

Current Economic Conditions in the Eighth Federal Reserve District

Memphis Zone

December 17, 2009

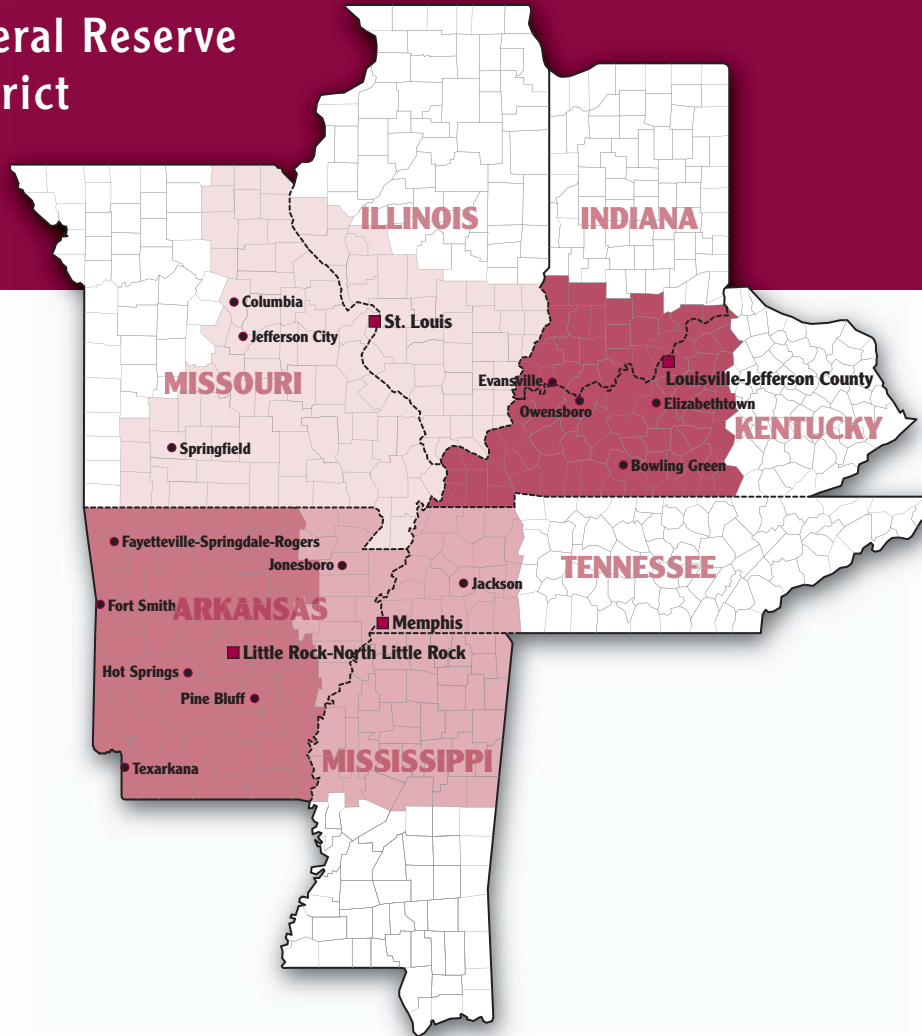
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CRE8

Center for Regional Economics—8th District



Eighth Federal Reserve District



This report (known as the *Burgundy Book*) summarizes information on economic conditions in the 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 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 the metro areas and states of the Memphis zone. These data are the most recent available at the time this report was assembled.

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Memphis Zone Report—December 17, 2009

Economic activity in the Memphis zone has shown signs of improvement since the September report. Retail and auto sales in October and early November were mixed. Manufacturing and services activity increased. Residential sales and construction continued to decline, and commercial and industrial real estate market conditions worsened. Banking conditions remained largely unchanged.

Consumer Spending

Retail sales for October and early November were mixed among general retailers and car dealers surveyed in the Memphis zone. Half of the contacts in each group indicated that sales were down compared with the same months in 2008. The other half of the general retailers and one-third of the car dealers reported increased sales. Among the general retailers, 40 percent reported sales below expectations and 40 percent reported sales above expectations. Among car dealers, one-third noted that new car sales had increased relative to used car sales. Half of the general retailers reported too-high inventories, and 17 percent reported too-low inventories. The sales outlook for the rest of 2009 was mixed among the general retailers but mostly optimistic among the car dealers.

Manufacturing and Other Business Activity

Manufacturing in the Memphis zone has improved since our previous report, with an expansion in new jobs. Firms in beverage manufacturing, furniture manufacturing, and plastic product manufacturing announced they will expand operations and hire additional workers. Firms in glass/aluminum product manufacturing and chemical manufacturing also announced they will locate new facilities in the zone and hire additional workers. In contrast, firms in copper tube manufacturing and appliance manufacturing announced job cuts, citing weak product demand. The service sector has continued to improve since our previous report, with firms in business support services and health services announcing new hiring activity.

Real Estate and Construction

In Memphis, compared with the same period in 2008, September 2009 year-to-date home sales were down by 14 percent, while September 2009 year-to-date single-family housing permits declined by 44 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 remained the same. A contact noted that a number

of high-profile commercial properties in the Memphis area have recently been foreclosed upon. Another contact does not expect the industrial real estate market to improve until late 2010.

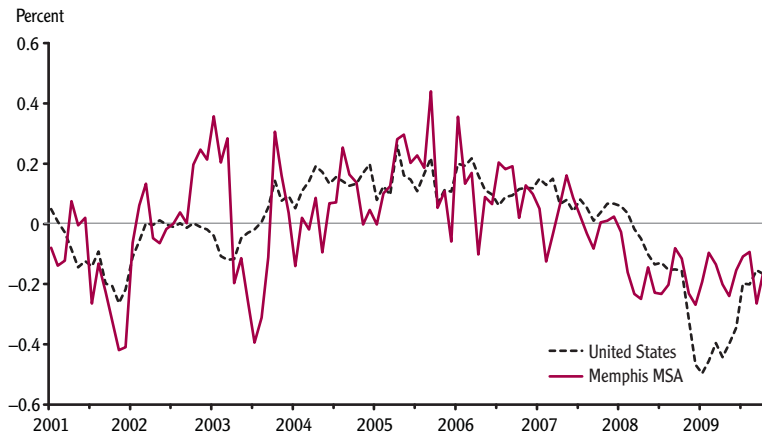
Banking and Finance

Overall lending activity was relatively unchanged from previous reporting periods in the Memphis zone. Contacts indicated a slight decrease in demand for both consumer and business loans. Reports on residential mortgage lending activity were mixed. Reports indicated little to no change in refinancing activity, but a number of contacts reported a spike in new loan requests. One of these contacts indicated that demand for new residential mortgage loans was much higher than expected for late fall and early winter. Several contacts noted that delinquency rates continue to rise, but at a slower pace than previous reports. Lending standards remain tight, and several contacts indicated that, until lending standards become less restrictive, loan volume will not increase to the levels needed for a healthy banking sector. Reports on deposit growth ranged from stable to slightly increasing.

Agriculture and Natural Resources

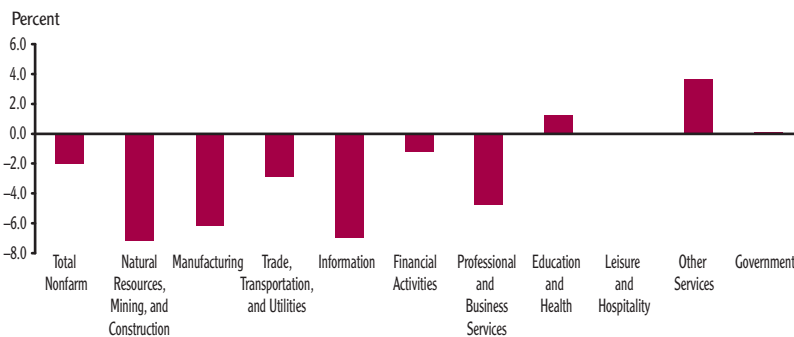
Wet conditions throughout the Memphis zone caused some delays in harvesting and winter wheat planting. As of mid-November, farmers had harvested nearly all of their corn, rice, and sorghum in Mississippi and corn in Tennessee. Mississippi farmers had harvested about 95 percent of their soybeans and 85 percent of their cotton, while Tennessee farmers had harvested about 75 percent of their soybeans and 60 percent of their cotton. November estimates showed that yields for corn, soybeans, rice, and cotton in Mississippi were between 3 percent and 11 percent lower than last year's yields, but yields for sorghum were 1 percent higher than last year's yields. In Tennessee, yields for corn, soybeans, and cotton were between 2 and 21 percent higher than last year. As of mid-November, winter wheat planting in Mississippi and Tennessee was behind normal and crop growth was even farther behind normal.

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



Recent estimates indicate that Memphis employment has contracted less sharply than the national average, although the decline in the national average has slowed to match that of Memphis in recent months. Over the three-month period ending in October 2009, employment for Memphis contracted at a 0.16 percent monthly rate, while U.S. employment contracted at a monthly rate of 0.17 percent.

Memphis MSA Employment Growth by Sector Year/Year Percent Change, October 2008–October 2009



Between October 2008 and October 2009, total nonfarm employment in the Memphis MSA fell by 2 percent. Employment losses were experienced by all goods-producing sectors and by half of the service-providing sectors. The service sectors for which employment expanded the most were the education and health services sector, where it increased by 1.2 percent, and the “other services” category, where it increased by 3.7 percent. The largest percentage declines were in natural resources, mining, and construction (7.2 percent); information (6.9 percent); and manufacturing (6.2 percent).

Memphis Zone—MSA Employment and Unemployment

Nonfarm payroll employment percent change,
October 2008–October 2009

| | Total | Goods producing | Service providing | Unemployment rate October 2009 |
|----------------|--------------|-----------------|-------------------|-----------------------------------|
| Memphis | -2.00 | -6.50 | -1.38 | 10.4 |
| Jackson, Tenn. | -3.74 | -13.33 | -1.04 | 11.6 |
| United States | -3.87 | -12.03 | -2.37 | 10.2 |

SOURCE: Bureau of Labor Statistics.

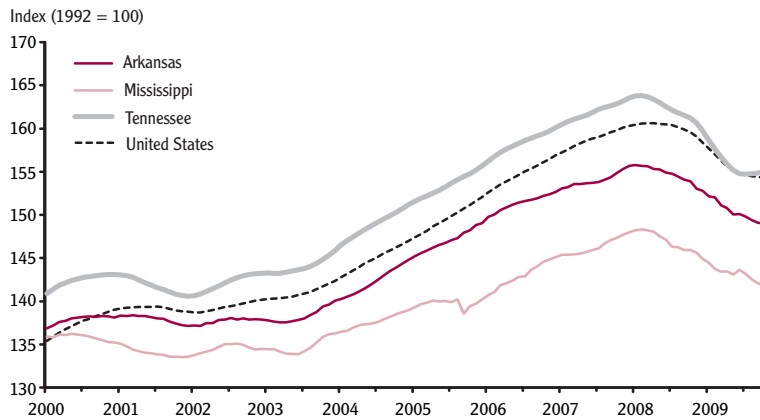
Memphis Zone—MSA Housing Activity

| | Total building permits, units year-to-date | | House price index, percent change, 2009:Q3/2008:Q3 |
|-----------------|-----------------------------------------------|----------------|----------------------------------------------------------|
| | September 2009 | Percent change | |
| Memphis | 1,790 | -40.2 | -2.24 |
| Jackson, Tenn. | 188 | -32.6 | 2.64 |
| Jonesboro, Ark. | 339 | -33.4 | 4.53 |
| United States | 483,013 | -40.5 | -4.08 |

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

Total residential building permits in September 2009 were lower than a year earlier in all three of the MSAs in the Memphis zone. Permits declined by 40 percent in Memphis, 33 percent in Jackson, Tennessee, and 33 percent in Jonesboro, Arkansas. House prices declined by 2.2 percent in Memphis in the third quarter of 2009 compared with a year earlier, while house prices increased by 4.5 percent in Jonesboro and by 2.6 in Jackson. Nationwide, house prices were down by 4.1 percent over the same period.

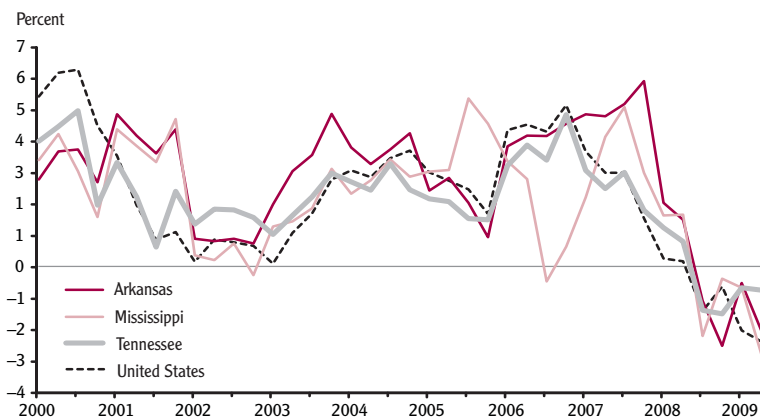
Memphis Area Coincident Economic Activity Index



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, Mississippi and Arkansas have underperformed the country as a whole since 2001, while Tennessee has tended to keep pace with the nation. Through most of 2008 and into 2009, 12-month growth rates slowed in all the zone states. For the 12 months through October 2009, the index declined by 3.8, 2.8, and 3.2 percent in Tennessee, Mississippi, and Arkansas, respectively. Over the same period, the index for the United States fell by 3.3 percent.

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



SOURCE: Bureau of Economic Analysis.

Since Hurricane Katrina in the third quarter of 2005, Mississippi has experienced more volatile personal income growth than the nation as a whole, while Tennessee and Arkansas have tended to keep pace with the national growth rate. As of the second quarter of 2009, Tennessee, Mississippi, and Arkansas experienced year-over-year growth rates of -0.7, -2.8, and -2.0 percent, respectively. For the nation as a whole, personal income declined by 2.4 percent over the same period.

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.