
Business

AN EIGHTH DISTRICT PERSPECTIVE

WINTER 1984-85

Economy Warming Down After Marathon Expansion

After two years of expanding at a very rapid rate, economic activity at the national level is showing signs of cooling down. Growth in real GNP slowed to a 1.9 percent annual pace in third quarter 1984, down from an average annual rate of 7.1 percent over the previous six quarters.

As is typical of cooling-off periods, not all of the indicators of economic activity are pointing in the same direction. For example, personal income and payroll employment at the national level grew fairly rapidly in October, at annual percentage rates of 7.1 and 5.7 percent, respectively. On the other hand, during the same month, retail sales fell at an annual rate of 1.7 percent while the index of industrial production and the unemployment rate were roughly unchanged.

The accompanying data and chart indicate that economic activity in the Eighth District is slowing as well. Growth rates in the general business indexes have slowed considerably in recent months across all District states. While it is difficult to date exact turning points, three-month average growth rates in the range of 8-17 percent occurred with considerable frequency between fourth quarter 1982 and May 1984. Since that time, there has been a substantial decline in these growth rates. In no state was the growth rate as high as 8 percent in the five months since May.

Personal Income

Personal income in each of the District states has advanced rapidly since the trough of the recession. Chart 1 (next page) plots annualized quarterly growth rates in personal income for the District and nation, along with the average annual growth rates over the period 1970-1984 (horizontal lines). For the District as a whole, the pace of the advance in personal income was particularly rapid in fourth quarter 1983 and first quarter 1984. However, during second quarter 1984, both growth rates declined to about their long-run averages.

The average annual growth rate in District

personal income (8.5 percent) has been equal to the national growth rate during the first six quarters of the expansion. The growth rates for the District states, which range from 7.5 percent in Kentucky to 9.3 percent in Tennessee, have exceeded the national average in three cases while the growth rate for Kentucky fell below the national average over the same period. In some cases, the differences appear to be large; however, these are statistically insignificant. Consequently, by this indicator, it does not appear that the District has lagged behind the nation during the economic recovery or that the recovery has favored particular states as some have claimed. Rather, the conclusion appears to be that the economic recovery in the District has kept pace with the national recovery and has been roughly uniform across District states.

Unemployment

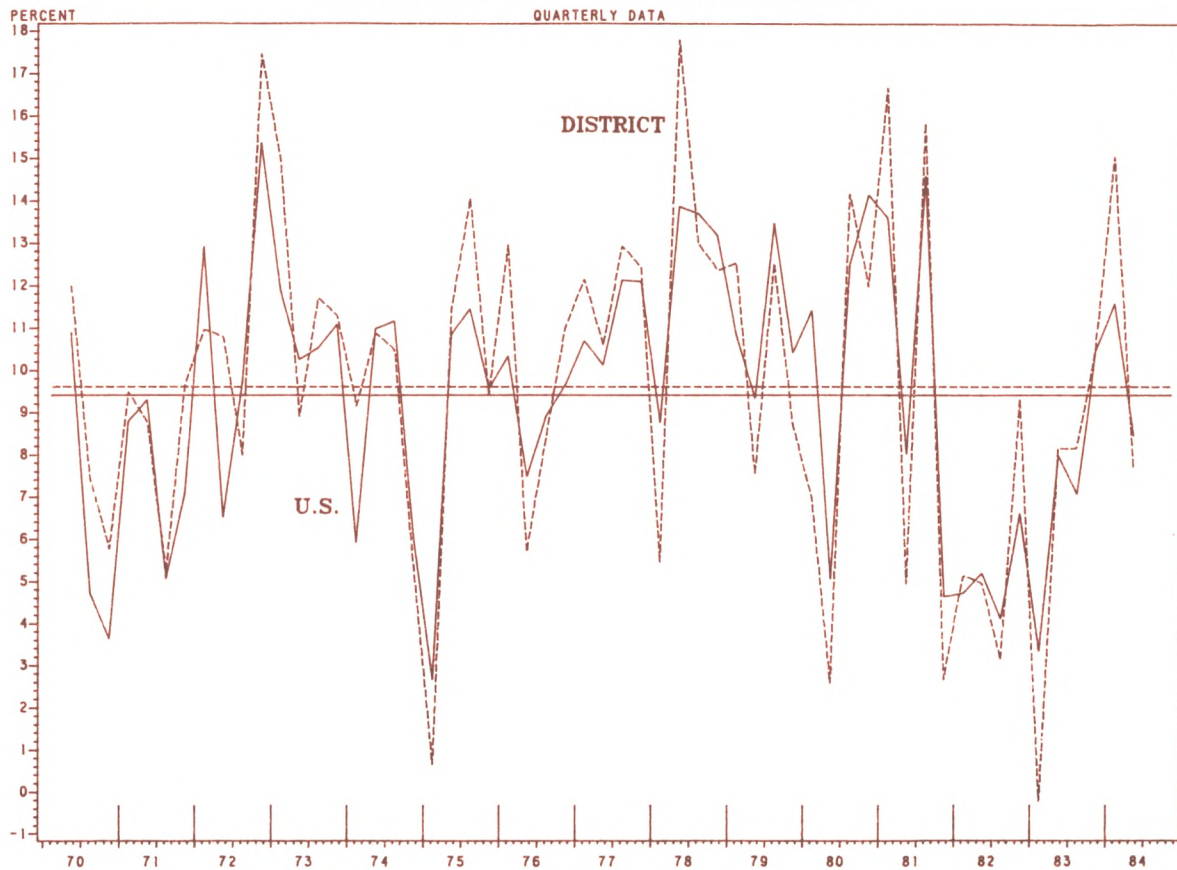
Unemployment rates for both the District and the nation began falling sharply at the end of 1982. Recently, however, the decline has tapered off.

Currently, the District's unemployment rate is higher than the national average and has been higher for the past four years. This reverses the relationship between the District's and nation's unemployment rates that had existed during the decade of the 1970s.

While unemployment rates in Arkansas, Kentucky and Tennessee have recently hovered in the 9 to 10 percent range, the unemployment rate in Missouri has declined to about 6.4 percent. Missouri's unemployment rate had been higher than the national average from January 1983 through April 1984. Since April, the rate has declined sharply to its current level. Though not as low, the unemployment rate in St. Louis has behaved in a similar fashion and is presently about equal to the national average. The current unemployment rate in Little Rock (about 6.8 percent) is also low relative to the national average. However, unlike the unemployment rate in St. Louis, which had generally exceeded the national average until



Chart 1
PERSONAL INCOME GROWTH RATES



recently, Little Rock's unemployment rate has been consistently below the national average since September 1981.

Payroll Employment

After getting off to a fairly slow start in the initial phase of the expansion, the average growth rate in District payroll employment had been about equal to growth at the national level from January 1983 through February 1984. District payroll employment either fell or grew slowly in March, April and May, while employment at the national level continued to grow at a fairly brisk pace. Since May, growth in District payroll employment has bounced back. While recent data indicate that the average growth rate in District

payroll employment is close to the national average, the accompanying tabular data indicates that the growth rates for individual states and cities has been far from uniform.

In Summary

Economic activity at both the District and national level appears to be cooling down following a brisk recovery that began in fourth quarter 1982. Currently, most indicators of economic activity are advancing at rates that conform more closely to their long-run trends rather than at the rapid rates that marked the earlier phase of the expansion. Consequently, despite the slowing, the outlook for the near future remains encouraging.

—G.J. Santoni

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	Aug-Oct			
Arkansas	1.6%	2.1%	12.0%	
Kentucky	0.9	4.5	4.7	
Missouri	-0.8	3.8	8.6	
Tennessee	3.7	6.5	4.8	
Retail Sales	July-Sept			
United States	-3.8%	7.3%	11.0%	
Arkansas ³	-8.8	1.1	11.2	
Kentucky ³	1.2	4.9	9.0	
Missouri	-17.2	8.4	9.5	
Tennessee	-6.3	6.5	13.8	
Personal Income	2nd quarter '84			
United States	8.8%	5.3%	7.5%	
District	7.9	5.8	6.9	
Arkansas	0.5	5.3	8.2	
Kentucky	10.8	5.5	4.2	
Missouri	6.4	5.5	7.6	
Tennessee	11.2	6.5	7.4	
Payroll Employment	Aug-Oct			
United States	3.2%	4.1%	3.4%	
District	1.6	2.8	2.6	
Arkansas	3.5	3.2	5.4	
Little Rock	1.5	0.6	4.3	
Kentucky	1.4	2.9	1.3	
Evansville, IN	1.2	1.1	0.7	
Louisville	0.4	2.8	0.7	
Missouri	2.4	1.5	1.3	
St. Louis	3.4	2.9	1.9	
Tennessee	0.1	4.0	3.7	
Memphis	2.9	2.1	2.2	
Average Hourly Earnings-Mfg.	Aug-Oct			
United States	2.2%	3.1%	4.2%	
Arkansas	4.0	4.5	5.3	
Little Rock	1.8	3.8	4.0	
Kentucky	0.1	3.0	7.6	
Louisville	-5.4	2.2	4.7	
Missouri	8.9	5.5	5.1	
St. Louis	10.9	7.3	5.0	
Tennessee	6.9	3.6	4.4	
Memphis	-1.9	3.9	0.9	
	Employment¹	Prices¹		
	Year-to-Date 1984	Same Period 1983	Year-to-Date 1984	
Key Industries			Same Period 1983	
Fabricated Metal Products	2.8%	2.6%	3.0%	-0.6%
Electrical and Electronic Equipment	7.2	9.0	3.2	4.6
Nonelectrical Machinery	9.0	6.8	2.7	2.5
Transportation Equipment	6.0	17.4	0.5	-0.3
Food and Kindred Products	3.0	-2.4	2.8	3.4
Textile and Apparel	-0.8	6.4	1.6	1.7
Printing and Publishing	1.1	2.7	5.8	6.3
Chemicals and Allied Products	2.1	-1.6	1.9	2.2
Construction	12.2	4.3	2.5	5.1

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	Aug-Oct			
United States	7.4%	7.4%	7.6%	9.6%
District	8.5	8.4	8.6	10.8
Arkansas	9.1	9.2	9.0	10.1
Little Rock	6.7	7.0	7.0	8.1
Kentucky	9.6	9.4	9.5	11.6
Evansville, IN	8.2	8.9	8.8	10.7
Louisville	8.8	8.9	9.0	10.9
Missouri	6.6	7.2	7.5	9.9
St. Louis	7.6	7.9	8.4	10.5
Tennessee	9.4	8.6	9.0	11.4
Memphis	7.3	7.5	7.7	9.5
Construction Contracts⁴ (millions of dollars)	Aug-Oct			
District	\$564.8	\$633.1	\$545.9	\$483.4
Arkansas	130.5	128.6	121.8	106.4
Kentucky	205.4	202.2	179.9	172.9
Eastern Missouri	148.7	212.1	164.2	136.8
Western Tennessee	80.2	90.2	80.0	67.3

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

¹Data 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.

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

³Sources: Arkansas from Southwestern Bell and Kentucky from Kentucky Revenue Department; Missouri and Tennessee are seasonally adjusted by this Bank

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