The Memphis zone of the Federal Reserve comprises northern Mississippi, eastern Arkansas, and western Tennessee and a total population of approximately 3.1 million people, including the 1.3 million who live in the Memphis MSA.

### Mixed Signals in the Memphis Zone Produce Guarded Optimism for 2015

By Kevin L. Kliessen, Business Economist and Research Officer

A November survey found that slightly less than half of Memphis zone business contacts expect economic conditions to improve in 2015.

Paced by healthy gains in transportation and manufacturing employment, growth of nonfarm payroll employment accelerated modestly in the third quarter in the Memphis MSA. For the second consecutive quarter, manufacturing employment rose strongly in Mississippi (3.6 percent), outpacing the nation’s growth by a sizable margin.

In contrast with the nation, the Memphis zone’s unemployment rate ticked up from 8.4 percent in the second quarter to 8.5 percent in the third quarter. Labor market conditions remained the strongest in the Jonesboro MSA, as evidenced by brisk job growth and the lowest unemployment rate (6.1 percent) in nearly six years.

Residential housing market conditions were mixed in the third quarter. In the Memphis MSA, the pace of house price gains slowed but single-family building permits rebounded smartly. Housing market conditions were weaker in the Jackson, Tennessee, MSA but stronger in the Jonesboro, Arkansas, MSA. The Memphis MSA commercial real estate market remained vibrant in the third quarter.

The pace of deleveraging among households in the Memphis zone slowed markedly in the third quarter. Auto, mortgage, and credit card delinquency rates edged lower.

Most Memphis bankers expect that loan demand in the fourth quarter will be little changed compared with a year earlier. On the bright side, loan quality at Arkansas and Tennessee commercial banks improved substantially in the third quarter.

Rice production in Arkansas and Mississippi increased by roughly 37 and 49 percent, respectively, in 2014.
How to read this report

Unless otherwise noted, city names refer to the metropolitan statistical areas (MSAs), which are geographic areas that include cities and their surrounding suburbs, as defined by the Census Bureau.

Statistics for the Memphis zone are based on data availability and are calculated as weighted averages of either the 73 counties in the zone or the three MSAs. As of 2012, approximately 53 percent of the zone’s labor force was located in an MSA. Specifically: 44 percent in Memphis, 4 percent in Jackson, and 4 percent in Jonesboro; 47 percent of the zone’s labor force was located in non-metropolitan areas.

Arrows in the tables are used to identify significant trends in the data. The direction of the arrow indicates the sign (up/down) and the color indicates the economic significance (green = good, red = poor). Arrows appear only when the change from the previous quarter is greater than 1 standard deviation. For example, the standard deviation of the change in the U.S. unemployment rate is 0.4 percent. If the U.S. unemployment rate declined from 8.4 percent to 8.2 percent, no arrow would appear; but if it declined from 8.4 percent to 7.9 percent, a green down arrow would appear in the table.

Selected variable definitions are located in the appendix.

Selected quotes from business contacts are generally verbatim, but some are lightly edited to improve readability.

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Join Our Panel of Business Contacts

The anecdotal information in this report was provided by our panel of business contacts, who were surveyed between November 3 and November 14.

If you’re interested in becoming a member of our panel, follow this link to complete a trial survey:

http://research.stlouisfed.org/beigebooksurvey/

or email us at beigebook@stls.frb.org.

Views expressed do not necessarily reflect official positions of the Federal Reserve System.
Moderate Employment Growth Despite High Unemployment Rates in Memphis

By Maria A. Arias, Research Associate

Higher wages are driving up overall costs. — Western Mississippi area farmer

- Labor market conditions in Memphis were mixed during the third quarter. Annual employment growth continued to be positive throughout the zone, though the unemployment rate increased significantly in both Memphis and Jackson.

- Most business contacts surveyed in the zone (about 80 percent) expect employment and hours worked through the end of 2014 and into 2015 to remain about the same relative to a year ago. The remaining contacts expect employment to increase slightly and hours worked to decline slightly going into 2015.

- Private-sector employment growth continued to increase modestly in Memphis during the third quarter, led by strong growth in the financial services sector (see figure and bar chart on cover).

- In Jonesboro, nonfarm employment growth continued to be faster than the national rate, led by strong growth in the goods-producing sector. A slowdown in the private service-providing sector was significant, contributing to the overall slowdown in employment growth.

- Anecdotal information also suggests that labor costs and wages are likely to remain the same or increase slightly through the end of 2014 and into 2015, relative to a year ago. Wage growth thus far has been increasing at a slow pace in Memphis, while it has been declining moderately in Jackson and Jonesboro.

<table>
<thead>
<tr>
<th></th>
<th>Memphis</th>
<th>Jackson</th>
<th>Jonesboro, AR</th>
<th>US</th>
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<tr>
<td>Unemployment rate (Q3-14) (%)</td>
<td>8.2</td>
<td>7.2</td>
<td>5.6</td>
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<tr>
<td>Nonfarm employment (Q3-14)</td>
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<td>1.0</td>
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<td>Goods-producing sector</td>
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<td>2.4</td>
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<tr>
<td>Private service-providing sector</td>
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<td>2.3</td>
<td>2.8</td>
<td>2.2</td>
</tr>
<tr>
<td>Government sector</td>
<td>-2.7</td>
<td>-1.9</td>
<td>2.0</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Note: Unless otherwise noted, values are percent change from one year ago. Arrows indicate a significant (± 1 standard deviation) change from the previous quarter. See appendix for notes and sources.
Manufacturing Activity Accelerates in Memphis

By Daniel Eubanks Research Associate

“Uncertainty in the agricultural industry is offset by the increase in factory employment gains.”
— Jonesboro area banker

“Slowness in the global economy is having an effect on chemical pricing.”
— Memphis area manufacturer

- Memphis manufacturing employment growth outpaced the national average in the third quarter, led by strong growth in durable goods, while nondurable goods employment contracted slightly. Memphis saw a significant increase in transportation employment, but growth remained below the national average of 3.4 percent.

- Manufacturing employment grew in Mississippi, led by above-average growth in both durable goods and nondurable goods. Transportation employment growth in Mississippi matched the national rate of 3.4 percent.

- Strong growth in durable goods manufacturing in Tennessee was offset by a decline in nondurables. Transportation employment growth in Tennessee accelerated from the second quarter, but remained below the national average.

- Aggregate weekly manufacturing hours among production employees remain slightly above the national average on an indexed basis in both Tennessee and Mississippi.

- Manufacturing exports from Tennessee grew at close to the national rate in the third quarter, while Mississippi exports declined. Tennessee saw strength in beverages, tobacco products, and paper products; Mississippi saw weakness in chemicals, primary metals, and machinery.

- Trucking companies report difficulty filling driver vacancies. Similarly, manufacturers in rural communities report that finding qualified employees is a major concern.

Durable and nondurable goods manufacturing contribute to employment growth in Mississippi

Percent change from one year ago

<table>
<thead>
<tr>
<th></th>
<th>Memphis</th>
<th>Tennessee</th>
<th>Mississippi</th>
<th>US</th>
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<tbody>
<tr>
<td>Transportation employment (Q3-14)</td>
<td>1.2 ▲</td>
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<td>3.4</td>
<td>3.4</td>
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<tr>
<td>Manufacturing employment (Q3-14)</td>
<td>2.3</td>
<td>1.9</td>
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<td>Durable goods</td>
<td>5.1</td>
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<td>2.1</td>
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<tr>
<td>Nondurable goods</td>
<td>-0.8</td>
<td>-2.0</td>
<td>0.9</td>
<td>0.2</td>
</tr>
<tr>
<td>Manufacturing exports (Q3-14)</td>
<td>--</td>
<td>3.0</td>
<td>-7.1</td>
<td>3.1</td>
</tr>
</tbody>
</table>

Note: Values are percent change from one year ago. Arrows indicate a significant (± 1 standard deviation) change from the previous quarter; see appendix for notes and sources.
Downtown Apartment Market in Memphis Continues To Expand

By Diana Cooke, Research Associate

“Properties that are priced well in good neighborhoods are getting multiple offers. We have buyers who are ready. We just have to find the right property for them.”

— Memphis area realtor

“The market is still volatile. Homeownership is important— we would like to see interest rates remain steady.”

— Memphis area executive

- Memphis residential real estate market conditions were weak in the third quarter. Year-over-year growth in home prices dropped significantly from the previous quarter. New and existing home sales continued to decline compared with a year ago (see table). Contacts noted that a reduced number of bank sales are contributing to low sales volume.

- The Memphis residential construction market improved in the third quarter. Single-family building permits were positive in the majority of the MSAs in the District. Contacts noted that a lack of adequate inventory continues to be an issue and that new lot development should lead to increased building in the future.

- The Memphis commercial market was strong in the third quarter. Year-over-year growth in asking rents was greater than second-quarter growth in all sectors except for retail.

- Downtown apartment development continues to drive the multi-family sector (see figure). Two new downtown mixed-used development projects have recently been announced.

- Contacts report that the office sector is the weakest sector in Memphis, especially downtown. A large employer recently announced it was moving out of downtown to East Memphis.

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<table>
<thead>
<tr>
<th>Residential market (Q3-14)</th>
<th>Memphis</th>
<th>Jackson</th>
<th>Jonesboro</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>CoreLogic Home Price Index</td>
<td>2.4 ▼</td>
<td>-0.2 ▼</td>
<td>2.6 ▲</td>
<td>6.0 ▼</td>
</tr>
<tr>
<td>Single-family building permits</td>
<td>4.1</td>
<td>-2.2 ▼</td>
<td>27.5</td>
<td>1.2</td>
</tr>
<tr>
<td>New and existing home sales</td>
<td>-6.6 ▼</td>
<td>-- ▼</td>
<td>-- ▼</td>
<td>-4.5</td>
</tr>
</tbody>
</table>

Note: Sales and permits data are year-to-date percent change. Prices are percent change from one year ago. Arrows indicate a significant (±1 standard deviation) change from previous quarter. See appendix for notes and sources.
Debt Deleveraging Slows, Suggests Stabilizing Personal Finances

By Peter B. McCrory, Research Associate

“The city of Memphis is financially not in good shape, which is negatively influencing consumer confidence.”
— Memphis auto dealer

“We are expecting growth in holiday sales relative to last year.”
— Jonesboro auto dealer

- Personal income growth in Arkansas and Tennessee accelerated in the second quarter, increasing from less than 2 percent to 2.5 percent and 3.5 percent, respectively. In Mississippi, on the other hand, personal income grew at a stable rate of 2.1 percent—a tenth of a percentage point higher than growth in the first quarter.

- Expectations among retailers about holiday sales were mixed; however, the most typical response was that holiday spending will be up from last year, though not significantly.

- For the third consecutive year, delinquency rates fell on a year-over-year basis for mortgage, auto, and credit card debt balances—suggesting that households have more stable personal finances (see figure).

- Households are slowing the process of deleveraging debt. In the third quarter, mortgage debt balances fell by 0.3 percent and credit card debt balances fell by 0.7 percent—a deceleration from significantly faster rates of reduction in the second quarter of -4.7 percent and -6.7 percent, respectively (see table).
Memphis Zone Bankers Worried about Competition and Creditworthiness

By Michelle Neely, Economist and Hannah Shell, Research Analyst

“Creditworthiness for customers is not significantly better, but business customers are doing better and have stronger balance sheets.”
— Northern Mississippi banker

“Competition for solid credits remains fierce. Terms continue to be relaxed regarding covenants, pricing and the length of fixed-rate loans.”
— Memphis area banker

“The larger community banks serving the larger markets in eastern Arkansas are seeing good earnings as their loan-to-deposit ratios are generally significantly higher than those of the smaller community banks in rural areas.”
— Northeast Arkansas banker

- Most Memphis bankers expect loan demand to either increase or hold constant in the fourth quarter, and all bankers surveyed expect these conditions to continue in the first quarter.
- Profitability measures were little changed in the Memphis zone during the third quarter. Return on average assets (ROA) moved up or down just 1 to 2 basis points in all three Memphis zone states, the District, and the nation. Arkansas banks remain, on average, significantly more profitable than their Tennessee and Mississippi peers.
- Average net interest margins (NIMs) still vary widely across Memphis zone states, with a 58-basis-point spread between the highest state average (Arkansas) and the lowest (Tennessee). The average NIM increased slightly in Arkansas and Tennessee and decreased slightly in Mississippi between the second and third quarters; average NIMs were higher in all three states from one year ago (see table).
- Delinquent loans continue to decline across the District and nation. The ratio of nonperforming loans to total loans fell 21 and 22 basis points, respectively, at Tennessee and Arkansas banks between the second and third quarters and ticked down 2 basis points at Mississippi banks. The average nonperforming loan ratio is down more than 50 basis points from its year-ago level in all three states (see figure). Bankers in the Memphis zone expect these conditions to continue through the first quarter of 2015.

Asset quality improving across Memphis zone

Nonperforming loan ratio at commercial banks, percent

![Graph showing nonperforming loan ratios for US, TN, MS, and AR from 2006 to 2014.](image)

Source: FRED.

<table>
<thead>
<tr>
<th>Banking performance (Q3-14)</th>
<th>Tennessee</th>
<th>Mississippi</th>
<th>Arkansas</th>
<th>8th District</th>
<th>US Peer Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on average assets</td>
<td>1.02 ▲</td>
<td>0.99</td>
<td>1.27</td>
<td>1.10</td>
<td>1.01</td>
</tr>
<tr>
<td>Net interest margin</td>
<td>3.69</td>
<td>4.00</td>
<td>4.27</td>
<td>3.81</td>
<td>3.85</td>
</tr>
<tr>
<td>Nonperforming loans / total loans</td>
<td>1.60 ▼</td>
<td>1.33</td>
<td>1.61</td>
<td>1.40 ▼</td>
<td>1.48</td>
</tr>
<tr>
<td>Loan loss reserve coverage ratio</td>
<td>93.75</td>
<td>93.98</td>
<td>96.27</td>
<td>106.43</td>
<td>99.32</td>
</tr>
</tbody>
</table>

Note: Values are percentage points. Arrows indicate a significant (± 1 standard deviation) change from the previous quarter. See appendix for notes and sources.

Federal Reserve Bank of St. Louis — Memphis Zone
Another Bountiful Harvest Leads to Freefalling Commodity Prices

By Lowell R. Ricketts, Senior Research Associate

“Commodity prices are lower for all crops compared to previous years. The new farm bill and its reimbursement programs will impact crop allocation in addition to the redistributive effect depressed prices will have.”

— Western Tennessee farmer

“Although cotton has had a recent comeback, the loss of the nation’s cotton gins will prevent a return to historical production levels.”

— Eastern Arkansas farmer

With the exception of corn in Arkansas and Mississippi, crop production levels surpassed last year’s exceptional harvest by a significant margin (see table). The decline in corn production was primarily driven by about 37 percent fewer farmland acres allocated for corn in 2014 across both Arkansas and Mississippi. Cotton production for the zone states and the nation as a whole surged despite headwinds noted by regional farmers (see comments).

Commodity prices for corn and soybeans as well as other crops fell substantially following the bountiful 2013 harvest (see chart). Leading into the 2014 harvest, soybean prices had mostly recovered but corn prices remained very weak. Commodity prices have plummeted given another very productive harvest. Row crop farmers within the zone expect a prolonged period of depressed commodity prices and diminished farm income. Few of our contacts have plans to make capital investments, but most expect to persevere despite depressed conditions.

While coal production in Mississippi declined significantly in the third quarter, it was still close to its level at the same time in 2012. The decline is misleading since coal production in the state reached its highest historical level in the third quarter of 2013 (see table).

Note: Values are percent change from one year ago. Arrows indicate a significant (± 1 standard deviation) change from the previous quarter or year. See appendix for notes and sources.
Appendix

Cover Page

Sources

Bureau of Labor Statistics

Unemployment rate, nonfarm payroll employment.

Labor Markets

Table Sources

Bureau of Labor Statistics

Unemployment rate. Nonfarm employment and contributions by sector.

Notes

Goods-producing sector comprises the manufacturing and natural resources, mining, and construction sectors.

Private service-providing sector includes the following sectors: trade, transportation, and utilities; information; financial activities; professional and business services; education and health services; leisure and hospitality; and other services.

Unemployment rate data are seasonally adjusted.

Manufacturing and Transportation

Table Sources

Bureau of Labor Statistics

Transportation employment: includes transportation and warehousing industries.

Manufacturing employment: total, durable, and nondurable goods.

World Institute for Strategic Economic Research

Manufacturing exports: dollar value.

Notes

Manufacturing labor input is defined as the average weekly hours worked by production and nonsupervisory employees in the manufacturing industry multiplied by the monthly average of total number of production and nonsupervisory employees in the manufacturing industry.

Transportation employment in Memphis covers transportation, warehousing, and utility industries. About 90 percent of the reported jobs are contributed by transportation and warehousing industries.

Manufacturing exports are defined as total dollar amount of exports by the manufacturing industries.

Durable goods manufacturing sector is defined by the Bureau of Labor Statistics as industries with a NAICS classification code of 321 (Wood Product Manufacturing); 327 (Nonmetallic Mineral Product Manufacturing); 331 (Primary Metal Manufacturing); 332 (Fabricated Metal Product Manufacturing); 333 (Machinery Manufacturing); 334 (Computer and Electronic Product Manufacturing); 335 (Electrical Equipment, Appliance, and Component Manufacturing); 336 (Transportation Equipment Manufacturing); 337 (Furniture and Related Product Manufacturing); and 339 (Misc. Manufacturing).

Nondurable goods manufacturing sector is defined by the Bureau of Labor Statistics as industries with a NAICS classification code of 311 (Food Manufacturing); 312 (Beverage and Tobacco Product Manufacturing); 313 (Textile Mills); 314 (Textile Product Mills); 315 (Apparel Manufacturing); 316 (Leather and Allied Product Manufacturing); 322 (Paper Manufacturing); 323 (Printing and Related Support Activities); 324 (Petroleum and Coal Products Manufacturing); 325 (Chemical Manufacturing); and 326 (Plastics and Rubber Products Manufacturing).

Real Estate and Construction

Table Sources

CoreLogic

Home price index, including distressed sales.

Census Bureau

Year-to-date single-family building permits.

Memphis Area Association of Realtors

Year-to-date new and existing home sales.

Notes

Asking rent is the publicized asking rent price. Data are in current dollars.

Vacancy rate is the percentage of total inventory physically vacant as of the survey date, including direct vacant and sublease space.

New and existing home sales consist of single-family home sales.

Household Sector

Table Sources

Equifax based on authors’ calculations

All figures are based on a 5 percent sample of individual credit reports. Balances are geographical averages of various debt categories. The mortgage category includes first mortgages and home equity installment loans, but home equity lines of credit are omitted. Auto loans include those financed by finance company or bank loans. Credit cards are revolving accounts at banks, bankcard companies, national credit card companies, credit unions, and savings and loan associations.

Haver Analytics

Per capita income.

Notes

Delinquency rates are calculated as the percentage of payments past due by more than 90 days, weighted by the dollar value of the loan.
Banking and Finance

Table Sources

Federal Financial Institutions Examination Council

- Return on average assets: USL15ROA. Net interest margin: USL15NIM. Nonperforming loans: USL15NPTL. Loan loss reserve/Total loans: USL15LLRTL. Net loan losses/Average total loans: USL15LSTL.

Note: The data available in the table can be found in FRED.

Notes

Loan loss provisions are expenses banks set aside as an allowance for bad loans.

Nonperforming loans are those loans managers classify as 90 days or more past due or nonaccrual, which means they are more likely to default.

Loan loss coverage ratio is loan loss reserves divided by nonperforming loans.

US peer banks are those commercial banks with assets of less than $15 billion.

Due to the seasonal nature of bank return on average assets and net interest margin, the arrows in the table denote significant changes from one year ago.

Agriculture and Natural Resources

Table Sources

Energy Information Administration (EIA)

- Coal production. Note: Production trends identified in report may be inconsistent with previous reports due to data revisions.

Bureau of Labor Statistics (BLS)

- Mining and logging employment.

United States Department of Agriculture (USDA)

- Crop production and commodity prices.
  - Commodity prices were unavailable for some states due to insufficient data available to provide an estimate.

Note

The results of the Federal Reserve Bank of St. Louis Agricultural Finance Monitor are not reported due to a low response rate for the Memphis zone.