
THE MEMPHIS ECONOMY IN 2008

There is good news for the Memphis economy, even as the U.S. economy appears to be headed for a recession. In particular, the greater Memphis area is being surrounded by auto assembly and auto parts plants. Of greatest importance, a new Toyota assembly plant is under construction in Tupelo, Mississippi. The \$1.3 billion plant now under construction will be used to produce Toyota's Highlander SUV. Upon opening in 2010, the plant will employ around 2,000 employees with a planned expansion to 4,000 employees if Toyota adds a second vehicle line.

While the greater Memphis area may not be thought of as an auto industry player, there are factors in place or coming into place that could make it one. In addition to the Toyota plant in Tupelo, Hino Motors in Marion, Arkansas makes parts for Toyota's Tundra pickup line and has been up and running since 2006, employing over 600 persons. Hino Motors announced expansion plans¹ in May of 2007 on the anticipation of growing demand for Toyota trucks. Whether Hino's Marion plant will build parts for the Tupelo-built Toyota Highlanders remains to be seen but is a possibility.

Further, Bodine Aluminum, Incorporated's manufacturing facility in Jackson, Tennessee,² makes aluminum-cast parts for Toyota engines into the North American made Toyota Avalon, Camry, Corolla, Sienna, and Tundra models and also into Toyota's luxury-brand Lexus RX300 model. With just a two-hour drive separating Jackson, Tennessee from the new Toyota plant north of Tupelo, Mississippi, it is quite possible that Bodine's Jackson, Tennessee, plant could see an expansion in operations in support of Toyota's Tupelo plant.

Additionally, Nucor Steel³ will soon be opening a greatly expanded plant at the old Birmingham Steel plant in Frank C. Pidgeon Industrial Park. Nucor's Memphis facility will produce high-quality steel products aimed for automobile and heavy equipment manufacturers. With direct Mississippi River access and being located directly adjacent to Canadian National's Memphis Intermodal Facility in addition to close proximity to Interstates 40, 55, 69, and the future Interstate 22 (U.S. Highway 78) between Memphis and Birmingham, Alabama (via Tupelo), a distinct possibility exists for Nucor Memphis to supply steel to Toyota and its network of suppliers in the U.S. Startup at Nucor Memphis is slated for the first quarter of 2008.

1. 2008. "Hino Motors Expanding Marion Automotive Parts Plant." www.arkansas.gov. http://www.arkansas.gov/governor/newsroom/index.php?do:newsDetail=1&news_id=172 (accessed January 23, 2008).

2. 2008. Bodine Aluminum, Inc. http://www.toyota.com/about/our_business/operations/manufacturing/bodine/ (accessed January 23, 2008).

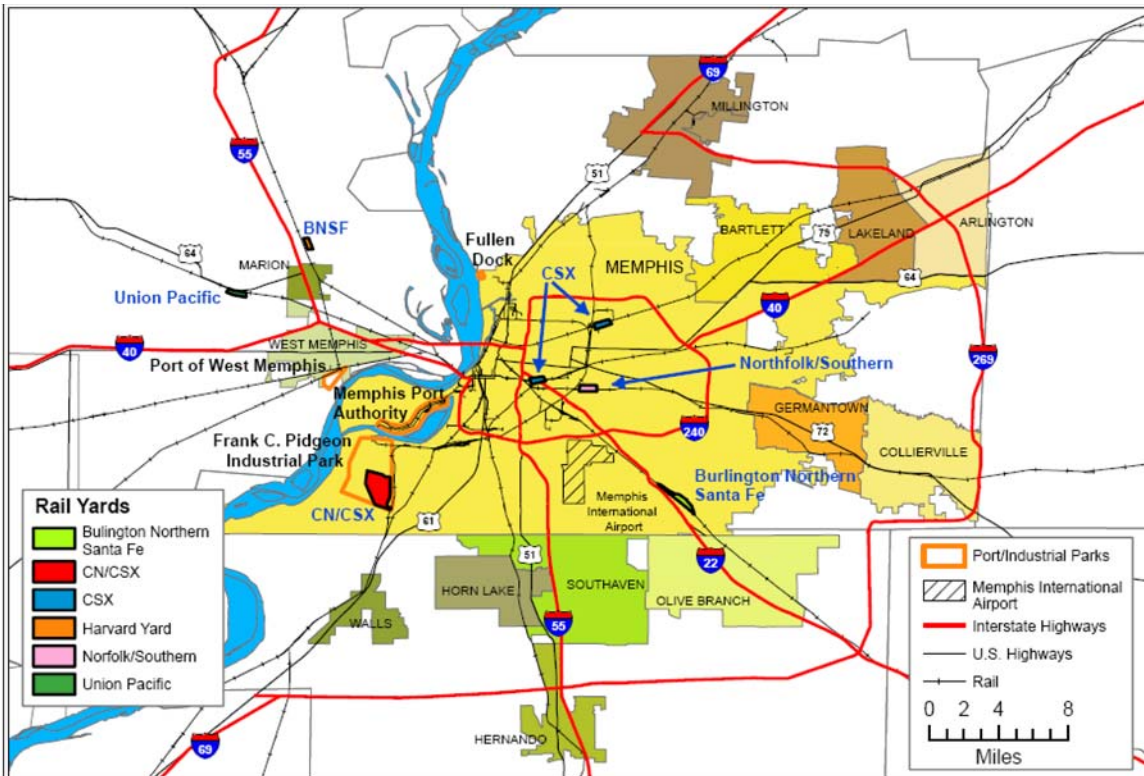
3. 2008. Nucor.com. <http://www.nucor.com/divs.asp?iwhichone=27> (accessed January 23, 2008).

Canadian National Railroad and BNSF Railroad are continuing major expansions of their 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 should allow both 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 Northwest Airlines. Northwest Airlines connects Memphis to the world with 223 daily flights (includes flights by regional airlines under contract with Northwest), including the strongly successful Memphis-Amsterdam route that started in 1994.

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 as well. 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.

While the housing sector has fallen sharply across the U.S., there has been no housing bubble in Memphis to bust. Even so, the Memphis residential market is being pulled down by the same sub-prime lending problems that are plaguing the rest of the nation. As shown in Table 1, Memphis residential sales (units) in 2007 were down nearly 15 percent over 2006 while median and average sales prices are falling.

Table 1. Memphis Area Home Sales, 2006 and 2007

	2006	2007	Percent Change
Total Home Sales	19,738	16,791	-14.9%
Median Sales Price	\$138,000	\$136,000	-1.4%
Average Sales Price	\$173,200	\$171,000	-1.3%
Sales Volume	\$3.42 billion	\$2.87 billion	-16.1%

Source: Memphis Area Association of Realtors.

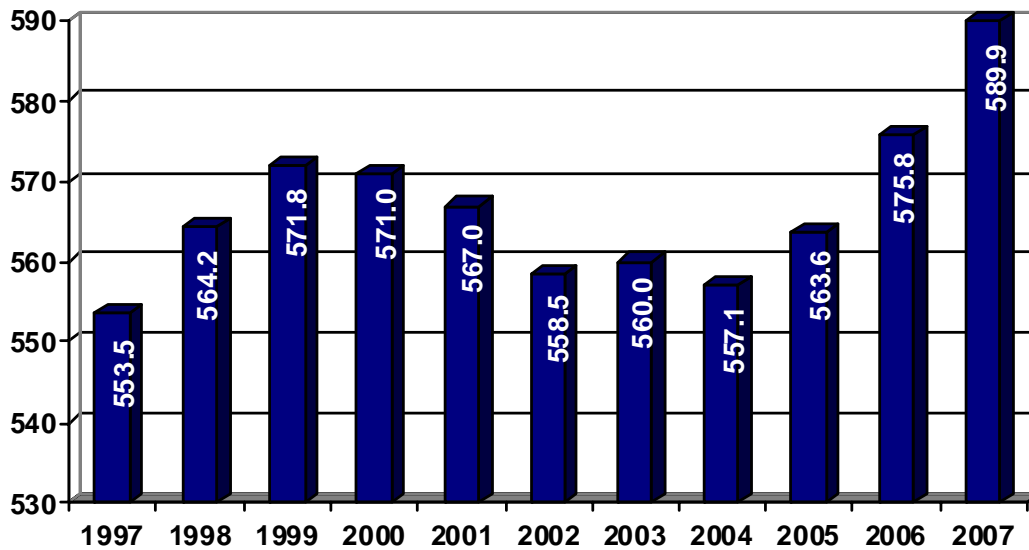
In terms of employment, the Memphis MSA has experienced substantial growth over the past three years. However, as shown in Chart 1, 2006 marked the first year that the MSA finally exceeded the prior peak level of employment set in 1999. The first part of the current decade was marked by an employment recession, with employment amongst Memphis MSA residents falling from 2000 to 2004, finally reaching and exceeding recovery levels in 2006 and expanding further in 2007. In fact, since 2004 the Memphis economy has added 32.8 thousand jobs—strong growth by any standard for the local area.

Unemployment rates will rise as the economy slows but are still relatively low. January 2008 unemployment rates were:

- U.S. = 4.6%, Tennessee = 4.6%, seasonally adjusted
- U.S. = 5.0%, Tennessee = 5.2%, not seasonally adjusted
- Memphis MSA = 5.8%, not seasonally adjusted
- City of Memphis = 6.4%, not seasonally adjusted

In terms of employment, the Memphis MSA economy is diversified sufficiently to be able to weather any economic down. Chart 2 shows employment by industry for the Memphis MSA as of December 2007.

Chart 1. Employed Memphis MSA Residents, 1997–2007 (000)



Note: The figure for 2007 is a 12 month average, calculated by SBBER. The official 2007 figure has yet to be released.
Source: U.S. Bureau of Labor Statistics, Current Population Survey (residence based).

Chart 2. Memphis MSA Employment by Industry, December 2007



Source: Tennessee Department of Labor and Workforce Development

There has also been positive news in the Memphis Bio-Tech sector as of late:

- Medtronic Sofomar Danek is profitable and expanding, with fiscal 3rd quarter 2008 revenue increasing by 12.0% over 3rd quarter 2007
- Memphis-based GTx, Inc., announced positive research results for a prostate cancer drug in later stages of clinical trials
- United Healthcare is still eying Memphis for a mail-order pharmacy distribution center that could bring an additional seven hundred jobs to the local economy

Conclusion. While it certainly appears that the national economy is slowing and will continue to slow in 2008, growth in the Memphis MSA is likely to slow also. However, the continued improvement and expansion of the area’s transportation infrastructure will help to offset a weak national economy. With such a strong, transportation infrastructure and the arrival of the Toyota assembly plant in Tupelo, Mississippi, the Memphis area, including Eastern Arkansas, Western Tennessee, and Northern Mississippi is likely to see further auto-sector related development in the

future. These factors bode well for the future of the Memphis economy.

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



