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# Business

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## AN EIGHTH DISTRICT PERSPECTIVE

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SPRING 1987

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### Eighth District Economy Continued to Expand in 1986

1986 was a year of continued, but modest, growth for the Eighth District economy during the fourth year of the nation's current economic expansion. In this advanced stage of a business cycle, only modest growth in most sectors of the regional economy was recorded. The expansion in some of the District's regions and industries, however, was quite vigorous. This article describes the magnitude and nature of the District's economic growth in 1986.

#### Employment

After a moderately strong expansion in 1984, District payroll employment grew only 2.5 percent in 1985 (see table on page 3). There was a modest improvement last year, as payroll employment increased 2.9 percent. In contrast, the growth of the nation's work force slowed last year (see figure on page 2). Tennessee was responsible for much of the District growth in 1986, with 4.5 percent employment growth. This state was one of the fastest growing in the nation, with most sectors of its economy expanding sharply. While Kentucky and Arkansas grew at rates near the national average, Missouri was constrained by a weak 0.3 percent gain in the St. Louis area, trailing the nation's expansion.

The District's total civilian employment in 1986 increased slightly faster than the growth of the labor force and was sufficient to allow a small drop in the District unemployment rate to 7.7 percent. Unemployment remained stubbornly high, however, in Arkansas and in Kentucky (see table on page 4). As the lower rates in Little Rock and Louisville suggest, unemployment is generally higher in nonmetropolitan areas, where weakness in agriculture- and energy-related business has contributed to the sustained high level of joblessness.

Those industries that fueled the nation's expansion — construction, services, wholesale/retail trade, and the finance, insurance and real estate sector—also were responsible for most of the District employment growth in 1986.

Weakness of the region's manufacturing sector constrained District employment growth, with job declines of 0.4 percent. This decline was considerably less than the 1.9 percent drop in 1985, however, suggesting employment in the sector might be stabilizing. Much of the District's recent decline occurred in Missouri where job losses in most manufacturing subsectors contributed to a 3.1 percent drop. Employment in the state's transportation equipment subsector, particularly important to the Missouri economy, dropped by 2.3 percent with increases in aircraft manufacturing offset by losses in auto production. Of the four District states, Arkansas enjoyed the greatest expansion in manufacturing employment, with a growth of 2.2 percent in 1986, as employment in the state's relatively large food-processing industry was especially strong.

The declining exchange value of the dollar since early 1985 led to expectations of a manufacturing upturn, as import prices were expected to increase and prices of domestic exports dropped in foreign markets. A recent survey of District manufacturers suggests that the shrinking exchange value of the dollar had little effect on domestic producers in 1986, however, as market-specific factors were more important in influencing growth.

#### Construction

The growth of District construction in 1986 was modest, but represented a marked improvement over the stagnant growth of the previous year. The real value of building contracts was up by 2.6 percent, exceeding the nation's 1.1 percent growth.

The real value of residential construction, spurred by a jump in single-family home building, increased a moderate 4.7 percent in 1986 after a slight decline in 1985. Missouri's 14.5 percent growth led the District states, spurred by a sharp jump in the St. Louis metropolitan area. Residential contracts in Arkansas, however, declined for the third consecutive year.



Housing permit data (for new privately owned units) indicate an increase in single-family home building was responsible for the District's residential construction growth last year. The number of single-family permits grew by 23.9 percent in 1986, while multi-family permits fell by 14.2 percent. Construction of single-family housing was spurred by the lowest mortgage rates since the late 1970s. Widespread overcapacity and uncertainty regarding tax reform contributed to the multi-family building decline.

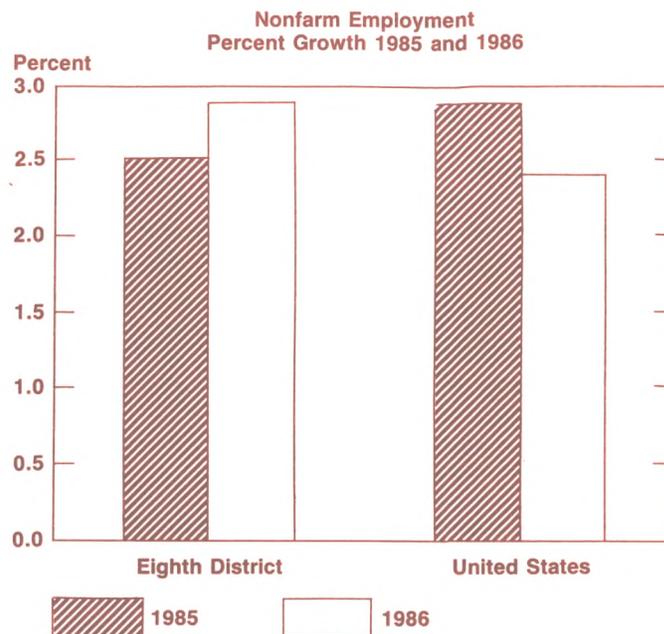
These two factors also contributed to sluggishness in nonresidential construction. Overbuilding of office space has been reported in the District's major metropolitan areas. Anticipation of repeal of certain tax shelters in the federal tax reform prompted increased building in IV/1985, borrowing from 1986 construction. The inflation-adjusted value of District nonresidential construction contracts awarded in 1986 declined 0.3 from the 1985 level. This decline was less severe than the nation's 6.7 percent drop, however. As was true of the residential sector, most of the District's nonresidential construction growth in 1986 was concentrated in Missouri, with the greatest decline in Arkansas.

## Consumer Income and Spending

Lower inflation last year allowed the expansion of District real personal income to accelerate in 1986 over the previous year's growth. After adjusting for inflation, the 3.8 percent growth between III/1985 and III/1986 exceeded the previous year's 2 percent gain.

The District's 3.8 percent real income growth from III/1985 to III/1986 was similar to the nation's, but the sources of the growth differed somewhat. While real earnings, about 70 percent of the total, grew more rapidly in the District than in the nation, the other major components of personal income—transfer payments and dividends/interest/rent—grew more slowly in the region.

District retail sales grew more slowly last year than in 1985, whether measured in current or constant dollars. In current dollars, fourth-quarter sales grew by only 1.8 percent



from the year-ago level, following a 6.9 percent increase in 1985. As the table on page 3 shows, most of the slowdown took place in Kentucky where sales dropped after a sharp jump in 1985. Both sales and income grew more slowly in Kentucky last year than elsewhere in the District. This sluggishness is not surprising given the state's relatively heavy reliance on agriculture and mining, two struggling sectors.

Consistent with national trends, sharp increases in District car sales in September and December 1986 and moderate gains in Christmas sales boosted District retail sales in the second half of the year.

## Summary

Employment, construction and real income grew slightly more rapidly last year than in 1985. This improvement is encouraging in the fourth year of a recovery period, particularly given the slight slowdown of employment and construction growth at the national level.

—Thomas B. Mandelbaum

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## EIGHTH DISTRICT BUSINESS DATA

	Rates of Change <sup>1</sup>			
	Current Quarter	1986	1985	1984
<b>General Business Indexes<sup>2</sup></b>	<b>IV/1986</b>			
Arkansas	3.4%	2.3%	0.8%	2.6%
Kentucky	0.4	4.1	1.4	4.4
Missouri	3.4	2.6	2.4	4.4
Tennessee	1.5	4.1	2.6	5.1
<b>Payroll Employment</b>	<b>IV/1986</b>			
United States	3.0%	2.4%	2.9%	4.5%
District	2.2	2.9	2.5	4.5
Arkansas	2.7	2.4	2.9	3.8
Little Rock	0.4	0.0	2.9	3.7
Kentucky	2.2	2.6	1.7	5.3
Louisville	4.4	4.2	2.8	4.0
Missouri	-1.2	1.9	2.6	4.6
St. Louis	-0.3	0.3	1.4	4.3
Tennessee	6.0	4.5	2.8	4.2
Memphis	3.6	1.3	1.1	5.1
<b>Manufacturing Employment</b>	<b>IV/1986</b>			
United States	0.8%	-0.6%	-1.2%	3.2%
District	0.6	-0.4	-1.9	3.3
Arkansas	3.6	2.2	-0.9	2.6
Kentucky	1.9	-0.4	-2.5	4.8
Missouri	-4.9	-3.1	-1.4	3.5
Tennessee	3.6	0.9	-2.6	2.6
<b>Retail Sales<sup>3</sup></b>	<b>IV/1986</b>			
United States	-0.4%	6.4%	5.5%	7.3%
Arkansas	6.6	4.2	2.2	2.4
Kentucky	-11.6	-2.6	12.6	0.2
Missouri	-9.5	2.7	1.9	9.1
Tennessee	-6.3	5.4	7.8	10.9
<b>Personal Income</b>	<b>III/1986</b>			
United States	2.0%	6.2%	8.4%	8.0%
District	4.1	5.7	8.7	6.6
Arkansas	1.6	4.8	8.2	7.1
Kentucky	3.7	4.2	8.1	4.6
Missouri	2.6	6.2	8.9	7.1
Tennessee	7.3	6.6	9.2	7.3

	District Employment <sup>1</sup>		Prices <sup>1</sup>	
	Current Quarter	Current Year	Current Quarter	Current Year
<b>Key Industries</b>	<b>IV/1986</b>	<b>IV/1985 - IV/1986</b>	<b>IV/1986</b>	<b>IV/1985 - IV/1986</b>
Fabricated Metal Products	2.4%	-1.6%	1.1%	0.6%
Electrical and Electronic Equipment	0.6	0.2	0.9	1.8
Nonelectrical Machinery	-2.1	-1.0	0.9	1.6
Transportation Equipment	-7.6	-7.3	14.5	2.7
Food and Kindred Products	-0.3	5.0	-0.4	2.9
Textile and Apparel	4.9	-0.3	-0.2	0.3
Printing and Publishing	0.0	1.0	3.0	3.7
Chemicals and Allied Products	-4.6	-2.1	0.5	-1.5
Construction	-9.5	7.2	-0.3	0.0

## EIGHTH DISTRICT BUSINESS DATA

	Current Quarter	Previous Quarter	Average 1986	Average 1985
<b>Unemployment Rate</b>	<b>IV/1986</b>	<b>III/1986</b>		
United States	6.8%	6.9%	7.0%	7.2%
District	7.6	7.8	7.7	7.9
Arkansas	8.9	9.3	8.8	8.6
Little Rock	7.7	7.5	6.9	6.4
Kentucky	8.3	8.6	9.2	9.5
Louisville	6.1	6.5	7.0	7.9
Missouri	6.4	6.5	6.1	6.4
St. Louis	7.3	7.5	7.0	7.4
Tennessee	7.9	7.9	7.9	8.0
Memphis	6.9	6.7	6.8	6.6
	Current Quarter	Previous Quarter	Same Period 1985	Same Period 1984
<b>Construction Contracts<sup>4</sup></b> (millions of dollars)	<b>IV/1986</b>	<b>III/1986</b>	<b>IV/1985</b>	<b>IV/1984</b>
<b>Residential Construction</b>				
District	\$552.7	\$532.4	\$480.0	\$457.0
Arkansas	59.5	63.2	68.4	68.6
Kentucky	104.0	108.9	104.6	90.5
Missouri	195.2	152.2	124.2	131.5
Tennessee	193.9	208.1	182.8	166.4
<b>Nonresidential Construction</b>				
District	\$368.3	\$399.2	\$335.3	\$392.7
Arkansas	28.8	53.8	43.4	36.1
Kentucky	101.5	112.6	86.5	72.7
Missouri	120.4	127.0	95.6	146.7
Tennessee	117.6	105.8	109.9	137.2

**NOTE:** With the exception of employment and prices in key industries, all data are seasonally adjusted. Data for Arkansas, Kentucky, Missouri and Tennessee are used to represent the District.

<sup>1</sup> All growth rates are compounded annual rates of change. The 1983 through 1986 growth rates compare the fourth quarter of the year listed with the fourth quarter of the previous year.

<sup>2</sup> Although each index is a comprehensive measure of economic activity, the Arkansas and Missouri indexes, computed by Southwestern Bell, are not strictly comparable to the Kentucky and Tennessee indexes, which are computed by South Central Bell.

<sup>3</sup> Sources: Arkansas from Southwestern Bell, Kentucky from the Kentucky Revenue Department, Missouri and Tennessee from the U.S. Department of Commerce.

<sup>4</sup> Excludes nonbuilding construction. Source: F. W. Dodge **Construction Potentials**, proprietary data provided by special permission.