



# Burgundy Book

A report on economic conditions in the Little Rock zone

First Quarter 2013

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.

## Regional economy improves at a modest pace

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

Labor market conditions in the zone improved modestly during the fourth quarter of 2012 compared with a year earlier. On balance, job growth was stronger in the zone's smaller MSAs than in the Little Rock MSA. The Little Rock zone's unemployment rate averaged 6.9 percent in the fourth quarter of 2012, which was appreciably lower than the nation's 7.8 percent rate (see map and table on page 3).

Compared with a year earlier, employment growth during the fourth quarter of 2012 was especially robust in trade, transportation, and utilities. Notable declines were seen in the natural resources, mining, and construction and information industries. Arkansas earnings growth in the manufacturing industry (4.8 percent) modestly trailed the nation's growth (5.4 percent) during the fourth quarter. The zone's farm sector fared well in 2012 relative to most other areas of the nation.

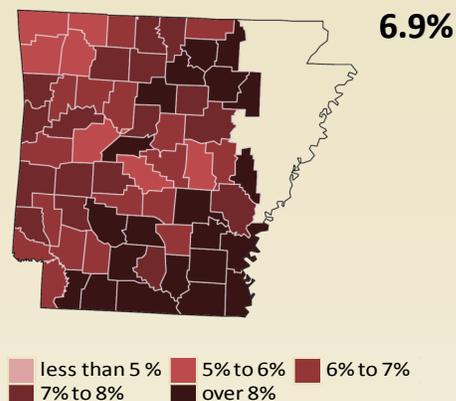
Similar to the nation, the Little Rock zone continues to benefit from gains in real estate and construction activity. Although gains in house prices in the fourth quarter modestly trailed the nation, gains in building permits outpaced the nation on average. Adding to the momentum, office vacancy rates fell sharply in the fourth quarter.

Household balance sheets in the MSA continued to improve in the fourth quarter, as households generally reduced debt levels in the face of increasing gains in per capita personal income. By contrast, per capita auto debt balances across the zone have outpaced those nationally.

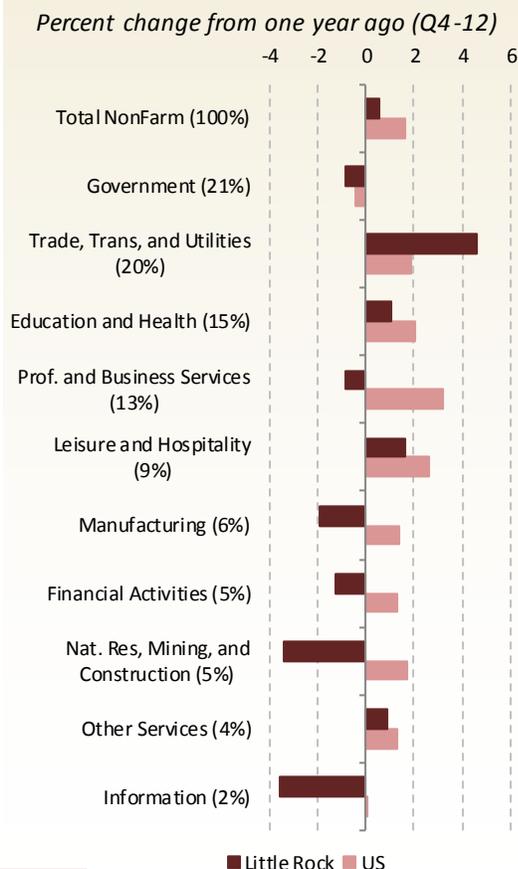
Arkansas banks generally outperformed their Eighth District and U.S. peers during the fourth quarter of 2012. Still, nonperforming loans of Arkansas banks are relatively high compared with other Eighth District banks and the nation, and some contacts expressed concern about the recent easing in lending standards.

## Data Snapshot

### County unemployment rates (SA, Q4-12)



### 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 1 and February 15.

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](mailto:beigebook@stls.frb.org).

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

## Labor Markets Show Steady Improvement, Primarily due to Service Sector

By Charles S. Gascon, Senior Research Support Coordinator

*“Industrial mechanics with acceptable trade skills are very hard to find and keep.”*

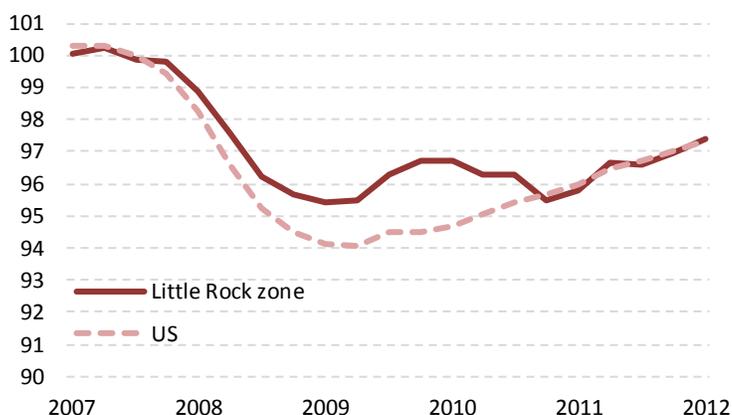
— Little Rock area business executive

*“Prices of inputs have gone up. We may need to cut costs in other areas, such as payroll.”*

— Little Rock area retailer

### After a small double dip, employment shows steady growth

Nonfarm payroll employment, SA (Index 2007=100)



Source: BLS.

- After job losses in early 2012, nonfarm employment growth in the zone picked up in the final months of the year. The service sector drove growth in most of the zone’s MSAs; the exception was Fort Smith, where service growth remains negative (see table).
- There are some headwinds stemming from the uncertainty around fiscal policy: two of seven business contacts expect to increase employment in the upcoming year; the remainder expect their employment to remain unchanged.
- The average unemployment rate in the zone is 6.9 percent, which is lower than the national rate of 7.8 percent (see map on cover). Unemployment rates declined in three of the zone’s four MSAs; Fort Smith was the exception, where the unemployment rate increased to 8.3 percent (see table).
- December data on average weekly earnings growth was mixed. Workers in Little Rock experienced the largest gains, at about 14 percent from one year ago; growth in the remaining MSAs was below the national average of 2 percent and negative in Fayetteville and Fort Smith.

	Little Rock	Fayetteville	Fort Smith	Texarkana	US
Unemployment rate (Q4-12) (%)	6.3	5.4	8.3	6.1 ▼	7.8
Nonfarm employment (Q4-12)	0.5	4.1	-0.4	4.0	1.6
Goods-producing sector	-2.6	2.2	1.0	2.1	1.5
Private service-providing sector	1.4	4.9	-1.1 ▲	5.4	2.2
Government sector	-0.9	2.7 ▼	-0.2 ▲	1.2 ▼	-0.4

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 Conditions Continue to Underperform the Nation

By David Lopez, Senior Research Associate

*“Weakness and job losses were recorded for the state’s nondurable goods producers while durable goods manufacturers recorded upturns in sales, jobs and production for the month [January 2013].”*

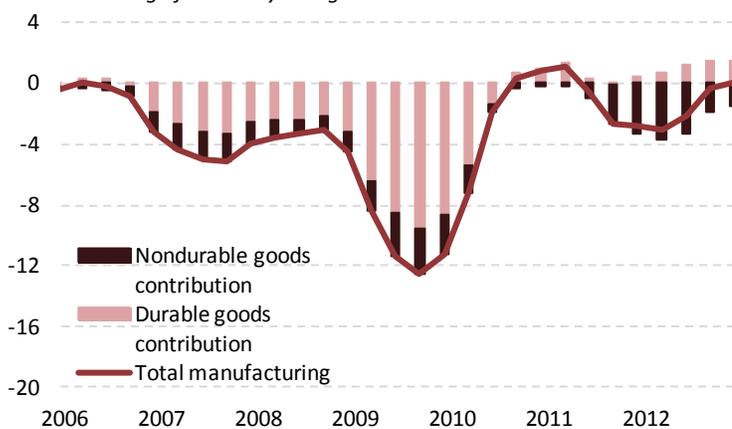
— Creighton University Mid-America Economy News

*“Things were relatively flat in the manufacturing sector [in 2012].”*

— Arkansas Business publication

### Manufacturing employment in Arkansas grew for the first time since the second quarter of 2011

Percent change from one year ago



Source: BLS.

- Manufacturing employment in Arkansas finally exhibited some positive (though almost negligible) growth. Durable goods manufacturing employment contributed 1.5 percent to this growth rate, while nondurable goods employment tempered these gains (see chart).
- Over a longer time horizon, relatively large employment declines occurred in 2009. Besides a slight uptick in late 2010, this downward trend has remained constant since 2006, even with the economy’s recovery and manufacturing’s resurgence in other parts of the country.
- Durable goods employment has historically been the primary driver in manufacturing employment changes in Arkansas, but the nondurable goods sector has exerted a stronger influence in recent quarters (see chart).
- Arkansas’s manufacturing earnings growth in the third quarter of 2012, although positive, was still less robust than the nation’s earnings growth.
- During the recession, manufacturing earnings fell by relatively larger amounts (in 2009 especially). Earnings have grown on average since the start of 2010 though, tempering the slump in Arkansas’s manufacturing employment and providing some relief to the manufacturing sector.

	Little Rock	Fayetteville	Arkansas	US
Manufacturing employment (Q4-12)	-1.9	2.2	0.0	1.2
Durable goods	--	--	3.0	1.8
Nondurable goods	--	--	-3.0	0.3
Manufacturing earnings (Q3-12)	--	--	4.8	5.4
Durable goods	--	--	8.4	7.5
Nondurable goods	--	--	1.0	1.7

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.

Positive Signs of a Recovery in the Real Estate Market

By Li Li, Research Associate

*“Builder confidence is the highest it has been in six years, with many builders beginning to build their lot inventory.”*

— Little Rock area building supplier

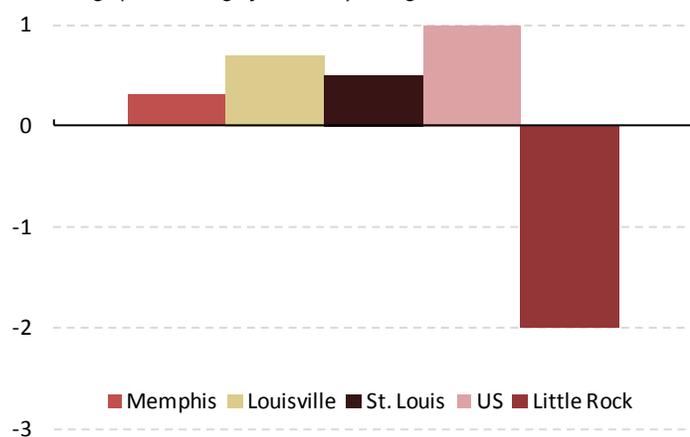
*“The new apartments under construction in the mid-town area reportedly have a waiting list of 200 potential tenants.”*

— Little Rock area banker

- According to realtors in Little Rock, the residential real estate market improved. New and existing home sales in 2012 increased by about 4.8 percent over last year. Moreover, the year-over-year growth of Little Rock home prices in the fourth quarter was the strongest it has been all year.
- On the residential construction side, single-family building permits in 2012 increased throughout in all MSAs except Pine Bluff (see table).
- Multifamily real estate activity continued to show improvement. Asking rent in Little Rock enjoyed 3 percent growth in the fourth quarter of 2012 compared with a year ago. Asking rent has increased consistently over the past five quarters. As a result, multifamily developers continue to look for new sites for construction in the Little Rock area.
- The office real estate market in Little Rock experienced a strong ending in 2012. In the fourth quarter, the vacancy rate dropped by 2 percentage points, on a year-over-year basis, to 12.5 percent (see chart). This is far below the national rate of 17 percent. The lower vacancy rate is probably due to increasing demand, as both office asking rent and effective rent have increased modestly.

Office vacancy rate in Little Rock plunged in Q4 2012

Percentage point change from one year ago



Source: Reis.com.

Non-residential market (Little Rock, Q4-12)	Apartment	Office	Retail
Vacancy rate (%)	5.7	12.5 ▼	12.3
Asking rent	3.2	0.3	1.2 ▲
<i>Percent change from one year ago</i>			

Source: Reis.com.

Residential market (Q4-12)	Little Rock	Fayetteville	Fort Smith	Hot Springs	Pine Bluff	Texarkana	US
CoreLogic Home Price Index	2.3	4.0 ▼	4.7 ▲	3.2	6.8	5.0	7.4 ▲
Single-family building permits	24.3	47.9	11.8	25.7 ▼	-26.9	30.0	24.3
New and existing home sales	4.8 ▲	--	--	--	--	--	11.1

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

## Mortgage Balances Remain Unchanged

By Bryan Noeth, *Policy Analyst*

*“Uncertainty in tax policy has created an uneasy feeling in consumers, leading to lowering of consumer confidence and consumer willingness to make large purchases.”*

— Northwest Arkansas auto dealer

### Auto debt continues to grow

Auto debt per capita, dollars



Source: FRBNY Consumer Credit Panel, Equifax.

- Per capita income in Arkansas continued to increase faster than the U.S. average in the third quarter of 2012. Income growth was primarily due to the growth in labor earnings.
- In contrast to the U.S., the Little Rock zone did not experience significant mortgage debt deleveraging in the wake of the downturn. This trend continued into the fourth quarter of 2012 as mortgage debt outstanding remained unchanged.
- Consumers in the zone continued to decrease their credit card debt levels, which were down 2.8 percent from a year ago and down 25 percent since peak levels in 2008. Industry contacts from the zone believe this trend has continued into early 2013 while they expect national credit card debt might be up in the early portion of the year.
- Increased auto sales led to consumers taking on more auto debt. This continued the upward trend that began in the first quarter of 2010. The average amount of auto debt per capita was \$3,676.

	Little Rock Zone	Arkansas	Little Rock MSA	US
Per capita personal income (Q3-12)	--	3.2	--	2.5
Per capita debt balances (Q4-12)				
Mortgage	0.0	0.4	-0.9	-2.9
Credit card	-2.8	-3.1	-3.1	-3.4
Auto loan	9.7	10.2	10.4	7.1
90+ day delinquency rates (%) (Q4-12)				
Mortgage	3.1	3.0	2.7	4.9 ▼
Credit card	8.6	8.6	8.0	10.0
Auto loan	2.5	2.6	2.7	3.7 ▼

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.

## Performance and Optimism Higher; Some Worry about Loosening Credit Standards

By Michelle Neely, *Economist*

*“Banks continue to seek new loan growth, and credit standards already seem to be loosening beyond what some lenders think is prudent.”*

— Little Rock banker

*“Optimism has improved. Local conditions, however, are about the same.”*

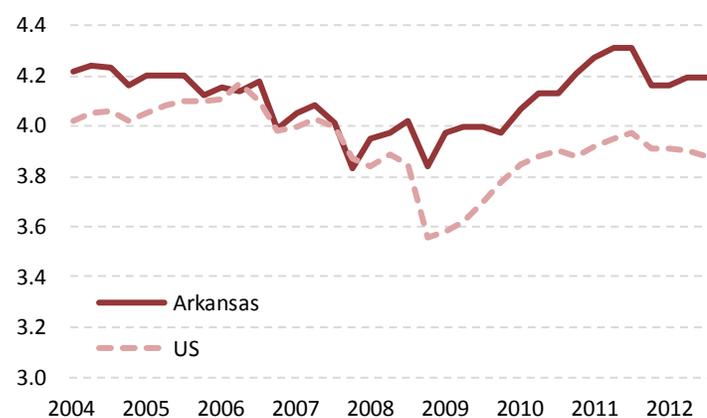
— Little Rock banker

*“Loans continue to be competitive, but we are conservative.”*

— Northwest Arkansas banker

### Arkansas banks maintain margin gap with US peers

Net interest margin at commercial banks, percent



Source: FRED.

- More than three-quarters of area bankers surveyed expect loan demand to increase or stay the same during the next three months.
- Profitability improved in the Little Rock zone in the fourth quarter, and Arkansas banks continued to outperform their District peers. Return on average assets increased 5 basis points in the fourth quarter to 1.18 percent and was up 10 basis points from a year ago.
- Earnings were boosted by a decline in loan loss provisions; the average net interest margin at Arkansas banks was unchanged in the fourth quarter and was down 12 basis points from a year ago.
- Nonperforming loans fell again in the Little Rock zone in the fourth quarter, marking the sixth straight quarterly decline. This trend is expected to continue as four of five bankers surveyed expect loan delinquencies to decline during the next three months.
- The coverage ratio increased in the fourth quarter to 71.43 percent, meaning that Little Rock zone banks had 71 cents set aside for every dollar of nonperforming loans.

### Banking performance (Q4-12)

	Arkansas	8th District	US Peer Banks
Return on average assets	1.18	0.93	0.97 ▲
Net interest margin	4.19	3.90	3.87
Nonperforming loans / total loans	2.80	2.32 ▼	2.59 ▼
Loan loss reserve coverage ratio	71.40	79.89	71.78

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.

# Thanks to Irrigation Practices, Arkansas Farmers Largely Weather Drought

By Brett Fawley, Senior Research Associate

*“Area farmers benefited from established irrigation practices, higher market prices, and weather conditions that led to record yields.”*

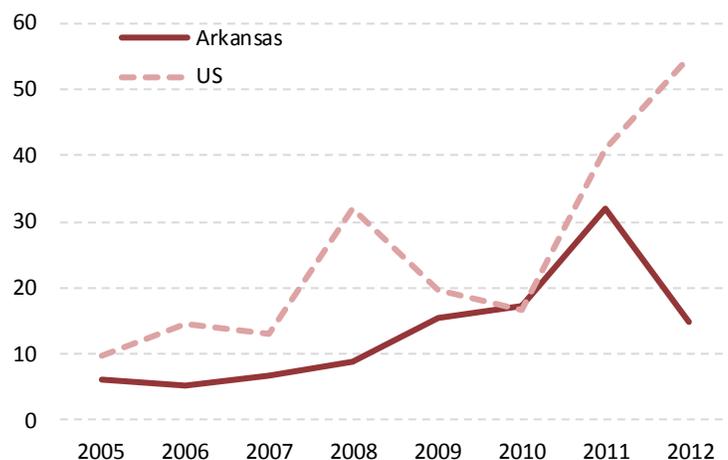
— Arkansas agricultural banker

*“Our trade area utilizes irrigation wells for nearly all acres. While income will not be significantly reduced due to the drought, profits will be greatly reduced due to irrigation expenses related to fuel.”*

— Arkansas agricultural banker

## Arkansas farm income survived drought better than nation

Federal insurance payout, dollars/net acre insured



Source: FCIC.

- The local price of crops, with the exception of wheat, increased in Arkansas in 2012. The dollar value of 2012 Arkansas corn and sorghum production increased by 86 and 90 percent, respectively, relative to 2011 production. The dollar value of Arkansas soybean and rice production increased by 26 and 30 percent, respectively.
- Federal crop insurance covered roughly 60 percent of the acres planted in Arkansas in 2012. As of early March, the Federal Crop Insurance Corporation has paid out \$72 million to Arkansas farmers, or \$90 million less than it paid out on the 2011 crop.
- Ag. bankers surveyed for the *Agricultural Finance Monitor* indicated that income, spending, loan availability, and loan repayment rates were all stronger than expected in the fourth quarter.
- Arkansas farmers planted 20 percent more winter wheat in 2012 than in 2011, although the number of acres planted remains 40 percent below the peak levels of 2008.
- Arkansas coal production was 54.8 percent lower in the fourth quarter than a year ago (see left table), and annual production was 44.6 percent lower in 2012 than in 2011.

	Arkansas	US
Natural resources (Q4-12)		
Mining and logging employment	2.8	3.2 ▼
Coal production	-54.8	-10.2 ▼
Crop production (2012)		
Corn	67.5	-12.8
Cotton	3.4	9.2
Rice	22.9 ▲	7.9 ▲
Sorghum	75.0	15.2
Soybean	7.6	-2.5

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.

## Little Rock zone Ag. bankers' expectations Q1-13 vs. Q1-12

	Lower	Higher	Net
Loan demand	0	29	29
Available funds	0	17	17
Loan repayments	0	0	0
Farm income	14	14	0
Capital expenditure	14	0	-14

Note: Percentage of responses. See appendix for notes and sources.

## Local Governments Continue to Hire Workers While Tax Revenue Improves

By Lowell R. Ricketts, *Senior Research Associate*

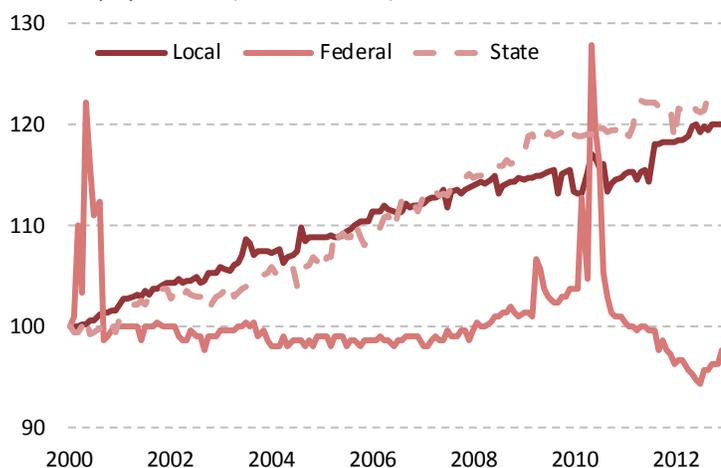
*“The highway bonding issue is very big for Northwest Arkansas...the economic impact is very positive for employment and growth.”*

— Fayetteville area financial advisor

- Arkansas tax revenue increased in the third quarter of 2012. Growth was driven by a 9.2 percent gain in personal income tax revenue, which constitutes around 30 percent of total tax revenue (see table).
- Government employment marginally increased in Arkansas due to continued expansion of local government payrolls. The spikes in federal government employment stem from large-scale temporary hiring for the 2000 and 2010 census. Local government payroll employment has expanded remarkably, with an average growth rate of 3 percent over four consecutive quarters. In the most recent quarter it expanded by 1.5 percent (see table).
- Arkansas’s public sector pension system is currently 75 percent funded, which is better than the average of the Eighth District states. The state improved its situation by contributing 106 percent of its actuarially required contribution in fiscal year 2010. In recent years, the unfunded pension liability had more than doubled, growing from 2.7 percent of gross state product in 2008 to 5.8 percent in 2010.

### State and local govt. employment growth has been robust

Govt. employment, AR (Index 2000=100)



Source: BLS.

	Little Rock	Fayetteville	Arkansas	US
Tax revenue (Q3-12)	--	--	2.1	2.8
Personal income	--	--	9.2	4.3
Corporate income	--	--	-6.0	6.9
General sales	--	--	-0.9	3.3
Other sources	--	--	-0.3	-0.3 ▼
Government employment (Q4-12)	-0.9	2.7 ▼	1.0	-0.4
Federal	1.1 ▲	-1.4	-1.1	-1.5
State	-0.1	5.2	0.8	-0.1
Local	-2.5 ▼	1.9 ▼	1.5	-0.3

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.

State Government  
Bond Ratings

**Arkansas**

Moody's    S&P  
Aa1        AA

## 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

### Quotes Sources

<http://business.creighton.edu/centers-programs/economic-outlook/mid-american-states/arkansas>

#### *Arkansas Business*

Kate Knable. "Arkansas Manufacturing Sees More Stability in 2012." *Arkansas Business* [Little Rock] Feb. 2, 2013.

### Table Sources

#### *Bureau of Labor Statistics*

Manufacturing employment: total, durable, and nondurable goods.

#### *Bureau of Economic Analysis*

Manufacturing earnings: total, durable, and nondurable goods.

### Notes

**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).

**Manufacturing earnings** is the sum of wage and salary disbursements, supplements to wages and salaries, and proprietors' income less contributions for government social insurance.

In the **contributions to employment chart**, bars represent the respective contribution of each sector to the area's total employment as a percent change from one year ago, while the line represents the net percent change from one year ago in total employment.

## Real Estate and Construction

### Table Sources

#### *CoreLogic*

Home price index, including distressed sales.

#### *Census Bureau*

Year-to-date single-family building permits.

#### *National 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** consists 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.

#### *Census Bureau*

Homeownership rates.

### Notes

**The CredAbility Index** is a quarterly measure of the financial condition of the average consumer. The scores are defined as follows: 90-100 implies excellent or secure, 80-89 implies good or stable, 70-79 implies weakening or at risk, 60-69 implies distressed or unstable, and 59 or below implies emergency or crisis.

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

**Homeownership rates** are the proportion of households in each area that are owners. It is calculated by dividing the number of households that are owners by the total number of occupied households.

## 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 non performing 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

#### *Federal Reserve Bank of St. Louis Survey of Agricultural Credit Conditions*

Agriculture Bankers' expectations of loan demand, available funds, loan repayment rates, farm income, and capital expenditures are relative to one year ago. Respondents can answer "increase," "decrease," or "no change."

#### *Energy Information Administration (EIA)*

Coal production.

#### *Bureau of Labor Statistics (BLS)*

Mining and logging employment.

#### *USDA*

Crop production.

## Public Sector

### Table Sources

#### *Bureau of Labor Statistics*

Government employment: federal, state, and local. Private nonfarm employment.

#### *Census Bureau*

Tax revenue: total, personal income, corporate income, general sales, and other sources.

#### *Pew Center on the States*

Public sector pensions.

### Notes

Approximately 33 percent of Arkansas' **tax revenues** come from income taxes, 36 percent from sales tax, and 5 percent from corporate income taxes. The remaining tax revenues are from other sources.

**Required contribution** is the annual amount state actuaries recommend that states contribute to retirement funds in order to fully fund those promises over the long term.

**Unfunded liability** is an outstanding financial obligation that is not covered by state financial assets.