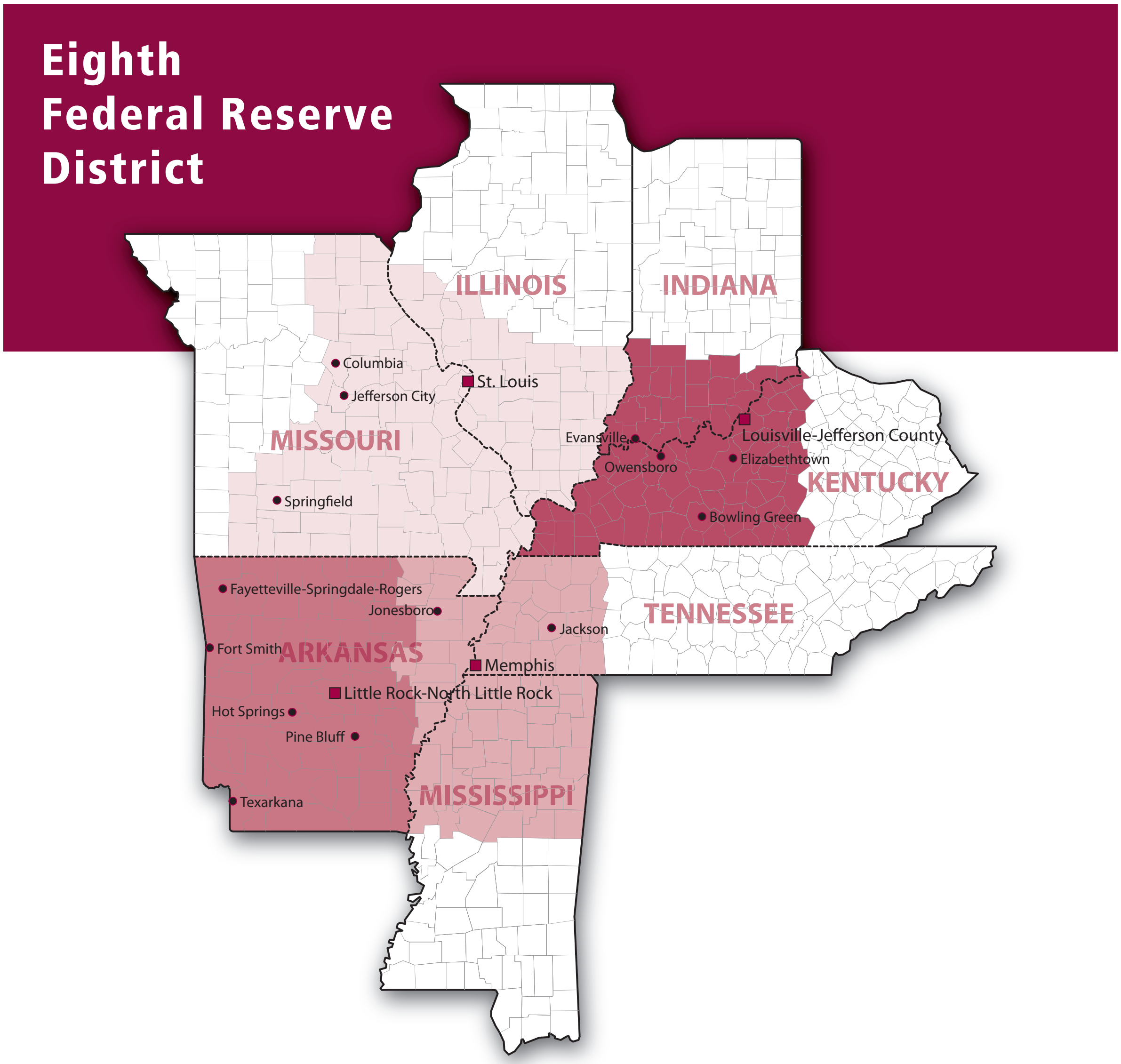
Current Economic Conditions in the
Eighth Federal Reserve District

St. Louis 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 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 research.stlouisfed.org/regecon/.

The report includes government-provided data for Missouri and the metro areas of the St. Louis 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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St. Louis Zone Report—December 21, 2012

Compared with our previous report issued in late September, economic conditions have improved broadly in the St. Louis zone. That said, the St. Louis zone is still generally lagging the nation's performance in some key respects, though the gap has closed modestly. The St. Louis zone looks a bit better than the nation in other aspects. In particular, unemployment rates are below the nation's rate and short-term employment growth outpaced the nation. The following five points illustrate this assessment:

Annual Changes in Employment: In October 2012, the St. Louis MSA's level of nonfarm payroll employment had increased by 1.2 percent from a year earlier, which was a bit less than the nation's 1.5 percent increase. Employment gains were robust in the St. Louis MSA's three largest industries. Year-to-year employment gains have been considerably stronger in Springfield, but weaker in Columbia and Jefferson City.

Short-Term Changes in Employment: Between July 2012 and October 2012, nonfarm employment in St. Louis rose by an average of 0.3 percent per month. This gain is a marked improvement from three months earlier. The nation's average monthly growth over this period (0.1 percent) was modestly less than St. Louis's growth.

Unemployment Rate: Unemployment rates in the St. Louis zone in October 2012 were uniformly lower than the nation's rate and had fallen from three months earlier. In fact, unemployment rates in three of the four cities were less than 6 percent in October 2012.

Building Permits: Similar to the nation, housing construction activity remains a source of strength for the economy for the St. Louis zone. Permit issuance in three of the four cities was up by more than 10 percent from the same period a year earlier.

House Prices: At the close of the third quarter of 2012, housing prices had decreased modestly in the St. Louis MSA from four quarters earlier. This decline, moreover, was slightly larger than the previous quarter's decline. However, house prices had increased modestly over the past year in the other three cities.

Anecdotal Information from the Beige Book

Agriculture and Natural Resources

- In the wake of this summer's drought, harvest completion rates were well ahead of their 5-year averages in Missouri and Illinois. By early November, 100 percent of corn crops were harvested and nearly 90 per cent of sorghum crops were harvested as compared with their 5-year averages of 80 percent and 75 percent, respectively.
- The USDA expects Missouri rice and sorghum production to be higher in 2012 than in 2011, but estimates a 5 to 35 percent decrease in all other Missouri and Illinois crop production for 2012. Relative to its early September estimates the USDA increased its estimates for 2012 Illinois soybean production by 22 percent but decreased its estimates for corn production by 14 percent.
- Winter wheat plantings and growth are ahead of their 5-year averages in Missouri and Illinois. Over 95 percent of the crop is rated in fair or better condition as of the end of November.
- Year-to-date coal production through November was 16.2 percent higher in Illinois and 5.5 percent lower in Missouri compared with the first 11 months of 2011.

Car Dealers

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

Construction

- A contact in St. Louis reported several industrial expansions in Wentzville.

- Contacts in St. Louis reported that there are new multifamily and retail construction projects in the Central West End neighborhood located within the city of St. Louis.

General Retail

- Four of seven contacts reported increased sales for October and early November compared with the same time last year; two of seven contacts reported decreased sales ; the remaining contacts reported that sales remained the same.
- Five of seven contacts reported that sales met their expectations; the remaining contacts reported that sales were lower than expected.
- All contacts expected sales to increase in November and December compared with the same time last year.

Manufacturing

- An aerospace manufacturer plans to hire new employees as it expands operations in the St. Louis zone. In contrast, firms in automobile parts, electric components, and food manufacturing announced plans to lay off workers (on net) in the fourth quarter.

Real Estate

- A contact in St. Louis reported an increase in rental rates for industrial real estate as demand strengthens in the market.
- A contact in St. Louis reported an increase in office leasing activities, many of which took place in the Downtown area and were driven by smaller tenants.

Services

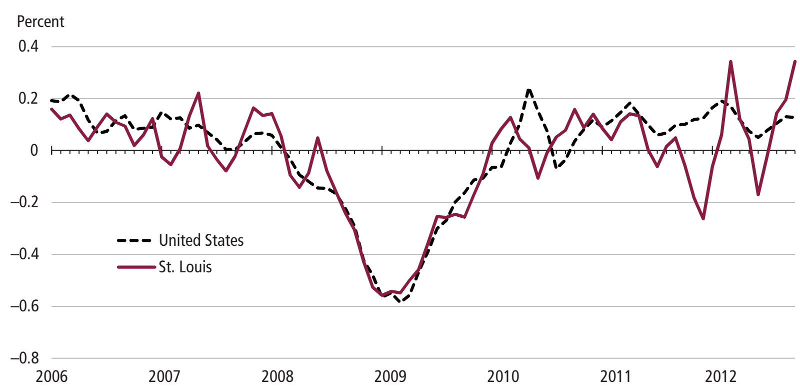
- Firms in telecommunications, business support, casinos, and legal services plan to hire new workers (on net) in the St. Louis zone. In contrast, firms in sports, information, air transportation, health care, financial, and coal mining services plan to lay off workers and reduce operations in the zone.

Banking and Finance

- Six of ten contacts expect loan demand to increase; the remaining contacts expect loan demand to stay the same.
- Six of ten contacts find that loan delinquencies are improving, three of ten contacts find that loan delinquencies are mostly unchanged, and one contact is unsure.

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

Nonfarm Payroll Employment Growth—St. Louis MSA

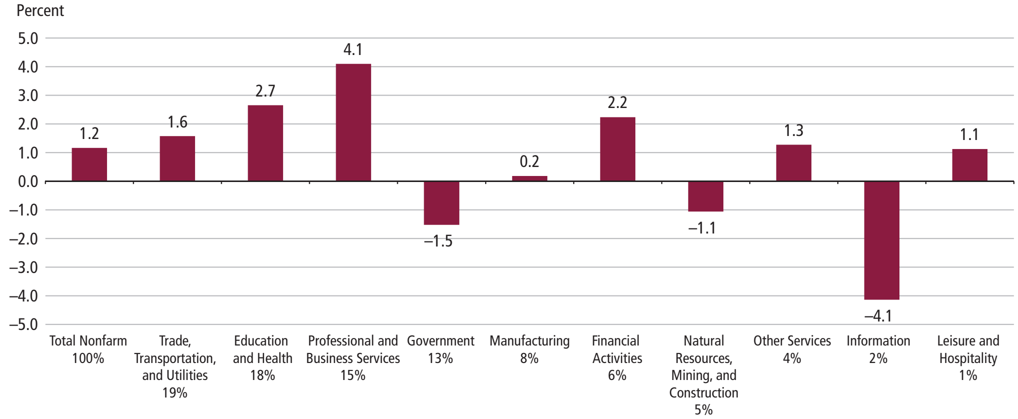


NOTE: 3-Month moving average, seasonally adjusted, January 2006–October 2012.
SOURCE: Bureau of Labor Statistics.

St. Louis's employment growth continues to be quite volatile. Over the past three months, nonfarm employment in the St. Louis area increased by an average of 0.3 percent per month. This gain exceeded the nation's increase (0.1 percent per month) by a modest amount. On average, gains in the St. Louis MSA have averaged about 2,340 jobs per month over the first 10 months of 2012 (seasonally adjusted). This compares favorably with the roughly 440 jobs per month seen over the same period in 2011. Viewed from a longer-term perspective, payroll employment in the St. Louis MSA has increased by 1.2 percent during this business expansion, which is roughly half as much as the nation's increase (2.6 percent).

[NOTE: Nonfarm payroll employment is reported in the Bureau of Labor Statistics' Current Employment Statistics (CES) survey, which is also known as the establishment survey. For employment purposes, the CES counts jobs rather than persons. By contrast, the Current Population Survey (CPS) counts the number of persons employed. We do not report this measure of employment. The unemployment rate is derived from the CPS, which is a survey sponsored jointly by the U.S. Census Bureau and the BLS.]

Employment Growth by Sector—St. Louis MSA



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

This chart is designed to distinguish general trends from industry-specific trends in St. Louis's economic and labor market performance over the 12 months ending in October 2012. The industries are ranked from largest to smallest (left to right) in terms of employment in the St. Louis area. By employment shares, the three largest sectors in the St. Louis metropolitan area are Trade, Transportation, and Utilities; Education and Health; and Professional and Business Services. Together, they account for a little more than 50 percent of total payroll employment in St. Louis. The government sector comprises 13 percent of the total.

Labor market conditions in the St. Louis MSA have improved since our previous report (September 2012), when employment was unchanged from a year earlier. In this month's report, nonfarm payroll employment has increased by 1.2 percent over the past year. Job gains have been especially impressive in Professional and Business Services (4.1 percent) and in Education and Health (2.7 percent). Gains have been smaller in the largest industry (Trade, Transportation, and Utilities), but still rising a healthy 1.6 percent. Employment in the Government sector continued to fall in October (–1.5 percent), but the decline was smaller than three months earlier (–2.1 percent). Employment gains and losses were generally mixed in other sectors. Manufacturing employment eked out a small gain (0.2 percent), but gains were appreciably stronger in Financial Activities (2.2 percent). Similar to our last report, employment in Information Services fell sharply (–4.1 percent).

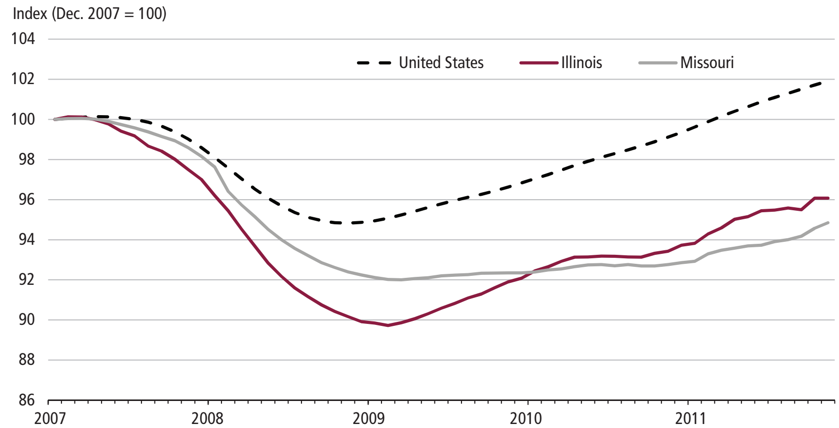
Employment and Unemployment by MSA

	Nonfarm payroll employment percent change, October 2011–October 2012			Unemployment rate October 2012
	Total	Goods producing	Service providing	
St. Louis, Mo.-Ill.	**1.17**	**–0.28**	**1.39**	**7.4**
Columbia, Mo.	0.10	0.00	0.11	4.5
Jefferson City, Mo.	–0.52	–1.05	–0.44	5.4
Springfield, Mo.	2.87	0.48	3.16	5.8
United States	1.45	1.15	1.49	7.9

SOURCE: Bureau of Labor Statistics.

Three months earlier, St. Louis's employment growth was one of the weakest of the four cities within the St. Louis zone. This report now shows that employment growth in the St. Louis MSA has picked up relative to two of the remaining three cities in the zone—an improvement that stems from faster growth in the service-providing industries. In the smaller metropolitan areas, employment is about unchanged in Columbia over the past year, but it has declined by 0.5 percent in Jefferson City. By contrast, employment growth remains robust in Springfield (2.9 percent, and it has even accelerated compared with three months earlier (1.6 percent). Similar to our previous report, employment growth has generally been stronger within the services-providing industries, although Jefferson City is an exception. In the goods-producing industries, employment has declined slightly in St. Louis, but significantly more in Jefferson City. Compared with our previous report, the unemployment rate has declined in all zone cities and in the nation. Moreover, all four of the areas examined have unemployment rates below the U.S. rate of 7.9 percent.

Coincident Economic Activity Index—St. Louis Zone

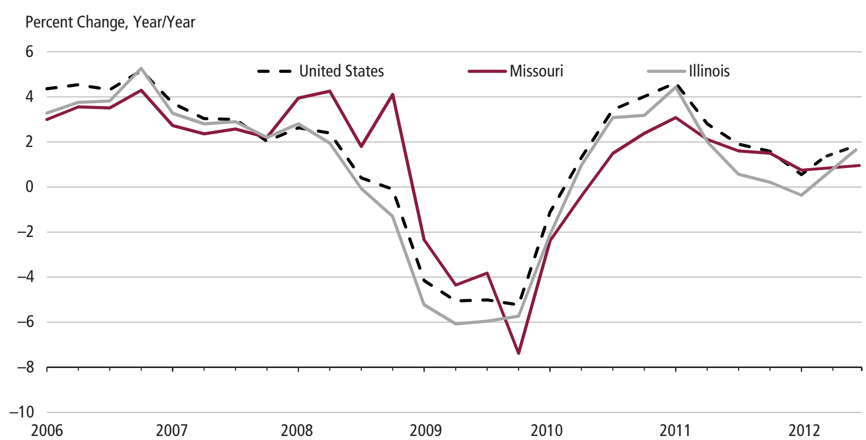


SOURCE: Federal Reserve Bank of Philadelphia.

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 chart shows that the recession had a larger impact on Illinois and Missouri than on the nation. Whereas the level of economic activity at the national level has surpassed its peak in December 2007, the levels of economic activity in Illinois and Missouri remain below their peaks. Over the three months ending in October 2012, economic activity in Missouri has increased by 0.9 percent, modestly more than Illinois's 0.5 percent gain and the nation's 0.6 percent gain. Year-to-date, however, economic activity has increased by 2.4 percent in Illinois and by 2.1 percent in Missouri. Illinois's year-to-date gain is comparable with nation's gain over the first 10 months of 2012 (2.3 percent).

Real Personal Income Growth—St. Louis 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 personal income 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.

The above chart plots the percent change in PI for the United States and for Missouri and Illinois. In general, income growth in Missouri and Illinois tend to track the U.S. growth rate fairly closely. After slowing sharply on a year-over-year basis since early 2011, real personal income growth picked up modestly in the third quarter in Illinois and in the nation, but less so in Missouri. Six months earlier, Illinois's personal income had declined slightly over the four quarters ending in the first quarter of 2012. For the third quarter of 2012, Missouri's PI growth on a four-quarter basis (0.9 percent) trails both Illinois (1.6 percent) and the nation (1.8 percent).

[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	
St. Louis, Mo.-Ill.	**4,890**	**22.1**	**–0.9**
Columbia, Mo.	1,086	46.8	2.0
Jefferson City, Mo.	148	5.7	1.8
Springfield, Mo.	1,086	18.8	0.5
United States	679,933	33.1	0.0

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

Housing continues to be a source of strength for the U.S. economy and for the economy in the St. Louis zone. In general, housing activity has continued to increase since our previous report. Year-to-date percentage gains in building permits are up by more than 10 percent in three of the four cities compared with the same period a year earlier. These gains, though, trail the nation's growth (33.1 percent) in all but one case. Permit issuance has been the strongest in Columbia (46.8 percent), followed by slower gains in St. Louis (22.1 percent) and Springfield, (18.8 percent). Year-to-date gains have been weaker in Jefferson City, but permit growth remains healthy (5.7 percent). In our September report, permits were running below the previous year's comparable period in three of the four cities (St. Louis was the exception). House prices in the St. Louis zone remain mixed, but slightly worse compared with our previous report. Over the four quarters ending in the third quarter of 2012, prices of homes financed with conventional mortgages have increased modestly in three of the four cities. By contrast house prices declined by nearly 1 percent in the St. Louis MSA. Nationally, house prices were flat in the third quarter compared with a year earlier.

[NOTE: Readers are cautioned that building permit data at the state and local level can be extraordinarily volatile, which makes it difficult to discern trends over the short-term.]