

Current Economic Conditions in the Eighth Federal Reserve District

Little Rock Zone

June 25, 2009

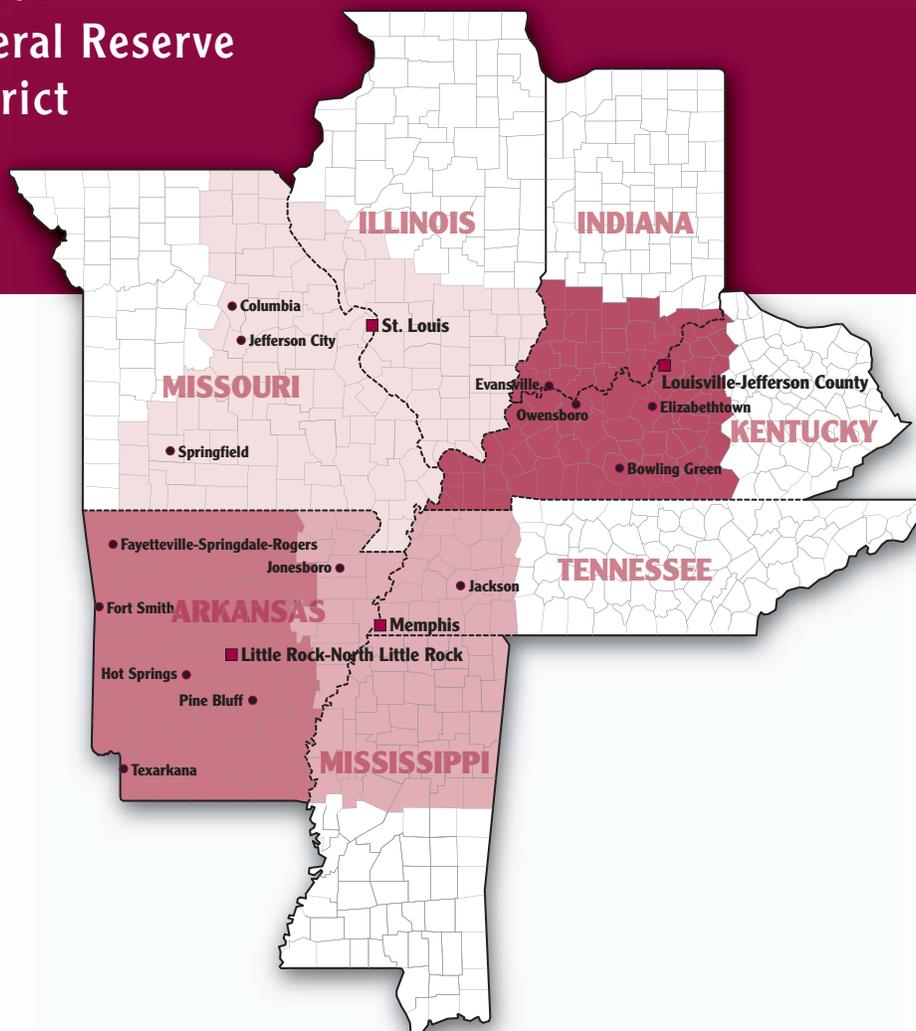
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Eighth Federal Reserve District



This report (known as the *Burgundy Book*) summarizes information on economic conditions in the Little Rock zone of the Eighth Federal Reserve District (see map above), headquartered in St. Louis. Separate reports have also been prepared for the Louisville, Memphis, and St. Louis zones and can be downloaded from the CRE8 website (research.stlouisfed.org/regecon/).

The first section of this report summarizes information provided by various contacts within the District and is similar to the type of information found in the Fed's *Beige Book* (federalreserve.gov/fomc/beigebook/2009/). The period covered by this section coincides roughly with the two *Beige Book* periods immediately preceding this report. The second section includes government-provided data for Arkansas and the metro areas of the Little Rock zone. These data are the most recent available at the time this report was assembled.

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Little Rock Zone Report—June 25, 2009

Economic conditions in the Little Rock zone have continued to reflect weakness associated with the ongoing national recession, but with some signs of improvement. Retail sales were slow, particularly among auto dealers. Manufacturing activity declined, with layoffs and plant closings reported by many contacts. However, a few contacts in manufacturing and business services reported business expansions and hiring plans. Banking conditions have been mixed, with reports of stronger demand for commercial and industrial loans and an increase in mortgage originations.

Consumer Spending

Retail sales for April and early May were mixed among general retailers but mostly negative among car dealers in the Little Rock zone. Half of the general retailers and more than 80 percent of the car dealers surveyed indicated that sales were down compared with the same months in 2008. Among car dealers, one-third noted that new-car sales had increased relative to used-car sales, and one-third noted an increase in low-end vehicle sales relative to high-end vehicle sales. About 17 percent of the car dealers reported more rejections of finance applications, whereas none reported more acceptances. The sales outlook for the summer was mixed among general retailers but pessimistic among car dealers. One-third of the general retailers and all car dealers surveyed expect sales to decrease over 2008 levels, while one-third of the general retailers expect sales to increase.

Manufacturing and Other Business Activity

Manufacturing in the Little Rock zone continued to decline in the second quarter of 2009, with more firms reporting job layoffs and plant closures. Animal processing/slaughtering firms and manufacturers of chemical products, HVAC equipment, industrial equipment, auto parts, rubber products, transportation products, and aluminum products all announced job layoffs. Other firms in animal slaughtering/processing, wood product manufacturing, and aluminum products manufacturing have closed plants in the District, resulting in a large number of layoffs. In contrast, a firm in food product manufacturing and a separate firm in wood product manufacturing announced that they will expand production and hire new workers. A firm in metal product manufacturing opened a new plant and distribution center, with plans to hire additional workers. Economic activity in the service sector continued to decline, with several firms in information services and medical services reporting layoffs as a cost-cutting measure. A firm in warehousing/distribution services filed for bankruptcy, resulting in a closed facility and a large number of job losses. In contrast, firms in business services expanded operations and hired additional workers.

Real Estate and Construction

Compared with the same period in 2008, Little Rock year-to-date home sales were down by 23 percent through April 2009. For the same period, year-to-date single-family housing permits declined by 30 percent. Compared with the previous quarter, the industrial vacancy rate in Little Rock increased in the first quarter of 2009, while the suburban office vacancy rate decreased and the downtown office vacancy rate remained fairly constant.

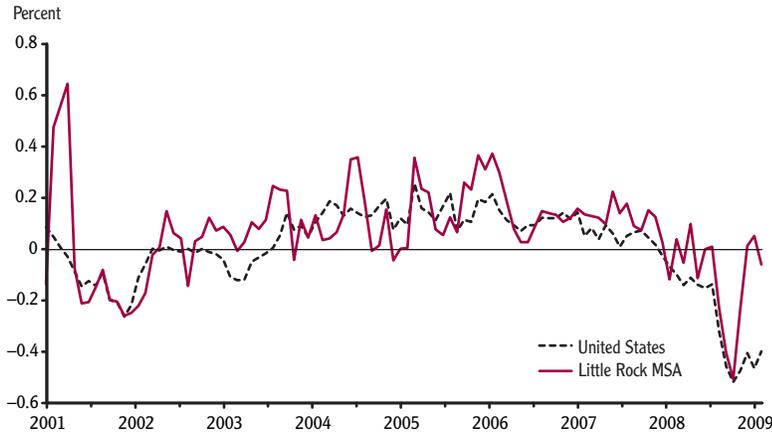
Banking and Finance

Reports on local banking conditions were mixed. Most noted a slight decline in commercial and industrial lending activity. Several contacts, however, noted that demand has been surprisingly strong for these loans. Reports on consumer lending ranged from unchanged to a slight decrease in lending activity. Residential mortgage lending activity increased, with several contacts indicating that a slight decline in refinancing activity has been offset by an increase in new mortgage loans. Contacts noted both a spike in delinquencies and an increase in requests for loan modifications. Reports indicate a steady increase in deposits.

Agriculture and Natural Resources

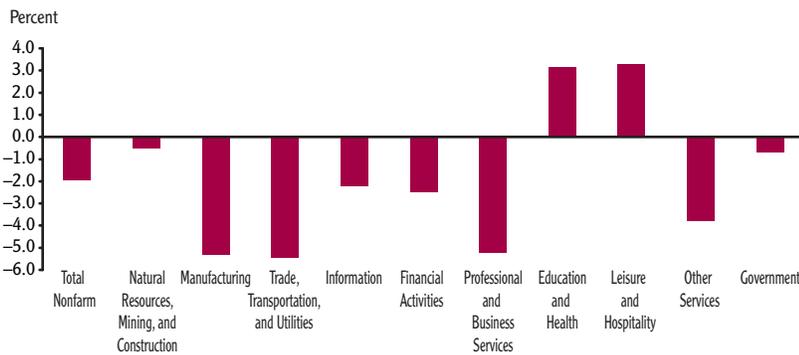
Farmers in Arkansas intended to plant fewer acres of corn (7 percent), sorghum (52 percent), and cotton (16 percent) this year than in 2008. In contrast, they intended to plant more acres of soybeans (3 percent) and rice (13 percent). Frequent wet and cool conditions since early April delayed fieldwork throughout the zone. At the end of May, with corn planting finished in Arkansas, the emergence of the crop was slightly behind its 5-year average pace. Planting of soybeans, sorghum, rice, and cotton was behind normal, and the emergence of those crops was even further behind normal. About 80 percent of the winter wheat and 98 percent of pastures were rated in fair condition or better, which is roughly equivalent to the ratings last year.

Nonfarm Payroll Employment Growth 3-Month Average, SA, January 2001–May 2009



Recent estimates indicate that Little Rock employment has contracted less sharply than the national average. Over the three-month period ending in May 2009, Little Rock employment contracted at a 0.06 percent monthly rate, while U.S. employment contracted at a 0.40 percent monthly rate.

Little Rock Employment Growth by Sector Year/Year Percent Change, May 2008–May 2009



Between May 2008 and May 2009, non-farm employment growth in the Little Rock MSA was negative in all goods-producing sectors and in all but two service-providing sectors. The only service sectors to show expansion were the education and health services sector (3.1 percent) and leisure and hospitality (3.3 percent). Employment in the manufacturing; trade, transportation, and utilities; and professional business sectors fell by more than 5 percent. Total nonfarm employment fell by nearly 2 percent over the period.

Little Rock Zone—MSA Employment and Unemployment

	Nonfarm payroll employment percent change, May 2008–May 2009			Unemployment rate April 2009
	Total	Goods producing	Service providing	
Little Rock	-1.94	-3.18	-1.76	5.4
Fayetteville-Springdale-Rogers, Ark.	-0.77	-4.51	0.18	5.0
Fort Smith, Ark.	-1.51	-7.92	0.87	7.0
Texarkana, Ark.-Tex.	-1.03	-10.81	0.39	5.2
United States	-3.95	-12.11	-2.44	8.6

SOURCE: Bureau of Labor Statistics.

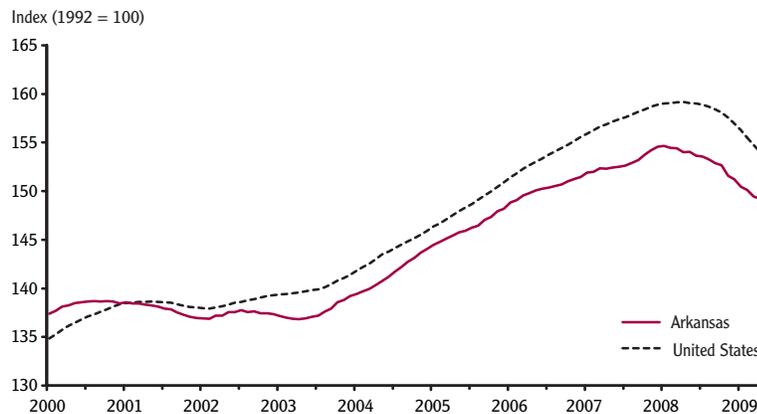
Little Rock Zone—MSA Housing Activity

	Total building permits, units year-to-date		House price index, percent change, 2009:Q1/2008:Q1
	April 2009	Percent change	
Little Rock	1,007	29.4	1.91
Fayetteville-Springdale-Rogers, Ark.	362	-71.7	-2.85
Fort Smith, Ark.	213	-13.4	3.00
Hot Springs, Ark.	11	-52.2	1.70
Pine Bluff, Ark.	7	-85.7	-2.63
Texarkana, Ark.-Tex.	160	201.9	2.30
United States	166,319	-48.2	-3.35

SOURCE: Bureau of the Census, Federal Housing Financing Authority.

Total residential building permits in April 2009 were lower than a year earlier in all but two MSAs in the Little Rock zone. Permits declined by 86 percent in Pine Bluff and 72 percent in Fayetteville-Springdale-Rogers, for example. On the other hand, Little Rock and Texarkana saw increases in permits of 29 and 202 percent, respectively. Changes in house price indices were mixed across the MSAs of the zone. Whereas the indices for Little Rock, Fort Smith, Hot Springs, and Texarkana saw small increases of around 2 to 3 percent, those for Fayetteville-Springdale-Rogers and Pine Bluff decreased by almost as much as the national index, which fell by 3.4 percent over the same period.

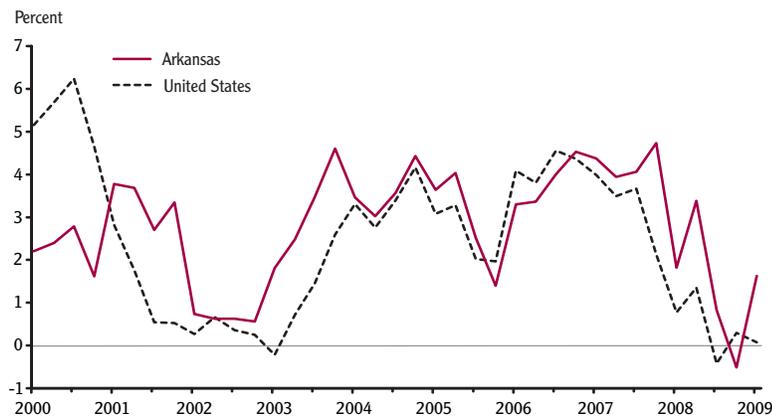
Arkansas Coincident Economic Activity Index



SOURCE: Federal Reserve Bank of Philadelphia.

The Philadelphia Fed's coincident index combines payroll employment, wages and salaries, the unemployment rate, and hours worked into a single index. According to this index, Arkansas has underperformed the country as a whole since 2001. Recently, however, the state's experience has mirrored the nation's. For the 12 months through April 2009, the index declined by 3.1 percent for Arkansas and by 3.2 percent for the United States.

Arkansas Real Personal Income Growth Percent Change, Year/Year



SOURCE: Bureau of Economic Analysis.

Personal income growth in Arkansas has tended to keep ahead of national income growth since 2007: Arkansas year-over-year growth in the third and fourth quarters of 2008 was 0.8 and -0.5 percent, respectively, while U.S. personal income growth in those quarters was -0.4 and 0.3 percent. In the first quarter of 2009—the most recent quarter for which there are data—year-over-year income growth in Arkansas was 1.6 percent, compared with a 0.05 percent growth rate for the nation as a whole.

Bank Conditions in Eighth District Metro Areas

	2008:Q1 (%)	2008:Q4 (%)	2009:Q1 (%)
Return on Average Assets			
St. Louis	0.66	-0.42	-0.97
Little Rock	1.04	0.72	0.56
Louisville	1.45	0.90	1.15
Memphis	0.21	-0.55	-0.65
Net Interest Margin			
St. Louis	3.54	3.40	3.06
Little Rock	3.85	3.98	4.21
Louisville	4.34	3.89	5.01
Memphis	3.02	3.10	3.05
Loan Loss Provision			
St. Louis	0.63	1.48	1.56
Little Rock	0.38	0.87	1.23
Louisville	0.54	0.43	1.06
Memphis	2.37	2.89	3.54
Nonperforming Loans			
St. Louis	1.62	2.44	2.96
Little Rock	1.14	1.53	2.33
Louisville	1.28	1.34	1.70
Memphis	3.02	4.99	6.12

NOTE: Variable definitions:

Return on Average Assets = (Net Income/Average Assets) × 100

Net Interest Margin = (Tax Equivalent Net Interest Income/Average Earning Assets) × 100

Loan Loss Provision = (Provision for Loan Losses/Average Assets) × 100

Nonperforming Loans = (Nonperforming Loans/Total Loans) × 100

SOURCE: Reports of Condition and Income for Commercial Banks.

For additional statistics and information on bank conditions in the Eighth District, see

“Slump Persists for District and U.S. Banks.” *Central Banker*, Summer 2009, p. 3.

Available at http://www.stlouisfed.org/publications/cb/2009/b/pages/quarterly_report.cfm.