

Current Economic Conditions in the Eighth Federal Reserve District

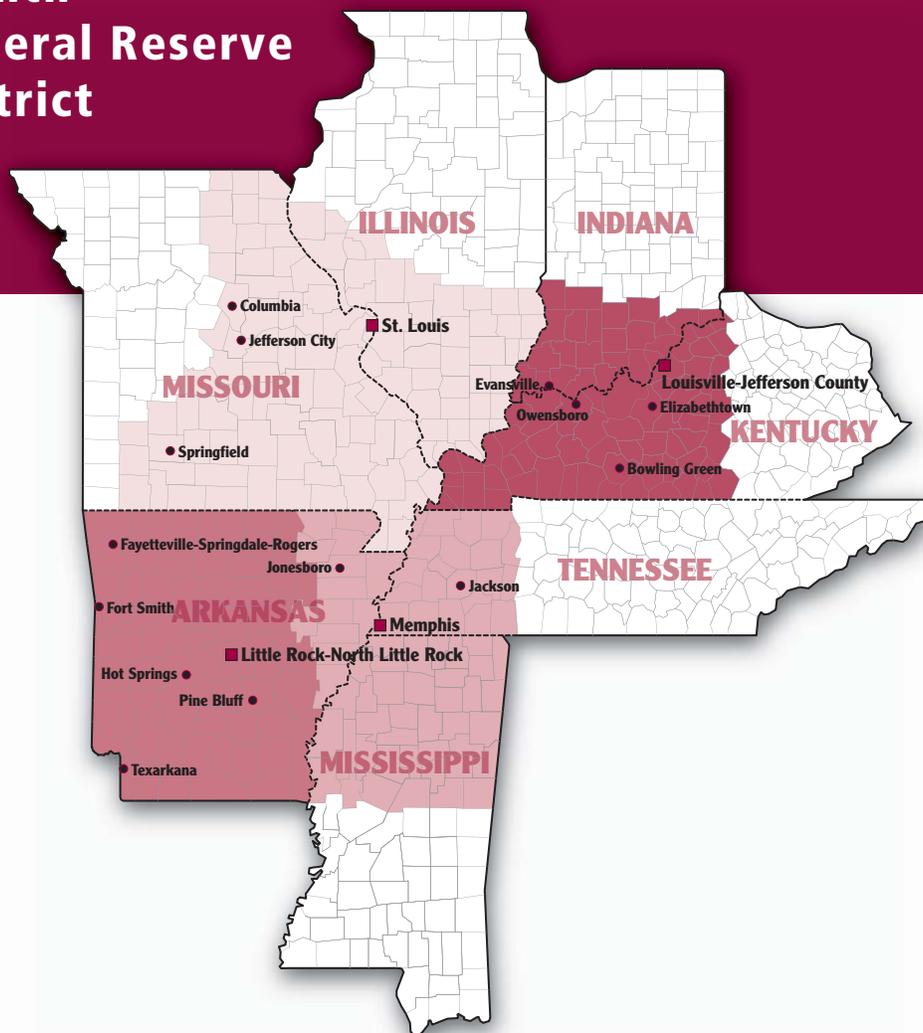
Memphis Zone

March 18, 2011

Prepared by the
Research Division of the
Federal Reserve Bank of St. Louis



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 research.stlouisfed.org/regecon/.

The report includes government-provided data for Tennessee and the metro areas of the Memphis zone. These data are the most recent available at the time this report was assembled.

NOTE: Metropolitan statistical areas (MSAs) are larger geographic areas than cities, as defined by the Census Bureau. Unless noted otherwise, when we refer to a location—such as Memphis—we refer to the Memphis MSA and not to the city of Memphis.

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Memphis Zone Report—March 18, 2011

The most recent data—between December 2010 and January 2011—reveals that the annual growth of employment, building permits, and housing prices was –1.1 percent, –27.1 percent, and –2.4 percent in Memphis and 0.7 percent, –8.9 percent, and –1.3 percent in the nation. In the past three months, local employment increased by an average rate of 0.2 percent per month, approximately two times the rate registered for nationwide employment. The unemployment rate in Memphis (9.7 percent) was higher than the nation’s (9.4 percent). According to four of the five indicators considered, Memphis is underperforming the nation. This view coincides with weak anecdotal reports from contacts in several sectors, with the exception of mildly positive reports by general retailers and car dealers.

General Retailers

- Sales in January and early February increased compared with the same time last year for one in two contacts; sales decreased for one in three contacts.
- Sales met or exceeded expectations for five in six contacts.
- Sales were expected to increase in this quarter compared with the same time last year for one in three contacts; one in six contacts expected a decrease.

Car Dealers

- Sales in January and early February increased compared with the same time last year for two in three contacts; sales decreased for one in six contacts.
- Sales were expected to increase in this quarter compared with the same time last year for two in three contacts; one in three expected a decrease.

Manufacturing

- Contacts in household appliances; plastic products; paper; heating, ventilation, and air conditioning; furniture; and medical equipment plan to add workers and/or open new plants.
- Contacts in containers and tires plan to lay off workers and close plants.

Services

- Contacts in business support and air transportation support plan to expand operations and hire new workers.

Real Estate

- Home sales in January 2011 were 8 percent lower than in January 2010.

- New single-family housing permits in January 2011 were 27.1 percent lower than in January 2010.
- Between the third and fourth quarters of 2010, industrial and all office vacancy rates increased.

Construction

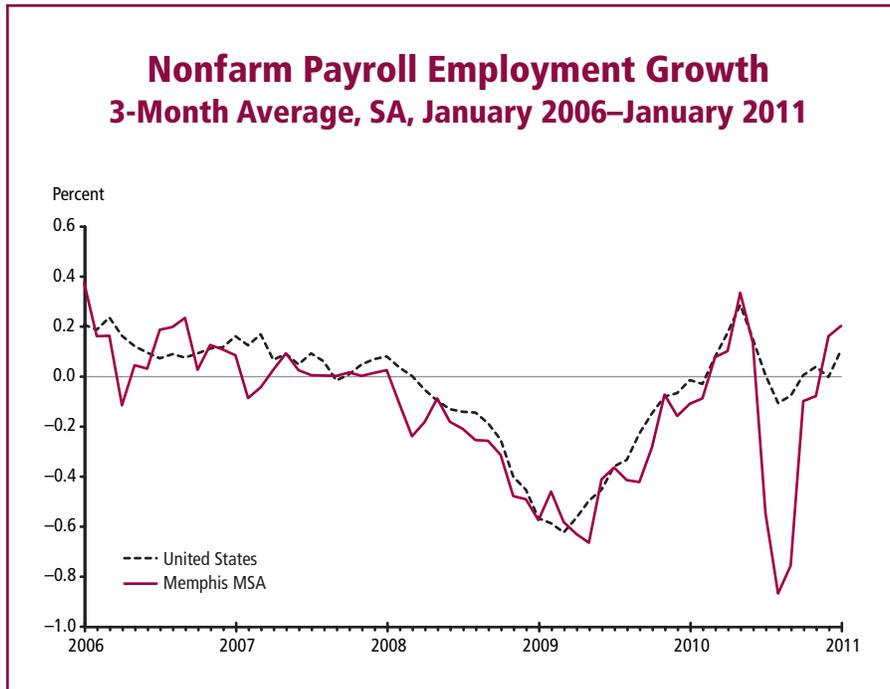
- Contacts in Memphis reported that “speculative construction activity” is expected to remain very slow, while build-to-suit industrial developments are anticipated to increase.
- Contacts in Memphis noted few significant commercial construction projects were under way during the fourth quarter of 2010.

Banking and Finance

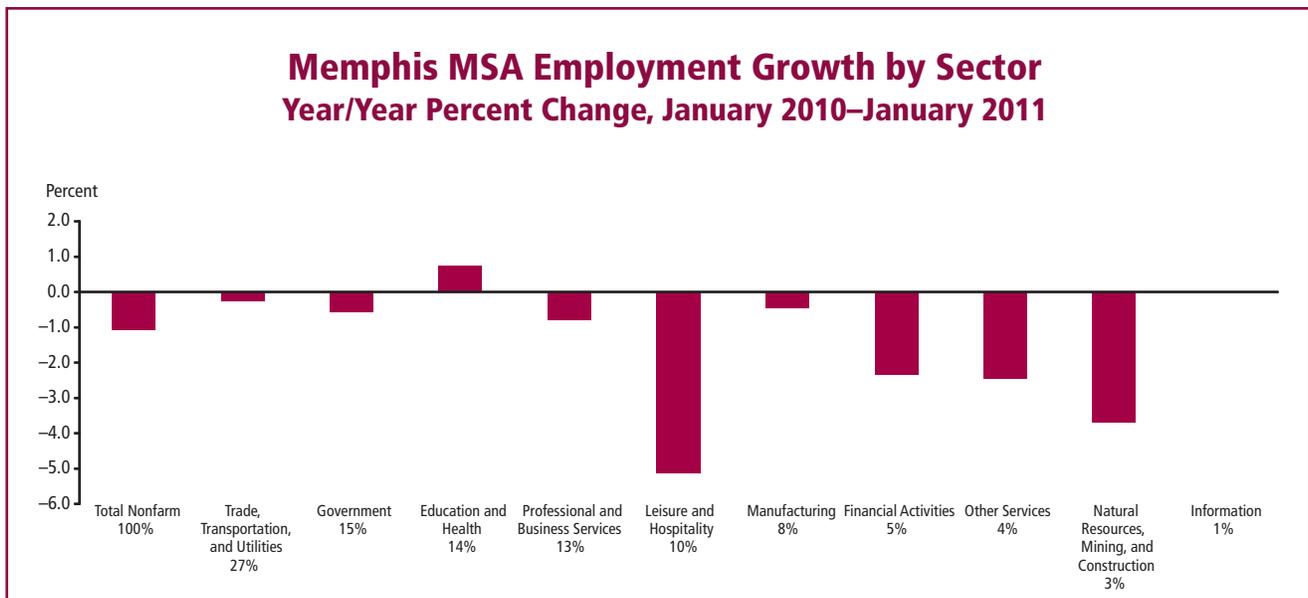
- Reports still indicate little demand for consumer and business loans.
- Banks expect business loan demand to remain weak and real estate lending to be “challenged.”
- Contacts reported an increase in foreclosures.
- Deposit growth increased modestly.

Agriculture

- Combined coal production for Mississippi and Tennessee was 6.7 percent higher in 2010 than in 2009.
- The aggregate production value of corn, sorghum, rice, and cotton was 39.9 percent higher in 2010 than in 2009, while the production value of winter wheat, soybeans, hay, and tobacco was 5.6 percent lower.
- The market prices of corn, sorghum, winter wheat, soybeans, cotton, and hay were 28.2, 67.4, 10, 19.6, 22.8, and 1.8 percent higher in 2010 than in 2009, respectively. The prices of rice and tobacco were 15.5 and 0.5 percent lower, respectively.



Revised data indicate a large decline in Memphis employment during the third quarter of 2010. Memphis employment rebounded in late 2010, expanding at a faster pace than the nation. During the past three months, Memphis employment expanded at an average rate of 0.2 percent per month compared with 0.1 percent in the nation.



Employment growth by sector during the past 12 months distinguishes general trends from sector-specific trends in Memphis's economic performance. Annual employment fell by 1.1 percent in Memphis, compared with a 0.7 percent increase for the United States. The three largest sectors in Memphis are Trade, Transportation, and Utilities; Government; and Education and Health, accounting for 27 percent, 15 percent, and 14 percent of employment, respectively. Growth in these three sectors was -0.3 percent, -0.6 percent, and 0.7 percent, respectively. With the exception of the Information and Education and Health sectors, sectoral and aggregate employment changes in Memphis moved primarily in the same negative direction. The Education and Health sector had the best performance in Memphis, while Leisure and Hospitality, which accounts for 10 percent of total employment, had the worst performance (-5.1 percent).

Memphis Zone—MSA Employment and Unemployment

Nonfarm payroll employment percent change,
January 2010–January 2011

	Nonfarm payroll employment percent change, January 2010–January 2011			Unemployment rate December 2010
	Total	Goods producing	Service providing	
Memphis	-1.08	-1.44	-1.04	9.7
Jackson, Tenn.	0.71	0	0.88	9.6
United States	0.69	0.54	0.71	9.4

NOTE: Sector-level employment data are not available for Jonesboro Ark.; as a result, this MSA is not included in the previous chart or in this table.
SOURCE: Bureau of Labor Statistics.

Employment contraction is substantial in Memphis. This holds for both goods-producing and service-producing activities. The highest unemployment rate in the Memphis zone was registered in Memphis, at 9.7 percent. The unemployment rate in both the Memphis and Jackson MSAs is higher than the 9.4 percent rate for the United States.

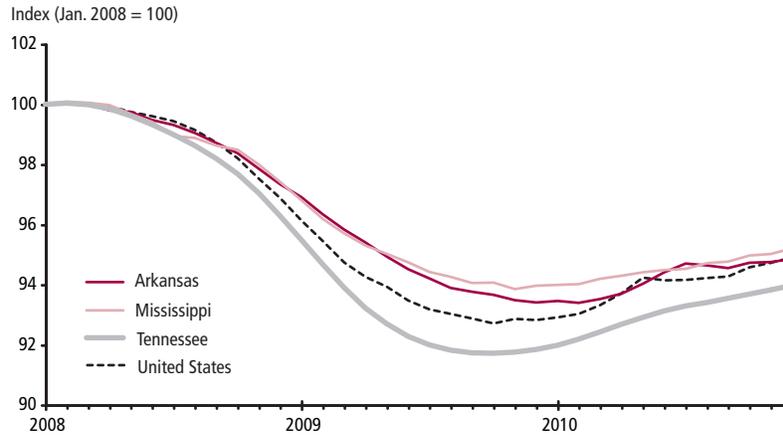
Memphis Zone—MSA Housing Activity

	Total building permits, units year-to-date		House price index, percent change, 2010:Q4/2009:Q4
	January 2011	Percent change	
Memphis	86	-27.1	-2.4
Jackson, Tenn.	5	-58.3	-2.5
Jonesboro, Ark.	11	-66.7	-0.3
United States	35,985	-8.9	-1.3

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

The MSAs in the Memphis zone are off to a poorer start in 2011 compared with 2010. The Memphis, Jackson, and Jonesboro MSAs experienced declines of 27.1, 58.3, and 66.7 percent, respectively, in the year-to-date number of total building permits. These declines are greater than the 8.9 percent decline registered for the United States. Similarly, house prices continue to decline in all MSAs. The 2.4 percent house price decrease in Memphis was eight times greater than the decrease in Jonesboro and similar to the decrease in Jackson. This decrease is also almost twice the value of the decrease for the United States.

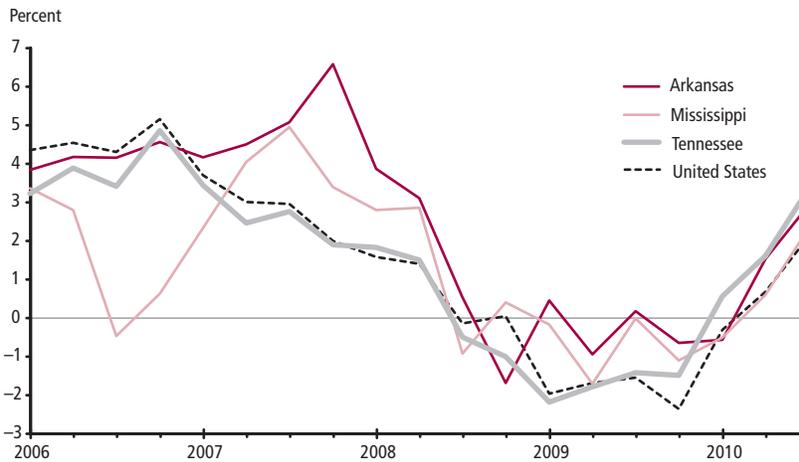
Memphis Area Coincident Economic Activity Index



SOURCE: Federal Reserve Bank of Philadelphia.

The Philadelphia Fed's coincident index combines information on payroll employment, wages, unemployment, and hours of work to give a single measure of economic performance. Both Arkansas's and Mississippi's coincident indices reveal a milder impact of the recession and a quicker recovery compared with the nation. The index bottomed at 93.4 for Arkansas and 93.8 for Mississippi, while it bottomed at 92.7 for the United States. Current values of the index suggest that economic activity in Arkansas is at 94.9 percent and Mississippi is at 95.2 percent of its pre-recession levels, while it is at 94.9 percent in the nation. On the other hand, Tennessee's coincident index reveals a stronger impact of the recession and a slower recovery compared with the nation. The index bottomed at 91.7 percent. Current values of the index suggest that economic activity in Tennessee is at 94 percent and still below the nation's. In summary, with two out of three states slightly above the nation, the economic environment in the Memphis zone should be slightly better than the nation's according to this index.

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



SOURCE: Bureau of Economic Analysis.

For several quarters before the national recession, which started in the last quarter of 2007, personal income growth in Arkansas and Mississippi was above the nation's, while Tennessee's was roughly similar. The recession's impact on Arkansas's and Mississippi's personal income growth was slightly milder than in the nation, while the recovery in Arkansas and Tennessee has been greater than the nation's. In Mississippi, it has been similar to the nation's. Between the third quarter of 2009 and the third quarter of 2010, personal income grew 2.4 percent, 2.8 percent, and 4.8 percent in Mississippi, Arkansas, and Tennessee, respectively, compared with 3.7 percent in the nation.