

## **Mid-South rebound on track, but job creation lags, St. Louis Fed CEO says**

By David Flaum

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The nation's and Mid-South's economic recovery is on track, in the eyes of James Bullard, president and CEO of the Federal Reserve Bank of St. Louis.

"We saw some growth in the second half of 2009 and that is carrying through to the early part of this year," Bullard said in an interview during his visit to Memphis late last week.

He said he agreed with the Fed assessment, made Wednesday, that unemployment would remain above comfortable levels for at least three or four years.

"Unemployment is high, but labor markets lag the economy," he said. "There's been a big shock, and you have to reallocate labor across different sectors and different industries, and that takes time," Bullard said.

On that count, the St. Louis Fed district, which runs from the Mid-South to parts of Missouri and Kentucky, has done better than the rest of the country, losing about 3 percent of its jobs since early 2007 compared with 5.5 percent nationally, he said. Fed research shows Memphis-area job losses are about 2 percentage points less than national figures.

The recovery, while real, "is still on the output side rather than the worker side," said Dr. William Fox, director of the Center of Business & Economic Research at University of Tennessee-Knoxville. He, too, noted that job losses in the Memphis area were smaller than in the rest of the state.

"There will be some employment gains over the next few months," Fox said. Memphis, with its business mix -- light on manufacturing, heavy on transportation and health care -- means the job recovery should be sound.

On his visit, Bullard, who took over the St. Louis Fed in April 2008, spoke to the Economic Club of Memphis and met with Federal Reserve Memphis branch board members.

At that meeting -- one of eight such sessions each year -- Bullard asked each board member what he or she was seeing in his or her business and in other enterprises they knew about in their communities, covering Memphis, West Tennessee, East Arkansas and North Mississippi.

"You do that to pick up on trends ahead of time, before they become problems," Bullard said.

Nick Clark, partner in Clark & Clark, a Memphis real estate firm, told Bullard that industrial real estate is starting to recover from a year when the number of tenants and square footage they leased had fallen.

"Memphis is starting to see a rebound in business on the distribution side, and that is a leading economic indicator for us," Clark said.

In addition, employment seems to be stabilizing after losses that pushed the Memphis area unemployment rate to 10.3 percent in December, he said. There are jobs being created, too, Clark said, pointing to Nike's plan to hire 450 for a returned-merchandise operation and Smith & Nephew's headquarters expansion with 160 new jobs.

The challenges to business growth, he said, are continued restricted availability of credit and the confusion in Washington about business regulation, which fuels uncertainty among business owners.

The meeting Friday provided Memphis Fed directors with a better understanding of how the Fed was unwinding its emergency cash infusion program.

Bullard believes the Fed's program of pumping cash into the economy, including purchase of mortgage-backed securities from Freddie Mac and Fannie Mae, was "instrumental in cooling the panic in late 2008." And, it showed that even with interest rates at zero, the Fed could take action to aid the economy, Bullard said. The Fed decided Feb. 1 to end those efforts.

The Fed has taken criticism for its policy of keeping interest rates near rock bottom for several years after the technology bubble burst in 1999 and the recession of 2001 hit, creating the housing bubble that blew apart in 2008. Others believe the Fed should have been more aggressive in protecting consumers from the types of loans that drove many home buyers into foreclosure.

Those factors were not the main causes of the housing bubble, Bullard said.

"People thought they would make money by buying houses. They thought prices would continue to go up."

### **Talking points**

James Bullard, president and CEO of the Federal Reserve Bank of St. Louis, discussed other topics in an interview.

**On regulation:** The Fed needs better tools to become more closely involved in the financial industry. Bullard believes the Fed, rather than a federal consumer protection agency, would be better able to regulate markets if it could bring more parts of the financial landscape (such as insurance companies and investment banks) under its umbrella.

**On forecasting the recession:** His prediction in late 2008 of a mild recession missed the mark because the downturn unexpectedly became global rather than the U.S.'s alone. His forecast at that time that home prices would stabilize in early 2009 was accurate, he said.

**On stimulus spending:** The government stimulus package has been a "mild positive" in supporting the economy. But, Americans will have to pay higher taxes in the future to finance the spending spree. "I don't think you can just spend your way to prosperity."

**On recent Fed action:** The Fed's decision Thursday to raise the rate it charges banks for short-term loans from 0.5 percent to 0.75 percent is part of the process of moving to restore the difference between that rate and the Federal Funds rate, now at 0.25 percent to a normal 1 percent. "It does not indicate anything, one way or another, what we might do with the Federal Funds rate," said Bullard, a voting member of the Federal Open Market Committee, which sets that rate.



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