

Current Economic Conditions in the Eighth Federal Reserve District

St. Louis Zone

March 19, 2008

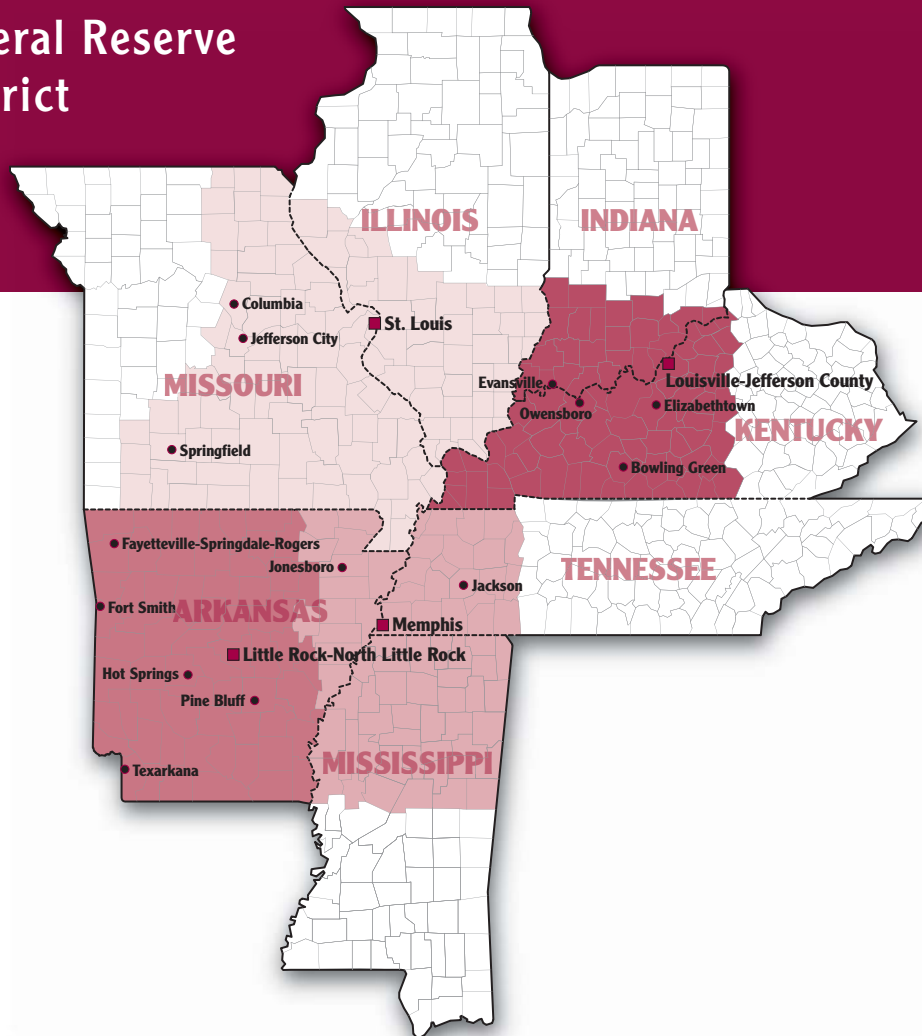
Prepared by the
Center for Regional Economics—8th District (CRE8)
Federal Reserve Bank of St. Louis

CRE8

Center for Regional Economics—8th District



Eighth Federal Reserve District



This report 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 web site (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/2008/). 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.

For more information, please contact the St. Louis office:

Randy Sumner, 314-444-8644, randall.c.sumner@stls.frb.org

Economists:

Howard Wall, 314-444-8533, howard.j.wall@stls.frb.org

Subhayu Bandyopadhyay, 314-444-7425, subhayu.bandyopadhyay@stls.frb.org

St. Louis Zone Report—March 19, 2008

Overall economic activity in the St. Louis zone slowed during the early part of 2008. General retailers and automobile dealers reported weakened sales, and manufacturing activity was reduced. Residential real estate markets continued to soften, although commercial markets remained strong. Banking conditions weakened somewhat, but the sector remained stable. Because of increases in the prices of most major crops, the agricultural sector showed considerable strength.

Consumer Spending

Retail sales reports for January and early February were mostly negative among general retailers and auto dealers in the St. Louis zone. About 80 percent of the general retailers and 83 percent of the auto dealers surveyed indicated that sales were down compared with the same months in 2007. Among auto dealers, 17 percent noted that used car sales had increased relative to new car sales, while the rest reported no change. One-third of the respondents reported recent increases in rebates and incentives, while the remaining contacts reported no change.

About 33 percent reported more rejections of finance applications, while none of the contacts reported more acceptances. Half of the general retailers and one-third of the car dealers noted that inventories were at desired levels. The sales outlook for March and April was mixed among both sets of contacts: Half of the general retailers and one-third of the car dealers expected sales to increase over 2007 levels, while 17 percent of general retailers and 50 percent of car dealers expected sales to decrease.

Manufacturing and Other Business Activity

Manufacturing activity in the St. Louis zone slowed during the first quarter of 2008, with layoffs in auto assembly and parts plants as the most prominent examples. A firm in chemical manufacturing reported plans to open a new facility in the zone, while a firm in fabricated metal product manufacturing reported plans to close their facility. The service sector fared much better, but there were signs of weakness as job losses were reported in retail services.

Real Estate and Construction

In St. Louis, January home sales declined by 12 percent compared with the same period in 2007 and repeat-sale price indices rose more slowly. In addition, there was a sizable increase in the share of sales at the very low end of the market. Weakness

in the real estate market continued to affect residential construction as residential building permits fell by around 20 percent. In contrast, the commercial real estate market has been relatively strong. Industrial vacancy rates were fairly stable and downtown and suburban office vacancy rates both tended to decline. Contacts in St. Louis expect the commercial real estate market to remain strong in 2008 unless the current economic slowdown worsens.

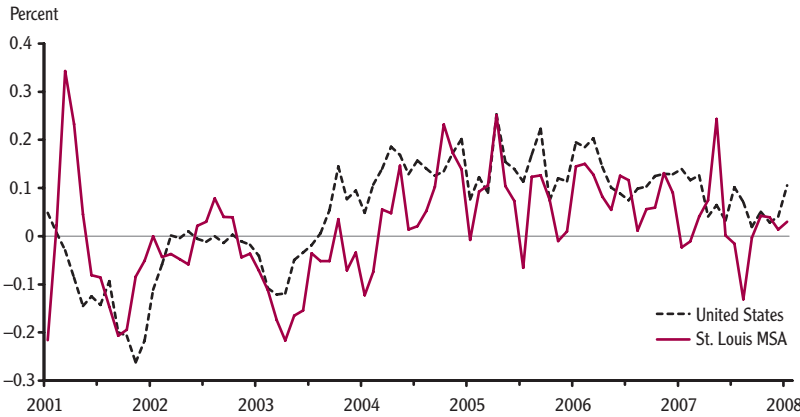
Banking and Finance

Banking conditions in the St. Louis zone deteriorated slightly during the first quarter of 2008. Over half of all contacts reported softening demand in all major categories of loans, but most notably in commercial real estate and commercial and industrial loans. Reports on residential mortgage loan demand were mixed, with some contacts indicating that lower rates have resulted in increased loan activity. A number of contacts reported tightened credit standards, citing an uncertain economic outlook and a reduced tolerance for risk as reasons for the change. Most contacts reported modest declines in deposits.

Agriculture and Natural Resources

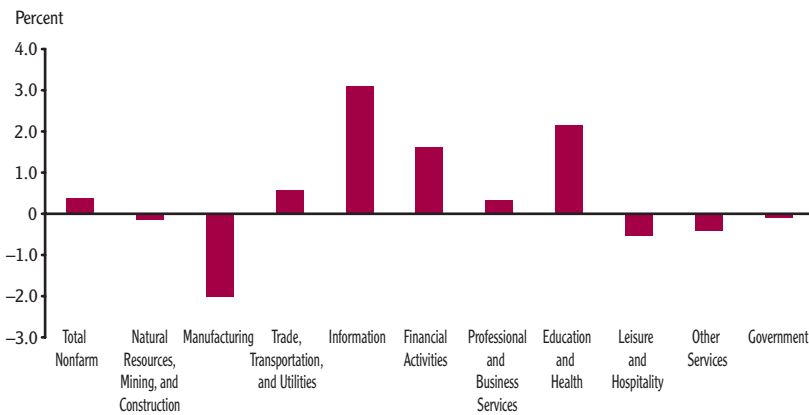
Total coal production in Illinois and Missouri for December was 1 percent higher than year-earlier levels, and total coal production for 2007 increased by 4 percent from 2006 levels. As of mid-December, year-to-date bales of cotton ginned (separated from the seed) in Missouri were down 13 percent from the same period in 2006. The total value of all field crops in St. Louis zone states rose by 46 percent from 2006 to 2007. Illinois had an increase of 47 percent and Missouri had an increase of 43 percent. The increased values mostly reflect higher prices of major crops in 2007 than in 2006, especially corn (about 30 percent for each state), soybeans (over 60 percent), winter wheat (over 50 percent), and sorghum (over 20 percent), whereas total production increased only for corn (in both states) and sorghum (in Missouri).

Nonfarm Payroll Employment Growth 3-Month Average, SA, January 2001–January 2008



Payroll employment growth in the St. Louis MSA experienced dramatic swings during 2007, and the most recent estimates indicate that St. Louis underperformed the rest of the country over the year as a whole. (See the table at the top of the final page, which provides recent benchmark revisions of employment data.) Estimates for recent months suggest that this trend continues. Over the three-month period ending in January 2008, St. Louis monthly employment growth averaged 0.03 percent, while U.S. employment growth averaged 0.10 percent.

St. Louis MSA Employment Growth by Sector Year/Year Percent Change, January 2007–January 2008



St. Louis MSA employment growth between January 2007 and January 2008 varied a great deal across sectors. According to the most recent estimates, the strongest sector was information, which saw an employment increase of 3.1 percent. Other relatively strong sectors were education and health; trade, transportation, and utilities; and finance. The manufacturing sector was estimated to have experienced a 2 percent reduction in the number of jobs.

St. Louis Zone—MSA Employment and Unemployment

Nonfarm payroll employment percent change,
January 2007–January 2008

	Total	Goods producing	Service providing	Unemployment rate December 2007
St. Louis	0.35	-1.33	0.67	5.4
Columbia, Mo.	1.91	-3.30	2.50	3.5
Jefferson City, Mo.	1.28	-2.00	1.76	4.1
Springfield, Mo.	3.08	1.80	3.29	4.1
United States	0.89	-1.48	1.35	4.8

SOURCE: Bureau of Labor Statistics.

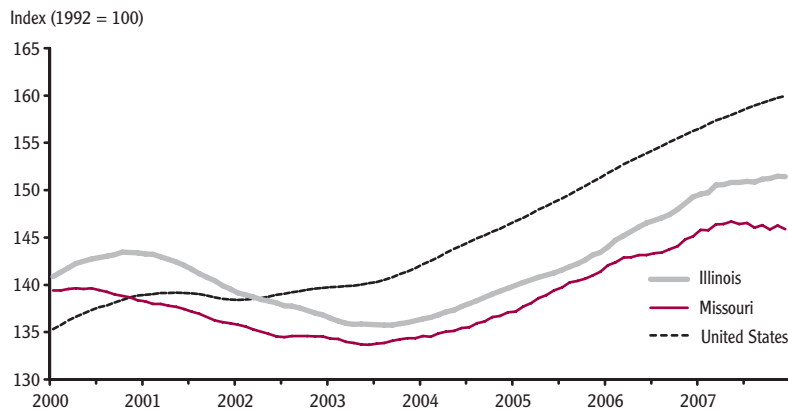
St. Louis Zone—MSA Housing Activity

	Total building permits, units year to date		House price index, percent change, 2007:Q4/2006:Q4
	January 2008	Percent change	
St. Louis	436	-44.2	2.56
Columbia, Mo.	42	-70.8	-0.72
Jefferson City, Mo.	5	-16.7	2.18
Springfield, Mo.	202	36.5	3.10
United States	75,933	-32.4	0.84

SOURCE: Bureau of the Census, Office of Federal Housing Enterprise Oversight.

Total residential building permits in January were lower than a year earlier in every MSA in the zone except Springfield, Missouri, where permits grew by a relatively robust 37 percent. St. Louis and Columbia, Missouri, both saw larger decreases than did the country as a whole. House price indices, on the other hand, increased in all metro areas in 2007 except Columbia. Indices for the other three metro areas all rose by more than 2 percent.

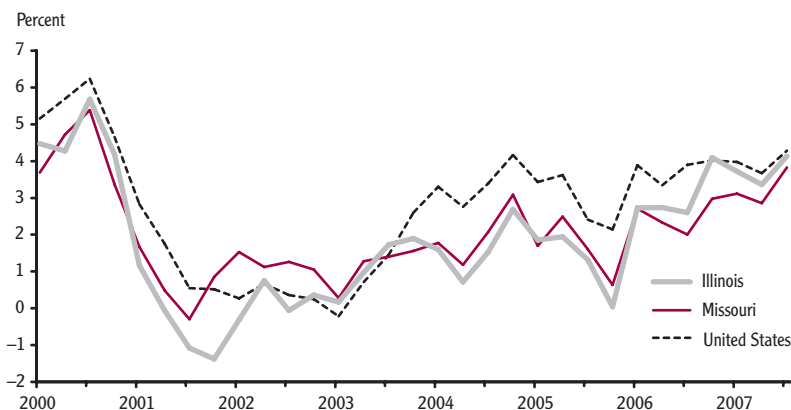
St. Louis Area Coincident Economic Activity Index



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. According to this index, Missouri and Illinois have underperformed the country as a whole since 2001. The recession of 2001 in these states was deeper and longer, and the subsequent recovery and expansion were not as strong. In 2007 this index rose by 2.4 percent nationally, but only 1.4 and 0.5 percent for Illinois and Missouri, respectively.

St. Louis Area Real Personal Income Growth Percent Change, Year-Over-Year



SOURCE: Bureau of Economic Analysis.

Personal income growth in Missouri and Illinois has been weaker than in the country as a whole since 2003. Also, income growth in Missouri has been weaker than in Illinois since the start of 2006. Income growth in both states has trended toward the national rate since then. By the fourth quarter of 2006, Illinois's income growth began to nearly match the national rate and, by the third quarter of 2007, so did Missouri's.

Metro Area Employment Growth December 2006 to December 2007

	Revised estimate as of March 2008	
	Change (in thousands)	Percent change
Large metro areas		
Little Rock–North Little Rock, Arkansas	5.2	1.5
Louisville, Kentucky-Indiana	6.9	1.1
Memphis, Tennessee-Arkansas-Mississippi	5.4	0.8
St. Louis, Missouri-Illinois	2.0	0.1
Small and medium metro areas		
Fayetteville-Springdale-Rogers, Arkansas	0.9	0.4
Fort Smith, Arkansas-Oklahoma	1.7	1.4
Texarkana, Texas-Arkansas	0.7	1.2
Bowling Green, Kentucky	1.8	2.9
Evansville, Indiana-Kentucky	1.4	0.8
Jackson, Tennessee	0.3	0.5
Columbia, Missouri	1.0	1.1
Jefferson City, Missouri	1.5	1.9
Springfield, Missouri	5.2	2.6

NOTE: These are the most recent benchmark revisions from March 11, 2008. See CRE8 Occasional Paper #2008-01 for a discussion of these revisions (<http://research.stlouisfed.org/regecon/occasionalpapers.html>).

SOURCE: Bureau of Labor Statistics.

Foreclosures, 2007

	Percentage of households, 2007	Percent change from 2006
Little Rock–North Little Rock, Arkansas	0.95	15.52
Louisville, Kentucky-Indiana	0.60	-12.05
Memphis, Tennessee-Arkansas-Mississippi	2.14	30.35
St. Louis, Missouri-Illinois	1.28	58.11
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Arkansas	0.51	26.44
Illinois	1.25	25.29
Indiana	1.03	11.31
Kentucky	0.27	23.45
Mississippi	0.11	91.65
Missouri	0.91	80.93
Tennessee	0.98	24.56
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United States	1.03	74.99

SOURCE: RealtyTrac.