

Current Economic Conditions in the Eighth Federal Reserve District

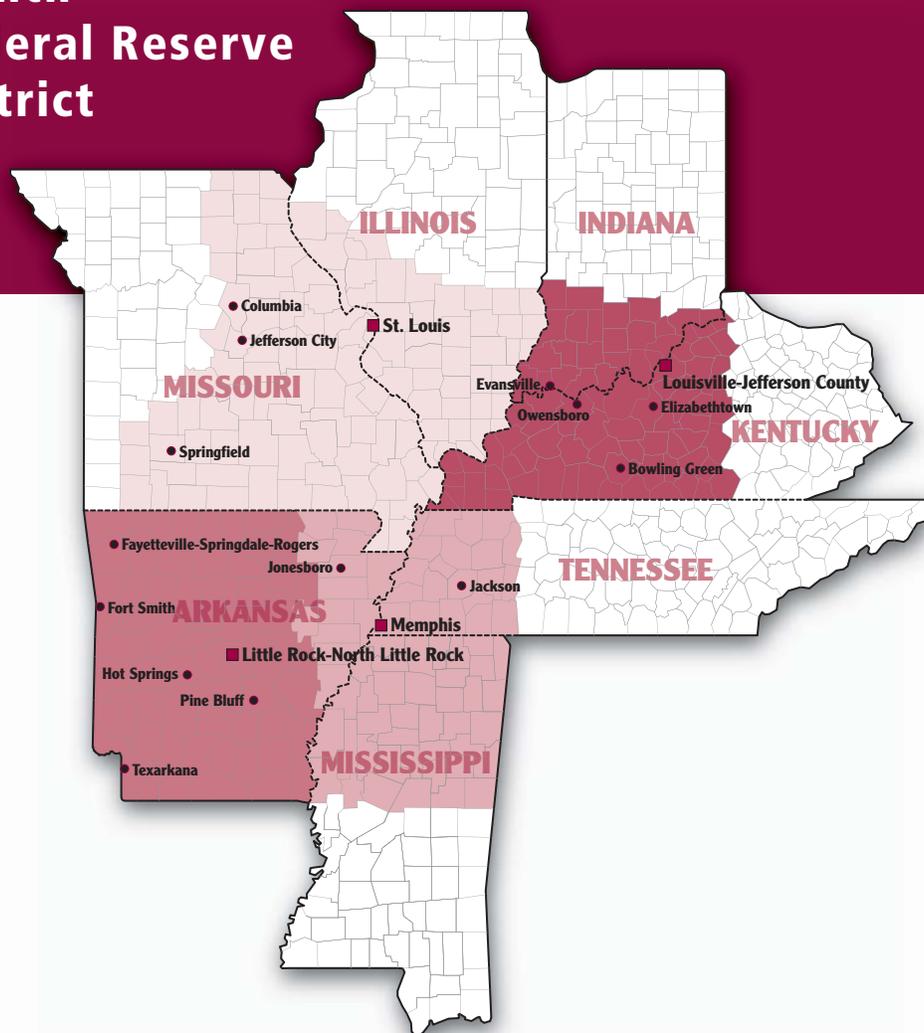
Memphis Zone

September 21, 2012

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.

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Memphis Zone Report—September 21, 2012

The most recent data show that the Memphis MSA is performing better than the nation in some aspects but worse in other respects. In terms of employment growth, Memphis has performed similar to the nation. Housing activity in the Memphis area thus far in 2012 has been much stronger than the nation's pace of activity. At the same time, house prices over the past four quarters have declined a bit more in Memphis than for the nation and Memphis' unemployment rate remains higher than the nation's rate. The following five points illustrate this assessment:

Annual Changes in Employment: In July 2012, Memphis's nonfarm payroll employment was 1.4 percent higher than a year earlier, matching the U.S. growth rate.

Short-Term Changes in Employment: Between April 2012 and July 2012, Memphis's local employment increased by about 0.1 percent per month. This gain was similar to the nation's increase. Employment changes in the Memphis MSA have been unusually volatile lately.

Unemployment Rate: Similar to the nation, Memphis' unemployment rate has risen modestly over the past three months. In July 2012, the unemployment rate measured 9.2 percent, versus 8.7 percent in April. Over the same period, the U.S. rate rose from 8.1 percent to 8.3 percent.

Building Permits: The number of building permits issued in the Memphis zone during the first seven months of 2012 was an astounding 78 percent higher than the number issued during the same period in 2011.

House Prices: During the second quarter of 2012, housing prices in Memphis were 1 percent below the same quarter a year earlier. This decline was modestly larger than that registered for the nation as a whole (-0.6 percent).

Anecdotal Information from the Beige Book

Agriculture and Natural Resources

- Year-to-date coal production through August was 15.9 percent higher in Mississippi and 3.7 percent lower in Tennessee compared with the first eight months of 2011.
- With the exception of corn in Tennessee, crop conditions in Mississippi and Tennessee have generally held steady since June. The share of corn crops in Tennessee reported in fair or better condition declined from 88 percent in mid-June to 49 percent by early September. Over 90 percent of all crops in Mississippi remain in fair or better condition.
- Lower yields and production are forecasted for all crops in Tennessee. Annual corn and cotton production is expected to be about 25 percent lower than one year ago. Forecasts for Mississippi are mixed: Corn and sorghum production is expected to be at least 25 percent higher than last year, but cotton and rice production is expected to decline by 8 percent and 17 percent, respectively, relative to last year.

Car Dealers

- All contacts reported increased sales in July and early August.
- Sales are expected to increase in September and October when compared with the same time last year for two of three contacts; one of six contacts expect no change in sales; and one of six contacts expect slightly lower sales.

Construction

- Contacts reported several commercial construction projects in the Jonesboro area and new mixed-used development plans in the Memphis metropolitan area.
- A contact noted that new commercial construction contracts were less valuable than a year ago in Tennessee.

General Retail

- July and early August sales decreased compared with the same time last year for one of two contacts; sales increased for one of three contacts; sales remained the same for the remaining contacts.
- Sales exceeded expectations for one of six contacts; sales were below expectations for the remaining contacts.
- Sales are expected to increase or stay the same in September and October when compared with the same time last year for two of three contacts; the remaining contacts expect sales to decrease.

Manufacturing

- Firms in automobile, medical technology products, stone wool insulation, commercial printing, automobile parts, chemical, HVAC equipment, lifting equipment, and industry machinery manufacturing plan to hire new workers while expanding operations or opening new facilities. In contrast, a firm that manufactures window coverings plans to lay off workers.

Real Estate

- A contact in northeast Arkansas reported that except for the Jonesboro and Paragould areas, overall commercial real estate activity remains weak in the region.
- A contact in Memphis reported that industrial real estate activities have improved with signs of positive absorption.

Services

- Firms in both business support and transportation services plan to hire new workers. By contrast, a financial services firm and an educational organization plan to lay off workers.

Banking and Finance

- Eight of twelve contacts expect loan demand to stay the same; two of twelve contacts expect loan demand to decrease; the remaining contacts expect loan demand to increase.
- Six of twelve contacts find that loan delinquencies are improving; the remaining contacts find that loan delinquencies are staying about the same.

Detailed Indicators: Employment, Unemployment, Personal Income, and General Economic Activity

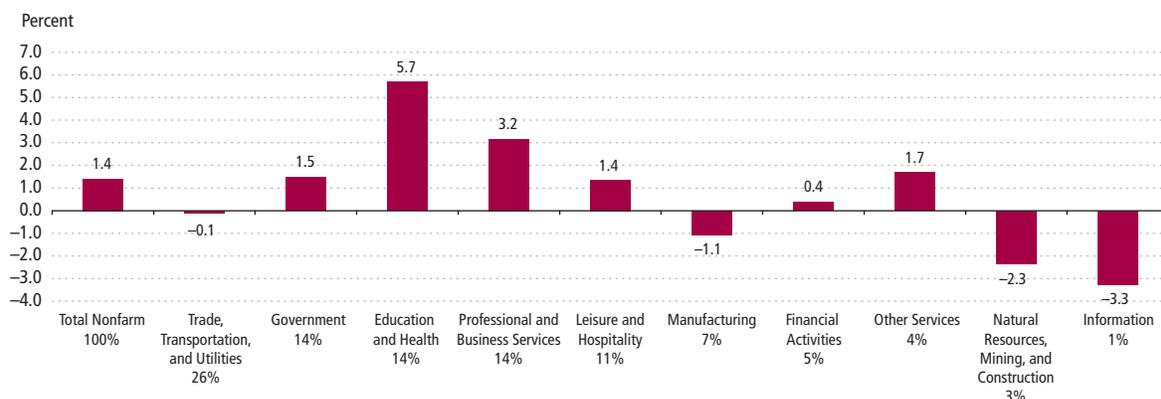
Nonfarm Payroll Employment Growth—Memphis MSA



NOTE: 3-Month moving average, seasonally adjusted, January 2006–July 2012. See the narrative with the St. Louis charts for descriptions and definitions of the series that are also used in the Little Rock, Louisville, and Memphis charts and tables.
SOURCE: Bureau of Labor Statistics.

After spending much of 2012 in negative territory, nonfarm payroll employment growth in Memphis over the past three months has turned positive. From April 2012 to July 2012, payrolls increased by an average of about 0.1 percent. This gain roughly matches the gain seen for the nation. Year-to-date, though, Memphis area payroll employment has declined by 0.5 percent, which is significantly weaker than the nation's 0.8 percent gain (not annualized). As the chart shows, though, employment patterns have been unusually volatile since the recession ended in June 2009. Thus, discerning underlying trends is more difficult.

Employment Growth by Sector—Memphis MSA



NOTE: Percent change with respect to one year ago, July 2011–July 2012.
SOURCE: Bureau of Labor Statistics.

Measured from a year earlier (July 2011), total nonfarm employment rose by 1.4 percent in the Memphis MSA. This increase is all the more impressive, given that employment declined in the Trade, Transportation, and Utilities (TTU) sector, which accounts for more than a quarter (26 percent) of all jobs in Memphis. The other sectors with the largest number of jobs in Memphis have seen much stronger employment gains, helping to offset the modest decline in TTU employment. For example, measured from a year earlier, payrolls have expanded by 1.5 percent in Government, by 5.7 percent in Education and Health, by 3.2 percent in Professional and Business Services, and by 1.4 percent in Leisure and Hospitality. Notably, though, employment in the Manufacturing and in the Natural Resources, Mining, and Construction sectors fell by 1.1 percent and 2.3 percent, respectively. Overall, the employment picture has improved since our previous report in June 2012.

Employment and Unemployment by MSA

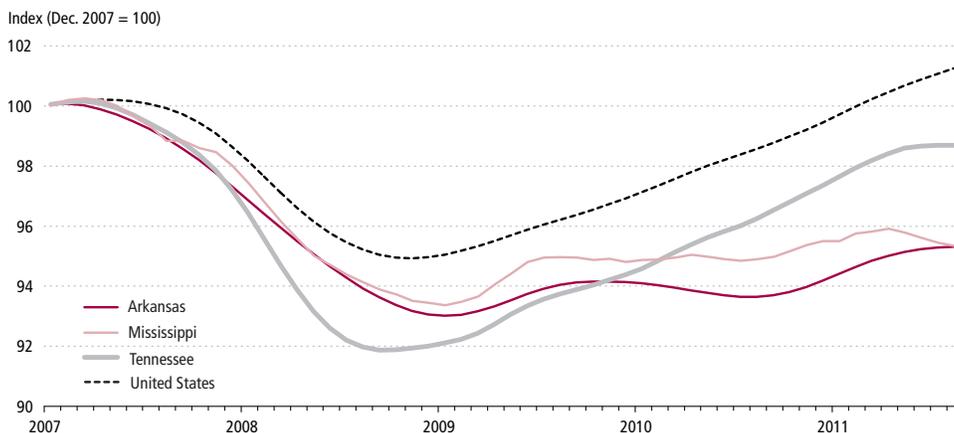
Nonfarm payroll employment percent change,
July 2011–July 2012

	Total	Goods producing	Service providing	Unemployment rate July 2012
Memphis, Tenn.-Ark.-Miss.	1.42	-1.51	1.79	9.2
Jackson, Tenn.	3.66	0.88	4.35	8.7
United States	1.40	1.52	1.38	8.3

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

As noted earlier, nonfarm payroll employment growth in the Memphis zone has been positive and on par with the nation (1.4 percent). Payroll employment has expanded in Memphis despite a sizable decline in goods-producing employment. This reflects the dominance of the services sector in Memphis, which has increased 1.8 percent over the past year (surpassing the nation's growth). Still, the unemployment rate in the Memphis MSA remains higher than the nation's. In contrast with the three other large MSAs in the District, which have experienced falling unemployment rates over the past three months, the Memphis MSA unemployment rate has increased by 0.5 percentage points to 9.2 percent since April 2012. Labor market conditions are appreciably stronger in Jackson: Payroll employment has increased by 3.7 percent over the past year, paced by rapid gains in services-related employment. In addition, the unemployment rate is a bit lower than in the Memphis MSA, though still above the nation's rate of 8.3 percent.

Coincident Economic Activity Index—Memphis Zone



SOURCE: Federal Reserve Bank of Philadelphia.

Recent trends in the Philadelphia Fed's measures of economic activity for Arkansas, Mississippi, and Tennessee look very similar to other Eighth District states. The coincident index shows that the recession was deeper in these three states. In particular, activity declined the most in Tennessee, compared with Arkansas and Mississippi. However, the pattern of growth during the recovery has been varied. Arkansas and Mississippi have seen more measured recoveries, but the recovery in Tennessee has been much stronger. Since their troughs, economic activity has increased by 7.4 percent in Tennessee, but by only 2.5 percent and 2.1 percent in Arkansas and Mississippi, respectively. For the nation, economic activity has increased by 6.6 percent from the trough and has surpassed its pre-recession peak. The level of activity in these three states, as in all other District states, remains below its pre-recession peak. More recently, economic activity has faltered a bit in Mississippi, falling 0.2 percent over the first seven months of 2012. By contrast, the pace of economic activity year-to-date in Arkansas and Tennessee have increased by 1.0 percent and 1.1 percent year-to-date. For the nation, economic activity has increased by 1.6 percent year-to-date.

Real Personal Income Growth—Memphis Zone



NOTE: Percent change with respect to previous year.

SOURCE: Bureau of Economic Analysis.

As in other District states, nominal personal income (PI) growth continues to slow from a year earlier in Arkansas, Mississippi, and Tennessee. From the first quarter of 2011 to the first quarter of 2012, PI has increased by 1 percent in Tennessee and by 0.1 percent in Arkansas. These increases bookend the U.S. growth of 0.6 percent. By contrast, PI has fallen below last year's levels in Mississippi: Measured from the first quarter of 2011, PI declined by 0.6 percent in the first quarter of 2012. Excluding the recession period, this is the first year-to-year decline in Mississippi PI in about five and a half years.

Residential Real Estate Activity by MSA

	Total building permits, units year-to-date		House price index, percent change, 2012:Q2/2011:Q2
	July 2012	Percent change	
Memphis, Tenn.-Ark.-Miss.	1,941	77.6	-1.0
Jackson, Tenn.	163	89.5	1.0
Jonesboro, Ark.	571	13.5	3.0
United States	454,275	31.1	-0.6

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

Housing activity, as measured by building permit issuance, has been very strong in the Memphis zone. From January 2012 to July 2012, a little fewer than 1,950 permits have been issued in the Memphis MSA—a gain of nearly 80 percent over the same period a year earlier. Similarly strong gains were seen in the Jackson area. Permit issuance in these two areas, percentage-wise, has been much stronger than for the nation (31.1 percent). Permit issuance in the Jonesboro area has also been strong thus far in 2012, although the pace has been much more measured. The behavior of house prices over the past year has been more mixed, though positive on net, in the Memphis zone. From the second quarter of 2011 to the second quarter of 2012, house prices have declined by 1 percent in Memphis, but they have increased by 1 percent in Jackson and by 3 percent in Jonesboro.