
Business

AN EIGHTH DISTRICT PERSPECTIVE

SPRING 1988

District Employment Gains Continue in 1987

1987 was the fifth successive year of national and regional economic growth, making the current recovery the longest peacetime expansion of the century. The stock market crash in October shocked the nation, but growth continued through the end of the year. Though the growth of income and construction weakened slightly from 1986, employment continued to expand moderately. This article focuses on economic developments in 1987 in the Eighth Federal Reserve District.

Employment

The table on page 4 shows that the average unemployment rate in 1987 fell from the previous year in both the District and the nation. The District average jobless rate during 1987, 7.2 percent, was the lowest of the decade. The jobless rate fell in Arkansas, Kentucky and Tennessee, but edged upward in Missouri, which has enjoyed relatively low unemployment rates for several years. Despite last year's decreases, the rates in Arkansas and Kentucky remained stubbornly high, exceeding 8 percent in 1987.

The decline in unemployment rates is reflected in payroll employment growth of 2.6 percent in the District and 2.9 percent nationally. District employment grew rapidly in the fourth quarter, expanding at a 4.1 percent rate. As the table on page 3 indicates, 1987 represents the third successive year of moderate employment growth in both the District and the nation. The table also shows that Tennessee has been the star performer of the District states in recent years, with employment growth of 3.8 percent in 1987 and more than 3 percent growth in the previous two years. Arkansas' job growth was also relatively rapid, rising 3.5 percent in 1987, and at a 6.3 percent annual rate in the final quarter of the year.

Although the growth of District's payroll employment in 1987 was similar to that of 1986, the sources of growth varied. This can be seen in the figure on the next page. The eight divisions of payroll employment are arranged in descending size, ranging from the wholesale and retail trade sector, which employed almost a quarter of the District's 1987 workforce, to mining, which employed less than 1 percent. The largest four sectors,

which account for more than four-fifths of the total employment, largely determined the growth of total payroll employment. Of these four sectors, the largest changes were in the services and manufacturing sectors.

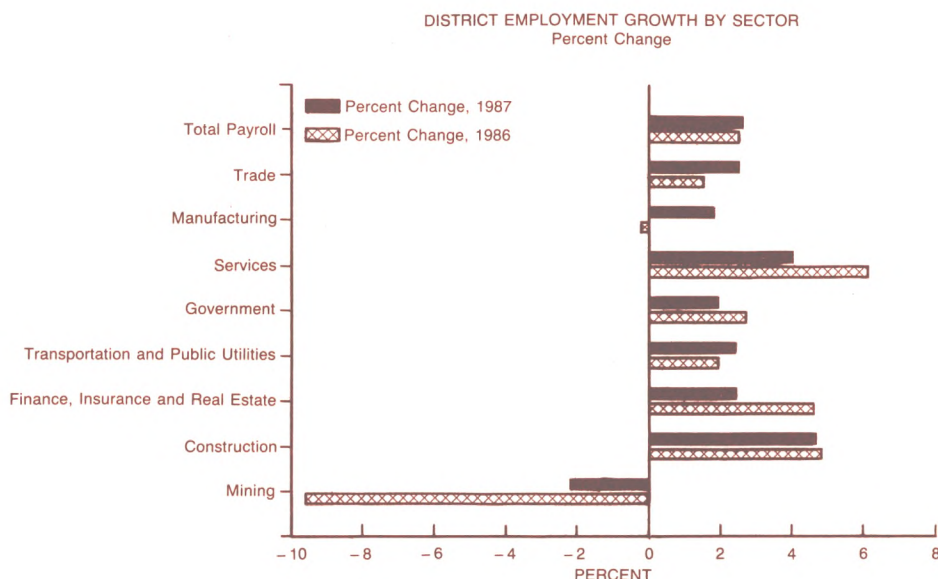
Employment growth in the 1980s has been fastest in the services sector, which is dominated by business and health services. Consumers have spent an increasing proportion of their rising incomes on services. Slower labor productivity growth in services than in goods-production has also contributed to services' relatively rapid job growth. Although the expansion of District services employment slowed from 6.1 percent in 1986 to 4 percent in 1987, the sector provided more new jobs than any other single sector last year.

A turnaround of manufacturing provided the most dramatic employment development of 1987 in both the District and the nation. Manufacturers were aided by strong export demand for their products, as the declining exchange value of the dollar made U.S. products relatively less expensive in many foreign markets. The real value of the nation's exports, dominated by manufactured goods, jumped 12.8 percent in 1987.

District manufacturing employment grew 1.8 percent in 1987 following a 0.2 percent decrease in 1986. Similarly, factory employment grew 1.9 percent in 1987 nationally and fell 0.9 percent in 1986. The growth in 1987, though modest, represents manufacturing's first annual job gains since 1984. The table on the bottom of page 3 shows that the gains in District manufacturing employment were concentrated in the food and kindred products and the textile and apparel industries.

Among District states, growth was particularly strong in Arkansas, in which manufacturing employment rose 4.7 percent during the year and at an 8.8 percent annual rate in the fourth quarter. Arkansas' manufacturing gains were concentrated in the transportation equipment industry, printing and publishing industry and food and kindred products industry—in which poultry producers grew rapidly. As the table on page 3 shows, manufacturing employment also increased substantially in Kentucky and Tennessee but fell slightly in Missouri.





A closure of a light truck assembly plant in St. Louis and intermittent layoffs of auto workers contributed to the decline in Missouri.

Consumer Spending and Income

The table on page 3 suggests that personal income expanded rapidly in the third quarter, growing at a 6.3 percent annual rate in the District and only slightly slower nationally. After adjusting for inflation, however, the third quarter growth rate was only 1.5 percent regionally and 1.1 percent nationally.

In current dollars, income in the District grew at a slightly faster rate in the first three quarters of 1987 than the 5.4 percent growth for 1986. After adjusting for inflation, however, District income only grew at a 1.3 percent rate in 1987 compared with a 4.1 percent real gain in 1986. All three components of District real income—earnings, transfer payments and dividends/interest/rent—grew slower in 1987 than in 1986. Real income in Kentucky outpaced the other District states, but still only expanded at a modest 2.5 percent pace in the first three-fourths of 1987. During the same period, real income in Arkansas was virtually unchanged.

The sluggish expansion of retail sales continued in 1987. After adjusting for inflation, retail sales grew 0.8 percent in 1987 compared with 0.5 percent in 1986. Sales were particularly weak in Missouri, where sales fell 2.3 percent.

Construction

After modest growth in 1986, construction activity leveled off in 1987. The real value of construction contracts issued in the District increased 0.3 percent last year while falling 0.4 percent nationally. District nonresidential building contracts grew moderately during the year due to strong expansions in Kentucky and Tennessee. These gains were offset by declines of the residential sectors in each of the four District states, mainly due to less construction of multifamily structures. In addition, District contracts for non-building projects (such as roads, bridges and utilities) declined in 1987.

Summary

Indicators of District economic activity provide a mixed picture of economic performance in 1987. The expansion of real income continued in 1987, but at a slower pace than in the previous year. The real value of construction contracts was virtually flat in 1987. More positively, payroll employment grew at a moderate pace, allowing the unemployment rate to fall through the year. Aided by rising exports, the number of District manufacturing jobs increased in 1987 after falling for two years. The District's vigorous employment growth in the year's final quarter was particularly encouraging, given the shock of the October stock market crash.

—Thomas B. Mandelbaum

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	1987	1986	1985
General Business Indexes²	IV/1987			
Arkansas	5.8%	3.2%	0.2%	1.0%
Kentucky	2.5	2.5	2.3	0.8
Missouri	5.3	2.3	1.8	3.0
Tennessee	4.7	2.5	4.9	3.6
Payroll Employment	IV/1987			
United States	3.9%	2.9%	2.0%	2.7%
District	4.1	2.6	2.5	2.5
Arkansas	6.3	3.5	2.5	1.7
Little Rock	4.1	2.4	0.7	2.9
Kentucky	2.7	1.9	2.3	2.3
Louisville	6.7	3.0	2.8	2.4
Missouri	3.6	1.6	1.5	2.1
St. Louis	4.3	1.3	1.2	2.3
Tennessee	4.7	3.8	3.6	3.2
Memphis	4.2	2.3	4.2	3.1
Manufacturing Employment	IV/1987			
United States	3.9%	1.9%	-0.9%	-1.8%
District	3.8	1.8	-0.2	-1.6
Arkansas	8.8	4.7	2.4	-1.6
Kentucky	2.0	2.6	-0.4	-2.0
Missouri	-0.8	-0.2	-3.0	-1.4
Tennessee	6.4	1.8	1.1	-1.6
Retail Sales³	IV/1987			
United States	-3.8%	2.0%	6.3%	6.4%
Arkansas	49.1	14.0	2.2	2.2
Kentucky	-20.4	3.5	-2.2	12.9
Missouri	4.6	2.1	2.6	3.2
Tennessee	-9.3	6.5	6.6	9.5
Personal Income	III/1987	1986	1985	1984
United States	5.8%	5.6%	6.9%	8.3%
District	6.3	5.4	6.2	8.6
Arkansas	4.3	5.4	6.5	8.1
Kentucky	8.0	4.0	4.3	7.9
Missouri	6.8	5.1	6.4	8.7
Tennessee	5.2	6.7	7.2	9.1

	District Employment ¹		Prices ¹	
	Current Quarter	Current Year	Current Quarter	Current Year
Key Industries	IV/1987	IV/1986 - IV/1987	IV/1987	IV/1986 - IV/1987
Fabricated Metal Products	19.7%	1.5%	8.2%	3.8%
Electrical and Electronic Equipment	2.1	0.6	1.8	1.3
Nonelectrical Machinery	2.1	-0.1	2.2	1.6
Transportation Equipment	-2.7	-4.1	6.6	0.4
Food and Kindred Products	1.0	3.3	-1.5	1.6
Textile and Apparel	4.5	3.8	3.8	3.2
Printing and Publishing	2.8	0.7	3.5	3.9
Chemicals and Allied Products	-3.2	0.4	6.5	6.7
Construction	-6.2	4.7	8.3	4.2

EIGHTH DISTRICT BUSINESS DATA

	Current Quarter	Previous Quarter	Average 1987	Average 1986
Unemployment Rate	IV/1987	III/1987		
United States	5.9%	6.0%	6.2%	7.0%
District	6.8	7.2	7.2	7.7
Arkansas	7.9	8.2	8.1	8.8
Little Rock	6.8	7.3	7.1	6.9
Kentucky	7.6	8.3	8.8	9.2
Louisville	6.0	6.8	7.0	7.0
Missouri	6.2	6.5	6.2	6.1
St. Louis	6.8	6.9	6.9	7.0
Tennessee	6.3	6.9	6.8	8.0
Memphis	5.6	6.1	5.9	6.8
	Current Quarter	Previous Quarter	Same Period 1986	Same Period 1985
Construction Contracts⁴ (millions of dollars)	IV/1987	III/1987	IV/1986	IV/1985
Residential Construction				
District	\$541.9	\$500.5	\$552.5	\$479.9
Arkansas	57.6	53.3	59.4	68.3
Kentucky	114.8	102.9	104.2	104.9
Missouri	172.9	155.7	195.0	123.9
Tennessee	196.7	188.6	193.8	182.7
Nonresidential Construction				
District	\$427.4	\$426.2	\$368.4	\$336.9
Arkansas	27.8	32.2	28.8	43.7
Kentucky	114.2	96.9	101.8	87.1
Missouri	117.0	148.9	119.6	94.9
Tennessee	168.4	148.2	118.3	111.2

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.

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.