

Current Economic Conditions in the Eighth Federal Reserve District

Little Rock Zone

March 19, 2010

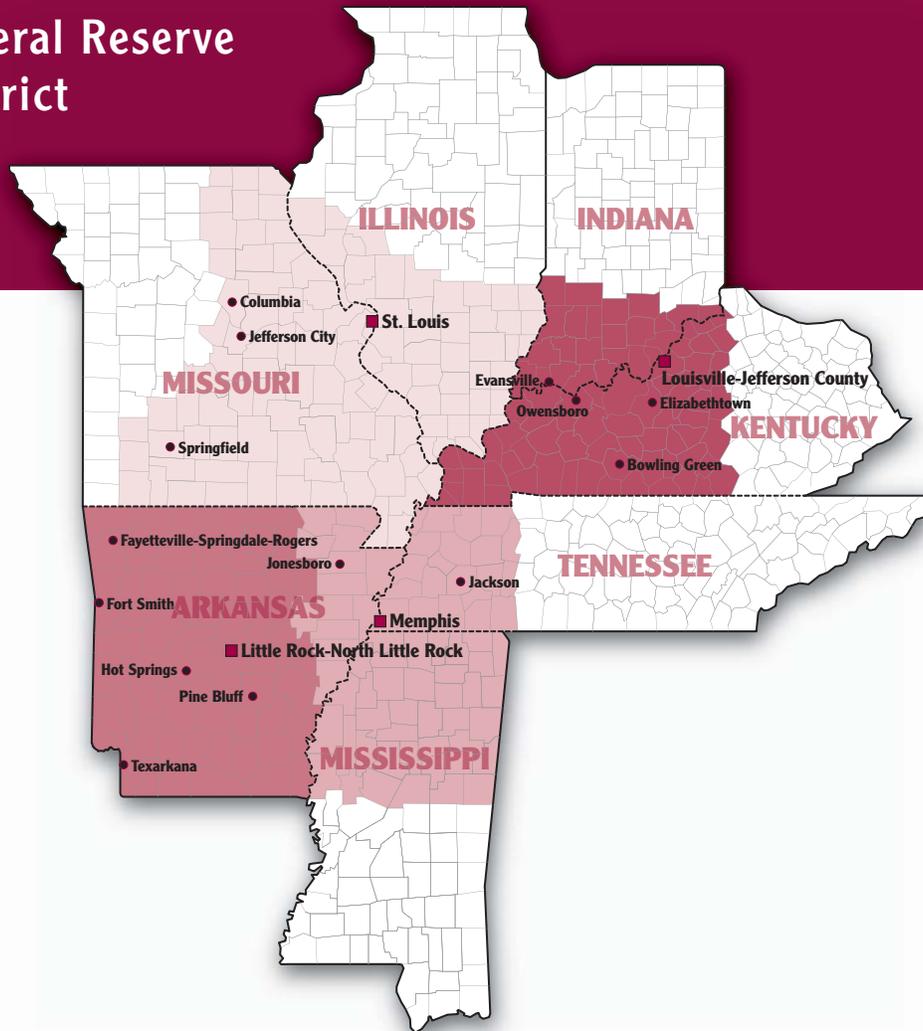
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Eighth Federal Reserve District



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—March 19, 2010

Overall economic activity in the Little Rock zone remains weak. More than half of the respondents to a survey of retailers and auto dealers reported decreased sales on a year-over-year basis. Manufacturing activity has continued to decline, while the service sector has reversed course and weakened in recent months. Residential and commercial real estate markets remain weak. Contacts in the banking sector tended to report modest declines in loan activity and increased deposits.

Consumer Spending

Retail sales reports for January and early February were mostly negative among general retailers, but mixed among car dealers. Slightly more than half of the general retailers and roughly half of the car dealers indicated that sales were down compared with the same months in 2009. Close to 30 percent of each group reported increased sales. Almost 35 percent of the car dealers reported more rejections of finance applications, and about 18 percent reported more acceptances. The sales outlook for March and April was mixed among general retailers, similar to the previous zone report. In contrast, auto dealers are mostly optimistic, which represents an improvement over the previous zone report. Over 40 percent of the general retailers and about 80 percent of the car dealers expect sales to increase over 2009 levels.

Manufacturing and Other Business Activity

On net, manufacturing activity continued to decline since our previous report, with a large number of firms announcing job layoffs. A contact in the animal slaughtering and processing industry announced plans to close its plant and lay off workers. Other firms in electrical components manufacturing, chemical product manufacturing, construction materials manufacturing, and auto manufacturing also announced plans to lay off employees, often citing slow business orders. In contrast, a smaller number of firms announced plans to hire new employees. A firm in the plastic products manufacturing industry announced plans to open a new plant and hire additional workers, while firms in auto parts manufacturing; wood product manufacturing; and heating, ventilation, and air conditioning manufacturing all announced plans to hire additional workers and expand production. In contrast to previous zone reports, the service sector declined on net, with several firms in the business support services announcing job layoffs for increased efficiency. In contrast, a firm in business support services announced it will locate its new corporate headquarters within the zone and hire additional employees.

Real Estate and Construction

Compared with the same periods in 2008, December 2009 year-to-date home sales declined by 2 percent, while December 2009 year-to-date single-family housing permits declined by 4 percent. Compared with the third quarter of 2009, the fourth-quarter 2009 industrial vacancy rate increased. During the same period, the suburban office vacancy rate decreased and the downtown office vacancy rate increased. A contact in northeast Arkansas reported that commercial construction is at a standstill with the exception of a large hospital project.

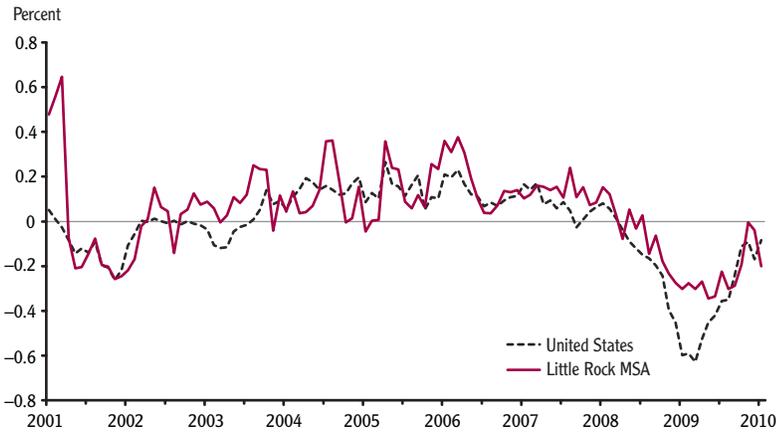
Banking and Finance

Reports on local banking conditions were relatively unchanged from the previous reporting period. On net, commercial and industrial lending activity decreased modestly. Several contacts indicated that loan applications in this category have changed very little, but a slight tightening in credit standards over the previous reporting period led to fewer loans. Similarly, consumer lending activity was relatively unchanged, although one banker continued to report an uptick in demand for home equity loans. Residential mortgage lending activity was also relatively unchanged, and several contacts reported intense local competition among banks in the region for new loans to quality applicants across all loan categories. Most contacts continue to indicate a steady increase in deposits.

Agriculture and Natural Resources

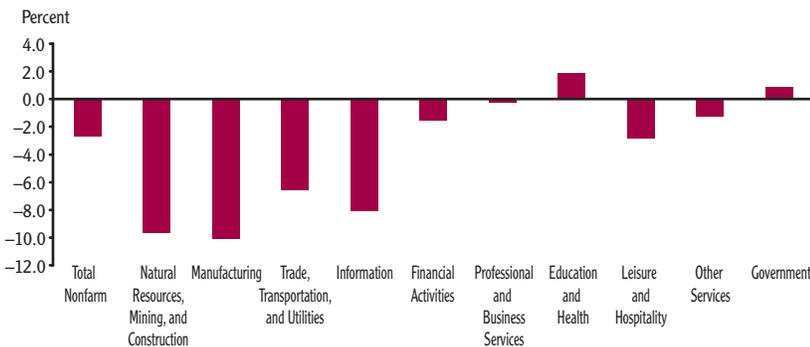
Total coal production in Arkansas for 2009 decreased from its 2008 level. Between 2008 and 2009, the total value of field crops also declined in Arkansas by 14 percent. Across crops, changes in prices and production were mostly negative. The prices and production of corn, sorghum, and winter wheat decreased from 2008 to 2009. The price of rice decreased but production increased, while the opposite occurred for cotton (the price increased but production decreased). The price of soybeans was unchanged but production decreased.

Nonfarm Payroll Employment Growth 3-Month Average, SA, January 2001–January 2010



According to revised data (see the table on the last page of this report), job losses in Little Rock have been less severe over the course of the recession than for the country as a whole. Over the three-month period ending in January 2010, however, Little Rock employment has fared relatively worse, falling at a 0.2 percent monthly rate during the period while U.S. employment fell at a 0.09 percent monthly rate.

Little Rock Employment Growth by Sector Year/Year Percent Change, January 2009–January 2010



According to revised data, between January 2009 and January 2010 nonfarm employment in the Little Rock MSA fell by 2.7 percent and job losses were the norm across sectors. The hardest-hit sectors were natural resources, mining, and construction; manufacturing; information; and trade, transportation, and utilities—each of which lost more than 6 percent of employment. Education and health services was the sole non-governmental sector to see job gains, although these were modest.

Little Rock Zone—MSA Employment and Unemployment

Nonfarm payroll employment percent change,
January 2009–January 2010

	Total	Goods producing	Service providing	Unemployment rate December 2009
Little Rock	-2.68	-9.90	-1.68	6.7
Fayetteville-Springdale-Rogers, Ark.	-1.25	-8.44	0.50	6.0
Fort Smith, Ark.	-3.63	-8.36	-1.94	7.8
Texarkana, Ark.-Tex.	-2.79	-11.43	-1.59	6.7
United States	-3.24	-11.09	-1.89	10.0

SOURCE: Bureau of Labor Statistics.

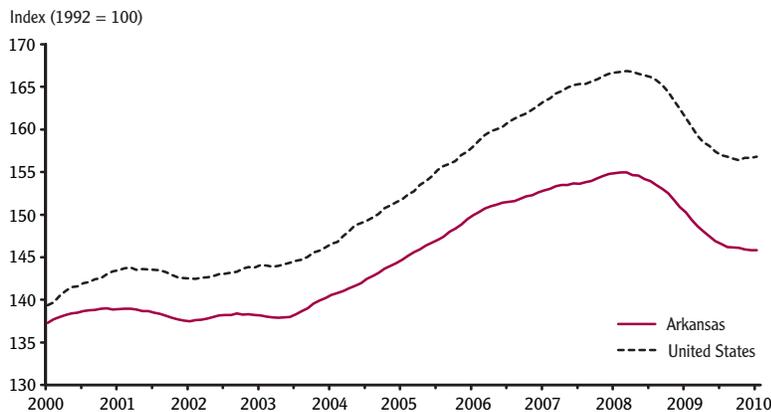
Little Rock Zone—MSA Housing Activity

	Total building permits, units year-to-date		House price index, percent change, 2009:Q4/2008:Q4
	January 2010	Percent change	
Little Rock	125	-70.2	-0.95
Fayetteville-Springdale-Rogers, Ark.	81	26.6	-6.34
Fort Smith, Ark.	43	-23.2	1.84
Hot Springs, Ark.	3	50.0	-4.48
Pine Bluff, Ark.	2	—	-1.26
Texarkana, Ark.-Tex.	5	25.0	0.57
United States	39,479	8.9	-4.66

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

Total residential building permits in January were lower than a year earlier in two of the three largest MSAs in the Little Rock zone. In Little Rock and Fort Smith, Arkansas, permits fell by 70 percent and 23 percent, respectively. In Fayetteville-Springdale-Rogers and the smaller MSAs, on the other hand, permits were higher than a year earlier. The house price index for the fourth quarter of 2009 fell by more than the national average in Fayetteville-Springdale-Rogers and by almost the national average in Hot Springs. The remaining metro areas outperformed the rest of the country, with small increases in house prices indicated for Fort Smith and Texarkana.

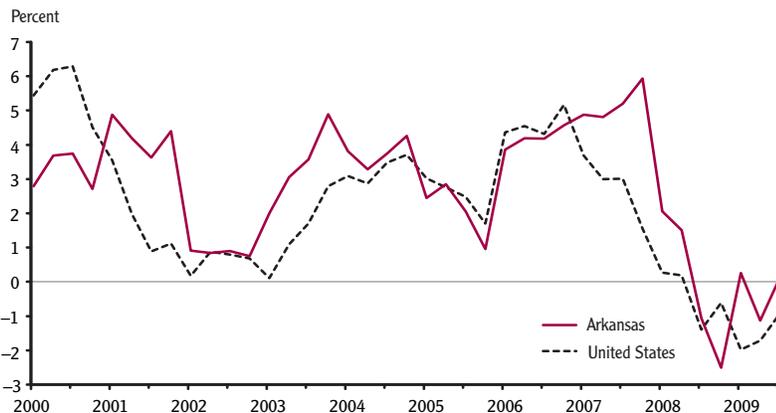
Arkansas Coincident Economic Activity Index



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 tended to perform similarly to the country as a whole during the recession. In recent months, whereas the index for the country has turned upward, it has continued to decline for Arkansas, although the state's index was virtually unchanged between December and January. Between October 2009 and January 2010, the index declined by 0.20 percent for Arkansas while rising by 0.26 percent for the United States.

Arkansas Real Personal Income Growth Percent Change, Year/Year



SOURCE: Bureau of Economic Analysis.

Although negative, personal income growth in Arkansas kept ahead of U.S. personal income growth throughout 2009: In the third quarter of 2009—the most recent quarter for which there are data—year-over-year income growth in Arkansas was 0.1 percent, compared with a -0.9 percent growth rate for the nation as a whole.

Annual Revisions of the Metro Area Employment Data

	December 2008–December 2009				December 2007–December 2008			
	Original estimate as of January 2010		Revised estimate as of March 2010		Original estimate as of January 2010		Revised estimate as of March 2010	
	Thousands	Percent change	Thousands	Percent change	Thousands	Percent change	Thousands	Percent change
Large Metro Areas								
Little Rock-N. Little Rock, Ark.	-3.9	-1.1	-10.1	-2.9	-4.7	-1.3	-3.9	-1.1
Louisville, Ky.-Ind.	-12.6	-2.1	-20.0	-3.2	-16.9	-2.7	-15.2	-2.4
Memphis, Tenn.-Ark.-Miss.	-15.7	-2.5	-31.5	-5.0	-15.7	-2.4	-22.3	-3.4
St. Louis, Mo.-Ill.	-33.8	-2.5	-42.6	-3.2	-19.8	-1.4	-34.2	-2.5
Small and Medium Metro Areas								
Fayetteville-Springfield-Rogers, Ark.	-1.6	-0.8	-4.9	-2.4	-2.6	-1.2	-4.8	-2.3
Fort Smith, Ark.-Okla.	-1.3	-1.0	-6.7	-5.5	-1.4	-1.1	-3.2	-2.5
Texarkana, Tex.-Ark.	-1.2	-2.0	-1.6	-2.8	0.9	1.6	-0.1	-0.2
Bowling Green, Ky.	-3.8	-6.1	-3.1	-5.0	-1.5	-2.4	-2.2	-3.4
Evansville, Ind.-Ky.	-4.3	-2.5	-6.9	-3.9	-4.6	-2.6	-2.3	-1.3
Jackson, Tenn.	-1.9	-3.1	-3.7	-6.1	-1.7	-2.7	-1.5	-2.4
Columbia, Mo.	-0.9	-1.0	-1.1	-1.2	1.1	1.2	0.0	0.0
Jefferson City, Mo.	-2.1	-2.6	-1.6	-2.0	-0.7	-0.9	-0.6	-0.7
Springfield, Mo.	-0.9	-0.5	-6.4	-3.2	-4.6	-2.3	-5.5	-2.7

NOTE: In early March of each year, the Bureau of Labor Statistics carries out a benchmark revision of state and local payroll employment data using information from the more-comprehensive Quarterly Census of Employment and Wages (QCEW). The payroll employment data are revised going back 21 months and the new numbers sometimes show a dramatically different view of local employment experiences. This year, most metro areas in the Eighth District saw large downward revisions for 2009, indicating that employment had been hit much harder by the recession than was previously estimated. The revisions for the 2008 and 2009 calendar years are presented in the table. Note that the data for 2009 are subject to revision again in March 2011.