

Current Economic Conditions in the Eighth Federal Reserve District

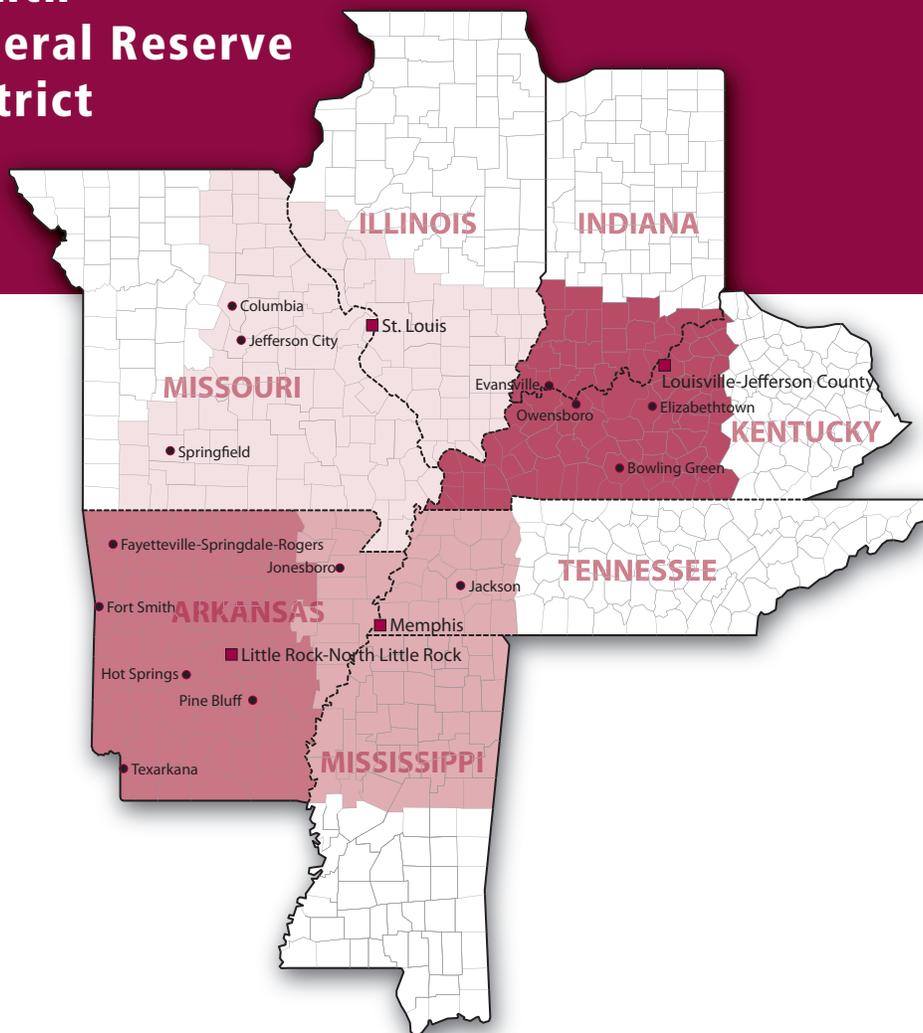
Memphis Zone

December 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—December 21, 2012

The Memphis economy is generally underperforming both the nation and other areas of the District economy. In terms of employment, job gains in the Memphis MSA have lagged the nation because of weakness in its two-largest sectors. Similar to our previous report, the Memphis unemployment rate remained above the nation's rate in October 2012. At the same time, the Memphis MSA has generally outperformed the nation thus far in 2012 in terms of housing activity. The following five points illustrate this assessment:

Annual Changes in Employment: In October 2012, Memphis's nonfarm payroll employment had increased by 0.9 percent from a year earlier. This increase was about 0.6 percentage points slower than the U.S. growth rate.

Short-Term Changes in Employment: Between July 2012 and October 2012, Memphis's local employment had declined by an average of a little less than 0.1 percent per month—or about unchanged on a monthly average basis. Over the same period, U.S. nonfarm employment increased by an average of 0.1 percent per month.

Unemployment Rate: The Memphis unemployment rate continues to decline, but it remains well above the nation's rate (7.9 percent). From July 2012 to October 2012, the Memphis MSA unemployment rate fell from 9.2 percent to 8.8 percent.

Building Permits: The number of building permits issued in the Memphis zone during the first ten months of 2012 were up by a little more than 67 percent from the same period in 2011. This pace was double that seen nationally (about 33 percent).

House Prices: During the third quarter of 2012, house prices in Memphis declined by 1.4 percent from the same quarter a year earlier. Nationally, house prices were unchanged over the same period.

Anecdotal Information from the Beige Book

Agriculture and Natural Resources

- Harvest completion rates were all on pace or ahead of their 5-year averages in Arkansas, Mississippi, and Tennessee. Cotton and soybean harvests were most notably ahead of schedule, with an additional 9 to 16 percentage points of cotton and 5 to 15 percentage points of soybeans harvested by early November compared with their 5-year averages.
- New estimates of 2012 crop production are uniformly higher in Tennessee but generally lower in Mississippi than the early September estimates. Tennessee soybean production is expected to be 9 percent higher in 2012 relative to 2011, not 16 percent lower as forecasted in September. In contrast, Mississippi sorghum production is expected to be 2 percent lower in 2012 relative to 2011, not 34.5 percent higher as forecasted in September.
- Year-to-date coal production through November was 7.4 percent higher in Mississippi and 3.9 percent lower in Tennessee compared with the first 11 months of 2011.

Car Dealers

- Half of contacts reported increased sales in October and early November; one of three contacts reported decreased sales; the remaining contacts reported no change in sales.
- Half of contracts reported that sales met or exceeded expectations; the other half of contacts reported that sales fell short of expectations.
- Two of three contacts expected sales to increase in November and December compared with the same time last year; one of six contacts expected no change in sales; the remaining contacts expected slightly lower sales.

Construction

- A contact in the greater Memphis area noted more than one new speculative construction project in a suburban submarket.
- Contacts in Memphis reported several ongoing commercial construction projects in the Jonesboro area. These contacts also noted a large industrial construction project planned for Shelby County, TN.

General Retail

- One of two contacts reported increased sales for October and early November compared with the same time last year; one of three contacts reported that sales remained the same; the remaining contacts reported decreased sales.
- Four of five contacts reported that sales fell short of expectations; the remaining contacts reported that sales met expectations .
- Two of three contacts expected sales to increase in November and December compared with the same time last year; one of six contacts expected sales to remain the same; the remaining contacts expected sales to decrease.

Manufacturing

- Shoe and apparel, paper product, medical device, and HVAC manufacturers announced plans to hire workers and expand operations. In contrast, a firm that manufactures semiconductors and other related devices announced plans to lay off employees and close a subsidiary.

Real Estate

- A contact in northeast Arkansas reported strong commercial real estate activity in the Jonesboro-Paragould area but soft activity in other areas of the region.

Services

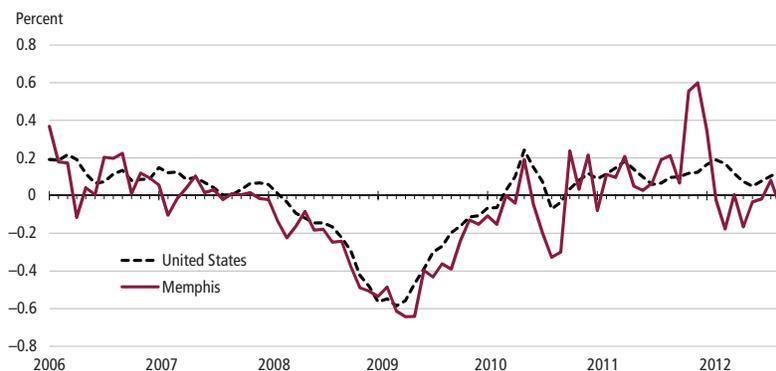
- An information services firm plans to hire new employees and expand its operations. Meanwhile, firms in air transportation, health insurance, and financial services announced plans to lay off workers.

Banking and Finance

- Memphis contacts have no responses to provide for loan demand conditions.
- Most contacts find that loan delinquencies are improving or staying the same.

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

Nonfarm Payroll Employment Growth—Memphis MSA

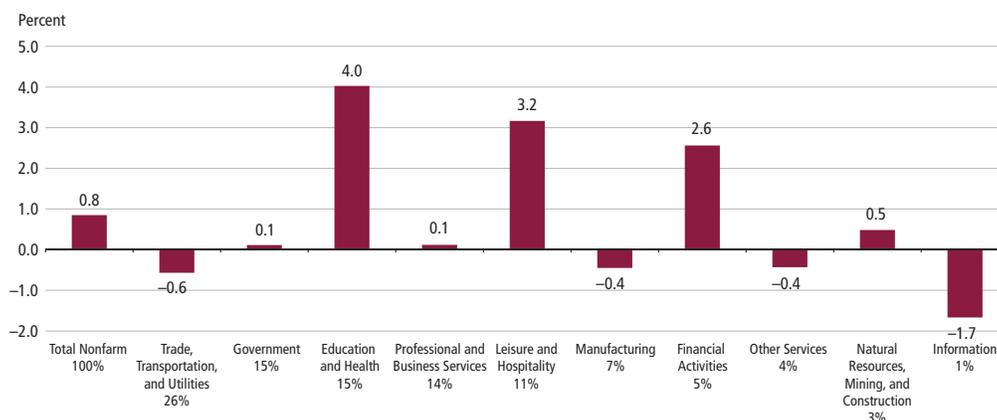


NOTE: 3-Month moving average, seasonally adjusted, January 2006–October 2012. See the narrative with the St. Louis charts for descriptions and definitions of the series that are also used in the Little Rock, Louisville, and Memphis charts and tables.

SOURCE: Bureau of Labor Statistics.

Labor market conditions in the Memphis MSA this year have been decidedly weaker compared with the nation. Over the three months ending in October 2012, nonfarm payroll employment has declined by an average of a bit less than 0.1 percent per month. Although employment gains have been volatile, the decline over the most recent three-month interval matches the decline seen from April 2012 to July 2012. Year-to-date, payroll employment in the Memphis MSA has declined by 0.8 percent, while U.S. nonfarm payroll employment increased by 1.3 percent over the first 10 months of 2012. Memphis's weakness relative to the nation and to the other three major MSAs really stands out when viewed in the context of employment growth during this business expansion. From June 2009 to October 2012, payroll employment has declined by just less than 0.1 percent in Memphis, but employment has increased by 4.7 percent in Louisville, by 1.3 percent in Little Rock, and by 1.2 percent in St. Louis. In comparison, U.S. payroll employment during this expansion has increased by 2.6 percent.

Employment Growth by Sector—Memphis MSA



NOTE: Percent change with respect to one year ago, October 2011–October 2012.

SOURCE: Bureau of Labor Statistics.

Measured from a year earlier (October 2011), total nonfarm employment rose by only 0.8 percent in the Memphis MSA. Three months earlier, Memphis-area employment had increased by 1.4 percent (subsequently revised to 1.2 percent). A look at the above chart reveals that the reason for Memphis's underperformance stems from a net employment decline in the MSA's two largest sectors—Trade, Transportation, and Utilities and Government. Together, these two sectors account for a little more than 40 percent of all jobs in Memphis. In contrast, robust employment gains have occurred in the Education and Health, Leisure and Hospitality, and Financial Services sectors. Together, these sectors account for a little more than 30 percent of all nonfarm jobs in the Memphis MSA. In short, Memphis's economy is relatively service-sector-intensive. In the goods-producing sectors, Manufacturing employment declined by 0.4 percent over the past year, while employment in Natural Resources, Mining, and Construction rose by 0.5 percent.

Employment and Unemployment by MSA

Nonfarm payroll employment percent change,
October 2011–October 2012

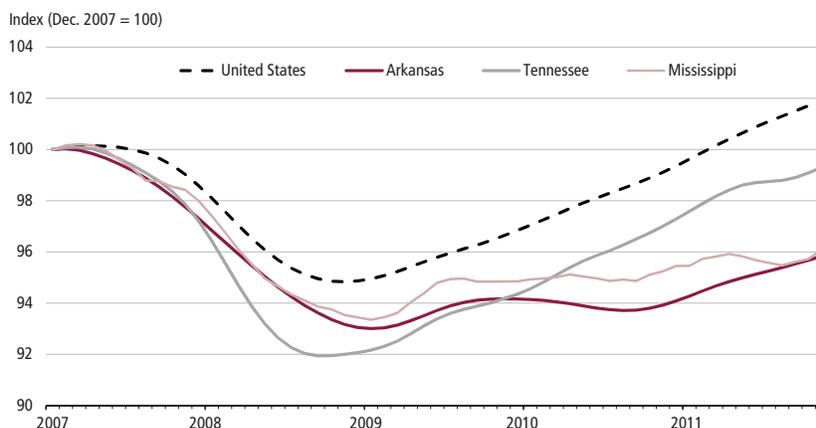
	Total	Goods producing	Service providing	Unemployment rate October 2012
Memphis, Tenn.-Ark.-Miss.	0.85	-0.15	0.97	8.8
Jackson, Tenn.	0.17	0.00	0.21	8.5
United States	1.45	1.15	1.49	7.9

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, the Memphis MSA economy is a services-based economy—much more so than for the nation. Thus, total nonfarm payroll employment growth in the Memphis MSA depends heavily on healthy gains in service-providing sectors. Over the past year, service-providing employment has increased by 1 percent. Although that increase greatly exceeds the gains seen in the Jackson MSA, it has been moderately less than in the nation (1.5 percent). Memphis employment over the past year has also been tempered by a slight decline in goods-producing employment (-0.2 percent), which stands in sharp contrast with the nation's 1.2 percent increase. Nonfarm payroll employment growth has been significantly weaker in the Jackson MSA over the past year. Jackson has seen no growth in goods-producing employment and only meager growth in service-providing employment. Not surprisingly, given the overall tepid gains in economic activity and employment, unemployment rates in the Memphis and Jackson MSAs remained higher than the nation's rate in October.

Coincident Economic Activity Index—Memphis Zone

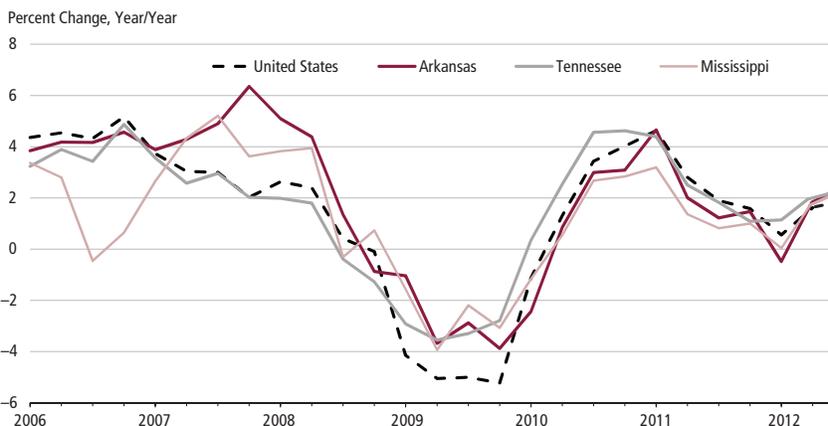


SOURCE: Federal Reserve Bank of Philadelphia.

The Philadelphia Fed's coincident index combines information on payroll employment, nominal wages and salaries, the unemployment rate, and average hours worked in the manufacturing sector. It is designed to be a comprehensive measure of economic performance at the state level, comparable with real GDP at the national and state level (gross state product). [NOTE: The level of activity is measured on a state-wide basis rather than by the boundaries of the Federal Reserve Districts.] In this chart, the index is set to equal to 100 at December 2007, which is the peak of the previous U.S. business expansion according to the National Bureau of Economic Research Business Cycle Dating Committee.

The pace of economic activity in the Memphis zone varies widely across states. In general, the pace of activity during this business expansion has been the strongest in Tennessee. The pace of activity, though positive, has been weaker in Arkansas and Mississippi. Since its trough in August 2009, Tennessee's coincident index has increased by 8 percent, while the indexes for Arkansas and Mississippi have each increased by about 3 percent since their troughs in December 2009. Moreover, Tennessee's pace of economic activity during this expansion has surpassed that for the nation (7.5 percent). More recently, though, the pace of activity in each of the three states is broadly consistent. Over the past three months (July 2012 to October 2012), the coincident index has increased by 0.5 percent in Arkansas and Tennessee and 0.7 percent in Mississippi. Nevertheless, the level of activity in Arkansas and Mississippi remains well below its December 2007 level. Given recent growth trends, however, the level of activity in Tennessee should surpass its December 2007 level sometime in early 2013.

Real Personal Income Growth—Memphis Zone



NOTE: Percent change with respect to previous year.

SOURCE: Bureau of Economic Analysis.

Real personal income (PI) is a measure of the income received by households from a variety of sources.¹ The largest component of PI is compensation, which is largely wages and salaries. PI also includes interest and dividend income, transfer payments from the government, and some other sources. At the national level, PI is about 85 percent of GDP. Thus, its growth rate generally tracks GDP closely.

Patterns of PI growth in the Memphis zone states look very similar to that for the nation and other District states. PI growth slowed from around 4 percent in late 2010 to less than 1 percent in early 2012 and then recovered modestly in the second and third quarters of 2012. PI growth in Arkansas, Mississippi, and Tennessee followed a similar pattern. However, PI in Arkansas dipped slightly in the first quarter from a year earlier. Real income growth in the third quarter continued to rebound in Arkansas, Mississippi, and Tennessee and outpaced the nation's income growth modestly. From the third quarter of 2011 to the third quarter of 2012, PI has increased by 2.2 percent in Tennessee, by 2.3 percent in Arkansas, and by 2.1 percent in Mississippi. For the nation, real income increased by 1.8 percent over the most recent four quarters.

¹ Real personal income for the nation and the states is nominal personal income deflated by the personal consumption expenditure chain-price index.

Residential Real Estate Activity by MSA

	Total building permits, units year-to-date		House price index, percent change, 2012:Q3/2011:Q3
	October 2012	Percent change	
Memphis, Tenn.-Ark.-Miss.	2,898	67.2	-1.4
Jackson, Tenn.	377	169.3	0.0
Jonesboro, Ark.	659	9.8	3.1
United States	679,933	33.1	0.0

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

In contrast with labor market conditions, housing activity in the Memphis zone has been robust, much like the nation and other areas of the District. From January 2012 to October 2012, a little less than 2,900 permits have been issued in the Memphis MSA, which is slightly more than 67 percent more than the same period a year earlier. Permit issuance thus far in 2012 has been exceptionally strong in the Jackson area—on pace to more than double last year’s increase. Permit activity in these two MSAs have outpaced U.S. year-to-date issuance by a wide margin, percentage-wise. Permit issuance in the Jonesboro area has also been strong thus far in 2012, but the still-healthy 10 percent gain pales in comparison with the other two areas of the Memphis zone. House price changes in the Memphis zone have been mixed. From the third quarter of 2011 to the third quarter of 2012, house prices have declined by 1.4 percent in Memphis, but they have increased by 3.1 percent in Jonesboro; prices were unchanged in the Jackson MSA from a year earlier.