

Current Economic Conditions in the Eighth Federal Reserve District

Memphis Zone

June 25, 2009

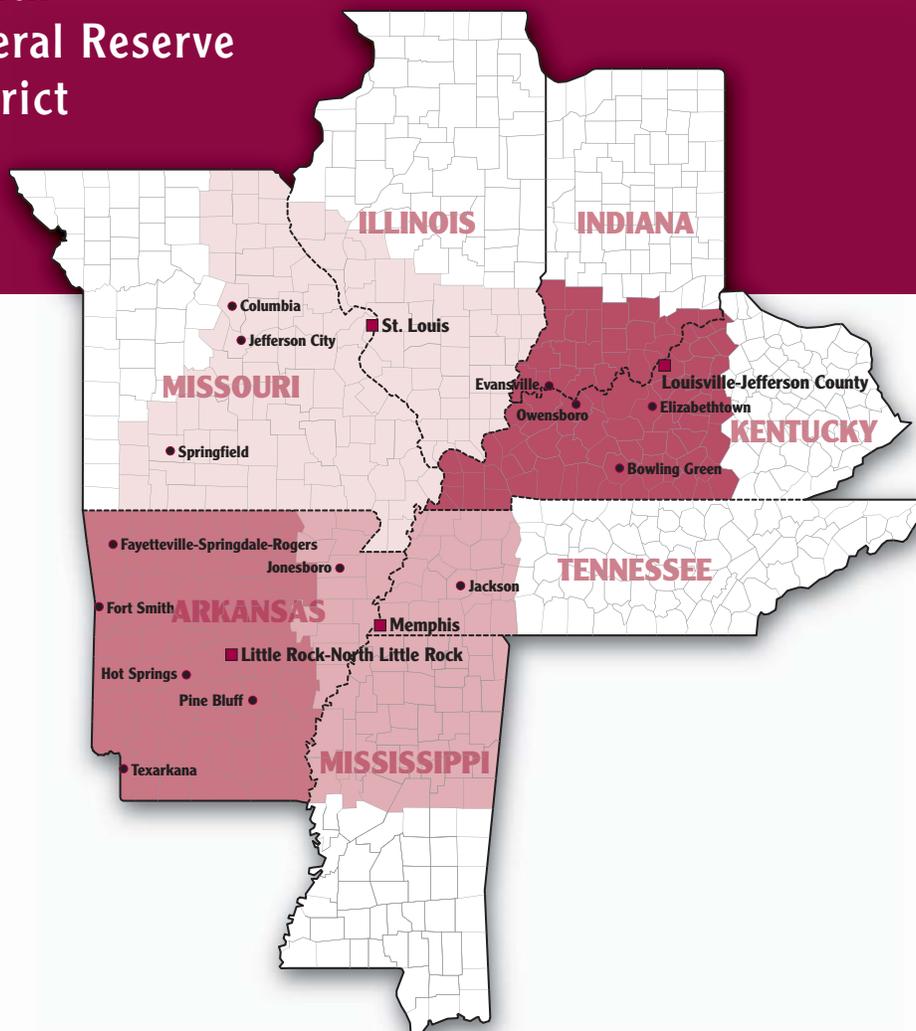
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Eighth Federal Reserve District



This report (known as the *Burgundy Book*) summarizes information on economic conditions in the Memphis zone of the Eighth Federal Reserve District (see map above), headquartered in St. Louis. Separate reports have also been prepared for the Little Rock, Louisville, 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 the metro areas and states of the Memphis zone. These data are the most recent available at the time this report was assembled.

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Memphis Zone Report—June 25, 2009

Economic activity in the Memphis zone weakened further since the March report. Retail and auto sales declined in April and early May. Manufacturing and services continued to decline. Home sales and construction continued to fall, while banking conditions were relatively unchanged.

Consumer Spending

Retail sales reports for April and early May were mostly negative among general retailers and car dealers in the Memphis zone. About 71 percent of the general retailers and 83 percent of the car dealers surveyed indicated that sales were down compared with the same months in 2008, while only 14 percent of the general retailers and 17 percent of the car dealers reported increased sales. Among general retailers, 17 percent noted that sales levels met their expectations and half reported that sales were below what they had anticipated. Among car dealers, half noted that used-car sales had increased relative to new-car sales and half noted an increase in low-end vehicle sales relative to high-end vehicle sales. All reported more rejections of finance applications. The sales outlook for the summer was pessimistic among general retailers but mixed among car dealers. All of the general retailers and one-third of the car dealers expect sales to decrease from their 2008 levels. Half of the car dealers expect sales to increase. The remaining car dealers expect sales to be similar to last year.

Manufacturing and Other Business Activity

Manufacturing activity in the Memphis zone declined during the second quarter of 2009, with a number of plants closing operations and fewer reporting plans to open or expand operations. Firms in auto parts, furniture, wood product, rubber tire, medical device, aluminum product, appliance, grain milling, and electrical equipment manufacturing announced job layoffs, often citing weak demand. Furthermore, firms in metal product, machinery, and auto parts manufacturing closed plants in the zone. In contrast, firms in biofuel, furniture, and steel product manufacturing announced plans to open new plants in the zone and hire additional workers. Economic activity in the service sector continued to decline, with a large number of firms announcing job layoffs in medical, information, and warehousing/transportation services. Other firms in warehousing/transportation services, however, reported new opportunities for expansion.

Real Estate and Construction

Compared with the same period in 2008, April 2009 year-to-date home sales in Memphis were down by 27 percent, while April 2009 year-to-date single-family housing permits declined by 60 percent. In Memphis, the first-quarter 2009 industrial vacancy rate was unchanged compared with the fourth quarter of 2008—as was the suburban office vacancy rate. During the same period, the downtown office vacancy rate increased slightly. A contact in Memphis noted a decline in demand for industrial distribution space in particular and did not expect to see any new building in the industrial market until mid-2010.

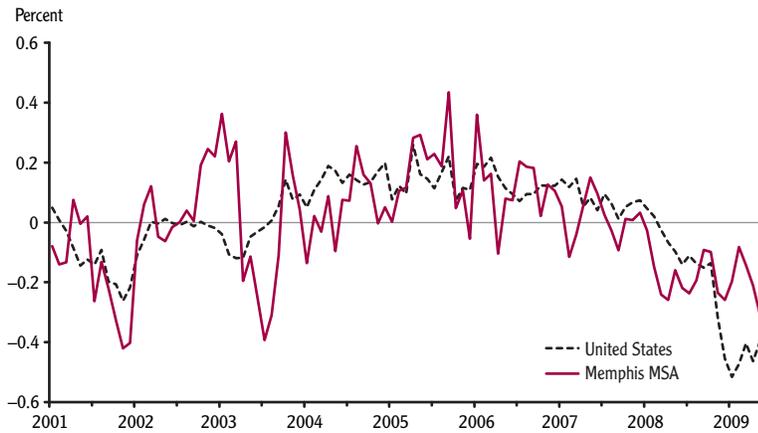
Banking and Finance

Banking conditions in the Memphis zone remained relatively unchanged during the past three months. Most contacts indicated little to no change in consumer loan demand. About half of all contacts also reported little to no change in demand for business loans. Several contacts who reported a decline in business lending cited tightening lending standards and an unwillingness of businesses to take on new loans. All contacts reporting on commercial real estate lending indicated a decline in demand. Reports indicate a slight increase in deposits.

Agriculture and Natural Resources

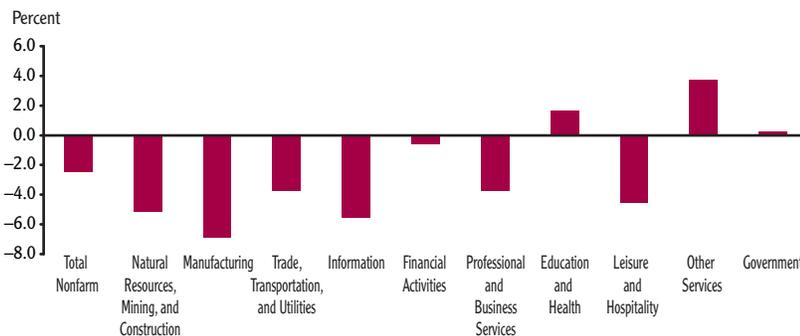
Farmers in Mississippi and Tennessee planted less winter wheat in the fall of 2008 than they did during the fall of 2007. Frequent wet and cool conditions since early April delayed fieldwork throughout the zone. At the end of May, corn planting was finished in Mississippi but was slightly behind its 5-year average pace in Tennessee. Soybean planting and cotton planting were behind their normal pace in both states. Additionally, sorghum planting and rice planting were behind normal in Mississippi. Emergence for all of the crops in Mississippi (except corn) and in Tennessee was also behind their normal pace. About 87 percent of the winter wheat in Mississippi and 91 percent of the winter wheat in Tennessee was rated in fair condition or better—a slight decline over the same time last year for both states.

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



Recent estimates indicate that Memphis payroll employment has contracted less sharply than the national average. Over the three-month period ending in May 2009, Memphis employment contracted at a 0.31 percent monthly rate, while U.S. employment contracted at a 0.40 monthly rate.

Memphis MSA Employment Growth by Sector Year/Year Percent Change, May 2008–May 2009



Between May 2008 and May 2009, employment growth in the Memphis MSA was negative in all goods-producing sectors and in most service-providing sectors. The service sectors to show expansion were the education and health services sector, for which employment increased by 1.6 percent, the “other services” sector (3.7 percent), and the government sector (0.2 percent). The biggest percentage job losses were in manufacturing (6.9 percent); natural resources, mining, and construction (5.2 percent); and information (5.6 percent).

Memphis Zone—MSA Employment and Unemployment

Nonfarm payroll employment percent change,
May 2008–May 2009

	Total	Goods producing	Service providing	Unemployment rate April 2009
Memphis	-2.47	-6.30	-1.95	9.0
Jackson, Tenn.	-4.47	-12.23	-2.25	9.9
United States	-3.95	-12.11	-2.44	8.6

SOURCE: Bureau of Labor Statistics.

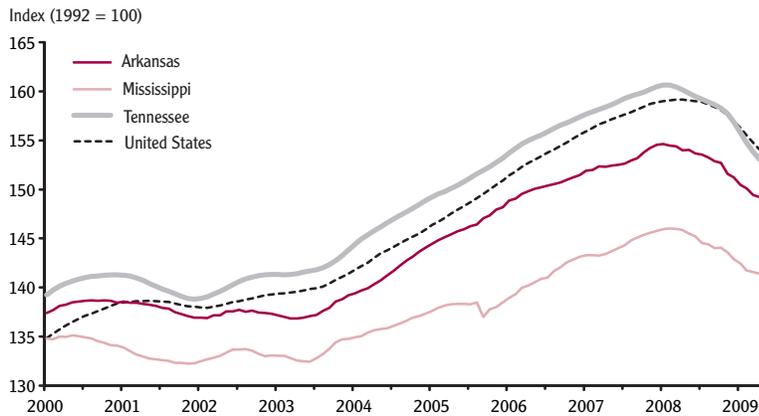
Memphis Zone—MSA Housing Activity

	Total building permits, units year-to-date		House price index, percent change, 2009:Q1/2008:Q1
	April 2009	Percent change	
Memphis	597	-47.9	-0.82
Jackson, Tenn.	46	-61.3	0.09
Jonesboro, Ark.	117	-12.0	1.53
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 of the three MSAs in the Memphis zone. Permits declined by 48 percent in Memphis, by 60 percent in Jackson, Tennessee, and by 12 percent in Jonesboro, Arkansas. House prices declined by less than 1 percent in Memphis in the first quarter of 2009 compared with a year earlier, increased by 1.5 percent in Jonesboro, and remained flat in Jackson. Nationwide, house prices were down by 3.4 percent over the same period.

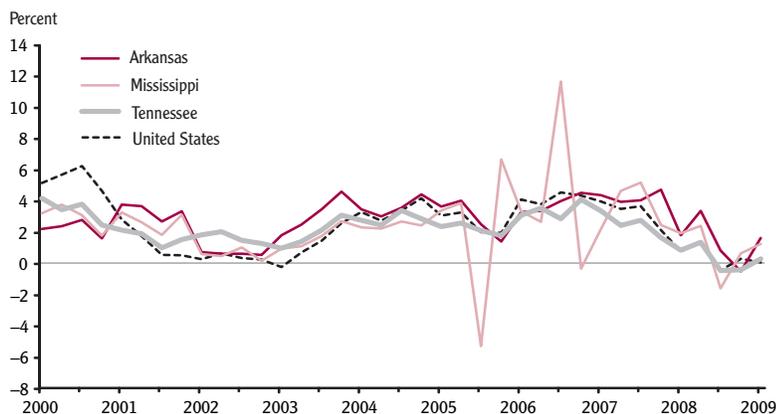
Memphis Area Coincident Economic Activity Index



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, Mississippi and Arkansas have underperformed the country as a whole since 2001, while Tennessee has tended to keep pace with the nation. Through most of 2008 and into 2009, 12-month growth rates slowed in all the zone states. For the 12 months through April 2009, the index declined by 4.4, 3.0, and 3.1 percent in Tennessee, Mississippi, and Arkansas, respectively. Over the same period, the index for the United States fell by 3.2 percent.

Memphis Area Real Personal Income Growth Percent Change, Year/Year



SOURCE: Bureau of Economic Analysis.

Since Hurricane Katrina in the third quarter of 2005, Mississippi has experienced more volatile personal income growth than the nation as a whole, while Tennessee and Arkansas have tended to keep pace with the nation. As of the first quarter of 2009, Tennessee, Mississippi, and Arkansas experienced year-over-year growth rates of 0.3, 1.2, and 1.6 percent, respectively. For the nation as a whole, personal income grew by 0.05 percent over the same period.

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.