

Current Economic Conditions in the Eighth Federal Reserve District

Little Rock Zone

December 17, 2009

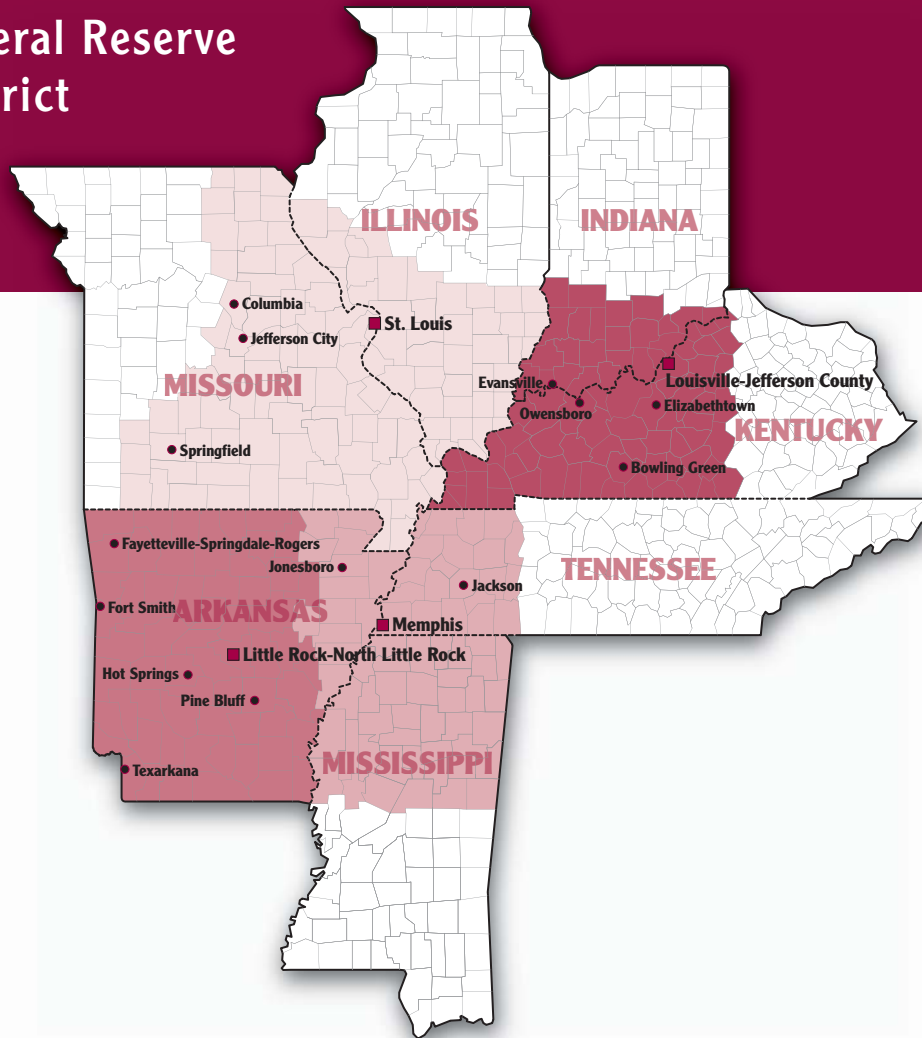
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Center for Regional Economics—8th District



Eighth Federal Reserve District



This report (known as the *Burgundy Book*) summarizes information on economic conditions in the Little Rock zone of the Eighth Federal Reserve District (see map above), headquartered in St. Louis. Separate reports have also been prepared for the Louisville, Memphis, 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/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 Arkansas and the metro areas of the Little Rock zone. These data are the most recent available at the time this report was assembled.

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Little Rock Zone Report—December 17, 2009

The overall economic picture for the Little Rock zone was mixed. While general retail sales were slow, car dealers reported somewhat better news. Reports from manufacturing were mixed, while those from the service sector were more positive. Activity in the real estate and construction sector mostly declined, whereas reports on banking activity were somewhat positive. The agriculture and natural resources sector reported, on balance, negative news.

Consumer Spending

Retail sales for October and early November were mixed among the general retailers and car dealers. One-third of the general retailers and 40 percent of the car dealers indicated that sales were up compared with the same months in 2008. About 17 percent of general retailers and 20 percent of car dealers reported decreased sales. Among general retailers, 50 percent noted that sales met their expectations, 25 percent reported sales below expectations, and 25 percent reported sales above expectations. Among car dealers, 40 percent noted that used car sales had increased relative to new car sales, while none reported the opposite. Also, 20 percent noted an increase in low-end vehicle sales relative to high-end vehicle sales, but another 20 percent reported the opposite. About 20 percent reported recent increases in rebates and incentives, but none reported decreases. About 40 percent of the car dealers reported more rejections of finance applications, but 20 percent reported more acceptances. About 17 percent of the general retailers reported high inventories, while 60 percent of car dealers reported too-low inventories; the remaining contacts reported that their inventories were at desired levels.

Manufacturing and Other Business Activity

On net, manufacturing has declined slightly since our previous report. Firms in the electrical component manufacturing industry reported plans to open a new facility. Contacts in the rubber tire manufacturing, heating, ventilation, and air conditioning manufacturing, and paper products manufacturing industries reported plans to expand existing facilities and operations, including hiring additional workers. In contrast, a contact in the transportation industry reported plans to close a plant, resulting in a significant number of job losses. Firms in lumber manufacturing and furniture manufacturing also announced plans to decrease production and lay off workers. The service sector continued to show signs of improvement, with a firm in business support services announcing a new facility and new jobs. In contrast, a large medical center announced pay freezes due to budget shortfalls.

Real Estate and Construction

Compared with the same period in 2008, September 2009 year-to-date home sales were down by 10 percent and September 2009 year-to-date single-family housing permits declined by 14 percent. Compared with the second quarter of 2009, the third-quarter 2009 industrial vacancy rate increased. During the same period, the suburban and downtown office vacancy rates decreased. A contact in northeast Arkansas reported that commercial construction was very slow with few new projects.

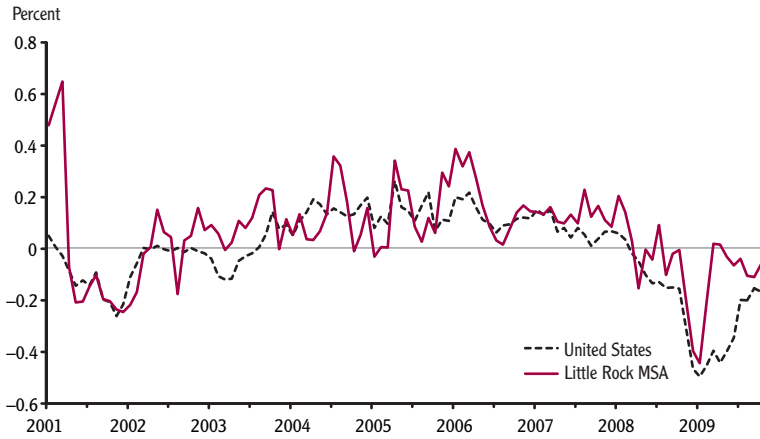
Banking and Finance

Contacts reported mildly positive reports on local banking conditions. On net, commercial and industrial lending activity was unchanged. Reports on the level of lending to consumers ranged from unchanged to a slight increase. One contact noted a surprise spike in home equity loans. Residential mortgage lending activity increased with multiple reports of higher demand for these loans. Several contacts also indicated that refinancing activity has increased in recent months. Reports indicate a steady increase in deposits.

Agriculture and Natural Resources

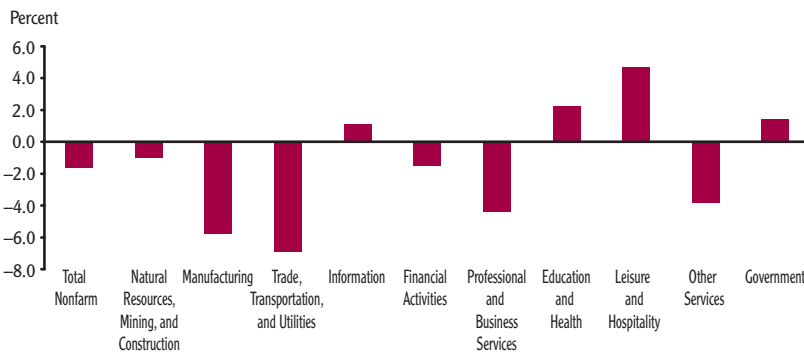
Wet conditions caused some delays in harvesting and winter wheat planting. November estimates showed that yields for corn and cotton were 2 percent and 12 percent lower than last year's yields, but yields for rice and sorghum were 1 percent and 6 percent higher than last year, while soybean yields were the same. From October to November, yield estimates changed by less than 3 percent except for cotton, which decreased by 14 percent. As of mid-November, farmers in Arkansas were behind normal with their winter wheat planting, and crop growth was even farther behind normal. About three-fourths of the emerged winter wheat in Arkansas was rated in fair condition or better, which was a much lower percentage than the same time last year.

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



Throughout the year, Little Rock employment growth has outpaced that of the country as a whole, although it has been trending down for Little Rock. Over the three-month period ending in October 2009, Little Rock employment fell at a 0.07 percent monthly rate, while U.S. employment fell at a 0.17 percent monthly rate.

Little Rock Employment Growth by Sector Year/Year Percent Change, October 2008–October 2009



Between October 2008 and October 2009, nonfarm employment in the Little Rock MSA fell by 1.6 percent, although there was employment growth in several sectors. Leisure and hospitality saw the strongest growth (4.7 percent), followed by education and health (2.2 percent). Several sectors saw relatively steep job losses over the period. Employment fell by 6.9 percent in trade, transportation, and utilities; 5.7 percent in manufacturing; and 4.4 percent in professional and business services.

Little Rock Zone—MSA Employment and Unemployment

Nonfarm payroll employment percent change,
October 2008–October 2009

	Total	Goods producing	Service providing	Unemployment rate October 2009
Little Rock	-1.60	-3.64	-1.31	6.7
Fayetteville-Springdale-Rogers, Ark.	-1.43	-3.60	-0.89	6.1
Fort Smith, Ark.	-1.66	-7.44	0.43	8.3
Texarkana, Ark.-Tex.	-2.06	-13.70	-0.39	7.2
United States	-3.87	-12.03	-2.37	10.2

SOURCE: Bureau of Labor Statistics.

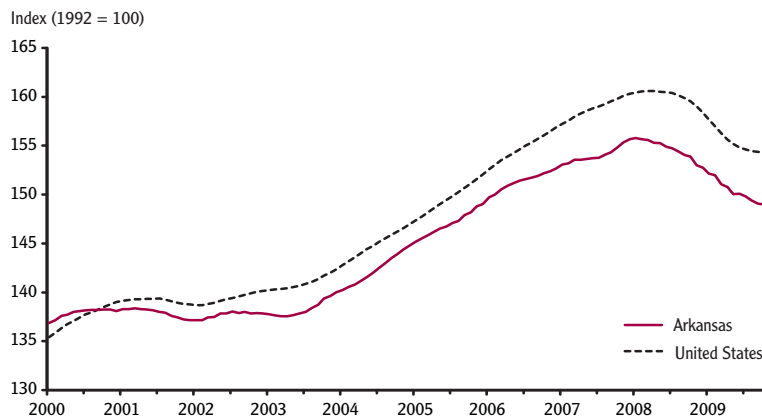
Little Rock Zone—MSA Housing Activity

	Total building permits, units year-to-date		House price index, percent change, 2009:Q3/2008:Q3
	September 2009	Percent change	
Little Rock	2,496	9.8	0.43
Fayetteville-Springdale-Rogers, Ark.	1,468	-39.4	-6.42
Fort Smith, Ark.	673	14.1	0.26
Hot Springs, Ark.	32	-36.0	0.75
Pine Bluff, Ark.	55	-51.8	0.09
Texarkana, Ark.-Tex.	259	90.4	4.73
United States	483,013	-40.5	-4.08

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

Housing markets in the Little Rock zone have tended to outperform the country as whole. Year-to-date total residential building permits in September were higher than a year earlier in Little Rock, Fort Smith, and Texarkana, and only Pine Bluff underperformed the rest of the country in this regard. The house price index fell by more than the national average in Fayetteville-Springdale-Rogers, while rising slightly in most other MSAs in the zone.

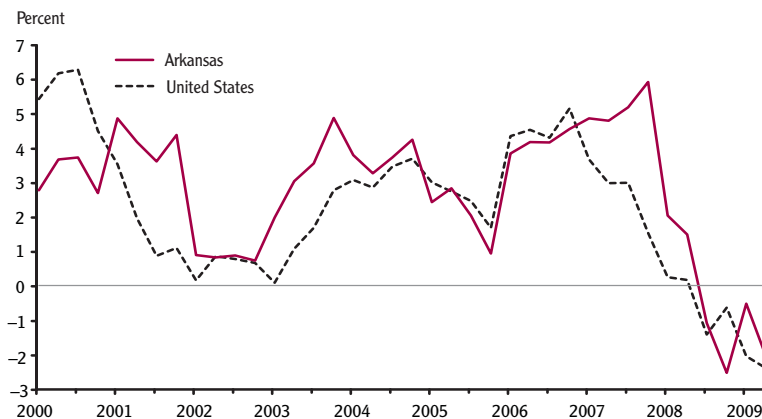
Arkansas Coincident Economic Activity Index



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, Arkansas has underperformed the country as a whole since 2001. Recently, however, the state's experience has mirrored the nation's. For the 12 months through October 2009, the index declined by 3.2 percent for Arkansas, while it declined by 3.3 percent for the United States.

Arkansas Real Personal Income Growth Percent Change, Year/Year



SOURCE: Bureau of Economic Analysis.

Personal income growth in Arkansas has tended to keep ahead of national income growth since 2007: In the second quarter of 2009—the most recent quarter for which there are data—year-over-year income growth in Arkansas was -2.0 percent, compared with a -2.4 percent growth rate for the nation as a whole.

Year-Over-Year Percent Change in State Tax Revenue

	2008:Q3				2009:Q3			
	Personal income	Corporate income	Sales	Total	Personal income	Corporate income	Sales	Total
Arkansas	6.2	-12.4	3.6	3.4	-6.9	-21.4	-11.1	-7.8
Illinois	3.8	-3.4	1.9	1.4	-11.7	-28.4	-13.1	-12.6
Indiana	-1.9	-10.5	19.7	9.1	-20.3	-42.4	-10.9	-14.2
Kentucky	6.6	-48.4	3.2	0.9	-7.1	-40.5	-7.5	-5.5
Mississippi	-1.8	-14.6	2.5	1.4	-12.2	-19.1	-12.4	-11.8
Missouri	0.2	-3.0	-3.6	-1.1	-8.1	-8.5	-6.0	-6.9
Tennessee	—	-25.2	-2.0	-4.2	—	8.2	-9.5	-5.4
United States	1.9	-14.9	4.8	3.0	-11.3	-17.5	-8.8	-11.1

NOTE: 2009:Q3 data are preliminary data from early-reporting states collected by the Rockefeller Institute of Government.

SOURCE: The Nelson A. Rockefeller Institute of Government/U.S. Bureau of the Census.