

# **Current Economic Conditions in the Eighth Federal Reserve District**

## **St. Louis Zone**

June 25, 2009

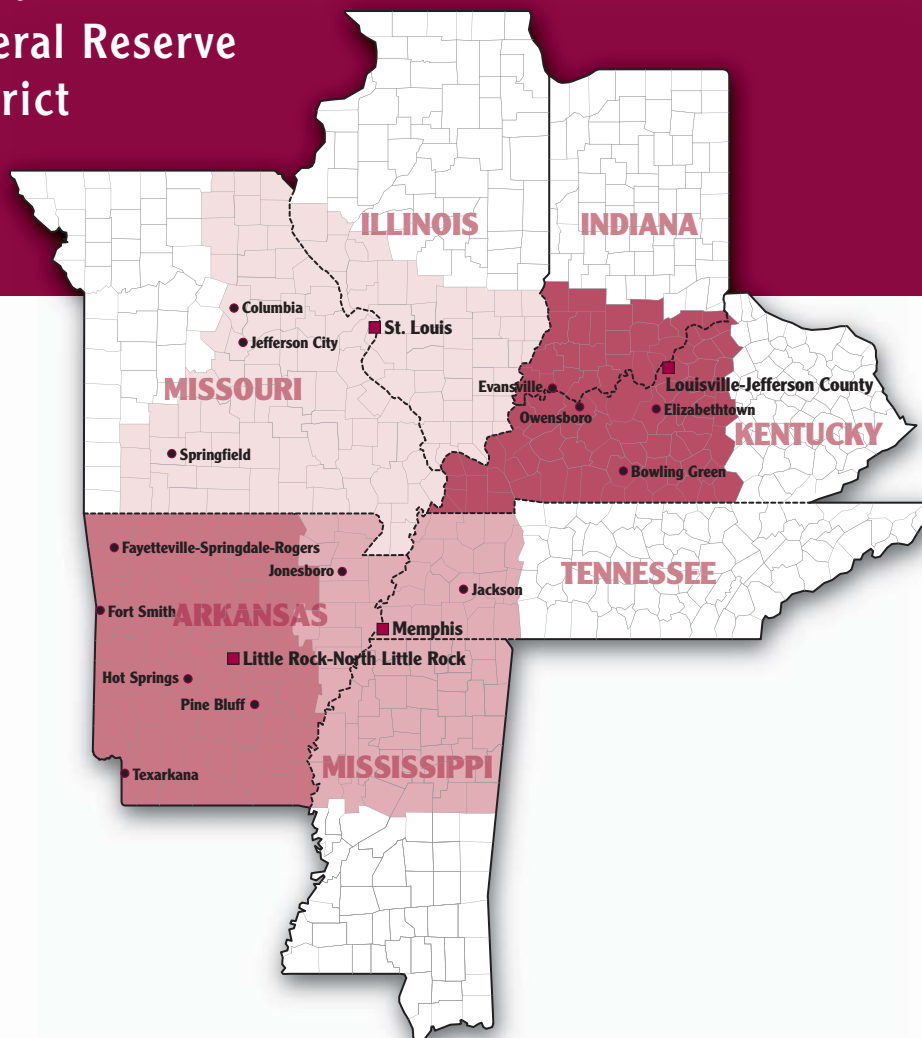
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**CRE8**

Center for Regional Economics—8th District



## Eighth Federal Reserve District



This report (known as the *Burgundy Book*) summarizes information on economic conditions in the St. Louis 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 Memphis zones and can be downloaded from the CRE8 website ([research.stlouisfed.org/regecon/](http://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/2009/](http://federalreserve.gov/fomc/beigebook/2009/)). 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 St. Louis zone. These data are the most recent available at the time this report was assembled.

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# St. Louis Zone Report—June 25, 2009

Economic activity in the St. Louis zone continued to weaken over the past two months. Most general retailers and car dealers reported that sales had decreased compared with the same period last year. Overall activity in the manufacturing, services, and real estate sectors declined. Contacts in the banking industry noted no change in overall lending activity. Reports from the agriculture and natural resources sector were strong compared with the rest of the zone economy.

## Consumer Spending

St. Louis zone retail sales reports for April and early May were mostly negative among general retailers and car dealers. More than 80 percent of the general retailers and car dealers surveyed indicated that sales were down compared with the same months in 2008. Among general retailers, about 40 percent noted that sales levels met their expectations and a similar percentage reported that sales were above what they had anticipated. One-third of the car dealers noted that used-car sales had increased relative to new-car sales, but none reported the opposite. The sales outlook for the summer was mixed among general retailers but was pessimistic among car dealers. Half of the general retailers and all of the car dealers expect sales to decrease over 2008 levels, while one-third of the general retailers expect sales to increase.

## Manufacturing and Other Business Activity

Manufacturing output and employment in the St. Louis zone continued to decline during the second quarter of 2009. Firms in small engine, auto, steel product, and electrical component manufacturing all reported job losses and declines in production. Furthermore, a major auto manufacturing plant in the zone officially closed. On the other hand, several small-to-midsized firms in food and beverage manufacturing and furniture manufacturing reported increases in sales and output. As in the manufacturing sector, employment in the service sector continued to decline. Contacts reported job losses in education services, government services, information services, and transportation and warehousing.

## Real Estate and Construction

The residential real estate market remained weak in the St. Louis metro area. Compared with the same months in 2008, March and April 2009 year-to-date home sales each declined by 13 percent. Compared with the same months in 2008, March 2009 year-to-date single-family housing permits declined by 45 percent, and April 2009 year-to-date single-family housing permits declined by 41 percent. The commercial

side of the real estate market performed relatively better than the residential side. The first quarter 2009 industrial vacancy rate was unchanged from the previous quarter. Similarly, the suburban and downtown office vacancy rates remained fairly steady. Still, a contact in the St. Louis area noted that the demand for industrial real estate is waning and that the market is currently overbuilt.

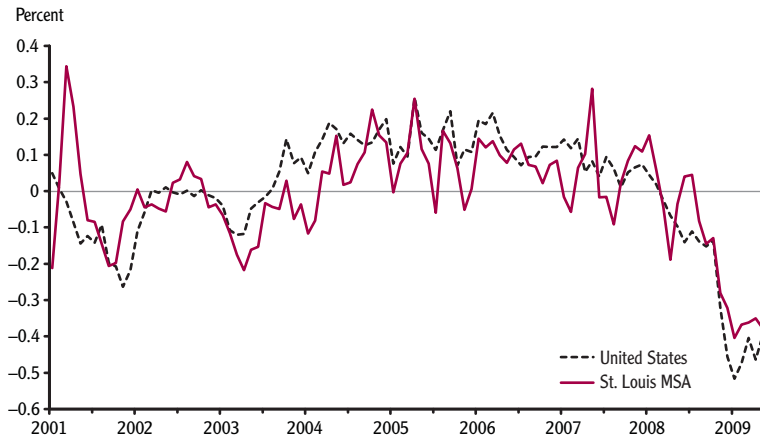
## Banking and Finance

Overall lending activity was relatively unchanged from previous reporting periods. Contacts reported little to no change in lending activity for consumer loans and commercial and industrial loans. However, most contacts reported an increase in residential mortgage lending activity. Commercial real estate lending activity declined, with contacts noting reduced credit availability and weaker demand. Whereas reports continue to indicate tighter credit standards for commercial and industrial loans and commercial real estate loans, a number of contacts indicated that there has not been any further tightening of credit standards for residential mortgage loans or consumer loans. Contacts reported an increase in delinquencies, although to a lesser extent than earlier in the year.

## Agriculture and Natural Resources

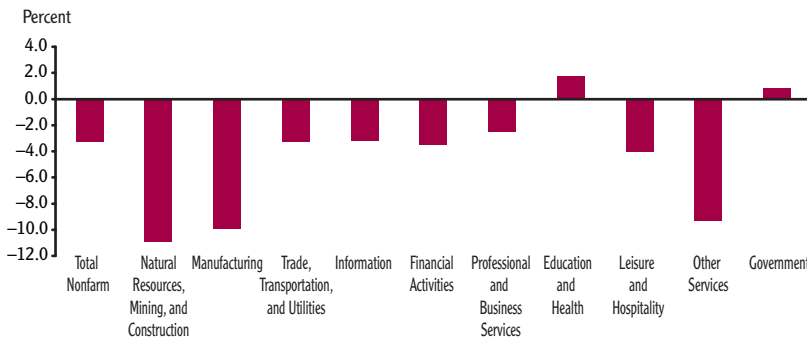
Farmers in Illinois and Missouri intended to plant more acres of corn and fewer acres of soybeans and sorghum this year than in 2008. Missouri farmers also intended to plant 2 percent fewer acres of cotton and 13 percent more acres of rice. Frequent wet and cool conditions since early April delayed field-work throughout the zone. At the end of May, farmers in the St. Louis zone were behind their normal planting pace for rice, corn, soybeans, and sorghum. In Missouri, planting of cotton and rice was also behind normal, as was rice emergence. About 97 percent of the pastures in Illinois and 98 percent in Missouri were in fair condition or better, which is roughly equivalent to the same time last year for Illinois and slightly better than last year for Missouri.

### Nonfarm Payroll Employment Growth 3-Month Average, SA, January 2001–May 2009



Employment losses in the St. Louis metro area were lower than for the country as a whole during the first five months of 2009. For the period January 2009 to May 2009, average monthly employment growth was  $-0.37$  in the St. Louis metro area compared with  $-0.45$  percent for the United States. Similarly, for the last six months of 2008, average monthly employment growth in the St. Louis area was  $-0.15$  percent compared with  $-0.22$  percent for the United States.

### St. Louis MSA Employment Growth by Sector Year/Year Percent Change, May 2008–May 2009



Sector-specific employment growth in the St. Louis metro area between May 2008 and May 2009 was mixed, although the majority of sectors experienced negative growth. The government sector, along with the education and health sector, experienced annual job growth of 0.8 percent and 1.8 percent, respectively. The remaining sectors experienced job losses, with the natural resources, “other services,” and manufacturing sectors seeing the greatest percentage losses. Employment growth in these sectors declined by  $-10.9$  percent,  $-9.3$  percent, and  $-10$  percent, respectively.

### St. Louis Zone—MSA Employment and Unemployment

Nonfarm payroll employment percent change,  
May 2008–May 2009

	Nonfarm payroll employment percent change, May 2008–May 2009			Unemployment rate April 2009
	Total	Goods producing	Service providing	
<b>St. Louis</b>	<b>-3.29</b>	<b>-10.33</b>	<b>-2.00</b>	<b>8.0</b>
Columbia, Mo.	-1.17	-7.23	-0.58	4.8
Jefferson City, Mo.	-3.35	-9.62	-2.42	6.2
Springfield, Mo.	-2.28	-13.00	-0.57	7.0
United States	-3.95	-12.11	-2.44	8.6

SOURCE: Bureau of Labor Statistics.

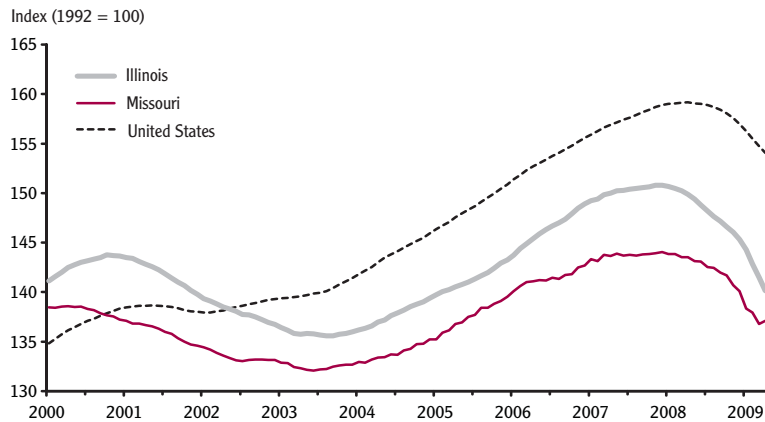
## St. Louis Zone—MSA Housing Activity

	Total building permits, units year-to-date		House price index, percent change, 2009:Q1/2008:Q1
	April 2009	Percent change	
<b>St. Louis</b>	<b>1,201</b>	<b>-43.8</b>	<b>-1.04</b>
Columbia, Mo.	250	-1.2	-0.32
Jefferson City, Mo.	41	13.9	0.51
Springfield, Mo.	223	-66.9	-0.32
United States	166,319	-48.2	-3.35

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

Total residential building permits in April were significantly lower than a year earlier in every zone metro area except Jefferson City (+13.9 percent). Building permits declined by 44 percent in St. Louis compared with a decline of 48 percent for the United States. House price indices decreased in all but one of the metro areas (Jefferson City) between the first quarters of 2008 and 2009. However, the decrease in house prices for zone metro areas was less than the nearly 3.4 percent decline for the country as a whole.

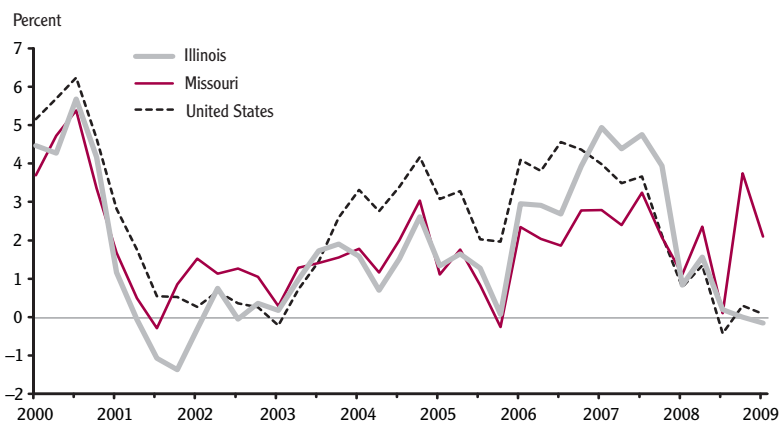
## St. Louis Area Coincident Economic Activity Index



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 of economic performance. According to this index, Missouri and Illinois have underperformed relative to the country as a whole since 2003. This is partly due to losses in the relatively larger manufacturing sector present in Missouri and Illinois. Over the first four months of 2009, the index for the United States fell by 1.4 percent, while it fell by 2.9 percent and 0.9 percent for Illinois and Missouri, respectively.

## St. Louis Area Real Personal Income Growth Percent Change, Year/Year



SOURCE: Bureau of Economic Analysis.

Personal income growth in Missouri and Illinois had been weaker than that of the country as a whole since 2003, and income growth in Missouri had been weaker than in Illinois through most of 2006 and 2007. More recently, however, Missouri's income growth has outpaced that of Illinois and the country. For the first quarter of 2009, personal income growth was about 2.1 percent in Missouri, compared with -0.2 percent in Illinois and 0.05 percent in the United States.

## Bank Conditions in Eighth District Metro Areas

	2008:Q1 (%)	2008:Q4 (%)	2009:Q1 (%)
<b>Return on Average Assets</b>			
St. Louis	0.66	-0.42	-0.97
Little Rock	1.04	0.72	0.56
Louisville	1.45	0.90	1.15
Memphis	0.21	-0.55	-0.65
<b>Net Interest Margin</b>			
St. Louis	3.54	3.40	3.06
Little Rock	3.85	3.98	4.21
Louisville	4.34	3.89	5.01
Memphis	3.02	3.10	3.05
<b>Loan Loss Provision</b>			
St. Louis	0.63	1.48	1.56
Little Rock	0.38	0.87	1.23
Louisville	0.54	0.43	1.06
Memphis	2.37	2.89	3.54
<b>Nonperforming Loans</b>			
St. Louis	1.62	2.44	2.96
Little Rock	1.14	1.53	2.33
Louisville	1.28	1.34	1.70
Memphis	3.02	4.99	6.12

NOTE: Variable definitions:

Return on Average Assets = (Net Income/Average Assets) × 100

Net Interest Margin = (Tax Equivalent Net Interest Income/Average Earning Assets) × 100

Loan Loss Provision = (Provision for Loan Losses/Average Assets) × 100

Nonperforming Loans = (Nonperforming Loans/Total Loans) × 100

SOURCE: Reports of Condition and Income for Commercial Banks.

For additional statistics and information on bank conditions in the Eighth District, see

“Slump Persists for District and U.S. Banks.” *Central Banker*, Summer 2009, p. 3.

Available at [http://www.stlouisfed.org/publications/cb/2009/b/pages/quarterly\\_report.cfm](http://www.stlouisfed.org/publications/cb/2009/b/pages/quarterly_report.cfm).