



# Burgundy Book

A report on economic conditions in the Little Rock zone

Fourth Quarter 2015

The Little Rock zone of the Federal Reserve comprises the majority of Arkansas, except northeast Arkansas. The total population is approximately 2.5 million people, including the 710,000 who live in the Little Rock MSA.

## Third-Quarter Job Growth in Little Rock Rose at Its Fastest Rate Since 2006

By Kevin L. Kliesen, *Business Economist and Research Officer*

According to a November survey of business contacts, 48 percent expect that economic conditions in 2016 will be somewhat better than in 2015, while only 14 percent of contacts expect economic conditions will be somewhat worse.

Measured from a year earlier, nonfarm payroll employment in the Little Rock MSA rose 2.3 percent in the third quarter of 2015. This was the strongest growth since the third quarter of 2006. Employment growth was slightly weaker in the Fayetteville MSA, was unchanged in the Texarkana MSA, but fell slightly in the Fort Smith MSA.

The zone's unemployment rate averaged 5.1 percent in the third quarter of 2015, its lowest level since the third quarter of 2008.

Single-family building permits increased in the third quarter in four of the six MSAs. House prices were up from a year earlier in all six MSAs, paced by increases in the Hot Springs and Texarkana MSAs that exceeded the national average.

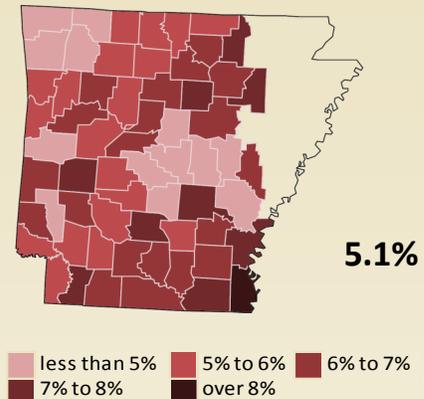
Per capita total debt balances rose in the Little Rock zone in the third quarter, as mortgage debt rose from year-earlier levels for the first time since 2012.

In the third quarter, return on average assets at Arkansas banks remained appreciably higher than at U.S. peer banks. Arkansas bankers reported that loan demand in the fourth quarter was unchanged from a year earlier.

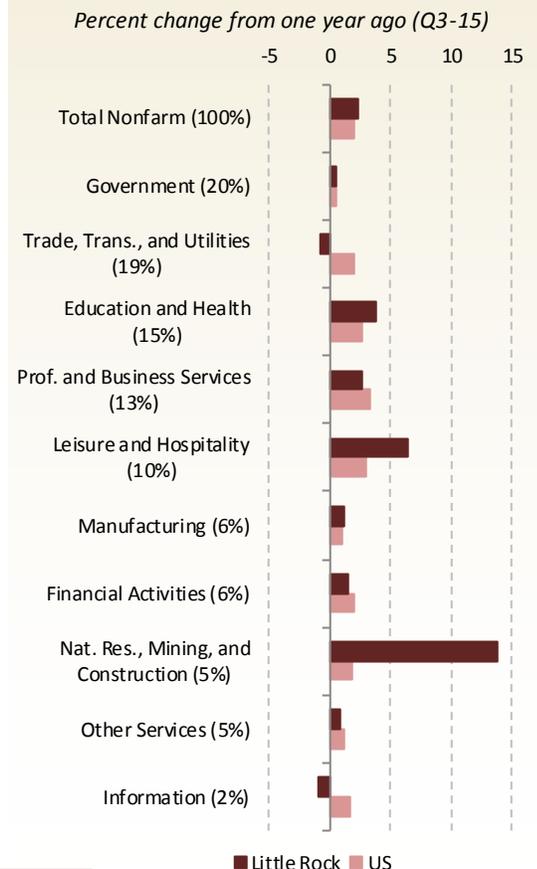
According to preliminary estimates, Arkansas farmers harvested less corn, cotton, and rice in 2015 compared with a year earlier.

### Data Snapshot

#### County unemployment rates (SA, Q3-15)



#### Nonfarm payroll employment by industry



## 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 Little Rock zone** are based on data availability and are calculated as weighted averages of either the 62 counties in the zone or the six MSAs. As of 2012, approximately 74 percent of the zone's labor force was located in an MSA. Specifically: 29 percent in Little Rock, 20 percent in Fayetteville, 11 percent in Fort Smith, 6 percent in Texarkana, 4 percent in Pine Bluff, and 4 percent in Hot Springs; 26 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 6 and November 16.

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

<http://research.stlouisfed.org/outlooksurvey/>

or email us at [beigebook@stls.frb.org](mailto:beigebook@stls.frb.org).

*Views expressed do not necessarily reflect official positions of the Federal Reserve System.*

## Labor Market Improving in Little Rock, Mixed Across Other Regions

By Maria A. Arias, Senior Research Associate

*“Industrial mechanics with acceptable trade skills remain extremely hard to find.”*

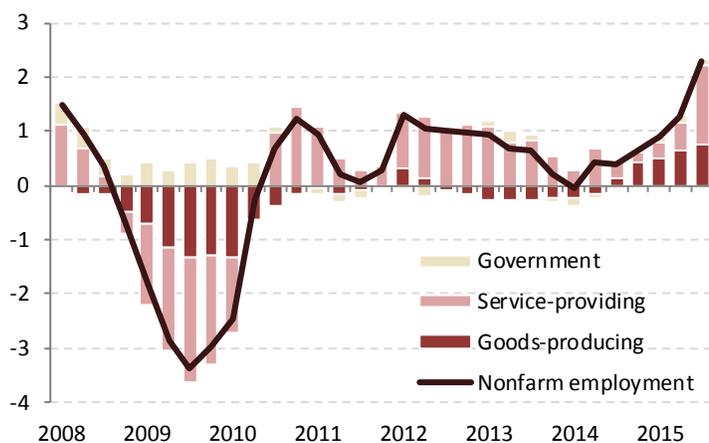
—Little Rock area contact

*“Wages are increasing for skilled workers. There are more people beginning to change jobs for higher pay as employers are recruiting from one another.”*

—Little Rock area contact

### Private sector driving employment growth in Little Rock

Percent change from year ago



Source: BLS.

- Employment growth in Little Rock strengthened significantly during the third quarter, surpassing the national rate. Overall growth was driven by the private sector (see table and figure). The fastest-growing sectors were the natural resource and construction, leisure and hospitality, and education and health services sectors, together adding about 6,300 jobs in the last year, or about 80 percent of the total jobs added since the third quarter of 2014.
- In Fayetteville, employment growth slowed down but remained positive, with government employment growth offsetting the slowdown in the private sector. The unemployment rate also declined significantly from the previous quarter. Job growth in Fort Smith and Texarkana remain weak (see table).
- A survey of hiring managers in the zone suggests slight employment growth during the remainder of the year. Twenty percent of contacts expect employment to increase in the first quarter compared with a year ago and 80 percent remain the same as last year.
- About half of the 20 hiring managers surveyed are actively seeking new employees, primarily because sales are higher or current staff are overworked. Many noted trouble finding qualified workers, and about two-thirds are raising wages and salaries to fill some new positions.

	Little Rock	Fayetteville	Fort Smith	Texarkana	US
Unemployment rate (Q3-15) (%)	4.6 ▼	3.7 ▼	5.7	4.9	5.1
Nonfarm employment (Q3-15)	2.3 ▲	2.0 ▼	-0.3	0.0	2.1
Goods-producing sector	6.9	-0.4	-3.5	-6.0 ▼	1.4
Private service-providing sector	2.1 ▲	2.4 ▼	0.8	0.8	2.5
Government sector	0.5	2.9	-0.2	1.3	0.5

Note: Unless otherwise noted, values are percent change from one year ago. Arrows indicate a significant ( $\pm 1$  standard deviation) change from the previous quarter. See appendix for notes and sources.

## Manufacturing Activity Slips in Arkansas

By Daniel Eubanks, Senior Research Associate

*“I’m concerned about low oil prices and their effect on manufacturing.”*

—Little Rock area transportation executive

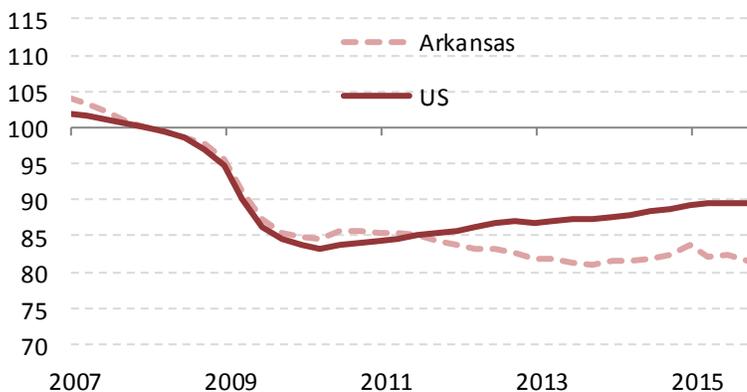
*“Imports from South American suppliers are lowering domestic prices in medium-density fiberboard markets.”*

—Central Arkansas manufacturer

- After a few quarters of growth, manufacturing employment in Arkansas contracted in the third quarter of 2015. Declines occurred in the manufacturing of both durable and nondurable goods. Manufacturing employment in Arkansas is now nearly 20 percent below its pre-recession level (see figure). One bright spot was the Little Rock metro area, where employment growth in the sector slightly exceeded the national average (see table).
- Consistent with the job losses in that sector, manufacturing exports from Arkansas decreased year over year, driven by declines in exports of transportation equipment, fabricated metal products, primary metals, and food products.
- Manufacturing contacts report stronger competition from imports as a result of the strong dollar as one reason for weakness.
- Employment growth in the transportation and warehousing sector slowed significantly in Arkansas, from 2.6 percent to 0.6 percent. In Little Rock, the number of employees in the sector decreased.
- Contacts in transportation report that freight volume is weak for this time of year, and some report laying-off truck drivers due to lack of volume.

### Arkansas manufacturing employment falls farther below pre-recession level

Index, 2007 Q4 = 100



Source: BLS.

	Little Rock	Fayetteville	Arkansas	US
Transportation employment (Q3-15)	-1.7	2.4	0.6 ▼	2.9
Manufacturing employment (Q3-15)	1.2	-0.7	-1.2 ▼	1.0
Durable goods	--	--	-1.7 ▼	1.1
Nondurable goods	--	--	-0.7 ▼	0.8
Manufacturing exports (Q3-15)	--	--	-14.3	-7.1

Note: Values are percent change from one year ago. Arrows indicate a significant ( $\pm 1$  standard deviation) change from the previous quarter; see appendix for notes and sources.

## Retail Real Estate Activity Strengthens

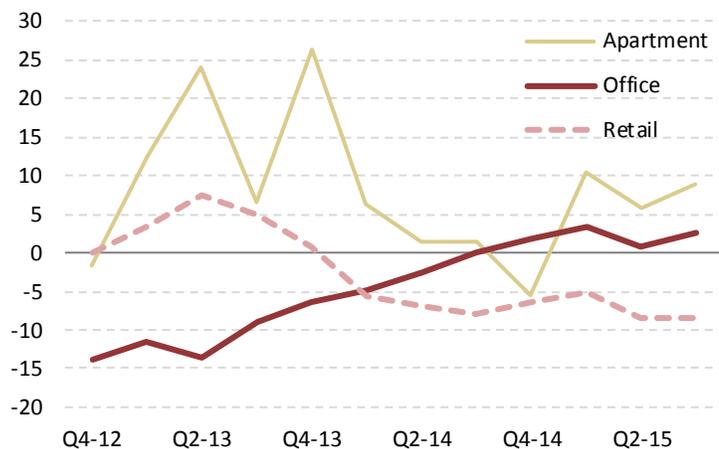
By Usa Kerdnunvong, *Research Associate*

*“One noticeable change is with retail demand and availability. More build-to-suit projects due to growth in consumer spending.”*

—Little Rock area real estate contact

### Retail vacancies trending down in Little Rock

Percent change from one year ago



Source: Reis.

- Commercial real estate activity has been mixed in Little Rock. Both apartment and office vacancies have risen, while vacancies in retail properties have declined (see figure). Asking rents continued to increase across these three sectors.
- Commercial real estate contacts reported slightly higher demand for retail and industrial construction and expect demand for new projects to continue to increase in these sectors during the first quarter of 2016.
- Residential real estate activity in the zone continued to show improvement, albeit at a slower pace than the nation. Home prices increased across all MSAs, with the strongest appreciation in Hot Springs.
- Third-quarter home sales were 7 percent higher than one year ago in Little Rock—a faster rate than the previous quarter (5 percent), though still lagging behind the national rate.
- Residential construction activity across most parts of the zone has been brisk. Single-family building permits increased at a faster pace than the nation in two-thirds of the MSAs. The increase in activity can also be seen in stronger job growth in the construction sector (see bar chart on cover).

Non-residential market (Little Rock, Q3-15)	Apartment	Office	Retail	Industrial
Vacancy rate (%)	7.3	12.3	10.7	--
Asking rent	3.4	0.8 ▲	1.9 ▲	--
<i>Percent change from one year ago</i>				

Note: Apartment, office, and retail values are from Reis.com. Industrial values are estimates from DTZ.

Residential market (Q3-15)	Little Rock	Fayetteville	Fort Smith	Hot Springs	Pine Bluff	Texarkana	US
CoreLogic Home Price Index	1.8	5.4	3.6	13.7	3.7	7.2 ▼	5.8
Single-family building permits	23.9	27.5	13.6	31.0	-40.0	-71.4	9.2
New and existing home sales	7.1	--	--	--	--	--	9.1

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 the previous quarter. See appendix for notes and sources.

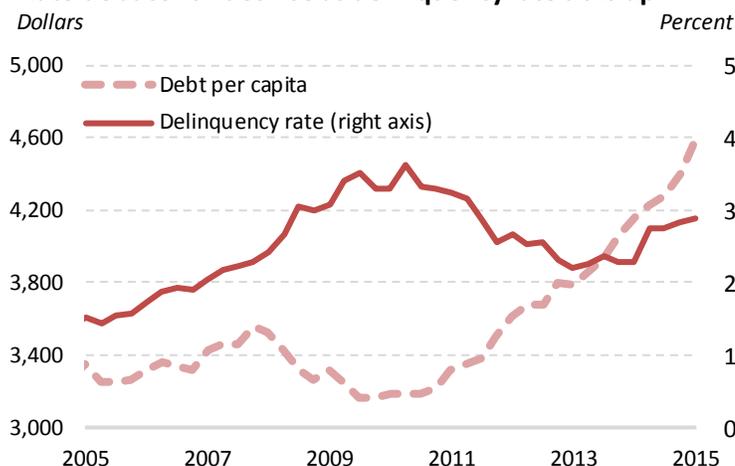
## Zone Auto Debt Continues To Grow; Mortgage Debt Increases

By Joseph McGillicuddy, *Research Associate*

*“Low gas prices and good weather recently are positively influencing consumer spending.”*

— Conway area auto dealer

### Auto debt continues rise as delinquency rate ticks up



Source: FRBNY Consumer Credit Panel and Equifax.

- Personal income growth in Arkansas was 2.9 percent higher than one year ago, which is slightly below the growth rate in the first quarter and the national rate in the second quarter.
- Zone auto debt balances have increased steadily since 2011 and show no signs of slowing. Meanwhile, some households have recently been less able to pay off their auto debt: The zone's delinquency rate has increased by more than half a percentage point over the past six quarters (see figure).
- Credit card debt per capita continued to increase during the third quarter, but remained below the growth rate of the nation. Similar to the U.S. rate, the zone's credit card delinquency rate was largely unchanged. Consistent with this trend of higher consumer spending, taxable sales in Arkansas rose sharply in the third quarter.
- Households in the zone increased their mortgage debt year-over-year for the first time since 2012, slightly surpassing the national average in the third quarter. The mortgage delinquency rate continued to fall in the zone and in the nation overall.

	Little Rock Zone	Arkansas	Little Rock MSA	US
Per capita personal income (Q2-15)	--	2.9	--	3.3
Per capita debt balances (Q3-15)				
Mortgage	0.3 ▲	0.0	-1.2 ▲	0.0
Credit card	2.3	1.9	0.7	3.0
Auto loan	10.2	10.2	8.5	9.7
90+ day delinquency rates (Q3-15) (%)				
Mortgage	1.5	1.6	1.5	2.0
Credit card	7.4	7.6	6.9	7.8
Auto loan	0.0	2.9	3.6	3.1

Note: Unless otherwise noted, values are percent change from one year ago. Arrows indicate a significant ( $\pm 1$  standard deviation) change from the previous quarter. See appendix for notes and sources.

## Banking Conditions Stable in Little Rock Zone

By Michelle Neely, *Economist*, and Hannah Shell, *Research Associate*

*“Business lending is affected by an increased need for working capital.”*

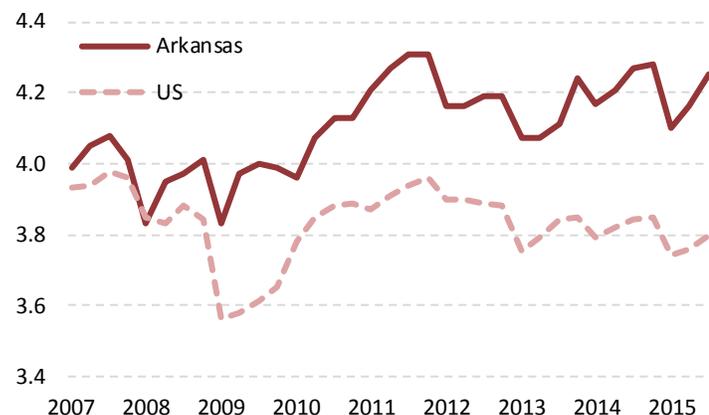
—Little Rock banker

*“Rising debt is affecting consumer borrowing decisions.”*

—Little Rock banker

### Hike in margins boosts profitability at Arkansas banks

Net interest margin at commercial banks, percent



Source: FRED.

- All bankers surveyed reported loan demand was unchanged in the fourth quarter compared with the same period last year. Half expect demand in the first quarter of 2016 to be stronger than it was a year ago, while the other half expect it to be unchanged.
- Respondents were split on the state of business loan demand in the fourth quarter. Most respondents expect demand for business lending to be unchanged in the first quarter from its year-ago level.
- Profitability remains high at Arkansas banks relative to District and U.S. peers. Return on average assets (ROA) at Arkansas banks rose 5 basis points to 1.25 percent in the third quarter, partially driven by a 9-basis-point increase in the average net interest margin (NIM). ROA at District peer banks increased 6 basis points in the third quarter, but remains 20 basis points below the Arkansas average.
- Asset quality was stable in the third quarter. The ratio of nonperforming loans to total loans was basically unchanged at Arkansas banks, while it dipped slightly at U.S. and District peer banks.
- Half of bankers surveyed reported delinquencies are unchanged in the fourth quarter relative to the same time last year.

### Banking performance (Q3-15)

	Arkansas	8th District	US Peer Banks
Return on average assets	1.25	1.05	1.08
Net interest margin	4.25	3.79	3.80
Nonperforming loans / total loans	1.21	1.10	1.13
Loan loss reserve coverage ratio	107.44	118.18	119.47

Note: All values are percentage points. Arrows indicate a significant ( $\pm 1$  standard deviation) change from the previous quarter. See appendix for notes and sources.

## Low Crop Prices and Rain Hurt Crop Farmers; Poultry Farming a Different Story

By Jonas C. Crews, *Research Analyst*

*“The persistent rain resulted in a large portion of acres not being planted at all, but the rest of the summer was pretty good for the harvest.”*

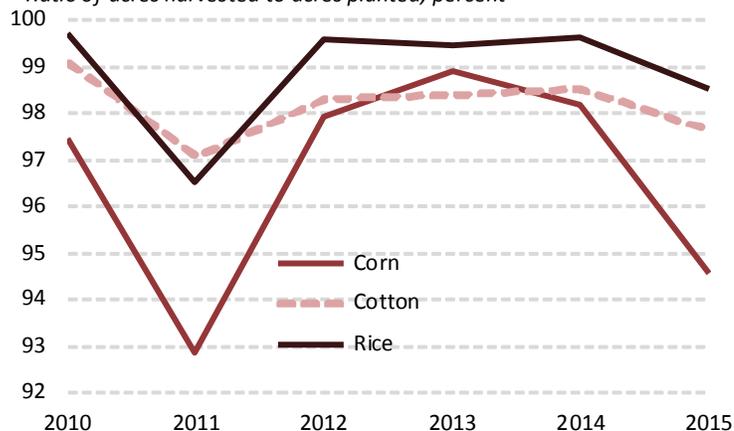
—Western Arkansas farmer

*“We are kind of an anomaly in the chicken industry. We are starting fourteen new houses per month at my company.”*

—Arkansas chicken farmer

### Weather damages early season crops

Ratio of acres harvested to acres planted, percent



Source: USDA-NASS.

- The recent drop in crop prices led farmers to shift to different crops to avoid losses. This land reallocation and the significant spring rainfall have resulted in large movements in production. According to USDA estimates, corn, cotton, and rice production (all major crops in Arkansas) are down from last year, while sorghum production increased almost threefold (see table).
- Focusing on the effects of rain during planting season, industry contacts have noted that many early-planting-season crops (i.e., corn, cotton, and rice) experienced the most damage, while late-season crops (i.e., soybeans) could not be planted in some instances. As a consequence, the soybean crop, which was expected to have a significant increase in production, experienced only a small increase above last year’s production levels. Meanwhile, the declines in the ratios of acres harvested to acres planted for corn, cotton, and rice demonstrate the extent of the rain-related crop damage (see figure).
- Contrary to current farm trends, the poultry industry seems to be experiencing extensive growth in Arkansas. One farmer has noted large production expansions at both his company and elsewhere, while an Arkansas agricultural banker attributes strong loan demand solely to expansions in the poultry industry.

	Arkansas	US
<b>Natural resources (Q3-15)</b>		
Mining and logging employment	-7.1	-9.4 ▼
Coal production	--	-9.0 ▲
<b>Estimated production (2015)</b>		
Corn	-18.4	-4.0
Cotton	-39.0	-18.6 ▼
Rice	-14.3 ▼	-13.7 ▼
Sorghum	168.7	37.3
Soybean	0.4	0.3

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

## 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.

**Average hourly earnings** are in current dollars.

## 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

**Transportation employment** in Little Rock and Fayetteville 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.

*Janet Jones Company 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

### 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)*

Production, harvested acres, and planted acres estimates as of November 2015.