



# Burgundy Book

A report on economic conditions in the Little Rock zone

Second 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 continues to improve at a modest pace

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

In many ways, the Arkansas economy performed about as well as the U.S. economy in the first quarter. Although Arkansas's employment growth in the first quarter of 2013 trailed the nation's growth, unemployment rates in the largest cities were generally well below the nation's rate.

In the Little Rock MSA, employment growth in the first quarter (relative to a year earlier) was exceptionally brisk in the trade, transportation and utilities industry. By contrast, employment in the professional and business services fell markedly in the first quarter.

Manufacturing employment declined in the first quarter of 2013, relative to the first quarter in 2012, because of a sizable drop in employment among nondurable goods manufacturers. Some manufacturers have reported a shortage of qualified workers.

The residential real estate market continued to improve in the first quarter, as home prices and building permits were up noticeably from a year earlier. In the Little Rock MSA, though, the pace of home sales and house price increases modestly lagged the nation.

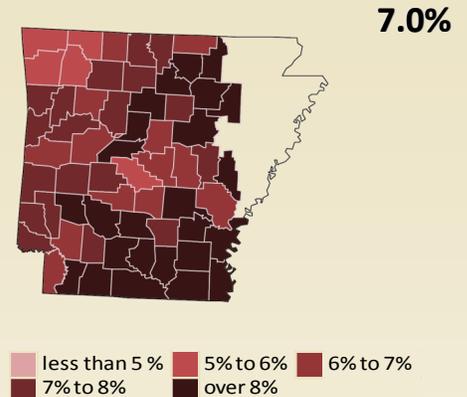
Households continued to reduce credit card debt in the first quarter; however, automotive debt continued to increase at a faster rate than the nation. Mortgage, credit card, and auto loan delinquency rates of Arkansas borrowers were below those seen nationally.

In part because of lower loan loss provisions, Arkansas banks were appreciably more profitable than their District and U.S. peer banks in the first quarter.

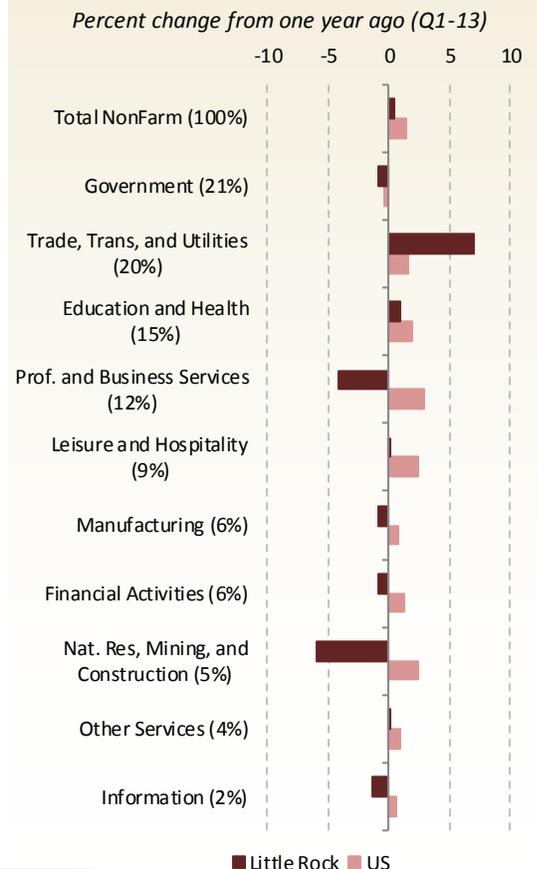
Arkansas farmers intend to reduce their cotton acreage in 2013, while increasing the acreage devoted to corn and sorghum.

### Data Snapshot

#### County unemployment rates (SA, Q1-13)



#### 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 May 1 and May 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.*

## Strong Growth in Retail Jobs Offset Losses in Other Sectors

By Charles S. Gascon, *Regional Economist*

*“Skilled blue collar workers will be a limiting factor in expanding output in many industrial facilities.”*

— Little Rock area business executive

*“Already done as much business year-to-date as all of last year...looking out the next 12 months, I think things are going to get crazy.”*

— Northwest Arkansas area recruiter

### Arkansas retail employment shows steady gains

*Arkansas retail trade employment, change from previous month (SA)*



Source: BLS.

- The positive employment growth from 2012 continued into the first quarter of 2013. Three of the four MSAs in the zone reported positive employment growth (see table).
- Statewide, private employment increased by 1,200 jobs in the first quarter. Net hiring in the retail sector (+2,500 jobs) was a major contributor (see figure). Another bright spot was manufacturing employment, reporting a quarterly increase for the first time in over two years.
- A strong service sector in Fayetteville continues to spur strong employment growth in the metro area: Nonfarm employment growth has averaged over 4 percent for the past two years.
- Anecdotal evidence suggests that in some markets, a limited supply of workers could hinder employment growth and put upward pressure on wages going forward.
- Unemployment rates dipped down by about 0.1 percentage points across almost all metro areas. Texarkana, however, saw a significant uptick of 0.2 percentage points after weak employment growth in the first quarter (see table).

	Little Rock	Fayetteville	Fort Smith	Texarkana	US
Unemployment rate (Q1-13) (%)	6.4	5.3	7.7	6.6 ▲	7.7
Nonfarm employment (Q1-13)	0.4	4.4 ▲	0.3	-0.1	1.5
Goods-producing sector	-3.2	3.3	-5.2	3.8	1.4
Private service-providing sector	1.4	5.3 ▲	2.1	-0.2	2.0
Government sector	-0.8	1.6	1.2	-1.7	-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 Employment Data Revised Up, but Recovery Remains Bleak

By Yang Liu, Senior Research Associate

*“Major concerns at this time include uncertainty and instability with the economy, thereby making it difficult to plan and forecast.”*

— Central Arkansas banker

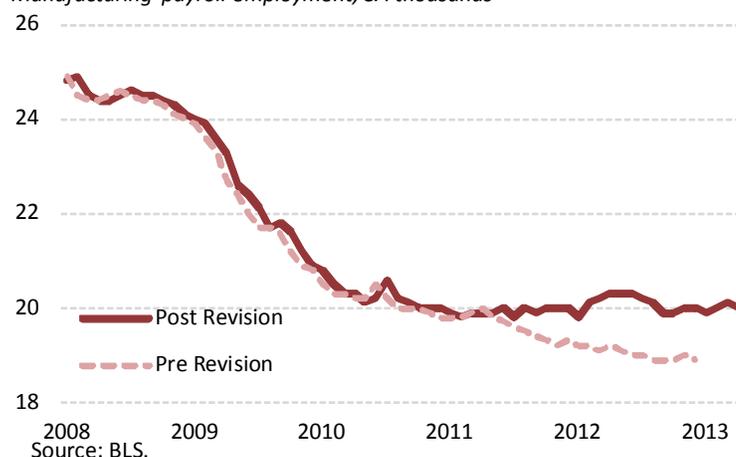
*“While economic conditions have improved, there is still reluctance from the customer to buy.”*

— Central Arkansas banker

- Manufacturing employment dropped for the eighth consecutive quarter in Arkansas on a year-over-year basis, but the decline slowed in the first quarter of 2013.
- Anecdotes suggest that manufacturers are concerned about the nation’s deficit and fiscal policy uncertainty. There is also evidence of a significant shortage in the local skilled labor force.
- The March 2013 benchmark revision by the BLS indicates a stronger manufacturing sector in Little Rock (see figure). Between mid 2011 and the end of 2012 monthly payrolls averaged 800 jobs more than the preliminary number reported. Little Rock’s manufacturing employment experienced no growth since 2010.
- Arkansas’s nondurable goods employment increased significantly in the first quarter of 2013, but it dropped by 1.4 percent compared with 12 months ago.
- Similarly, Arkansas’s nondurable goods earnings dropped by 0.2 percent in the fourth quarter of 2012, on a year-over-year basis, remaining significantly below the national average.

### Benchmark revision indicates stronger manufacturing growth in Little Rock

Manufacturing payroll employment, SA thousands



	Little Rock	Fayetteville	Arkansas	US
Manufacturing employment (Q1-13)	-0.8	2.0	-0.3	1.0
Durable goods	--	--	0.9	1.2
Nondurable goods	--	--	-1.4 ▲	0.6
Manufacturing earnings (Q4-12)	--	--	3.3	6.0
Durable goods	--	--	6.6	7.9
Nondurable goods	--	--	-0.2	2.7

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.

## Housing Market Continues Showing Positive Signs

By Li Li, *Research Associate*

*"[The Housing market] is not 2005, but there is much more demand than 2009."*

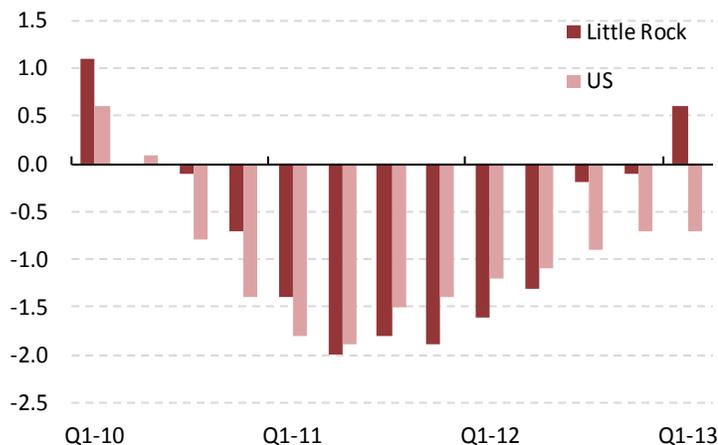
— Northwest Arkansas builder

*"Commercial real estate is still slow but headed in the right direction."*

— Northwest Arkansas area executive

### Apartment vacancy rates in Little Rock increased in Q1

Percentage point change from one year ago



Source: Reis.com.

### Non-residential market (Little Rock, Q1-13)

	Apartment	Office	Retail	Industrial
Vacancy rate (%)	6.2	12.3	12.6	8.2
Asking rent <i>Percent change from one year ago</i>	3.5	0.4	1.8 ▲	7.5

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

Residential market (Q1-13)	Hot						US
	Little Rock	Fayetteville	Fort Smith	Springs	Pine Bluff	Texarkana	
CoreLogic Home Price Index	1.9	3.3	3.3	2.9	-1.3	-2.8 ▼	9.8 ▲
Single-family building permits	5.0 ▼	45.3	16.4	0.0 ▼	300.0 ▲	-50.0 ▼	25.7
New and existing home sales	7.9	--	--	--	--	--	10.3

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.

- According to local contacts, the residential real estate market improved significantly, especially in the northwest Arkansas area. As home sales continued to increase (see table), year-over-year growth rates of home prices remained positive for four consecutive quarters in most of the metropolitan areas in the Little Rock zone.
- On the residential construction side, single-family building permits in the first quarter increased throughout all MSAs except Texarkana (see table). Anecdotal information pointed out that builders are beginning to add inventories due to increasing confidence.
- Apartment asking rents in Little Rock continued to improve in the first quarter. The increase in vacancy rates (see figure) is probably due to the increase in inventory. For example, the number of multifamily building permits was at a record high (about 1,000) in the third quarter of 2012.
- The improvement of commercial real estate construction was reported as modest. Contacts noted that there were several large retail construction projects ongoing in central Arkansas area. Yet, they also noted that there weren't enough small and medium sized-deals to support the number of builders supported in the past.

## Mortgage Debt Levels Remain Unchanged

By Bryan Noeth, *Policy Analyst*

*“While economic conditions have improved, there is still a reluctance from the customer to buy.”*

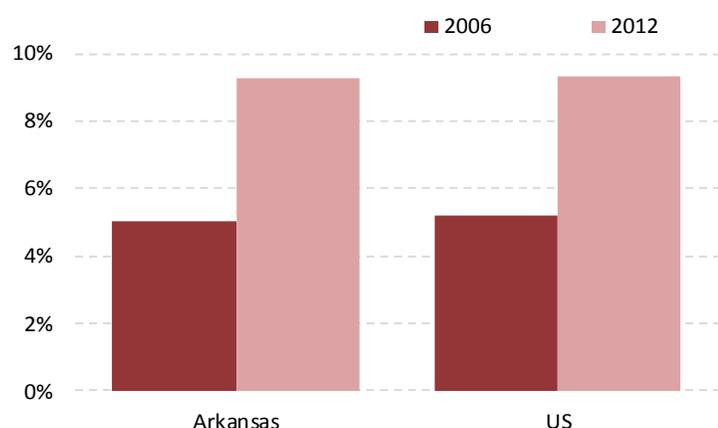
—Arkansas auto dealer

*“The general sentiment is that consumers are feeling better about the economic outlook, resulting in an improved housing market.”*

—Little Rock area banker

### Student debt is similar between US and Arkansas

*Student debt as a percentage of income*



Source: FRBNY Consumer Credit Panel, Equifax, and Haver Analytics.

- Strong income growth in Arkansas during 2012 was comparable to that of the nation. National growth was down in the first part of 2013 due to the payroll tax increase. Arkansas wage earners likely experienced a similar stagnation.
- Per capita mortgage debts remained relatively unchanged in the Little Rock zone. Levels plateaued in 2008 and have remained flat since.
- Mortgage delinquencies fell slightly in the first quarter of 2013 and remained well below the national average.
- Consumers continued to shed credit card debt across the zone, continuing a trend that began in 2008. Conversely, borrowers took on auto debt at a much faster rate than at the national level.
- Arkansas’s fraction of student borrowers and average student debt per borrower were smaller than the national levels. However, student debt as a percent of personal income was similar (see figure). Additionally, delinquency rates on student debt in Arkansas were higher than the national average in the fourth quarter of 2012.

	Little Rock Zone	Arkansas	Little Rock MSA	US
Per capita personal income (Q4-12)	--	4.3 ▲	--	4.2 ▲
Per capita debt balances (Q1-13)				
Mortgage	-0.5	-0.5	-0.1	-4.5
Credit card	-3.3	-3.5	-3.5	-3.9
Auto loan	8.8	9.2	9.4	7.3
90+ day delinquency rates (%) (Q1-13)				
Mortgage	2.9 ▼	2.8 ▼	2.8	4.6
Credit card	8.7	8.7	8.3	9.8
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.

## Profitability at Arkansas Banks Still Exceeds District, U.S. Peer Averages

By Michelle Neely, *Economist*

*“We have seen some increased lending activity. Our greatest challenge is still margin compression. Deposit rates are about as low as we can take them.”*

—Northwest Arkansas banker

*“In some ways nonbank competition has lessened post-crisis. We are seeing fewer specialized mortgage lenders/brokers with storefronts in the marketplace. However, we are seeing increased activity from ‘internet only’ lenders/brokers.”*

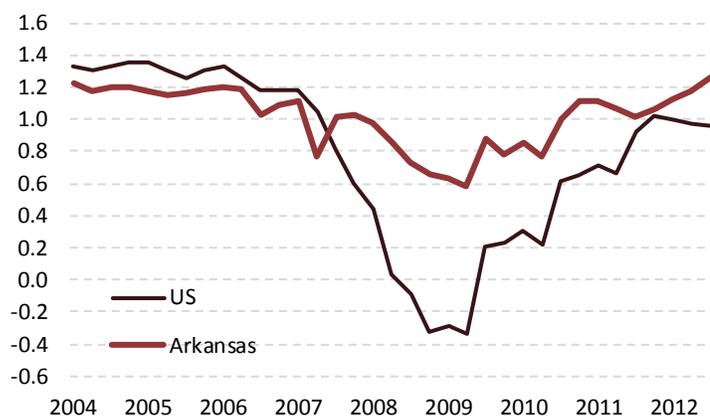
—Arkansas banker

*“Loan growth continues to be very challenging in Arkansas. Although loan growth is up for 2013, there’s been a 2 percent decline in the Arkansas portion of the portfolio.”*

—Northwest Arkansas banker

### Profitability on the rise in Arkansas

Return on average assets at commercial banks, percent



Source: FRED.

- Arkansas banks remain substantially more profitable than their District and U.S. peers. Return on average assets increased 8 basis points in the first quarter to 1.26 percent and is up 25 basis points from a year ago.
- Earnings went up in spite of a sharp decline in the average net interest margin at Arkansas banks. Profits went up because of an uptick in noninterest income, a decline in noninterest expenses, and lower loan loss provisions.
- Asset quality measures at Arkansas banks lag those of their District and U.S. peers. Nonperforming loans ticked up slightly in Arkansas in the first quarter, but the ratio of nonperforming loans to total loans is still well below its year-ago level of 3.30 percent and its financial crisis peak of 4.01 percent.
- The coverage ratio decreased modestly in the first quarter to 70.66 percent, meaning that Arkansas banks had 71 cents set aside for every dollar of nonperforming loans.

### Banking performance (Q1-13)

	Arkansas	8th District	US Peer Banks
Return on average assets	1.26 ▲	1.01	0.95
Net interest margin	4.07	3.71 ▼	3.77
Nonperforming loans / total loans	2.80	2.31	2.47
Loan loss reserve coverage ratio	70.66	79.89	75.33

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.

## 2013 Farming Season Off to Slow Start, Corn and Sorghum Acreage Up

By Lowell R. Ricketts, Senior Research Associate

*“NAP Insurance payments from USDA/FSA, due to the drought, increased capital spending due to the influx of unplanned income. Cattle prices are high, but herd numbers are down in our area.”*

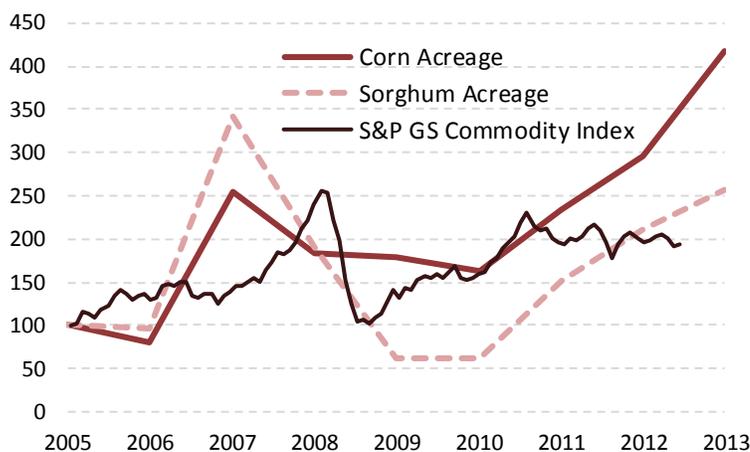
— Arkansas agricultural banker

*“Our area is mostly livestock, poultry and timber. Input cost and drought are limiting any expansion in live-stock herds.”*

— Arkansas agricultural banker

### Corn and sorghum acreage move with commodity prices

*Acreage planted (Arkansas) and commodity prices, Index (2005=100)*



Source: NASS/USDA, Standard & Poor's.

	Arkansas	US
Natural resources (Q1-13)		
Mining and logging employment	-12.2	2.0
Coal production	7.5	-9.3
Prospective Plantings (2013)		
Corn	40.8	0.1
Cotton	-54.6 ▼	-18.6
Rice	-5.0	-3.3
Sorghum	21.4	22.0
Soybean	1.6	-0.1

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.

- In a continuing trend, Arkansas farmers plan on planting more corn and sorghum crops in 2013 than they did in 2012 (see figure). The pattern in corn and sorghum plantings closely mirrors the recent trends in energy and commodity prices. See the June 28 USDA report for final acreage planted.
- The prospective cotton crop in Arkansas is expected to be less than half the size planted in 2012. Additional planting of corn and sorghum are likely crowding out cotton, as farmers seek greater returns.
- As in all District states, pastureland in Arkansas is doing remarkably well compared with the same time last year: 57 percent more is rated in good or excellent condition than in 2012. In contrast, 12 percent less of the rice crop in 2013 is rated in good or excellent condition.
- Close to a quarter of agricultural bankers surveyed expect loan demand and capital expenditure to be higher in the second quarter of 2013 than during the same time last year.
- Arkansas coal production was 7.5 percent higher in the first three months of 2013 relative to 2012 (see left table). Despite increased production, mining and logging employment declined by over 12 percent in Arkansas.

### Little Rock zone Ag. bankers' expectations Q2-13 vs. Q2-12

	Lower	Higher	Net
Loan demand	0	20	20
Available funds	0	0	0
Loan repayments	0	0	0
Farm income	0	0	0
Capital expenditure	0	20	20

Note: Percentage of responses. 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.

## Manufacturing

### 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.