Current Economic Conditions in the Eighth Federal Reserve District

St. Louis Zone

September 24, 2009

Prepared by the
Center for Regional Economics—8th District (CRE8)
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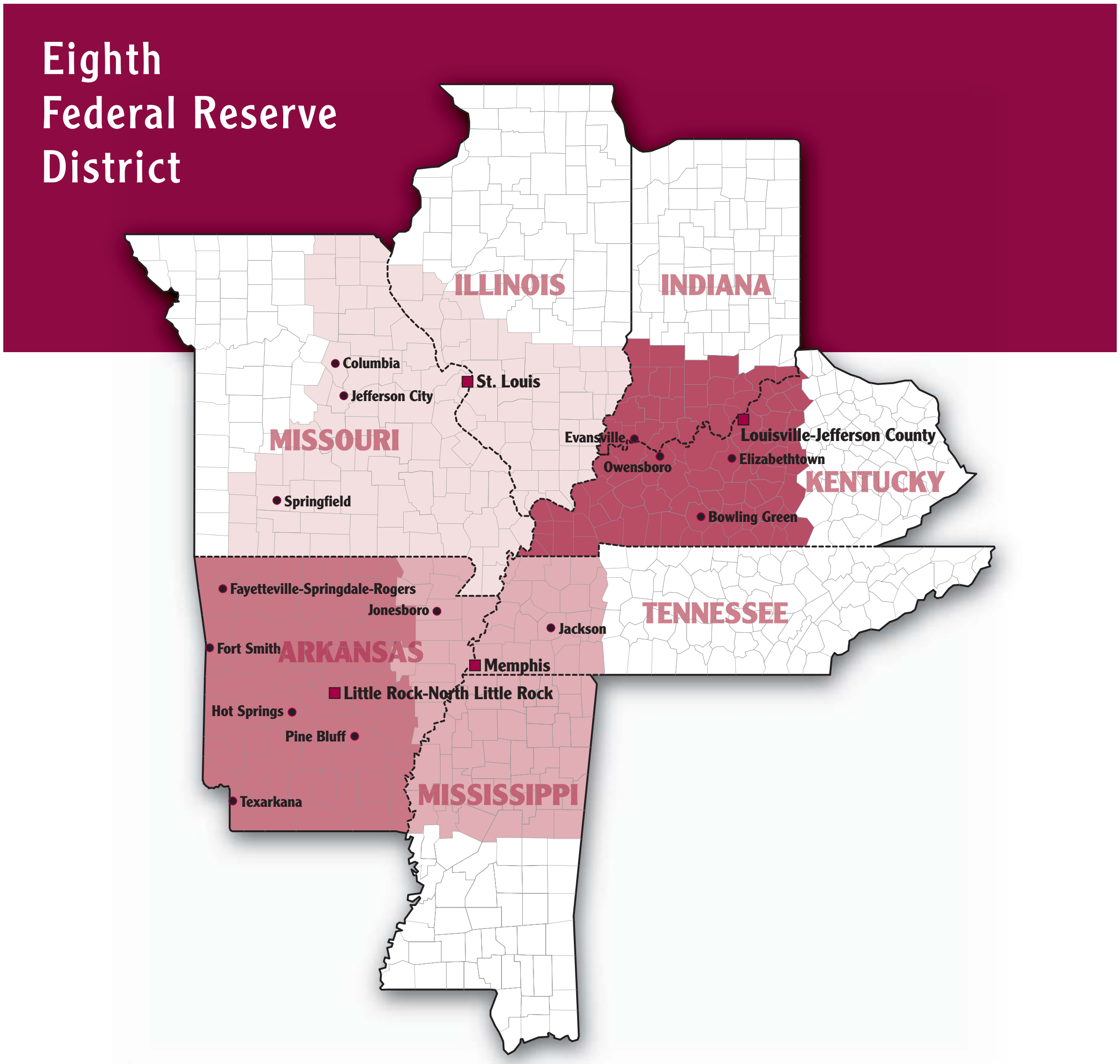
FEDERAL RESERVE BANK OF ST. LOUIS



This report (known as the *Burgundy Book*) summarizes information on economic conditions in the St. Louis 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 Memphis 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 St. Louis zone. These data are the most recent available at the time this report was assembled.

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St. Louis Zone Report—September 24, 2009

Overall conditions in the St. Louis zone ranged from weak to mixed, but have improved somewhat since our previous report. General retail news tended to be negative, while car dealers reported mixed news. The manufacturing and service sectors both continued to weaken. The real estate and construction sector mostly declined. News from the banking and agriculture sectors was mixed.

Consumer Spending

Retail sales reports for July and the first part of August were mostly negative among general retailers, while they were mixed among car dealers. Two-thirds of the general retailers and one-third of the car dealers indicated that sales were down compared with the same months in 2008. One-third of the general retailers and half of the car dealers reported increased sales. Among the general retailers, 40 percent noted that sales levels met their expectations, but 60 percent reported sales below expectations. Among car dealers, two-thirds noted that new car sales had increased relative to used car sales, while one-third reported the opposite. Also, one-third noted an increase in low-end vehicle sales relative to high-end vehicle sales, while 17 percent reported the opposite. All of the car dealers and 17 percent of the general retailers reported that their inventories were too low, while one-third of the general retailers reported too-high inventories. Two-thirds of the general retailers and 17 percent of the car dealers expect sales for September and October to decrease over their 2008 levels, while 17 percent of the general retailers and two-thirds of the car dealers expect sales to increase.

Manufacturing and Other Business Activity

Manufacturing activity in the St. Louis zone continued to decline, with a large number of firms reporting job losses and declines in output. However, a few manufacturers of household appliances and steel increased production to replenish inventories. The service sector continued to decline. Firms in business support, health, leisure/hospitality, and education announced layoffs. However, a major organization in transportation services announced that it would rehire employees, and a large firm in medical services announced plans to expand.

Real Estate and Construction

In St. Louis, compared with the same periods in 2008, June and July 2009 year-to-date home sales were down 11 percent and 8 percent, respectively. Compared with the same periods in 2008, June and July 2009 year-to-date single-family housing permits declined 32 percent and 28 percent, respectively. Compared with the first quarter of 2009, the second quarter 2009 industrial vacancy and suburban office vacancy rates fell, while the downtown office vacancy rate remained fairly constant. A contact noted that, outside of projects related to large health, education, and government institutions, there is little construction work.

Banking and Finance

Overall lending activity was relatively unchanged from the previous reporting period. Activity was mixed in the consumer, commercial, and industrial loan categories. Most contacts reported a slight decrease in residential mortgage lending activity. Contacts reported declines in commercial real estate lending, with several indicating that it is the most troublesome portion of their loan portfolio. Lending standards were reported to be restrictive. Contacts reported a slight increase in delinquencies.

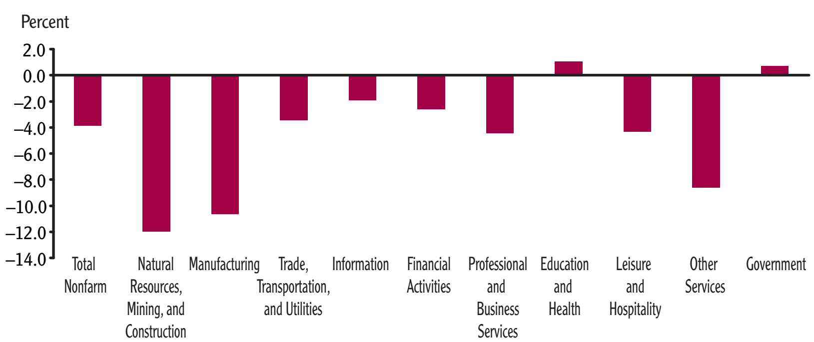
Agriculture and Natural Resources

Crop conditions have held steady or improved slightly in both Illinois and Missouri since mid-July. In late August, more than 13 percent of the cotton in Missouri was rated in poor condition, but less than 10 percent of the other crops were rated poor. As of August 1, yields for corn, soybeans, and winter wheat in both states, as well as rice and cotton in Missouri, were expected to range from 5 percent lower to 8 percent higher than last year's yields. Sorghum yields were expected to be more than 10 percent higher than last year in both states. Total production of corn and soybeans in both states, as well as rice and cotton in Missouri, was expected to range from 10 percent lower to 15 percent higher than last year. Total production of sorghum and winter wheat in both states was expected to be lower by 30 percent or more compared with last year.

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

Payroll employment growth in the St. Louis MSA has consistently underperformed the country as a whole in recent years. There was a reversal on that count for a period of time. This has changed in the most recent estimates. Although the recent three-month average of employment growth has generally been negative for both St. Louis and the nation as a whole, the national rate exceeds St. Louis' growth rate. Over the three-month period ending in August 2009, St. Louis monthly employment growth averaged –0.28 percent, while U.S. employment growth averaged –0.21 percent.

St. Louis MSA Employment Growth by Sector
Year/Year Percent Change, August 2008–August 2009



St. Louis MSA sectoral employment growth rates between August 2008 and August 2009 were negative, with the exceptions of education and health and government. Most recent estimates show education and health to be the strongest sector (1 percent growth) followed by government (0.7 percent growth). The steepest changes were in natural resources, mining, and construction at –12 percent growth, manufacturing at –10.6 percent growth, and other services at –8.6 percent growth. Trade, transportation, and utilities; information; financial activities; professional and business services; and leisure and hospitality all saw job losses of at least 1.9 percent.

St. Louis Zone—MSA Employment and Unemployment

	Nonfarm payroll employment percent change, August 2008–August 2009			Unemployment rate July 2009
	Total	Goods producing	Service providing	
St. Louis	**–3.86**	**–11.16**	**–2.52**	**9.9**
Columbia, Mo.	–1.33	–12.36	–0.12	6.7
Jefferson City, Mo.	–3.03	–11.21	–1.75	7.8
Springfield, Mo.	–0.82	–9.74	0.59	8.5
United States	–4.10	–12.41	–2.54	9.7

SOURCE: Bureau of Labor Statistics.

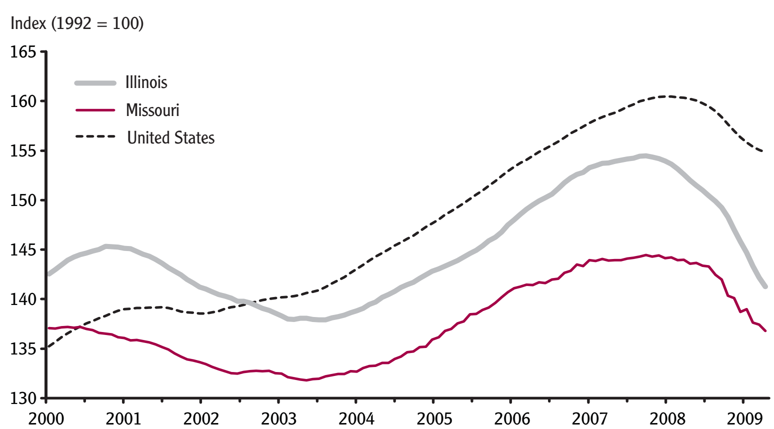
St. Louis Zone—MSA Housing Activity

	Total building permits, units year-to-date		House price index, percent change,
	July 2009	Percent change	2009:Q2/2008:Q2
St. Louis	**2,769**	**–27.6**	**–1.67**
Columbia, Mo.	396	–12.0	–0.09
Jefferson City, Mo.	92	35.3	0.84
Springfield, Mo.	512	–59.4	–1.03
United States	331,308	–45.2	–3.99

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

Total residential building permits in July were lower than a year earlier in every MSA in the zone, with the exception of Jefferson City. St. Louis saw a milder decline compared with the country as a whole, but Springfield saw a sharper decline. The house price index fell in Columbia, St. Louis, and Springfield, while it rose in Jefferson City. The index fell over the same period for the nation as a whole.

St. Louis Area Coincident Economic Activity Index

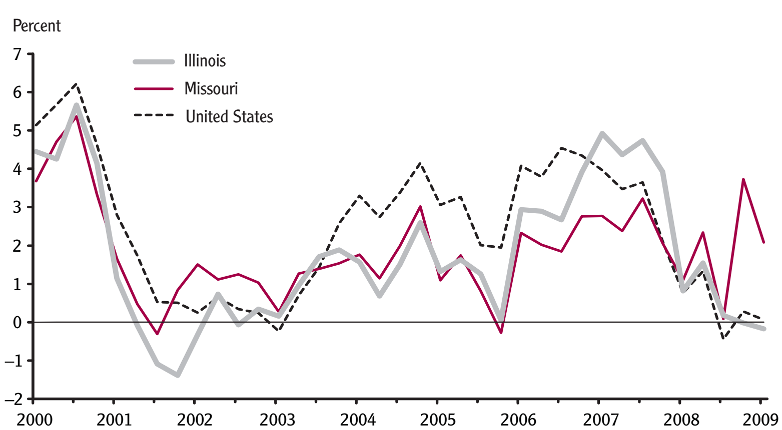


SOURCE: Federal Reserve Bank of Philadelphia.

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, labor market conditions began to soften in early 2007, several months before similar softening occurred nation-wide. The gap between the nation and St. Louis has grown according to this index. Between April and July of 2009, the index fell by 2.39 percent in Illinois and by 1.57 percent in Missouri, while it declined by 0.63 percent for the nation as a whole.

St. Louis Area Real Personal Income Growth

Percent Change, Year/Year



SOURCE: Bureau of Economic Analysis.

Personal income growth in Missouri and Illinois had been weaker than in the country as a whole since 2003, and income growth in Missouri had been weaker than in Illinois through most of 2006 and 2007. More recently, however, Missouri's income growth has outpaced that of Illinois and the country as a whole, with only the Illinois growth rate being negative among the three, for the most recent period.

Residential Mortgage Delinquency Rates for Eighth District States

Percent 90+ Days Delinquent or in Foreclosure, 2009:Q2

		Prime			Subprime		
	All mortgages	Total	FRM	ARM	Total	FRM	ARM
Missouri	5.0	3.0	2.5	7.3	18.6	13.7	27.2
Illinois	8.6	5.5	4.0	13.6	29.9	19.7	40.3
Indiana	8.4	5.0	4.2	12.5	23.8	18.3	34.3
Kentucky	5.7	3.3	2.7	9.1	20.4	15.3	31.6
Tennessee	5.9	3.3	2.7	8.8	19.7	14.6	30.1
Mississippi	7.4	4.2	3.6	14.0	22.6	17.9	34.1
Arkansas	4.5	2.8	2.3	8.6	17.0	13.0	25.8
U.S. Total	**8.0**	**5.4**	**3.5**	**15.1**	**26.5**	**17.1**	**38.7**

NOTE: FRM, fixed-rate mortgages; ARM, adjustable-rate mortgages.

SOURCE: Mortgage Bankers Association, National Delinquency Survey/Haver Analytics.