



Burgundy Book

A report on economic conditions in the Little Rock zone

First Quarter 2016

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.

Despite Mostly Solid Growth, Contacts Are More Concerned about 2016's Economy

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

According to a February survey of business contacts, a little less than 50 percent expect that economic conditions will worsen in 2016 compared with 2015. This is a marked decline in sentiment from three months earlier, when only 14 percent of contacts expected economic conditions to worsen in 2016.

Measured from a year earlier, nonfarm payroll employment in the Little Rock MSA increased by 1.5 percent in the fourth quarter of 2015. Payroll employment growth was stronger in the Fayetteville (4.7 percent) and Texarkana (2.2 percent) MSAs, but was about unchanged in the Fort Smith MSA. Revisions released by the U.S. Bureau of Labor Statistics in March 2016 showed significantly faster employment growth in Little Rock and Fayetteville in 2015 than initially reported.

The zone's unemployment rate averaged 4.7 percent in the fourth quarter of 2015, down 0.4 percentage points from the previous quarter and its lowest level since 2001.

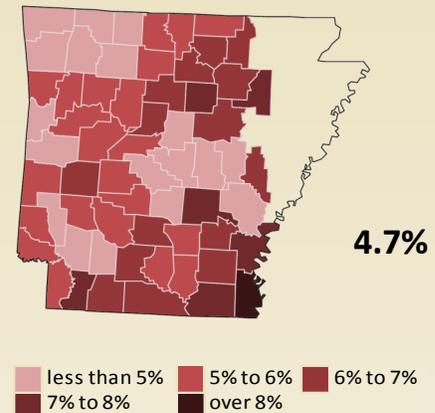
Residential building activity was mixed across the zone in the fourth quarter, as single-family building permits rose in some areas and fell in others. Commercial vacancy rates, though, increased modestly in most segments.

Arkansas bankers reported that loan demand in the second quarter of 2016 is expected to be little changed from a year earlier.

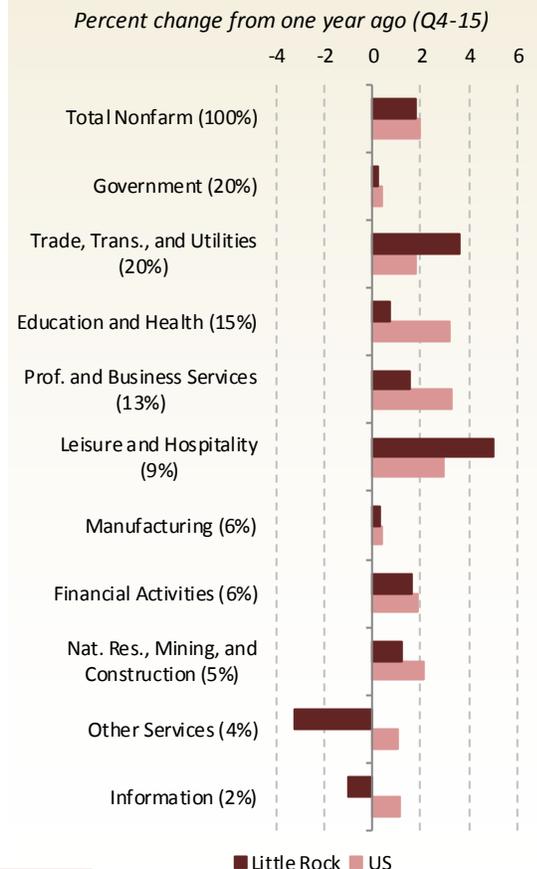
According to the USDA estimates, Arkansas cropland values increased by 3.5 percent in 2015, its slowest growth since 2009.

Data Snapshot

County unemployment rates (SA, Q4-15)



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 February 2 and February 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.

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

Employment Conditions Mixed Across the Zone

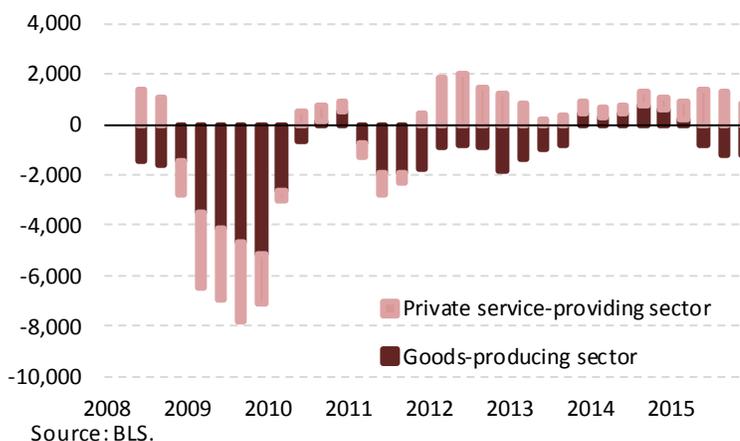
By Maria A. Arias, Senior Research Associate

“Our firm has had difficulty filling positions because of a lack of skilled applicants locally and regionally; national applicants are commanding too high of a salary.”

—Little Rock area contact

Service sector growth more than offset in 2015 by goods-producing employment decline in Fort Smith

Payroll employment, change from year ago



- The Little Rock zone saw mixed labor market conditions at the end of 2015. Employment steadily increased, but growth was slower than in the third quarter in all MSAs.
- The private service-providing sector in Fort Smith grew slightly in 2015, but the strong decline in the goods-producing sector more than offset the gains (see figure).
- Overall demand for labor in Arkansas continued to increase in 2015. There were about two unemployed persons for every advertised vacancy statewide, down from a peak of almost 6 persons per vacancy at the end of 2009.
- Even with slightly higher labor demand, about two-thirds of business contacts expect wages to remain about the same as a year ago; the remaining third expect wages to be slightly higher.
- Business contacts surveyed in the zone suggested that labor market conditions will remain stable through the middle of the year, with almost all contacts reporting that hours worked and employment remained about the same during the first quarter compared with a year ago; about 80 percent of contacts expect hours worked and employment during the next quarter will be about the same as last year; the remaining contacts expect a slight increase.

	Little Rock	Fayetteville	Fort Smith	Texarkana	US
Unemployment rate (Q4-15) (%)	4.3 ▼	3.6	5.2	4.8	5.1
Nonfarm employment (Q4-15)	1.5	4.7	0.1	2.2	2.0
Goods-producing sector	0.7 ▼	1.1 ▼	-4.9	2.1	1.0
Private service-providing sector	2.1	5.8	1.2	2.9	2.5
Government sector	0.2	3.1	2.5	0.5	0.4

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 Conditions Remain Weak Across the Little Rock Zone

By Daniel Eubanks, Senior Research Associate

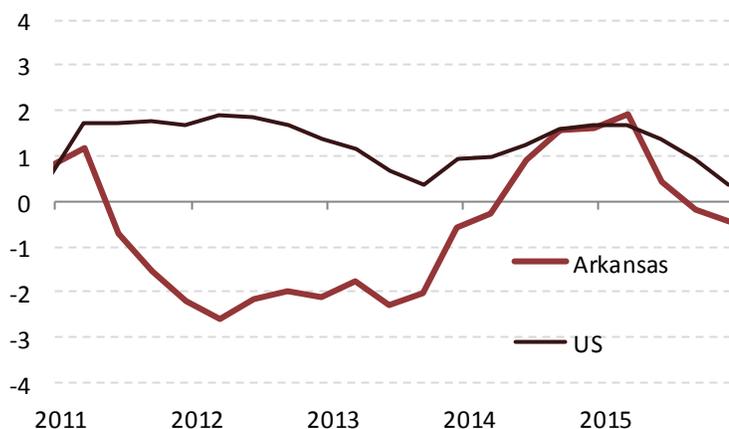
“Those in the natural gas supply chain in Arkansas are hurting and will be for some time.”

— Little Rock area business consultant

- Manufacturing employment contracted in the Little Rock zone in the fourth quarter. Statewide employment fell by 0.4 percent relative to one year ago (see figure).
- Employment declines in durable goods outweighed employment gains in nondurable goods, pushing growth into negative territory.
- Consistent with job losses in the sector, manufacturing exports from Arkansas fell 25 percent from one year ago, driven by declines in exports of transportation equipment, food and beverage products, and chemical products.
- Employment in the transportation sector ended the year on a positive note. Transportation employment statewide increased by 3.8 percent, buoyed by strong growth in the Fayetteville region.
- Contacts in the transportation sector report that trucking freight volumes are weak for this time of year. Others report that low oil prices have resulted in reduced demand from the energy sector (see quote).

Manufacturing employment in Arkansas declines

Percent change from one year ago



Source: BLS

	Little Rock	Fayetteville	Arkansas	US
Transportation employment (Q4-15)	2.5	6.2	3.8	2.8
Manufacturing employment (Q4-15)	0.3	-2.3 ▼	-0.4	0.4
Durable goods	--	--	-2.6	-0.1
Nondurable goods	--	--	1.7	1.0
Manufacturing exports (Q4-15)	--	--	-25.1	-9.0

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.

Home Sales Pick Up, While Prices Remain Flat

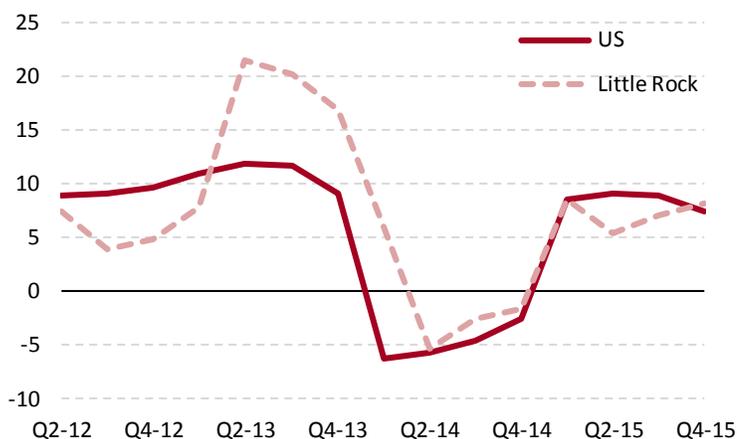
By Usa Kerdnunvong, *Research Associate*

“Home sales activity is seasonally weak. Speculative building is still very low as most local builders will not start a new home unless it is presold.”

—Little Rock zone real estate contact

Home sales growth catching up with the national trend

Percent change from one year ago, year to date



Source: Census Bureau and National Association of Realtors.

- Residential real estate activity in the zone continued to show improvement. After lagging behind the nation in the past few quarters, year-to-date home sales increased 8.1 percent compared with a year ago, rising above the national rate (see figure and table). Contacts reported that although home sales are higher, homes stayed on the market longer. Home price growth has slowed in most MSAs, and prices have fallen in the Little Rock MSA.
- In the fourth quarter of 2015, residential construction activity in the zone was mixed. Building permits in half of the zone’s major MSAs increased faster than the national pace; permits in the other half decreased (see table).
- Commercial real estate activity has been slowing in Little Rock. Vacancy rates increased in all sectors, with the exception of the apartment sector.
- Commercial construction activity has also been stable. Contacts have reported activity was unchanged compared with the same period last year and expect no change in the next quarter. In the first quarter of 2016, contacts reported very little to no speculative building and only a few build-to-suit projects.

Non-residential market (Little Rock, Q4-15)	Apartment	Office	Retail	Industrial
Vacancy rate (%)	7.5	12.3	11.3	--
Asking rent <i>Percent change from one year ago</i>	2.9	0.3	1.6 ▲	--

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

Residential market (Q4-15)	Little Rock	Fayetteville	Fort Smith	Hot Springs	Pine Bluff	Texarkana	US
CoreLogic Home Price Index	-1.2 ▼	4.2	1.0 ▼	4.1	1.4	6.5	5.5
Single-family building permits	13.6	33.6	-6.6	37.2	-38.1	-68.3	9.5
New and existing home sales	8.1	--	--	--	--	--	7.4

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.

Total Debt Reaches Peak; Auto Debt Growth Remains High

By Joseph McGillicuddy, *Research Associate*

“Car dealers in central Arkansas reported a very good 2015.”

—Central Arkansas contact

“December sales were strong.”

—Northwest Arkansas auto dealer

Zone household debt balances surpass mid-recession peak

Index, Q4 2008=100



Source: FRBNY Consumer Credit Panel and Equifax.

- Households in the zone continued to increase their total debt balances in the fourth quarter, surpassing the peak reached during the financial crisis. In the nation as a whole, debt per household is still nearly 15 percent lower than in 2008 (see figure).
- Zone auto debt balance growth remained brisk in the fourth quarter, exceeding the national average. Reports from auto dealers indicated a strong end to 2015. Multiple dealers surveyed from the area noted that sales halfway through the first quarter have met expectations.
- Growth of credit card debt in the zone accelerated to 3 percent year-over-year, the fastest it has grown since 2008. Mortgage debt growth remained flat.
- Delinquency rates in the zone were largely unchanged compared with the previous quarter. They continued to be slightly below the average rates for the nation.
- Personal income growth in Arkansas accelerated to 4.2 percent year-over-year in the third quarter of 2015, surpassing the 3.9 percent growth of U.S. income.

	Little Rock Zone	Arkansas	Little Rock MSA	US
Per capita personal income (Q3-15)	--	4.2	--	3.9
Per capita debt balances (Q4-15)				
Mortgage	0.1	-0.1	-2.2	-0.5
Credit card	3.0	2.9	2.0	2.7
Auto loan	10.3	10.4	7.7	9.5
90+ day delinquency rates (Q4-15) (%)				
Mortgage	1.4	1.5	1.5	1.9
Credit card	7.2	7.3	6.9	7.3 ▼
Auto loan	2.9	2.9	3.6	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.

Profitability Remains High in Little Rock Zone

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

“Not much new business is taking place in the commercial and industrial lending marketplace. Most of the business is coming from stealing it from another financial institution.”

—Little Rock banker

“Commercial real estate lending has increased.”

—Little Rock banker

Arkansas coverage ratios track national average

Loan loss reserve coverage ratio, percent



Source: FRED.

- Almost all bankers surveyed reported loan demand was unchanged to slightly higher in the first quarter compared with the same time last year. One respondent reported demand was somewhat lower. All respondents expect demand to be about the same in the second quarter as it was a year ago.
- Mortgage lending picked up in the first quarter. Half of bankers surveyed reported loan demand for residential mortgages was higher compared with the same time last year, while the rest reported it was unchanged. Bankers predict mortgage lending will remain unchanged to somewhat higher in the second quarter compared with the same time last year.
- Return on average assets (ROA) was essentially unchanged at Arkansas banks in the fourth quarter from its third-quarter and year-ago levels. The lack of movement in ROA is primarily due to stability in the average net interest margin (NIM). ROA and the average NIM at Arkansas banks remain above those of District and national peers.
- The ratio of nonperforming loans to total loans (NPTL) declined 8 basis points in the fourth quarter to 1.13 percent. Improving asset quality at the state, District, and national levels has resulted in higher coverage ratios. On average, banks have more than one dollar reserved for every dollar of nonperforming loans (see figure).
- All bankers surveyed reported delinquencies were unchanged to somewhat lower in the first quarter of 2016 compared with the same time last year.

Banking performance (Q4-15)	Arkansas	8th District	US Peer Banks
Return on average assets	1.26	1.05	1.11
Net interest margin	4.25	3.78	3.81
Nonperforming loans / total loans	1.13	1.04	1.07
Loan loss reserve coverage ratio	110.62	120.19	122.43

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

Cotton Planting Trend May Reverse; Land Value Increases Vary by Type

By Jonas C. Crews, *Research Analyst*

“As row crop farmers make plans for the 2016 crop year, they are currently facing the worst grain prices and economic outlook in the past 6 to 7 years.”

—Arkansas contact

“It wouldn’t take much of a market share in the Chinese rice market to have a huge impact on the Arkansas and U.S. rice industries.”

—Arkansas contact

Trend reversal expected for cotton acres planted

Thousands of acres, dotted line=forecast



Source: USDA-NASS & National Cotton Council (forecast).

- Consistent with the rest of the country, low winter wheat prices have led to a large drop in acres planted for the 2016 crop. Further, December flooding may have damaged the crop, but the extent of the damage will be unclear until the crop comes out of dormancy and can be analyzed.
- For the spring crops, cotton, which has seen its land share decline over the past few years, is going to reverse its planting trend according to a National Cotton Council survey (see figure). Those seeking to explain the reversal note that the price received for the crop is now more competitive with those of other crops. However, it could be a temporary increase similar to that in 2014.
- In the face of reduced farm income, cropland values continued to increase in 2015, but at a much slower rate than the 10-year average. Pastureland values have increased each of the past three years, after declining in three of the four years from 2009 to 2012.
- While the near-term outlook for farm income has remained bleak, some contacts are hopeful that future international developments will increase global grain demand and put upward pressure on commodity prices.

	Arkansas	US
Natural resources (Q4-15)		
Mining and logging employment	-16.6	-14.1 ▼
Coal production	-24.5	-18.4 ▼
Cropland values	3.5 ▼	0.7 ▼
Pastureland values	2.2	2.3 ▼
Winter wheat, area planted (2016)	-34.3	-7.2

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 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)

Land values; cotton and winter wheat planting estimates.

National Cotton Council (NCC)

Cotton planting projection.