capital is now being spent on capacity expansion. At some firms, inventories have been enlarged to handle the growing volume of new orders.

Construction

The amount of home, office, factory and other construction in the District was sizable in the first part of 1984 despite adverse weather that at times hampered activity. With the exception of Kentucky, the dollar amount of new construction contracts in the February-to-April period was greater this year than in the same period last year in each District state.

Employment

Reflecting the increases in sales and production, District employment rose in the first part of 1984, with the largest gains in the manufacturing, construction and service industries. The unemployment rate, while still fairly high, has declined sharply in recent months. Respondents indicate that the average hours worked increased slightly. The number of temporary summer jobs is somewhat more plentiful in 1984 than in 1983.



Outlook

Employers generally are optimistic about the near-term business outlook. An April survey of 257 District businessmen indicated that 73 percent expected the volume of activity to rise in the next three months, 18 percent anticipated little net change and only 9 percent expected a contraction. The strong rebound in real growth that has occurred during this recovery and the moderate rate of inflation compared with recent past experience have been important contributing factors to this optimistic view.

Spotlight on Arkansas

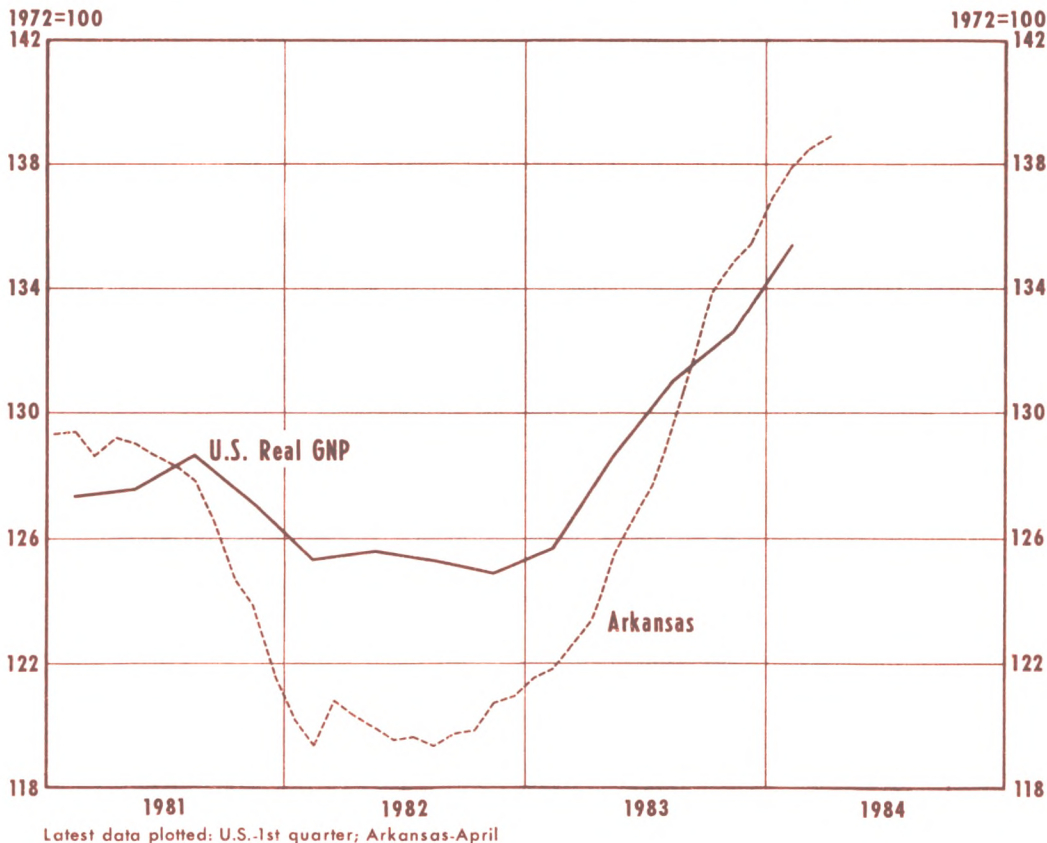
Arkansas, with its heavy concentration of durable manufacturing, lumbering and other cyclically sensitive sectors, experienced a strong 9 percent annual rate of increase in business activity in early 1984. This followed a rapid 11.7 percent increase during 1983, a sharp increase relative to other District states. The Arkansas economy, however, contracted sharply relative to the U.S. economy during the recession of 1981-82 (see chart).

These more pronounced swings in Arkansas' economy are not unusual. For example, the variation in the growth rate of personal income has been about twice as high in Arkansas as in the United States over the last 15 years. This also has been true of the variation in Arkansas' growth rate of total employment as well as such other indicators of economic activity as the growth in mortgage loans and housing permits.

Despite this greater short-run variation, the average growth rate of the Arkansas economy does not differ appreciably from that of the United States over longer-run periods. From the first quarter of 1970 through the first quarter of 1984, the average growth rate of Arkansas' personal income was about 10.5 percent, while the national average was about 9.5 percent. This same pattern holds for the other indicators of economic activity mentioned above. While Arkansas' economy tends to be more volatile than the U.S. economy, it does follow the national trend over the long run.

—Norman N. Bowsher

Relative Business Activity: Arkansas Vs. United States



Business—An Eighth District Perspective is a quarterly summary of business conditions in the area served by the Federal Reserve Bank of St. Louis. Single subscriptions are available free of charge by writing: Research and Public Information Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, Missouri 63166. Views expressed are not necessarily official positions of the Federal Reserve System.

EIGHTH DISTRICT BUSINESS DATA

	Growth Rates ¹			
	Current Period	Year-to-Date 1984	1983	
General Business Indexes²	Feb-Apr			
Arkansas	8.6%	8.8%	11.7%	
Kentucky	4.1	6.3	4.7	
Missouri	4.8	5.2	8.5	
Tennessee	7.5	8.2	4.8	
Retail Sales	Jan-Mar			
United States	14.1%	14.1%	11.0%	
Arkansas ³	3.3	3.3	11.2	
Kentucky ³	-9.1	-9.1	8.9	
Missouri	11.9	11.9	9.5	
Tennessee	19.9	19.9	14.0	
Personal Income	4th quarter '83			
United States	10.8%	7.6%	4.7%	
District	10.9	7.3	4.0	
Arkansas	19.5	11.4	3.3	
Kentucky	7.5	4.5	3.3	
Missouri	10.9	8.1	3.8	
Tennessee	9.5	6.6	5.3	
Payroll Employment	Feb-Apr			
United States	4.9%	4.9%	3.3%	
District	4.1	4.4	2.7	
Arkansas	4.7	5.3	5.4	
Little Rock	1.4	2.1	4.4	
Kentucky	4.4	5.3	1.3	
Evansville, IN	4.6	4.7	0.7	
Louisville	4.9	5.1	0.7	
Missouri	2.1	1.7	1.6	
St. Louis	3.4	3.6	1.9	
Tennessee	6.0	6.3	3.7	
Memphis	2.5	3.2	2.2	
Average Hourly Earnings-Mfg.	Feb-Apr			
United States	2.7%	3.9%	4.3%	
Arkansas	6.1	6.9	5.3	
Little Rock	-0.6	3.3	4.0	
Kentucky	0.6	3.1	7.6	
Louisville	4.1	8.5	4.7	
Missouri	2.9	2.7	5.1	
St. Louis	3.0	3.6	5.0	
Tennessee	3.1	1.2	4.4	
Memphis	12.6	8.7	0.9	
	Employment¹		Prices¹	
	Year-to-Date 1984	Same Period 1983	Year-to-Date 1984	Same Period 1983
Key Industries				
Fabricated Metal Products	0.3%	-9.5%	3.0%	-2.2%
Electrical and Electronic Equipment	11.2	6.9	4.2	5.0
Nonelectrical Machinery	12.1	1.6	3.4	3.0
Transportation Equipment	12.5	7.7	2.2	-0.5
Food and Kindred Products	-3.1	-8.5	10.0	5.5
Textile and Apparel	1.5	-3.5	3.1	-0.6
Printing and Publishing	4.8	2.5	8.6	9.0
Chemicals and Allied Products	0.8	-7.4	3.3	0.7
Construction	-20.0	-33.8	5.3	7.6

EIGHTH DISTRICT BUSINESS DATA

	<u>Current Period¹</u>	<u>Previous 3 Months</u>	<u>Average Year- to-Date 1984</u>	<u>Average 1983</u>
Unemployment Rate				
	Feb-Apr			
United States	7.8%	8.2%	7.9%	9.6%
District	8.7	9.2	8.9	10.8
Arkansas	8.6	8.8	8.8	10.1
Little Rock	6.8	7.1	7.1	8.1
Kentucky	9.3	9.8	9.5	11.6
Evansville, IN	9.1	9.0	9.3	10.7
Louisville	8.8	9.0	9.0	10.9
Missouri	8.3	8.8	8.5	9.9
St. Louis	9.2	9.6	9.4	10.5
Tennessee	8.7	9.5	9.0	11.4
Memphis	8.0	8.5	8.2	9.5
Construction Contracts⁴				
(millions of dollars)				
	Feb-Apr			
District	\$505.2	\$384.0	\$466.2	\$483.4
Arkansas	114.7	91.6	110.2	106.4
Kentucky	154.1	145.1	143.9	172.9
Eastern Missouri	156.5	99.8	139.9	136.8
Western Tennessee	79.8	47.5	72.3	67.3
Housing Permits⁵				
	Feb-Apr			
District	6,726	5,721	6,725	5,475
Arkansas	920	837	886	803
Kentucky	1,190	700	1,083	896
Missouri	1,972	1,517	1,909	1,478
Tennessee	2,645	2,667	2,847	2,297

NOTE: With the exception of construction contracts and employment and prices in key industries, all data are seasonally adjusted.

¹ Data are presented as three-month averages to minimize distortions due to the large variability of monthly data. The current period growth rate is a comparison of the average of the current three months to the average of the previous three months. The year-to-date growth rate is from the average of the three months ended in December 1983. All growth rates are compounded annual rates of change.

² *Sources:* Arkansas and Missouri from Southwestern Bell, Kentucky and Tennessee from South Central Bell.

³ *Sources:* Arkansas from Southwestern Bell and Kentucky from Kentucky Revenue Department.

⁴ *Source:* F.W. Dodge, Construction Potentials, McGraw-Hill Information Systems Company, proprietary data provided by special permission.

⁵ Changing to state data during the transition to new area definitions.