

Current Economic Conditions in the Eighth Federal Reserve District

Memphis Zone

July 2, 2010

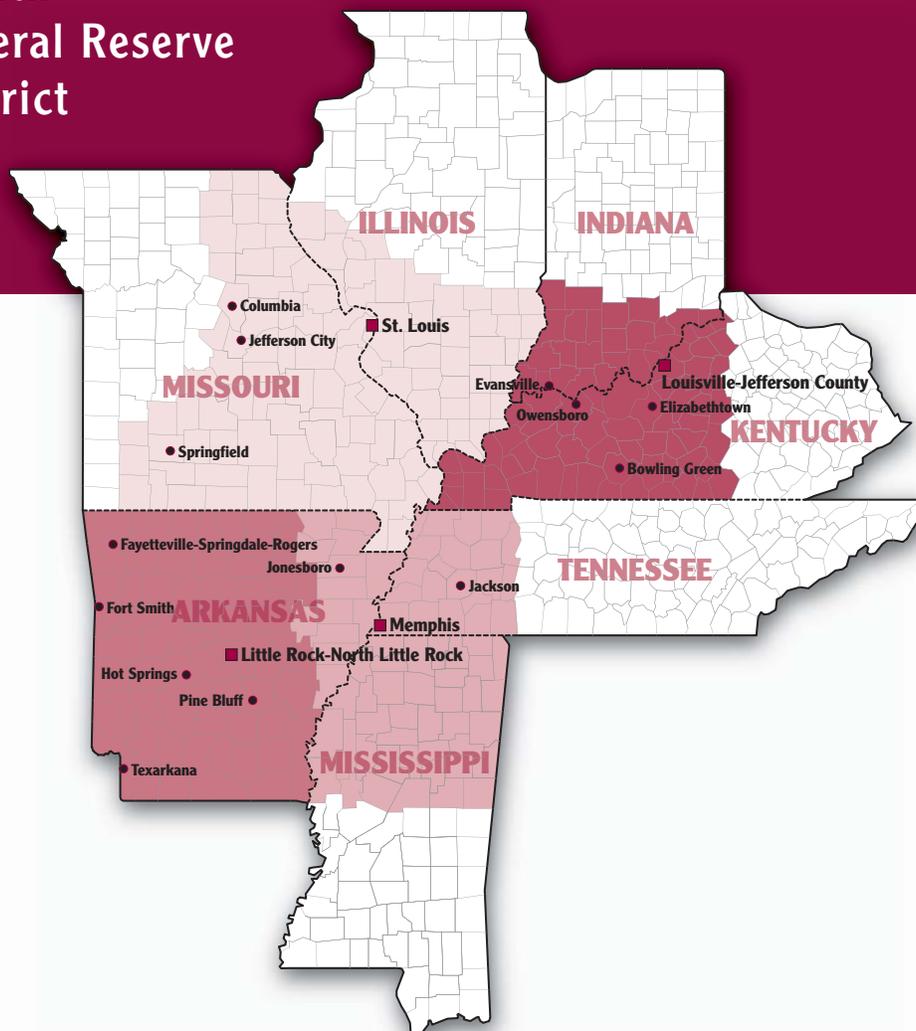
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Center for Regional Economics—8th District



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/2010/). 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—July 2, 2010

Reports on economic activity in the Memphis zone were somewhat positive, with modest strength in consumer spending and manufacturing and signs of strength in the residential and commercial real estate sectors. A majority of general retailers and car dealers indicated that sales were higher than for the same period last year. The banking sector reported little to no change in lending activity.

Consumer Spending

Retail sales reports for April and early May were mixed among general retailers but mostly positive among car dealers surveyed. Around 50 percent of the general retailers and 60 percent of the car dealers indicated that sales were up compared with the same months in 2009. The remaining general retailers reported decreased sales, and the remaining car dealers reported sales similar to last year. The sales outlook for the summer was mixed among the general retailers and mostly optimistic among the car dealers. About 50 percent of the general retailers and more than 80 percent of the car dealers expect sales to increase over 2009 levels. The remaining general retailers expect sales to decrease, and the remaining car dealers expect sales to be similar to last year.

Manufacturing and Other Business Activity

Manufacturing in the Memphis zone has continued to strengthen since our previous report, with more reports of new jobs and plant openings than job layoffs and plant closings. Firms in fabricated metal product manufacturing, office supplies manufacturing, hand and edge tool manufacturing, and plastics product manufacturing announced plans to hire new workers and expand existing operations. Additionally, a major firm in the semiconductor and related device manufacturing industry announced plans to open a new plant as well as hire a significant number of workers. In contrast, firms in appliance manufacturing, steel manufacturing, and elevator manufacturing all announced plans to lay off workers and decrease operations due to reduced demand. A firm in the food and beverage manufacturing industry announced plans to close a plant and lay off workers as they relocate operations outside of the District. The service sector has continued to decline since our previous report, with significantly more job layoffs than new hires. Uncertainty over health care costs and financial regulations is cited frequently as an explanation for firms' reluctance and inability to expand hiring. Schools announced a significant number of job cuts and reduced services due to budget shortfalls.

Real Estate and Construction

Compared with the same periods in 2009, both March and April 2010 year-to-date home sales in Memphis were down by 2 per-

cent. Compared with the same periods in 2009, March 2010 year-to-date single-family housing permits increased by 60 percent, and April 2010 year-to-date single-family housing permits increased by 65 percent. Compared with the fourth quarter of 2009, the first-quarter 2010 industrial vacancy rate decreased. During the same period, the suburban and downtown office vacancy rates increased. A contact in Memphis indicated that industrial real estate may be showing signs of improvement.

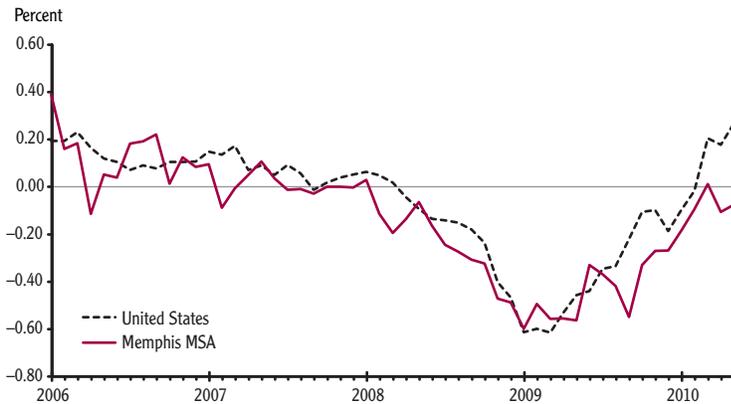
Banking and Finance

Banking conditions in the Memphis zone remained relatively unchanged during the past three months. Lending activity for consumer loans decreased. One contact noted that demand for loans in this category remains low because consumers in the region think credit is still tight and view the process of obtaining a loan as long and frustrating. A few contacts noted a recent spike in demand for business loans, but most reported that business loan demand is weak. One contact noted that banks are eager to lend to qualified borrowers, but are seeing very few established businesses borrowing, making it difficult to find new loans. Commercial real estate lending remains weak, although several contacts were encouraged by a number of new inquiries in this lending category. Reports indicate a slight increase in deposits.

Agriculture and Natural Resources

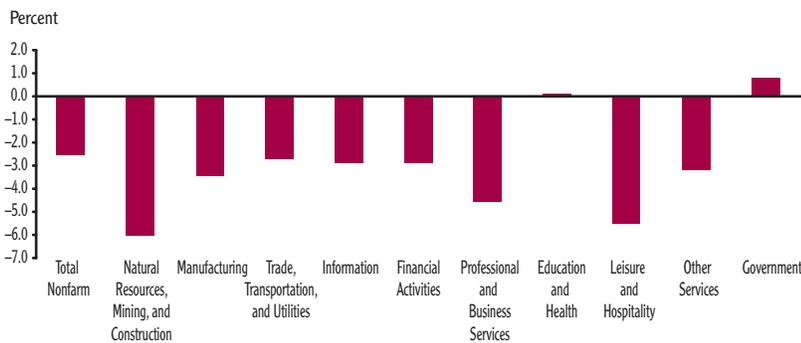
Frequent rains throughout the zone toward the end of the reporting period caused some fieldwork delays. At the end of May, farmers in Mississippi were ahead of or on par with their 5-year average pace for corn, soybean, cotton, and rice planting but slightly behind normal for sorghum planting. Farmers in Tennessee were behind their normal pace for corn, soybean, and cotton planting. Emergence of soybeans in both states and rice in Mississippi was behind normal, but emergence of other crops was ahead of normal. At the end of May, at least 90 percent of the winter wheat in both states and pastures in Tennessee were rated in fair condition or better, whereas 86 percent of the pastures in Mississippi obtained that rating. The ratings were better than the same time last year for Mississippi's winter wheat and similar to last year for the other states.

Nonfarm Payroll Employment Growth 3-Month Average, SA, January 2006–May 2010



Since the beginning of the recession, payroll employment growth in the Memphis MSA has tended to be lower than that of the United States as a whole. On a three-month moving average basis, Memphis employment growth remained negative throughout 2010, except for hitting zero in March. Over the three-month period ending in May 2010, Memphis employment contracted at a 0.1 percent monthly rate, while U.S. employment expanded at a monthly rate of 0.26 percent.

Memphis MSA Employment Growth by Sector Year/Year Percent Change, May 2009–May 2010



Between May 2009 and May 2010, total nonfarm employment in the Memphis MSA fell by 2.6 percent. This rate of job loss was much steeper than for the country as a whole, which saw a 0.45 percent decline in employment over the period. Net job losses were experienced in nearly every sector of the Memphis economy, with the largest declines occurring in natural resources, mining, and construction (6 percent); manufacturing (3.4 percent); professional and business services (4.5 percent); and leisure and hospitality (5.5 percent). Employment in the government sector grew by 0.8 percent, a figure inflated by temporary census workers.

Memphis Zone—MSA Employment and Unemployment

Nonfarm payroll employment percent change,
May 2009–May 2010

	Total	Goods producing	Service providing	Unemployment rate May 2010
Memphis	-2.57	-4.26	-2.35	10.5
Jackson, Tenn.	-0.52	-3.45	0.22	10.4
United States	-0.59	-4.45	0.05	9.6

SOURCE: Bureau of Labor Statistics.

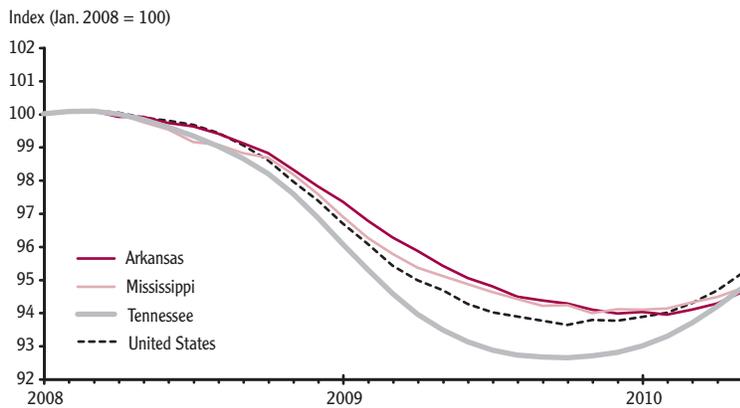
Memphis Zone—MSA Housing Activity

	Total building permits, units year-to-date		House price index, percent change, 2010:Q1/2009:Q1
	May 2010	Percent change	
Memphis	1,242	69.9	-6.47
Jackson, Tenn.	99	47.8	-5.78
Jonesboro, Ark.	404	164.1	-1.64
United States	255,650	18.3	-6.78

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

Total residential building permits in May 2010 were higher than a year earlier in all three MSAs in the Memphis zone. Permits rose by 69.9 percent in Memphis, 47.8 percent in Jackson, and 164.1 percent in Jonesboro. The FHFA house price index fell over the period in all three MSAs: by about 6.5 percent Memphis, 5.8 percent in Jackson, and 1.6 percent in Jonesboro. Nationwide, this index fell by about 6.8 percent over the period.

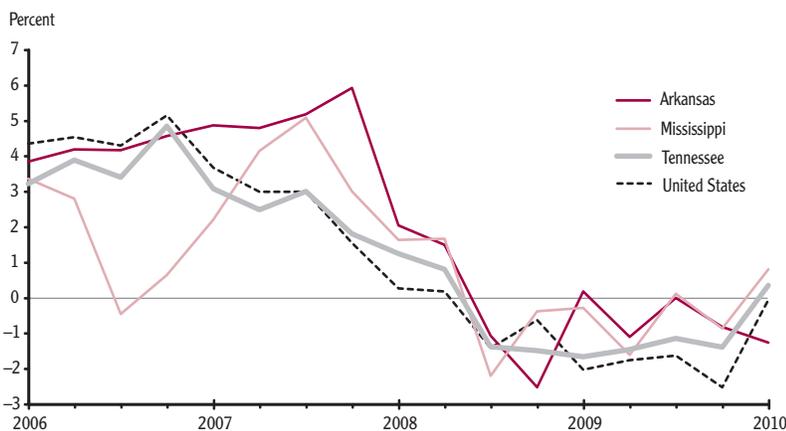
Memphis Area Coincident Economic Activity Index



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, Tennessee was hit harder than the country as a whole by the recession. The index bottomed out at 6.4 percent below its January 2008 level for the United States and by 7.4 percent for Tennessee. The index for Arkansas and Mississippi, on the other hand, fell less than for the rest of the country. Recently, however, Tennessee has outperformed the rest of the country and the other two states: Between December 2009 and May 2010, the index rose by 2.1 percent for Tennessee, 0.7 percent for both Arkansas and Mississippi, and 1.5 percent for the United States.

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



SOURCE: Bureau of Economic Analysis.

As illustrated by the figure, since the middle of 2008, real personal income growth in Arkansas, Mississippi, and Tennessee has tended to be negative. The most recent data indicate that while personal income for the country as a whole was effectively unchanged between the first quarters of 2009 and 2010, it rose by 0.8 percent in Mississippi and 0.3 percent in Tennessee, while falling by 1.3 percent in Arkansas.

2009 Population Estimates for Eighth District Metro Areas

	2009 Population	Change since 2000	Percent change	Natural increase*	Net international migration	Net domestic migration
Large Metro Areas						
St. Louis, Mo.-Ill.	2,698,664	130,326	4.8	105,672	31,067	-43,750
Little Rock-N. Little Rock-Conway, Ark.	610,514	74,974	12.3	36,083	5,166	34,660
Louisville/Jefferson County, Ky.-Ind.	1,162,414	96,163	8.3	48,692	17,024	34,381
Memphis, Tenn.-Ark.-Miss.	1,205,196	99,730	8.3	85,501	20,490	-8,583
Small and Medium Metro Areas						
Bowling Green, Ky.	104,168	16,427	15.8	5,431	3,216	8,347
Columbia, Mo.	145,666	20,568	14.1	9,911	3,801	7,771
Elizabethtown, Ky.	107,550	5,883	5.5	7,708	339	-1,437
Evansville, Ind.-Ky.	342,816	9,095	2.7	9,769	2,051	-657
Fayetteville-Springfield-Rogers, Ark.-Mo.	347,036	117,587	33.9	33,966	13,474	60,883
Fort Smith, Ark.-Okla.	273,177	19,886	7.3	12,336	4,893	4,450
Hot Springs, Ark.	88,068	10,411	11.8	-1,527	692	11,637
Jackson, Tenn.	107,379	6,250	5.8	4,743	1,448	694
Jefferson City, Mo.	140,051	7,387	5.3	6,258	1,169	844
Jonesboro, Ark.	107,762	12,377	11.5	4,796	1,213	6,942
Owensboro, Ky.	109,876	3,760	3.4	4,533	603	-667
Pine Bluff, Ark.	107,348	-6,654	-6.2	2,964	680	-9,785
Springfield, Mo.	368,375	62,525	17.0	16,971	1,903	45,592
Texarkana, Tex.-Ark.	129,754	7,732	6.0	4,219	639	3,610
All U.S. Metro Areas	232,822,999	29,199,634	12.5	14,793,402	8,449,584	34,754

NOTE: *Births minus deaths.

SOURCE: U.S. Census Bureau.