



Burgundy Book

A report on economic conditions in the Memphis zone

Fourth Quarter 2015

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.

Business Contacts Are Split on the Outlook for the Local Economy in 2016

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

According to a November survey, about 35 percent of Memphis-zone business contacts expect local economic conditions to worsen in 2016, while about 31 percent expect conditions to improve.

In the third quarter, nonfarm payroll employment rose by 1 percent in the Memphis MSA and by 1.8 percent in the Jackson MSA. Employment gains remained the strongest in the Jonesboro MSA, as employment was up by 4.5 percent over the past year. In Mississippi, nondurable goods manufacturing employment in the third quarter increased at its fastest rate in more than a decade.

The Memphis zone's unemployment rate averaged 6.7 percent in the third quarter of 2015, down 1.1 percentage points from a year earlier and at its lowest rate since the first quarter of 2008.

Residential real estate activity in the Memphis zone continued to be weaker than for the nation in the third quarter. However, there have been pockets of strength, as seen by solid year-to-date growth of home sales in the Memphis MSA and healthy house price gains in the Jonesboro MSA over the past year.

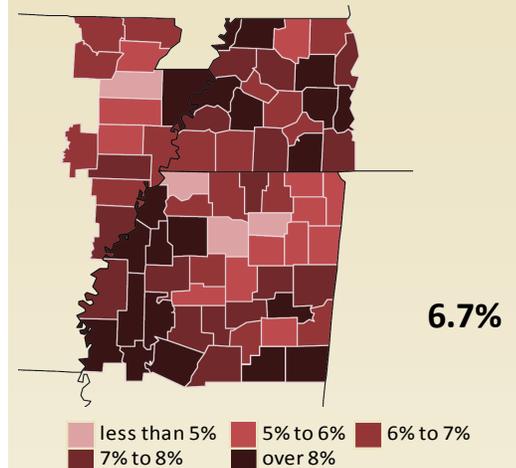
In the Memphis zone, per capita auto debt continued to rise rapidly in the third quarter. By contrast, per capita mortgage debt as a share of total debt fell to its lowest level in about 15 years.

Commercial bankers reported that business loan demand continued to strengthen in the fourth quarter, and most expect further increases in loan demand in the first quarter of 2016.

Cotton and rice production in 2015 was down sharply from a year earlier in Arkansas, Mississippi, and Tennessee according to preliminary estimates.

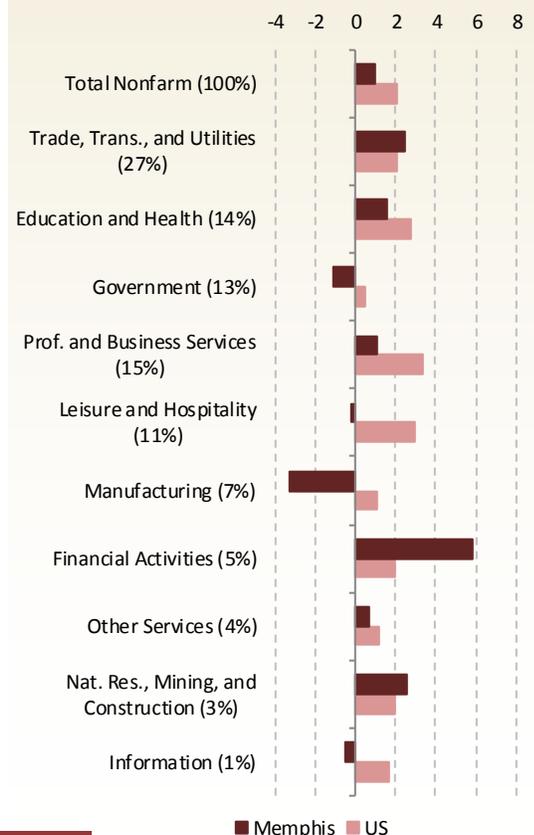
Data Snapshot

County unemployment rates (SA, Q3-15)



Nonfarm payroll employment by industry

Percent change from one year ago (Q3-15)



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 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/beigebooksurvey/>

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

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

Employment Growth Dragging in Memphis, Slightly Improving in Jackson

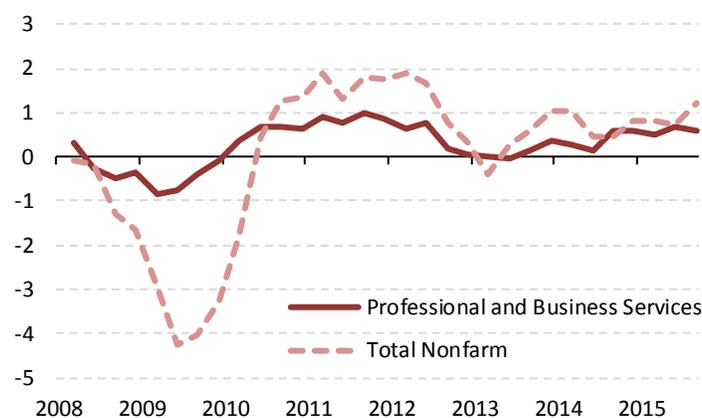
By Maria A. Arias, Senior Research Associate

“Stronger dollar on top of depressed commodity prices is now starting to infiltrate the entire agriculture sector as there are a lot of layoffs starting to occur among distributors, manufacturers and sales of agricultural products.”

—Memphis area farmer

Prof. and business services driving job growth in Jackson

Nonfarm employment, change from year ago (thousands)



Source: BLS.

- Labor market conditions remained mixed throughout the zone. Job losses in the goods-producing sector continued to drag on overall growth in Memphis. Growth in Jonesboro’s private sector was partially offset by a slowdown in the public sector, though Jonesboro continued to grow at twice the national rate.
- Jackson, Tennessee, saw the greatest increases in employment growth during the third quarter despite still growing at a slower pace than the national average. The increase was driven by growth in the professional and business services sector, which contributed about half of the jobs so far this year (see figure).
- Anecdotal information from business contacts surveyed in the zone revealed that employment growth is expected to remain slow. Contacts also reported that wages increased only slightly from one year ago. However, most hiring managers surveyed reported that they were increasing wages and salaries across most new jobs to attract new hires.
- During the third quarter, average wages for private-sector employees were 0.9 percent higher in Memphis than the previous year and 6.8 percent higher in Jonesboro, while they were 4 percent lower in Jackson, compared with an average growth of 2.2 percent nationwide.

	Memphis	Jackson	Jonesboro, AR	US
Unemployment rate (Q3-15) (%)	6.4	6.1	4.6 ▼	5.1
Nonfarm employment (Q3-15)	1.0	1.8	4.5	2.1
Goods-producing sector	-1.4	1.3	3.4	1.4
Private service-providing sector	1.7	2.4	5.5	2.5
Government sector	-1.1	0.8	1.6	0.5

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.

Nondurable Goods Manufacturing Accelerates in Mississippi

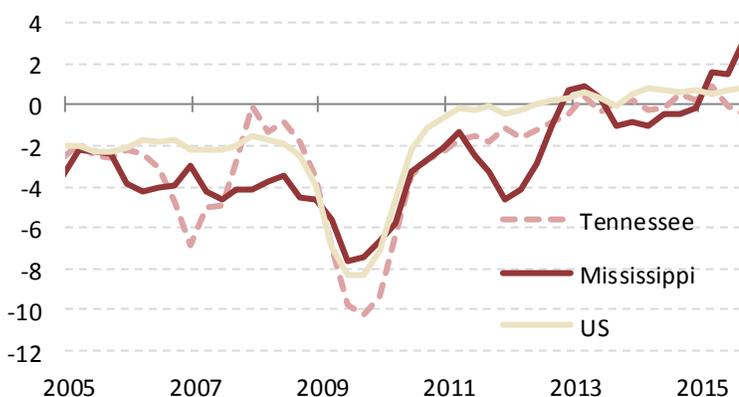
By Daniel Eubanks, Senior Research Associate

“Sales were short of expectations because of uncertainty in the general economy.”
 —Memphis area manufacturer

- Manufacturing employment growth was mixed in the third quarter. Employment continued to decline in the Memphis area, with weakness in both the durable and nondurable goods sectors. In Mississippi, employment growth in the nondurable goods sector accelerated to its fastest rate in over a decade (see figure), pushing the state’s overall manufacturing employment growth rate above the U.S. average despite weak growth in the durable goods sector. In Tennessee, growth in durable goods employment was offset by a decline in nondurable goods employment.
- Manufacturing exports from Mississippi fell year over year, driven by double-digit declines in exports of petroleum and coal products. Exports from Tennessee also fell, with declines in exports of food products, chemical products, and primary metals.
- Contacts in furniture manufacturing in Mississippi report that orders increased in the third quarter and that most plants are working overtime to meet the higher demand.
- Although still strong, employment growth in the transportation and warehousing sector in Mississippi slowed sharply from 5.6 percent to 3.4 percent. Employment growth in this sector also slowed in the Memphis area, but accelerated in Tennessee overall. Contacts in the trucking industry report that reduced diesel prices are boosting revenues.

Nondurable goods manufacturing employment in Mississippi grows at fastest pace in over a decade

Percent change from one year ago



Source: BLS.

	Memphis	Tennessee	Mississippi	US
Transportation employment (Q3-15)	1.5	3.7	3.4 ▼	2.9
Manufacturing employment (Q3-15)	-3.3	1.7	1.4	1.0
Durable goods	-2.3	3.0	0.5	1.1
Nondurable goods	-4.3	-0.4	3.1 ▲	0.8
Manufacturing exports (Q3-15)	--	-2.2	-3.8	-7.1

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.

Commercial Real Estate Market and Construction Activities Are Strong

By Usa Kerdnunvong, Research Associate

“Large firms are looking for attractive new spaces...At least three large firms are currently in the market for build-to-suit buildings.”

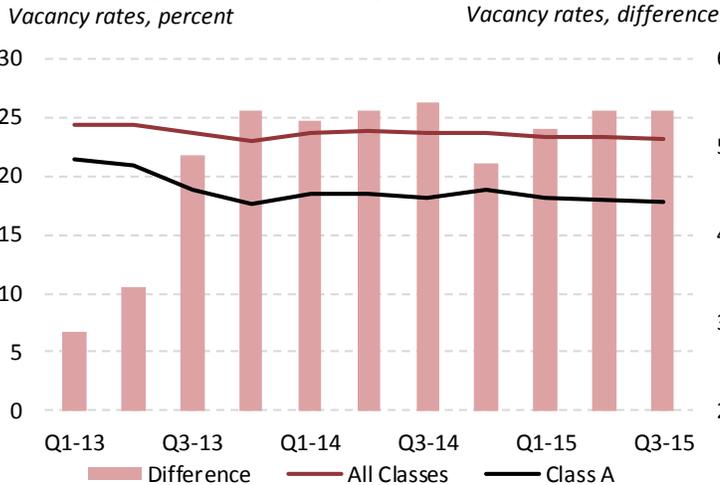
—Memphis area real estate contact

“Due to high rent growth in Class A spaces, Class B space is becoming more appealing for its affordability.”

—Memphis area business contact

- The commercial real estate activity in Memphis has been strong, especially in the office and retail sectors. The low vacancy rates and high rent for class A spaces are pushing users into the more-affordable class B spaces. The difference between overall office market and class A vacancies is stabilizing (see figure). Contacts have noted East Memphis class A office space is currently 99 percent occupied in the third quarter.
- Commercial construction activity continued to be strong. For the retail sector, over 50 thousand square feet are under construction and over 700 thousand are planned/proposed in Memphis.
- Residential real estate activity grew at a modest pace. Memphis home sales have rebounded in the past two quarters, and year-to-date sales are now 7.5 percent higher than last year. Home prices declined in Jackson and increased in Memphis and Jonesboro. However, prices in the Memphis MSA grew significantly more slowly than in the second quarter (see table).
- Residential real estate construction in the zone grew at a slow pace in the third quarter. Compared with the same time a year ago, single-family building permits were down 1.9 percent in Memphis, the same in Jonesboro, and up only 0.4 percent in Jackson (see table).

Low vacancy rates in class A spaces



Source: Reis.com.

Non-residential market (Memphis, Q3-15)	Apartment	Office	Retail	Industrial
Vacancy rate (%)	7.7 ▲	23.2	11.1 ▼	10.6
Asking rent	2.4	1.0	1.2	-9.3
Percent change from one year ago				

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

Residential market (Q3-15)	Memphis	Jackson	Jonesboro	US
CoreLogic Home Price Index	1.9 ▼	-0.2	4.2	5.8
Single-family building permits	-1.9	0.4	0.0	9.2
New and existing home sales	7.5	--	--	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.

Auto Debt Continues To Rise

By Joseph McGillicuddy, *Research Associate**"Business travel has increased."*

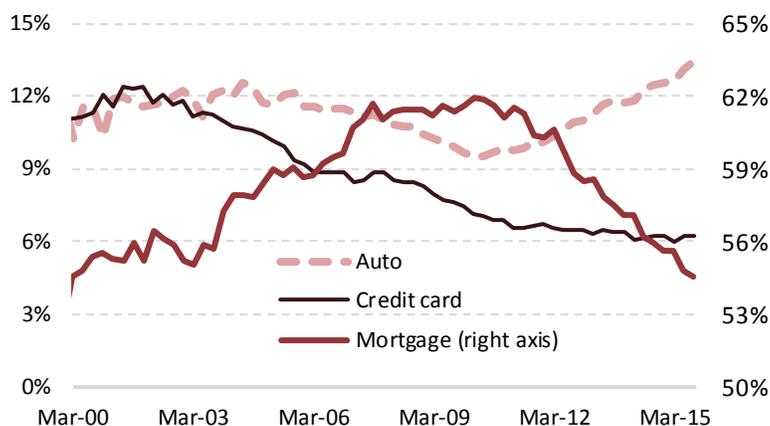
—Jonesboro area hospitality contact

"Lower fuel prices and more disposable income have positively influenced consumer spending."

—Jonesboro area auto dealer

"The Memphis luxury segment is dragging behind."

—Memphis area auto dealer

Auto debt as share of total debt per capita reaches peak*Share of total debt per capita*

Source: FRBNY Consumer Credit Panel and Equifax.

- Income per capita growth slowed across Arkansas, Mississippi, and Tennessee in the second quarter of 2015. All three states' growth rates were below that of the nation (see table).
- The average household's debt composition continues to move away from mortgages and credit card debt toward auto debt. As a percentage of total debt per capita, zone auto debt continues to climb and has reached its greatest share since 2000 with no signs of abating (see figure). However, several local auto dealers have noted that sales halfway through the fourth quarter have fallen below expectations.
- Households across Arkansas, Mississippi, and Tennessee are increasing mortgage debt compared with a year ago, while households in the Memphis zone continued to unwind their mortgage debt in the third quarter of 2015.
- Zone credit card debt growth slowed slightly in the third quarter, falling below the nation's growth rate.
- Following the trend of the nation, delinquency rates in the zone remained largely unchanged during the third quarter.

	Memphis Zone	Arkansas	Mississippi	Tennessee	US
Per capita personal income (Q2-15)	--	2.9	2.3	3.0	3.3
Per capita debt balances (Q3-15)					
Mortgage	-0.5	0.0	1.1	0.6	0.0
Credit card	2.5	1.9	5.1	3.4	3.0
Auto loan	10.5	10.2	11.4	10.2	9.7
90+ day delinquency rates (Q3-15) (%)					
Mortgage	2.0	1.6	2.1	1.4	2.0
Credit card	7.6	7.6	6.9	7.2	7.8
Auto loan	4.4	2.9	5.0	3.2	3.1

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.

Banking Conditions Steady in Memphis Zone

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

“Our line of business teams are out there calling on clients and prospects to bring in new loans in a very competitive market.”

—Memphis area banker

“Business loan demand is improving, but low loan-to-deposit ratios are hurting smaller community banks.”

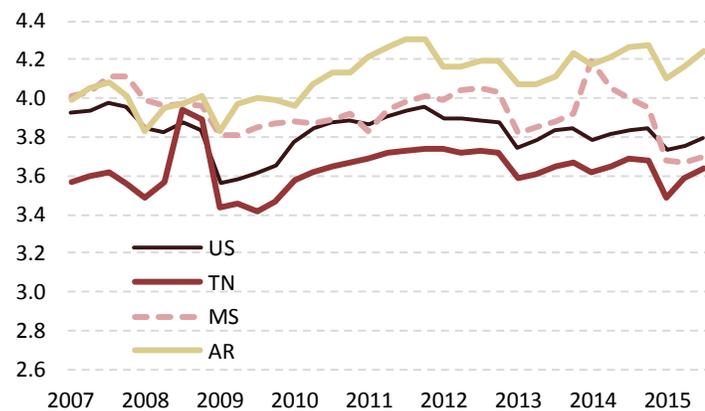
—Jonesboro banker

“Difficulty of the loan application process at banks compared with nonbank lenders is affecting consumer borrowing.”

—Memphis area banker

Margins rebounding at Mississippi banks

Net interest margin at commercial banks, percent



Source: FRED.

- Most bankers surveyed reported loan demand is somewhat higher in the fourth quarter compared with the same time last year; the rest said it is unchanged. Two-thirds of respondents expect that demand will continue to be higher into the first quarter, while the other third expects it will be unchanged.
- All respondents said demand for business lending is stronger or slightly stronger in the fourth quarter compared with the same time last year. Three-fourths of respondents predict demand for business loans will be higher in the first quarter, while one-fourth predicted it will be unchanged.
- Profitability trends were positive in the third quarter. Return on average assets (ROA) increased at banks in Tennessee and Arkansas and was unchanged at banks in Mississippi. Net interest margins were up in all three states of the Memphis zone.
- The ratio of nonperforming loans to total loans fell 4 basis points in Tennessee and 1 basis point in Arkansas, while it increased slightly at banks in Mississippi. Nevertheless, the average nonperforming loan ratio in Mississippi is the lowest in the zone and only slightly above that of District and national peers.
- Most bankers surveyed reported delinquency rates in the fourth quarter are unchanged compared with the same period a year ago. All respondents predict delinquencies will be unchanged to slightly lower in the first quarter of 2016.

Banking performance (Q3-15)	Tennessee	Mississippi	Arkansas	8th District	US Peer Banks
Return on average assets	0.88	0.94	1.25	1.05	1.08
Net interest margin	3.64	3.70 ▼	4.25	3.79	3.80
Nonperforming loans / total loans	1.21	1.18	1.21	1.10	1.13
Loan loss reserve coverage ratio	105.79	94.07	107.44	118.18	119.47

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

Low Commodity Prices and Spring Rain Increase Farm Income Concerns

By Jonas C. Crews, Research Analyst

“We are going to lose young farmers who don’t have a lot of equity, specifically those with equity accounting for less than 50 percent of their total assets.”

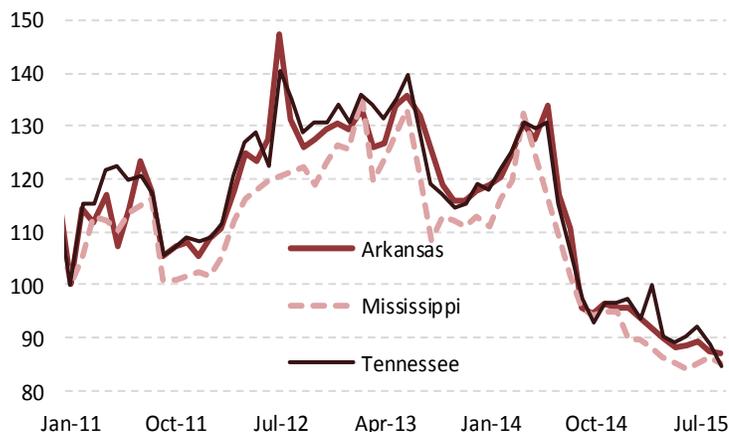
—Northern Mississippi farmer

“When farm income is down, everyone is ‘sick.’”

—Central Mississippi farmer

Soybean received prices decline to five year lows

Index of \$/BU, Jan-11=100



Source: USDA-NASS.

- Low commodity prices and extensive spring rain led to very different estimated production levels from the 2014 levels. In an attempt to combat the price drop, many farmers decided to plant sorghum and soybeans instead of corn and cotton. However, field flooding significantly restricted the number of acres that could be planted for soybeans and thus hindered overall production. While there were no significant changes in rice planting patterns, weather conditions adversely affected yields and drove down production.
- Soybeans, the most planted crop in every state of the zone, continue to experience price declines although production was less than anticipated (see figure). Therefore, profit margins are becoming even tighter for the many soybean farmers who are already being hindered by a reduced crop size over which to spread fixed costs.
- The current situation for soybean farmers adds to the growing concerns for farm income. Contacts note that the current price and production levels may lead to financial troubles for highly leveraged farmers, as net losses are a possibility for many farmers. They also note that the dependency of the zone’s rural areas on agriculture will possibly result in a wide-reaching economic impact of declining farm income.

	Arkansas	Mississippi	Tennessee	US
Natural resources (Q3-15)				
Mining and logging employment	-7.1	-8.7	--	-9.4 ▼
Coal production	--	-27.4	-12.0 ▼	-9.0 ▲
Estimated production (2015)				
Corn	-18.4	0.0	-19.5	-4.0
Cotton	-39.0	-35.1 ▼	-41.3 ▼	-18.6 ▼
Rice	-14.3 ▼	-23.4 ▼	--	-13.7 ▼
Sorghum	168.7	19.1	--	37.3
Soybean	0.4	-8.3	9.8	0.3

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.

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 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

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 estimates as of November 2015 and crop prices received.