

Current Economic Conditions in the Eighth Federal Reserve District

Memphis Zone

October 1, 2010

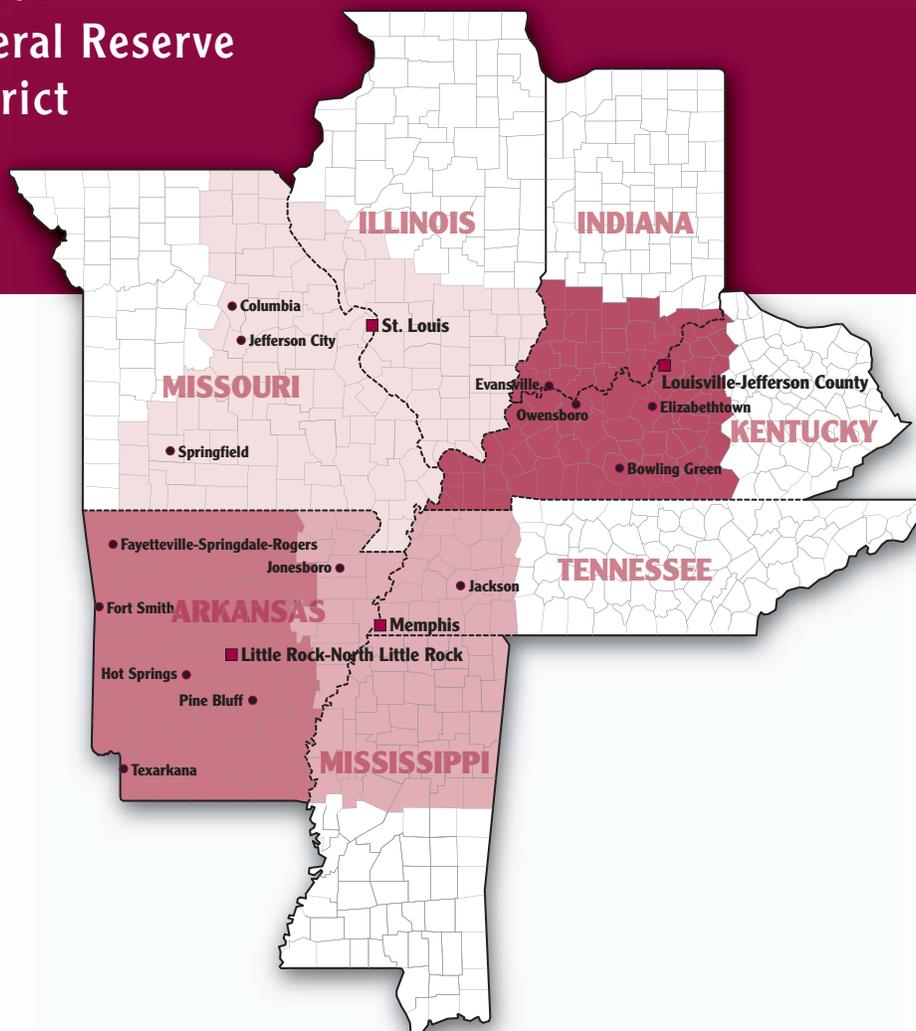
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CRE8

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—October 1, 2010

The economy of the Memphis zone has shown some signs of expansion, but significant weakness remains. Although most car dealers saw sales increase over the previous year, a majority of general retailers saw sales decrease or hold steady over the period. The manufacturing sector has continued to expand, although the service sector has been flat. Residential real estate has yet to see much of a recovery, and conditions in the banking sector have deteriorated somewhat.

Consumer Spending

Retail sales reports for July and early August were mostly negative among general retailers, but mostly positive among car dealers surveyed. Just over 40 percent of the general retailers and nearly 70 percent of the car dealers indicated that sales were up compared with the same months in 2009. The remaining general retailers reported decreased sales, while the remaining car dealers reported sales similar to last year. The sales outlook for September and October was mixed among the general retailers and mostly optimistic among the car dealers. About 45 percent of the general retailers and over 80 percent of the car dealers expect sales to increase over 2009 levels, but around 40 percent of the general retailers expect sales to decrease.

Manufacturing and Other Business Activity

Manufacturing activity in the Memphis zone has continued to improve since our previous report, with more announcements of new jobs and plant openings than job layoffs and plant closings. Firms in the glass and glass product, motor vehicle parts, primary metal, and automobile manufacturing industries announced plans to open new plants and hire workers. In addition, firms in the engine and furniture and related product manufacturing industries reported plans to expand existing operations and hire new workers. In contrast, firms in the furniture and related product; engine, turbine, and power transmission equipment; and hand tool manufacturing industries reported plans to decrease operations. Activity in the service sector has remained flat since our previous report; no firms have reported significant changes in employment or production.

Real Estate and Construction

The residential real estate market in Memphis continued to languish in July. Compared with a year earlier: Home sales were 1 percent lower and single-family housing permits were 23 percent above the extremely low levels of 2009. The picture for commercial real estate was more mixed: Compared with the first quarter of 2010, the second-quarter 2010 industrial vacancy rate increased, whereas suburban and downtown office vacancy rates were lower. A contact in the northeast

Mississippi region reported that there are significant construction plans to be completed in the future. In contrast, a commercial construction contact in northeast Arkansas reported that there are very few new projects in the pipeline there.

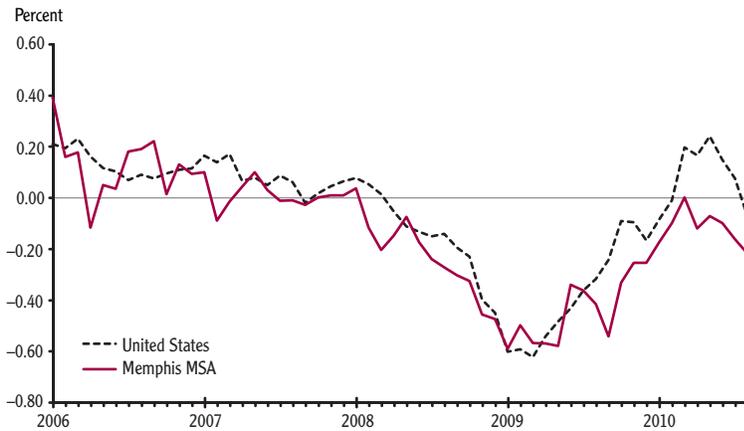
Banking and Finance

Banking conditions in the Memphis zone deteriorated slightly during the past three months. Lending activity for consumer loans remained mostly unchanged. Contacts indicated that demand has been slow for these loans because consumers in the region appear unwilling to take on additional debt in an uncertain economy. Business lending activity decreased slightly. Contacts continue to report difficulty in finding quality new loans in this category. One contact noted that he expects demand for business loans to remain flat through the end of the year. Several contacts reported that commercial real estate is still a troubled lending sector. One contact noted that there are very few inquiries for new loans in this sector. Reports indicate a stable to slightly increasing level of deposits.

Agriculture and Natural Resources

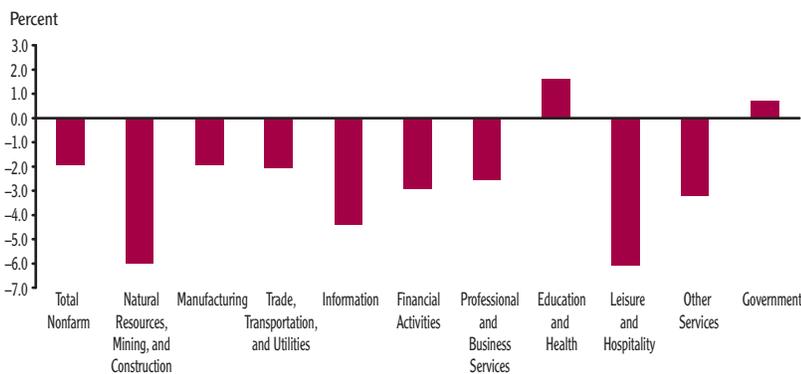
Except for corn and rice in Mississippi, crop conditions have deteriorated slightly in both Mississippi and Tennessee since mid-July. In late August, at least 10 percent of the major crops—except rice in Mississippi and cotton in Tennessee—were rated in poor condition. As of August 1, yields for corn, soybeans, rice, and sorghum in Mississippi, cotton in Tennessee, and winter wheat in both states were expected to range from 0 percent to 11 percent higher than last year's yields; cotton yields in Mississippi were expected to be 36 percent higher. In contrast, yields for corn, soybeans, and tobacco in Tennessee were expected to range from 6 percent lower to 16 percent lower than last year. Total production of rice and sorghum in Mississippi, tobacco in Tennessee, and corn and soybeans in both states was expected to range from 27 percent lower to 28 percent higher than last year; in both states, cotton production was expected to be at least 48 percent higher and winter wheat production was expected to be at least 36 percent lower than last year.

Nonfarm Payroll Employment Growth 3-Month Average, SA, January 2006–August 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 has been negative throughout 2010, except for hitting zero in March. Over the three-month period ending in August 2010, Memphis employment contracted at a 0.22 percent monthly rate, while U.S. employment contracted at a monthly rate of 0.08 percent.

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



Between August 2009 and August 2010, total nonfarm employment in the Memphis MSA fell by 1.9 percent. This performance was weaker than for the country as a whole, which saw a modest 0.15 percent increase in employment over the period. Net job losses were experienced in nearly every sector of the Memphis economy, with the largest declines occurring in leisure and hospitality (6.1 percent); natural resources, mining, and construction (6 percent); information (4.4 percent), and other services (3.2 percent). Employment in the education and health sector, on the other hand, grew by 1.6 percent.

Memphis Zone—MSA Employment and Unemployment

Nonfarm payroll employment percent change,
August 2009–August 2010

	Total	Goods producing	Service providing	Unemployment rate August 2010
Memphis	-1.94	-3.25	-1.77	9.5
Jackson, Tenn.	0.18	-1.75	0.66	9.9
United States	0.15	-1.38	0.41	9.5

SOURCE: Bureau of Labor Statistics.

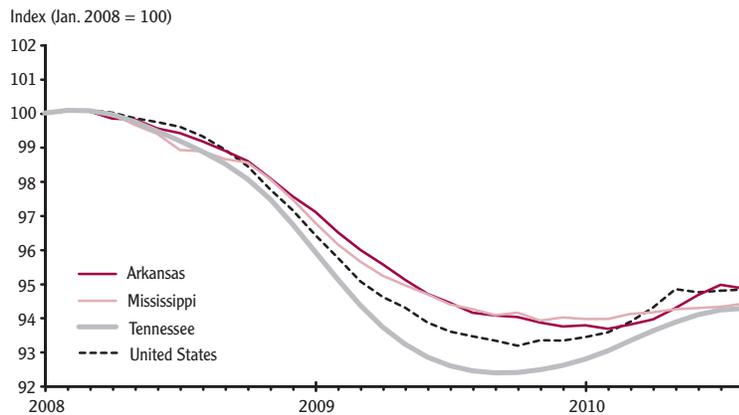
Memphis Zone—MSA Housing Activity

	Total building permits, units year-to-date		House price index, percent change, 2010:Q2/2009:Q2
	August 2010	Percent change	
Memphis	2,000	40.3	-5.44
Jackson, Tenn.	158	15.3	-1.16
Jonesboro, Ark.	502	96.9	2.59
United States	418,181	9.0	-4.95

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

Total residential building permits in August 2010 were higher than a year earlier in all three MSAs in the Memphis zone. Permits rose by 40.3 percent in Memphis, 15.3 percent in Jackson, and 96.9 percent in Jonesboro. The FHFA house price index fell over the period in two of the MSAs: by about 5.4 percent in Memphis and 1.2 percent in Jackson. It rose by about 2.6 percent in Jonesboro. Nationwide, this index fell by about 5 percent over the period.

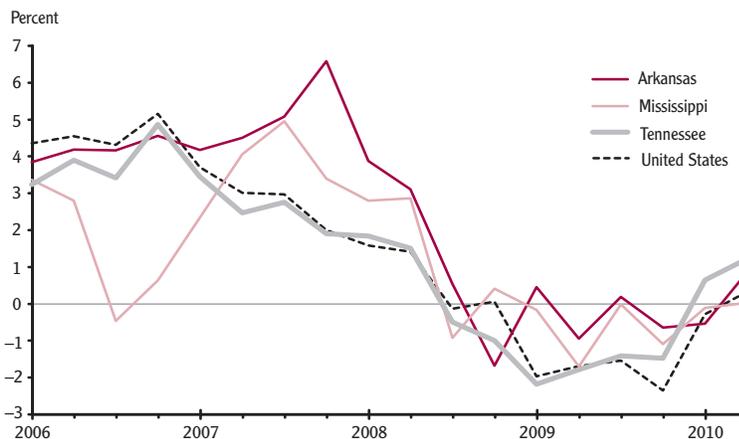
Memphis Area Coincident Economic Activity Index



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. In 2010, however, Tennessee has outperformed the rest of the country and the other two states: Between December 2009 and August 2010, the index rose by 1.8 percent for Tennessee, 1.2 percent for Arkansas, 0.4 percent for Mississippi, and 1.6 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 has increased by 0.3 percent between the second quarters of 2009 and 2010, it rose by 1.2 percent in Tennessee, 0.8 percent in Arkansas, and it was effectively unchanged for Mississippi.

Residential Mortgage Delinquency Rates for Eighth District States
Percent 90+ Days Delinquent or in Foreclosure, 2010:Q2

	All mortgages	Prime			Subprime		
		Total	FRM	ARM	Total	FRM	ARM
Arkansas	5.2	3.4	3.0	8.9	18.4	14.9	27.3
Illinois	11.1	8.0	6.3	17.7	33.4	24.6	44.5
Indiana	8.8	5.5	4.8	12.2	25.1	20.5	35.2
Kentucky	6.6	4.0	3.4	10.3	22.5	17.9	33.2
Mississippi	8.4	5.3	4.9	14.0	24.7	20.5	36.0
Missouri	5.6	3.6	3.2	7.5	20.2	15.5	29.4
Tennessee	6.6	3.8	3.4	9.3	21.7	16.6	31.8
U.S. Total	9.1	6.8	4.9	17.8	28.3	20.6	40.5

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

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