
THE MEMPHIS ECONOMY IN 2009

The start of 2009 finds the Memphis economy embroiled in the same recessionary pressures faced by the rest of the nation. The current financial crisis brought about by the housing market collapse and subprime lending excesses of Fannie Mae and Freddie Mac has led to major bankruptcies and disappearances of financial institutions once thought invincible (Bear Sterns, Lehman Brothers, American Home Mortgage, to name a few).

Unfortunately, the subprime instability is widespread and not limited to just the big mortgage companies. In fact, most nationwide and local financial institutions have become very reluctant to make new loans and have dramatically tightened lending standards. The result is that although interest rates are historically low, businesses and consumers are unable to access credit, translating into less construction, fewer home sales, and lower sales of big ticket items in general.

As of this writing, the severity of the current financial crunch is worsened by the fact that consumer confidence is now at an all-time low. As a whole, Consumers have a fear of losing their jobs and their savings in the current economic climate and have retreated in their spending habits. As shown in Chart 1, the precipitous rise in consumer debt outstanding that began in 1994 has finally stopped increasing. By November 2008, the year-over-year percent change in consumer credit outstanding had fallen to its lowest level since 1993 (2.3 percent in November 2008 v. 1.8 percent in March 2003). Arguably, most of the economic growth of the past decade was consumer debt driven and the current downturn has been led by the sudden decrease in consumer debt spending.

Accordingly, the 2008 holiday retail season was the weakest in recent memory and bankruptcies of big retailers are spreading (Circuit City, Linens-N-Things, Goody's, etc.). For the Memphis area, this will translate into numerous retail vacancies along with falling retail sales.

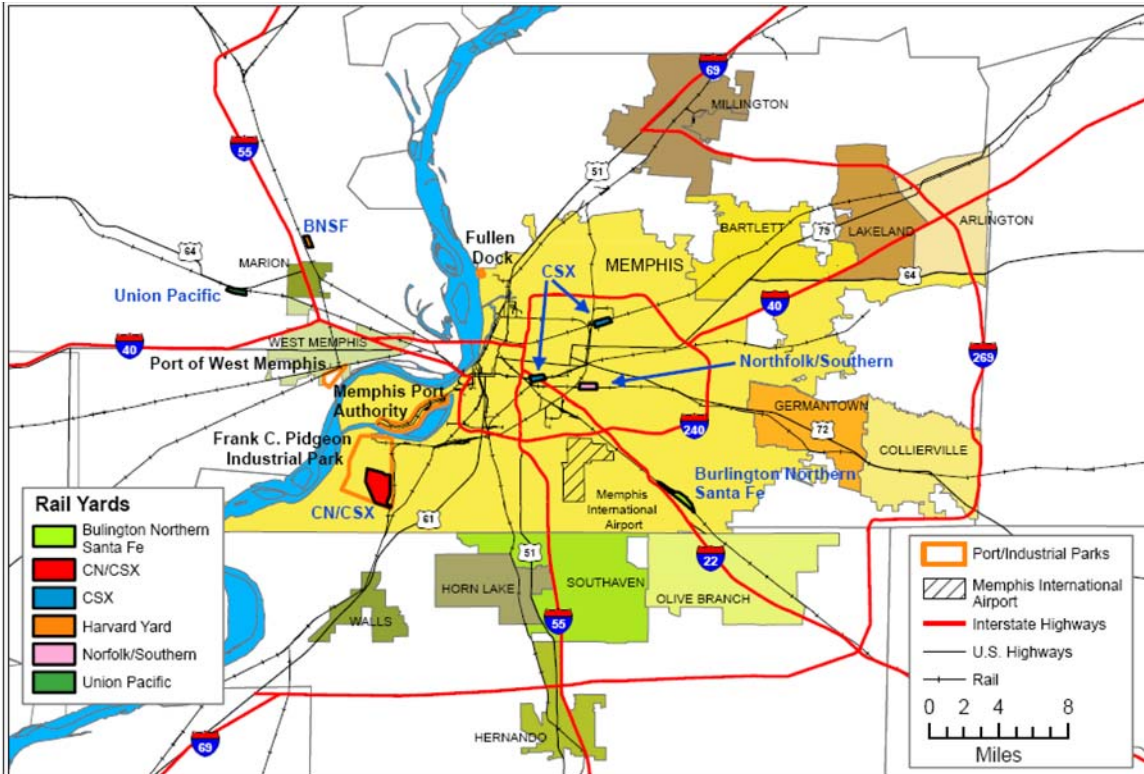
Toyota's decision to indefinitely postpone production at the Tupelo plant is a blow not only for Tupelo but for all current and potential auto parts suppliers in the Mid-South. Additionally, the current slowdown in auto sales will negatively impact Hino Motors in Marion, Arkansas, Bodine Aluminum in Jackson, Tennessee, and is likely to result in the closing of auto dealerships throughout the Mid-South.

However, the economic front for the greater Memphis area is not all bad. Canadian National Railroad, BNSF Railroad, and Union Pacific Railroad are continuing major expansions and improvements in their lines leading to Memphis (Union Pacific), as well as rail yards and intermodal facilities in Memphis, including facilities at the Frank Pidgeon Industrial Park, the Johnson Yard, and the BNSF yard in Capelville, Tennessee. The increase in capacity will allow the railroads to reduce rail car dwell times in addition to handling a substantially larger volume. Rail intermodal facility expansions along with the development of Interstates 69 and 22 will only improve Memphis as the primary distribution center for North America (see Maps 1 and 2).

Map 1. Future Memphis Area Interstate Highways



**Map 2. Memphis Area Transportation and Distribution Infrastructure
(Current and Future)**



Memphis International Airport (MEM) continues to be the center piece of the transportation and distribution infrastructure, serving as the largest and oldest hub for FedEx Express (known as the "Super Hub") and as a hub for Delta Airlines. The Northwest and Delta Airlines merger should be positive for MEM. Atlanta (ATL), Delta's home, lacks capacity while MEM has excess capacity, shorter average departure delays, shorter average weather delays, and a lower percentage of flights delayed. And as shown in Table 1, Memphis also compares favorably with Delta's Cincinnati Hub (CVG).

Table 1. ATL, MEM, and CVG Performance Comparison

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		2003	2004	2005	2006	2007	2008
ATL	% On Time Departure	81.0	76.0	73.0	71.0	72.0	77.6
	% On Time Arrival	79.0	73.0	72.0	72.0	74.0	76.7
	% Cancelled Departures	1.2	1.9	3.2	1.6	1.6	1.4
MEM	% On Time Departure	88.0	83.0	82.0	80.0	81.0	81.0
	% On Time Arrival	85.0	81.0	81.0	77.0	77.0	79.8
	% Cancelled Departures	1.2	1.5	1.8	1.9	1.9	1.7
CVG	% On Time Departure	85.0	80.0	84.0	84.0	77.0	80.8
	% On Time Arrival	82.0	80.0	83.0	83.0	77.0	80.0
	% Cancelled Departures	2.1	2.7	2.2	1.4	2.2	1.9

Note: 2008 data are from January 1–November 2008.

Source: U.S. Bureau of Transportation Statistics.

Accordingly, Delta is likely to add more routes to MEM as a way of relieving congestion in Atlanta. While the travel and tourism industry is suffering in the current recessionary climate, too, MEM is well poised for growth and expansion when the economy recovers.

FedEx Express operates twenty-four hours a day, seven days a week while flying over five thousand flights per month out of MEM, with overnight service to the entire U.S. and several foreign cities. FedEx Express operations at MEM are expected to grow as the company begins receiving new Boeing 777 freighter aircraft capable of traveling further and with more freight than anything in the company's current aircraft inventory. The new freighters will allow FedEx Express to directly connect to more destinations in Asia and Europe. The new freighters will also allow FedEx to retire older, less efficient aircraft and represents a substantial step in controlling operating costs.

The Memphis residential market is being pulled down by the same subprime lending problems that are plaguing the rest of the nation. As shown in Table 2, Memphis residential sales (units) in 2008 were down nearly 19 percent over 2007 while median and average sales prices are falling.

Table 2. Memphis Area Home Sales, 2007 and 2008

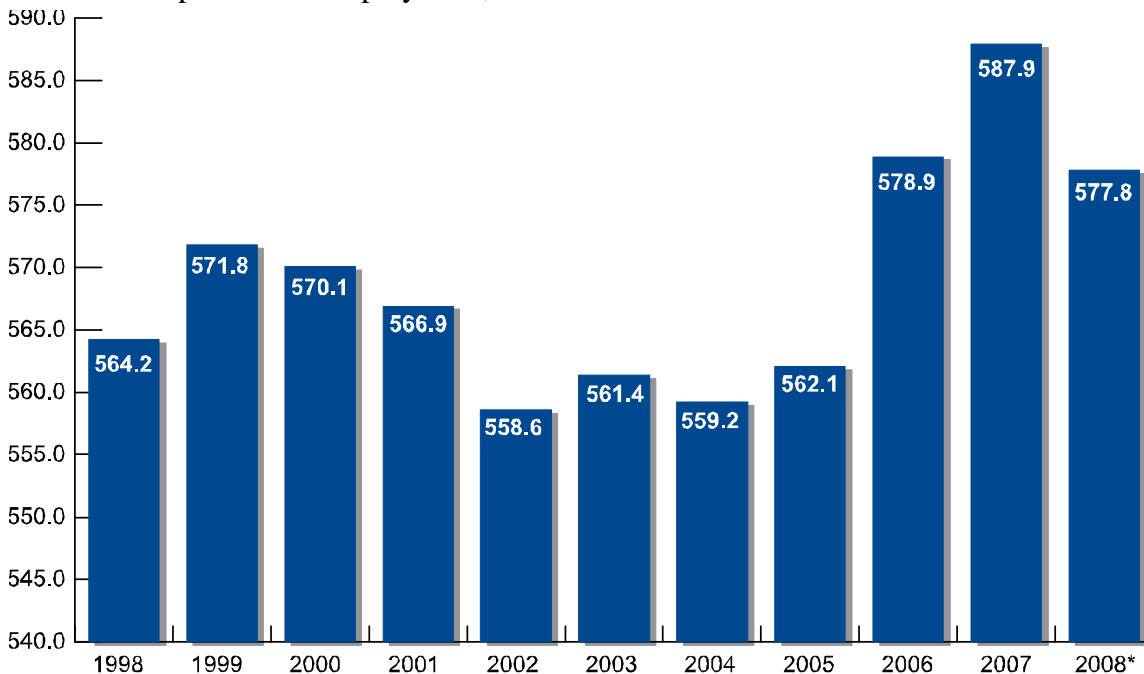
	2008	2007	Percent Change
Total Home Sales	13,629	16,791	-18.8%
Median Sales Price	\$118,000	\$136,000	-13.2%
Average Sales Price	\$147,000	\$171,000	-14.0%
Average Days on Market	107.2	99.2	8.1%

Source: Memphis Area Association of Realtors.

In terms of employment, the Memphis MSA experienced substantial growth between 2005 and 2007. However, as shown in Chart 2, 2008 marked the end of employment growth as the total number of employed residents fell by over 11,000. Correspondingly, local unemployment rates rose considerably as the world's economy slowed. December 2008 unemployment rates were as follows:

- "U.S. = 7.2%, Tennessee = 7.9 percent, seasonally adjusted
- "U.S. = 7.1%, Tennessee = 7.6 percent, not seasonally adjusted
- "Memphis MSA = 7.6 percent, not seasonally adjusted
- "City of Memphis = 8.4 percent, not seasonally adjusted

Chart 2. Memphis MSA Employment, 1998-2008



*SBBER estimate.

Source: U.S. Bureau of Labor Statistics, Current Population Survey (residence based).



In conclusion, the weak U.S. economy will certainly impact the prospect for economic growth in the Memphis economy in 2009. More importantly, recessions are temporary and the current one is predicted to end by the third quarter of calendar year 2009. When national recovery begins, so will recovery begin in Memphis. When the economy improves, the many changes and improvements in Memphis' transportation and distribution infrastructure and industry will sustain Memphis well into the future.

Prepared for the City of Memphis by the Sparks Bureau of Business and Economic Research/Center for Manpower Studies