
Business

AN EIGHTH DISTRICT PERSPECTIVE

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The Eighth District's Economy: A Microcosm of the Nation's

Employment growth in the Eighth District economy generally has mirrored national growth. The average annual growth rates of nonfarm payroll employment in the District and nation were virtually identical from 1971 through 1986. During this period, average annual employment growth in the District was 2.1 percent, just one-tenth of a percent less than the nation's. The chart on the following page, which compares yearly growth rates of District and national nonfarm employment, indicates that the District's growth was a bit stronger in the early seventies and slightly weaker in the early eighties, but the general similarity of the growth rates throughout the period is clear.

This issue discusses two factors that help explain the similarity of District and national employment growth: the distribution of employment among sectors in the region and the nation, and the growth rates of the individual sectors.

Employment Composition

If the structure of the District's economy differed substantially from the nation's, differences in employment growth would not be surprising. For example, if a region is more heavily specialized than the nation in relatively slow-growing sectors, such as mining or manufacturing, its overall employment growth would tend to trail the nation's. Last year's employment declines in states heavily dependent on the struggling oil extraction industries — Texas, Oklahoma and Louisiana — are examples.

On the other hand, to the extent a region's economic structure is similar to the nation's, its growth tends to parallel the nation's growth. The Eighth District and the nation share very similar employment structures.

The table on the next page shows the 1986 distribution of employment among the eight major employment sectors for the District and the United States. Although manufacturing accounts for a somewhat larger, and services a somewhat smaller, share of the District economy, the resemblance is striking.

This structural similarity has existed for years. In the 1950s and 1960s, for instance, both the regional and the national economies were characterized by relatively larger manufacturing sectors and smaller services sectors than in 1986.

Comparing Growth of Individual Sectors

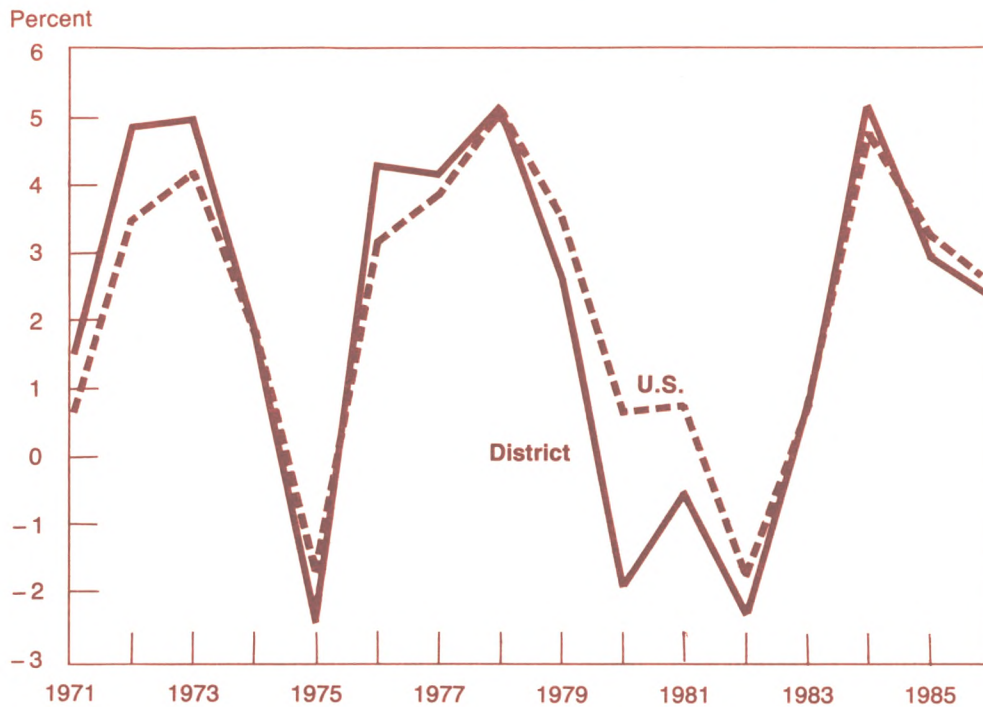
The resemblance of employment composition at the District and national levels helps explain, but does not guarantee, similar expansions of total nonfarm employment. If the growth of individual sectors is dissimilar at the regional and national levels, dissimilar growth of overall employment would be likely as well.

In the Eighth District and the nation, however, employment growth has been similar in each of the major employment sectors of the nonfarm economy. The table shows the similarity. The largest difference, between the regional and national financial sectors, is only one half of one percent.

Although slight differences exist between the regional and national growth rates for six of the eight sectors, statistical tests indicate that these differences are likely due to random variation in the data. The test also indicates that the average growth rates of total nonfarm employment for the region and the nation are not significantly different in a statistical sense.



Annual Nonfarm Payroll Employment Growth



Summary

The District's economy has mirrored the nation's both in employment composition and in growth of individual sectors. Together, these similarities have insured that the District's overall employment growth has resembled the nation's since 1971. Similar growth paths also have been found for regional and national personal income, retail sales and the value of construction contracts. These similarities are not surprising

given the integration of the region with the rest of the nation.

To the extent that past trends persist, continued similarity of regional and national economic growth is likely. The knowledge of this similarity is useful in predicting change in the regional economy. Since economic forecasts are scarce at the regional level, national forecasts can be used to infer probable changes in the region's economy.

—Thomas B. Mandelbaum

Composition and Growth of Nonfarm Employment by Major Sector

	Percent of Nonfarm Employment, 1986		Average Annual Growth, 1971-86	
	District	U.S.	District	U.S.
Nonfarm employment	---	---	2.1%	2.2%
Mining	0.9%	0.8%	1.4	1.8
Construction	4.6	4.9	1.9	2.2
Manufacturing	22.4	19.2	0.3	0.0
Transportation and public utilities	5.7	5.3	1.4	1.0
Wholesale and retail trade	23.5	23.8	2.9	2.9
Finance, insurance and real estate	5.2	6.3	3.0	3.5
Services	20.8	23.0	4.3	4.4
Government	16.8	16.7	1.8	1.8

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

	Rates of Change ¹			
	Current Quarter	1986	1985	1984
General Business Indexes²	I/1987			
Arkansas	3.8%	0.6%	0.8%	2.6%
Kentucky	-1.5	0.8	0.6	4.4
Missouri	3.0	2.0	2.4	4.4
Tennessee	4.5	3.5	2.9	5.4
Payroll Employment	I/1987			
United States	3.0%	2.4%	2.9%	4.5%
District	5.1	2.5	2.5	4.5
Arkansas	4.8	2.5	1.7	3.8
Little Rock	5.1	0.7	2.9	3.6
Kentucky	4.8	2.3	2.3	5.3
Louisville	2.9	2.9	2.4	4.0
Missouri	2.3	1.5	2.1	4.7
St. Louis	2.9	1.2	2.3	4.3
Tennessee	8.4	3.6	3.2	4.2
Memphis	5.3	4.2	3.1	5.1
Manufacturing Employment	I/1987			
United States	0.9%	-0.6%	-1.2%	3.2%
District	2.7	-0.2	-1.6	3.3
Arkansas	4.4	2.4	-1.6	2.6
Kentucky	5.3	-0.4	-2.0	4.7
Missouri	0.4	-3.0	-1.4	3.5
Tennessee	2.5	1.1	-1.6	2.6
Retail Sales³	IV/1986			
United States	0.3%	6.3%	6.4%	7.3%
Arkansas	-1.1	2.3	2.2	2.4
Kentucky	-8.2	-2.4	12.6	0.1
Missouri	-4.1	2.9	2.1	9.3
Tennessee	-5.5	5.4	7.8	10.8
Personal Income	IV/1986			
United States	3.6%	4.4%	6.2%	8.4%
District	2.7	3.5	5.7	8.7
Arkansas	2.0	2.5	4.8	8.2
Kentucky	0.9	2.2	4.2	8.1
Missouri	1.0	2.6	6.2	8.9
Tennessee	6.4	5.9	6.6	9.2
	District Employment¹		Prices¹	
	Current Quarter	Current Year	Current Quarter	Current Year
Key Industries	I/1987	I/1986 - I/1987	I/1987	I/1986 - I/1987
Fabricated Metal Products	-5.2%	-0.2%	0.8%	0.6%
Electrical and Electronic Equipment	6.9	-1.9	1.2	1.5
Nonelectrical Machinery	1.4	-0.9	2.0	1.6
Transportation Equipment	-4.5	-5.0	0.0	3.2
Food and Kindred Products	-4.5	4.9	-2.1	1.9
Textile and Apparel	-1.5	1.3	1.1	0.4
Printing and Publishing	-2.0	-1.2	7.2	3.7
Chemicals and Allied Products	1.0	-0.6	5.6	-0.6
Construction	-23.6	8.9	1.3	1.0

EIGHTH DISTRICT BUSINESS DATA

	Current Quarter	Previous Quarter	Average 1986	Average 1985
Unemployment Rate	I/1987	IV/1986		
United States	6.7%	6.8%	7.0%	7.2%
District	7.4	7.5	7.7	7.9
Arkansas	8.1	9.0	8.8	8.7
Little Rock	7.1	7.7	6.9	6.4
Kentucky	9.7	8.5	9.2	9.5
Louisville	7.4	6.5	7.0	7.9
Missouri	5.8	6.2	6.1	6.4
St. Louis	6.7	7.2	7.0	7.5
Tennessee	7.2	7.6	8.0	8.0
Memphis	6.0	6.6	6.8	6.6
	Current Quarter	Previous Quarter	Same Period 1986	Same Period 1985
Construction Contracts⁴ (millions of dollars)	I/1987	IV/1986	I/1986	I/1985
Residential Construction				
District	\$584.4	\$552.5	\$513.9	\$497.8
Arkansas	52.1	59.4	68.3	62.9
Kentucky	113.8	104.2	108.2	99.6
Missouri	213.6	195.0	169.3	145.8
Tennessee	204.9	193.8	168.1	189.5
Nonresidential Construction				
District	\$388.7	\$368.4	\$345.7	\$376.1
Arkansas	30.7	28.8	38.0	31.6
Kentucky	120.7	101.8	73.6	68.0
Missouri	108.0	119.6	133.7	123.2
Tennessee	129.3	118.3	100.4	153.4

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.

¹ All growth rates are compounded annual rates of change. The 1984 through 1986 growth rates compare the fourth quarter of the year listed with the fourth quarter of the previous year.

² 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.

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

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