



Burgundy Book

A report on economic conditions in the Memphis zone

Second Quarter 2013

The Memphis zone of the Federal Reserve comprises northern Mississippi, northeastern 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.

Businesses express modest improvement in outlook for local conditions

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

A majority of business contacts surveyed expect local business conditions to improve slightly during the next three months. Some skepticism remains: One-quarter of business contacts continue to expect local conditions to worsen.

Compared with the nation, the Memphis zone saw weaker payroll employment growth in the first quarter. Employment gains were quite strong in the education and health and in the natural resources, mining, and construction industries. However, employment growth was comparatively weak in trade, transportation, and utilities, which is the Memphis MSA's largest industry. In addition, unemployment rates in most areas of the Memphis zone exceeded the national rate in the first quarter.

Manufacturing employment rose at a healthy rate over the first four months of 2013; gains were especially strong statewide in Tennessee.

Residential real estate activity was vibrant in the first quarter, though the pace of home price increases lagged that of the nation. Office vacancy rates rose sharply in the first quarter, but retail asking rates increased.

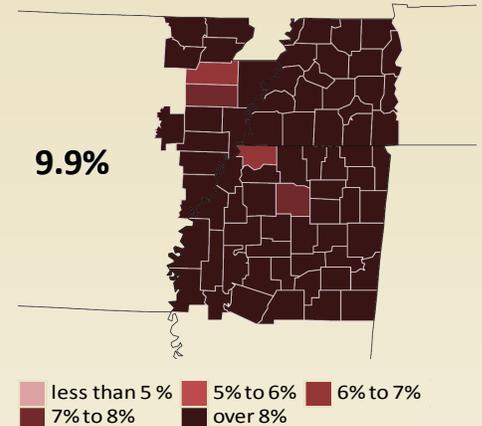
Consumer auto debt advanced at a robust pace, while households, like most areas of the District, continued to reduce their mortgage debt balances in the first quarter.

Bank profitability in the first quarter varied greatly in the Memphis zone, with Tennessee and Mississippi banks underperforming their peers in Arkansas and in the nation.

Farmers in the Memphis zone intend to reduce their planned cotton and rice acreage in 2013, while increasing the number of acres devoted to corn production.

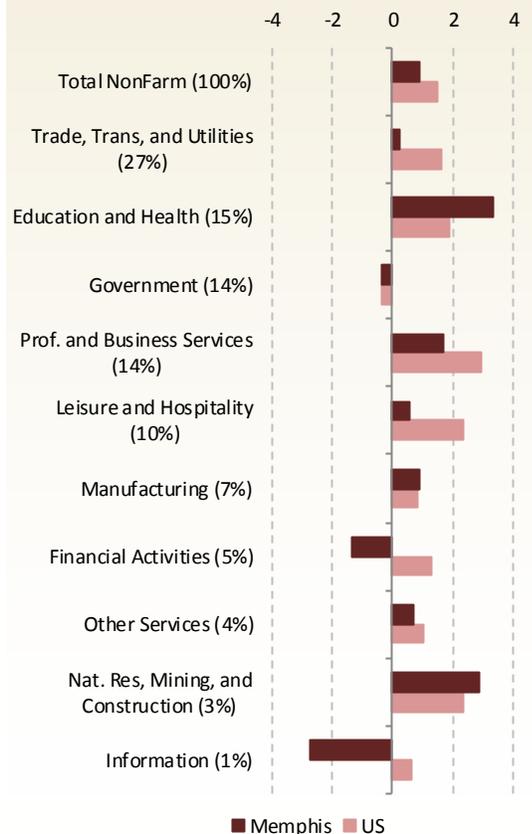
Data Snapshot

County unemployment rates (SA, Q1-13)



Nonfarm payroll employment by industry

Percent change from one year ago (Q1-13)



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.

For more information contact the St. Louis office:

Charles Gascon
charles.s.gascon@stls.frb.org

Media inquiries:
mediainquiries@stls.frb.org

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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.

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

Slow and Steady Growth in Memphis and Jackson; Jonesboro Shows Improvement

By Charles S. Gascon, *Regional Economist*

"I think things will get better but this recovery is very fragile."

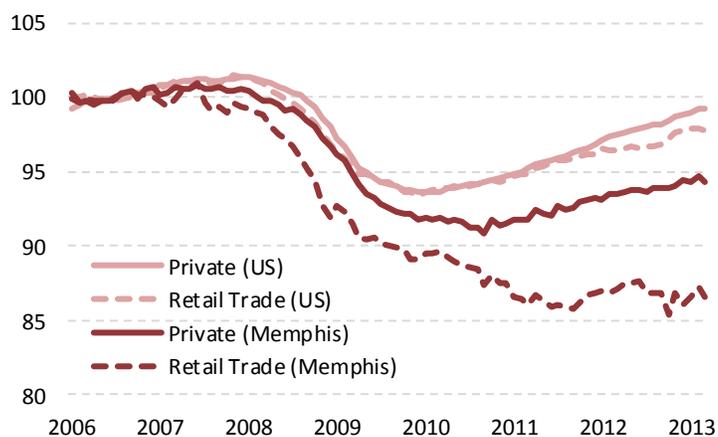
— Memphis area auto dealer

"The folks I speak with around here in Memphis generally continue to say that they do not see the local economy as getting better or worse, but rather going sideways."

— Memphis area lawyer

Stalling local retail sector drags on Memphis employment

Payroll employment, (Index 2006=100)



Source: BLS.

- Nonfarm payroll employment growth in Memphis continued its slow and steady climb; increasing by just under 1 percent from a year ago. Virtually no growth occurred in the retail trade sector, which comprises about 13 percent of the local employment (see figure).
- Anecdotal reports suggest that businesses remain cautiously optimistic about the remainder of the year, and some reports indicate increasing payrolls throughout the course of the year. However, there is a reluctance to hire beyond immediate needs, possibly using part-time workers to meet seasonal demands.
- Tepid consumer demand is the likely cause for slow growth in the retail sector. Between 2008 and 2011, average hourly earnings growth for the metro area has been negative, and only in the past two quarters has growth exceeded the CPI inflation rate.
- Unemployment rates around the Memphis zone remain elevated compared with the nation. In Memphis the unemployment rate ticked up 0.3 percentage points during the first quarter after steady decline throughout the second half of 2011 and all of 2012.
- Jonesboro continues to be the bright spot in the region, where nonfarm employment growth was faster than the national rate; the unemployment rate is below 7 percent and continues to decline.

	Memphis	Jackson	Jonesboro, AR	US
Unemployment rate (Q1-13) (%)	9.1	8.2	6.8	7.7
Nonfarm employment (Q1-13)	0.9	1.7	2.2	1.5
Goods-producing sector	1.6	1.5	5.0	1.4
Private service-providing sector	1.0	2.2	1.5	2.0
Government sector	-0.4	0.3	1.9	-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 Sector in Memphis Continues to Expand

By Yang Liu, Senior Research Associate

“Plant expansions and modifications completed in 2012 have enabled the manufacturers to handle the increase in production and sales without any more capital expenditures.”

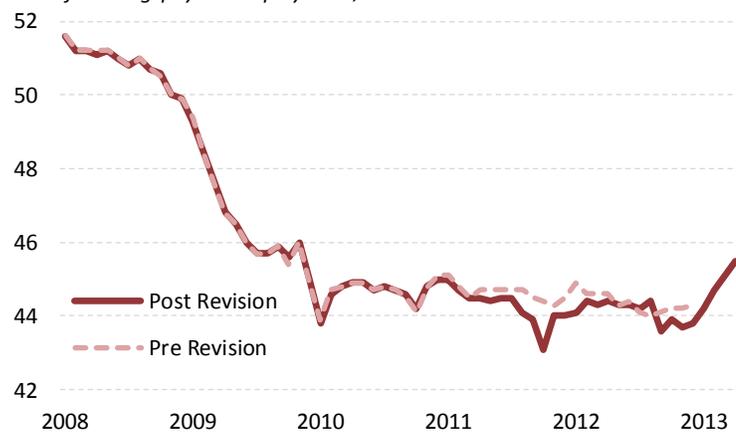
— Northeast Arkansas banker

“Inventories and long lead-time commitments to receive product have been drawn down over the past 24 months. Sales growth appears to be driven, or at least supported, by an ability to respond to short lead-time product demand.”

— Northeast Arkansas manufacturer

Benchmark revision indicates marginally slower manufacturing growth in Memphis

Manufacturing payroll employment, SA thousands



Source: BLS.

- Manufacturing conditions in Memphis improved significantly. Through April, the manufacturing sector has added 1,700 jobs in 2013 (see figure). This more than offsets losses in other sectors and resulting in a net increase of 700 jobs for the private sector.
- According to anecdotal information, most manufacturers remain cautiously optimistic about the remainder of 2013 and they are increasing their employment numbers. A noticeable amount of businesses have announced plans to expand operations.
- The March 2013 benchmark employment revision indicates that the 2011 and 2012 manufacturing payrolls in Memphis were marginally lower than initially reported (see figure). The data revision also shows that Memphis suffered moderate contractions in manufacturing during the fall of 2011 and 2012.
- Mississippi’s durable goods payroll employment growth dropped significantly from the previous quarter; although it remained unchanged on a year-over-year basis.
- Tennessee’s and Mississippi’s nondurable goods earnings growth both topped 3 percent in the fourth quarter of 2012, faster than the national pace.

	Memphis	Tennessee	Mississippi	US
Manufacturing employment (Q1-13)	0.9	3.0	0.3	1.0
Durable goods	0.9	4.7	0.0 ▼	1.2
Nondurable goods	1.0	0.3	0.8	0.6
Manufacturing earnings (Q4-12)	--	7.0	5.9	6.0
Durable goods	--	9.5	7.4	7.9
Nondurable goods	--	3.3 ▲	3.0 ▲	2.7

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.

2013 Continued with Moderate Gains in the Real Estate Market

By Li Li, Research Associate

“The apartment rental market remains tight with most properties at a 95% occupancy.”

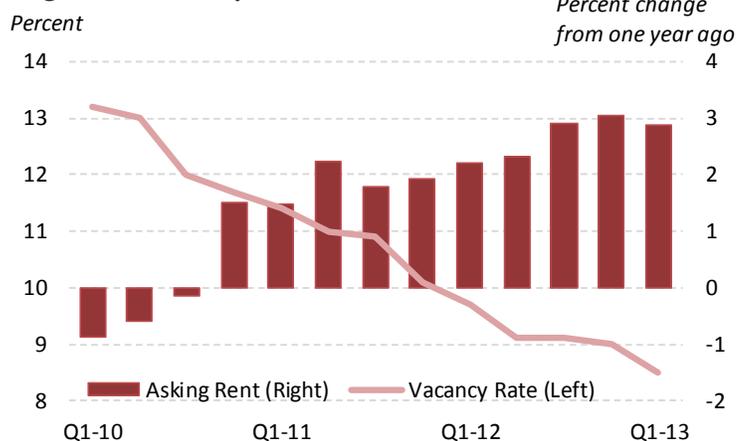
— Northeast Mississippi area contact

“What is interesting is [that] we have two-thirds of our first quarter [home] sales volume already pending. It is amazing.”

— Memphis area broker

- Residential real estate conditions improved at varying rates across the zone in the first quarter of 2013. Local contacts in the Jonesboro and Paragould areas reported that home sales were robust, while sales activity slowed down in Memphis (see table). Jonesboro’s growth rate of home prices also outperformed other MSAs (see table).
- The office real estate market in Memphis generally underperformed the nation: Office vacancy rates in Memphis were 730 basis points higher, and growth rates of asking rents were 140 basis points lower.
- The retail real estate market gained slightly in the first quarter. On a year-over-year basis, vacancy rates fell by 60 basis points to 12.6 percent, while asking rents increased by 0.7 percent (see table), inching to a level that was the highest since the first quarter of 2008.
- Commercial and industrial real estate construction continued to show improvements. Several projects for apartments and medical buildings were announced in the first quarter. Reports also note that a new speculative industrial building has broken ground in Olive Branch, Mississippi, and several other build-to-suit industrial buildings were either planned or are under construction.

Apartment properties continued to outperform other segments in Memphis



Source: Reis.com.

Non-residential market (Memphis, Q1-13)

	Apartment	Office	Retail	Industrial
Vacancy rate (%)	8.5	24.3 ▲	12.6	14.2
Asking rent	2.9	0.6	0.7 ▲	2.7
Percent change from one year ago				

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

Residential market (Q1-13)

	Memphis	Jackson	Jonesboro	US
CoreLogic Home Price Index	1.3	-3.1	4.9	9.8 ▲
Single-family building permits	26.6	27.7	-62.3 ▼	25.7
New and existing home sales	2.4 ▼	--	--	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.

Consumers Continue to Take On Auto Debt

By Bryan Noeth, *Policy Analyst*

“Consumers seem to have more confidence and are willing to spend money, but it would not take much to turn in the opposite direction.”

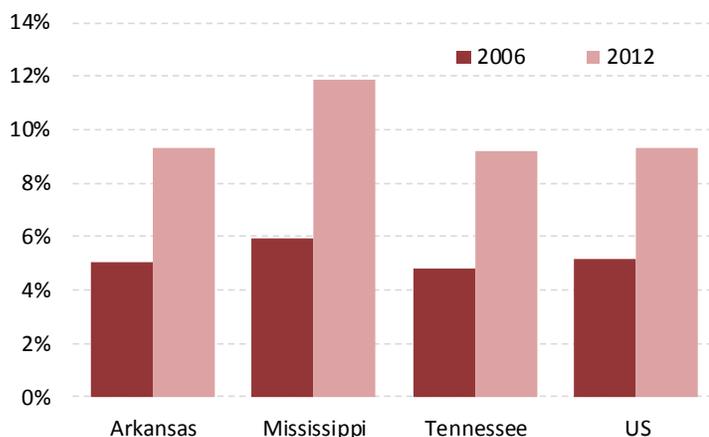
— Memphis area auto dealer

“Retail sales were up in the area, but most people I spoke to think this was a direct result of individuals receiving tax refunds.”

— Northwest Arkansas banker

Mississippi sees elevated student debt burden

Student debt as a percent of personal income



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

- State per capita incomes in the zone grew at about 4 percent, similar to that of the nation (see table). The strong growth likely ebbed in the first quarter of 2013 with the ending of the payroll tax holiday.
- Mortgage deleveraging continued at a modest pace. Per capita mortgage levels were 3.1 percent below the previous year in the zone compared with 4.5 percent for the nation.
- The percentage of mortgage balances in serious delinquency continued to trend downward throughout the zone and rates remained well below the national average.
- Retail auto sales grew significantly in 2012. Accordingly, consumer auto debt in the zone was up 9.7 percent, well above the national average. Delinquencies continued to fall as well.
- Student debt in the zone, as a percent of income, was similar to the nation, with the exception of Mississippi (see chart). Mississippi had higher levels of student debt per borrower and a higher proportion of borrowers. Additionally, Mississippi and Arkansas both had much higher rates of delinquency than the nation.

	Memphis Zone	Arkansas	Mississippi	Tennessee	US
Per capita personal income (Q4-12)	--	4.3 ▲	4.3	4.3	4.2 ▲
Per capita debt balances (Q1-13)					
Mortgage	-3.1	-0.5	-2.6	-2.2	-4.5
Credit card	-2.8	-3.5	-1.2	-3.8	-3.9
Auto loan	9.7	9.2	10.3	8.0	7.3
90+ day delinquency rates (Q1-13) (%)					
Mortgage	3.2	2.8 ▼	3.5	2.6	4.6
Credit card	9.7	8.7	8.5	8.8	9.8
Auto loan	4.6	2.6	5.1	3.7	3.7

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.

Bank Performance Uneven in Memphis Zone

By Michelle Neely, *Economist*

“The Qualified Mortgage rule will wreak havoc in the mortgage market in areas we serve as it relates to balloon mortgages.”

—Memphis area banker

“Net interest margins are contracting due to pressure to reduce pricing of existing credits, low-yielding investment opportunities, and little room to reduce deposit expense.”

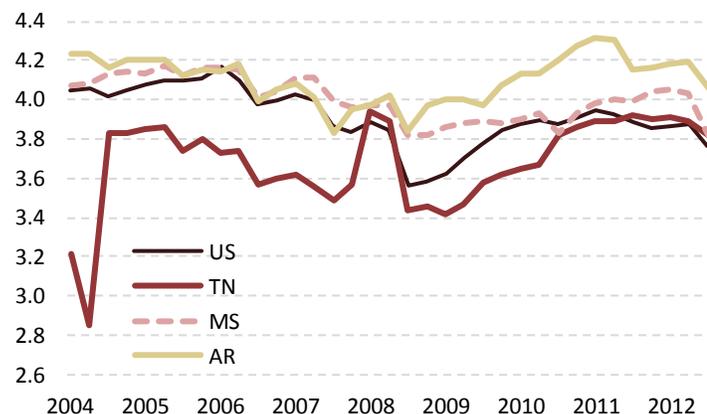
—Memphis area banker

“Farmers are now borrowing heavily. We were worried that agricultural loan demand would be down because of last year’s record-breaking crops.”

—Northwest Mississippi banker

The squeeze is on

Net interest margin at commercial banks, percent



Source: FRED.

- Bankers surveyed in the Memphis zone expect loan demand to stay the same during the next three months.
- Profitability measures were uneven in the Memphis area in the first quarter. While return on average assets (ROA) rose substantially for banks in Arkansas (up 8 basis points), it was up a modest 3 basis points in Tennessee and down 5 basis points in Mississippi from its year-end levels. Year-over-year, the disparity is more stark: ROA jumped 25 basis points in Arkansas, but fell 8 basis points in Tennessee and 7 basis points in Mississippi.
- Net interest margins (NIM) fell across the zone in the first quarter. The average NIM declined 12 basis points in Arkansas, 21 basis points in Mississippi, and 7 basis points in Tennessee in the first quarter. Arkansas and Tennessee banks were able to eke out earnings improvements because declines in loan loss provisions surpassed the drops in net interest income.
- Asset quality improved in the first quarter at banks in Mississippi and Tennessee, but deteriorated somewhat in Arkansas. Nonperforming real estate and consumer loans were down in Mississippi and Tennessee, but up in Arkansas, accounting for the different trends. Commercial and industrial loan delinquency rates rose in all three states, however.

Banking performance (Q1-13)	Tennessee	Mississippi	Arkansas	8th District	US Peer Banks
Return on average assets	0.81	0.84	1.26 ▲	1.01	0.95
Net interest margin	3.82	3.82	4.07	3.71 ▼	3.77
Nonperforming loans / total loans	2.48	2.42 ▼	2.80	2.31	2.47
Loan loss reserve coverage ratio	76.03	69.14	70.66	79.89	75.33

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

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

By Lowell R. Ricketts, *Senior Research Associate*

“I’ve never seen anything that compares with this spring. I’ve seen the Delta planted late but never the whole state.”

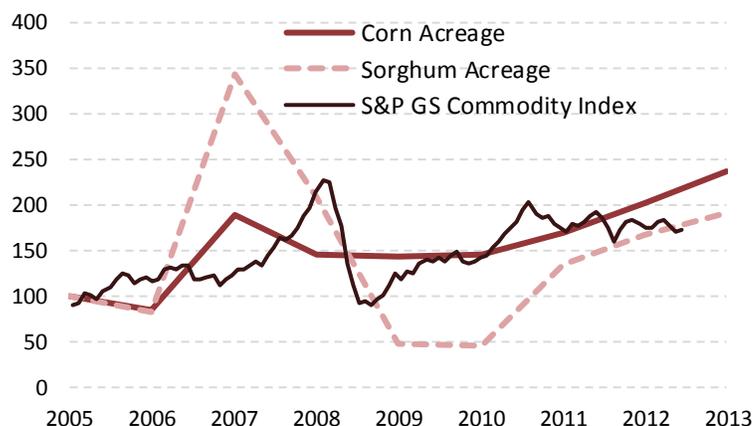
— Mississippi agronomist

“Due to the rain I am three weeks behind in planting my cotton and soybean. I’ve hired 30 additional workers and offered all the whiskey and food they need to work 24 hours around the clock. I am ready to do whatever it takes to get the job done and get all the acres planted.”

— Western Tennessee farmer

Corn and sorghum acreage move with commodity prices

Acreage planted (AR, TN, and MS) and commodity prices, Index (2005=100)



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

- In a continuing trend, farmers in the District’s states plan on planting more corn and sorghum crops in 2013 than they did in 2012 (see figure). The rough pattern in corn and sorghum plantings follows recent trends in commodity prices. See the June 28 USDA report for final acreage planted.
- The prospective cotton crop across all three states in the Memphis zone will be significantly smaller than the crop planted in 2012. Additional planting of corn and sorghum likely crowded out cotton planting as farmers seek greater returns.
- Tennessee corn and pastureland is in better condition than at the same time last year; 17 percent more of the corn crop and 30 percent more of pastureland is in good or excellent condition. In contrast, 13 percent less of the Mississippi rice crop is in good or excellent condition.
- Agricultural bankers surveyed within the Memphis zone expect loan repayments in the second quarter to fall short of levels seen last year.
- Arkansas and Mississippi coal production over the first quarter of 2013 was slightly higher than during the same time last year. In contrast, mining and logging employment declined in both states.

	Arkansas	Mississippi	Tennessee	US
Natural resources (Q1-13)				
Mining and logging employment	-12.2	-1.8	---	2.0
Coal production	7.5	2.8	-6.0	-9.3
Prospective Plantings (2013)				
Corn	40.8	28.0	-6.7 ▼	0.1
Cotton	-54.6 ▼	-43.2	-26.3	-18.6
Rice	-5.0	-7.7	---	-3.3
Sorghum	21.4	-6.3	---	22.0
Soybean	1.6	-1.0	7.9	-0.1

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.

Memphis zone Ag. bankers' expectations Q2-13 vs. Q2-12

Loan demand	100
Available funds	100
Loan repayments	78
Farm income	100
Capital expenditure	100

Note: Values reported using a diffusion index. 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 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

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."

The diffusion index was created by subtracting the percent of bankers that responded "decrease" from the percent that responded "increase" and then adding 100. Index values from 0 to 99 indicate overall expectations of decreasing values; index values from 101 to 200 indicate overall expectations of increasing values; and an index value of 100 indicates an even split.

Energy Information Administration (EIA)

Coal production.

Bureau of Labor Statistics (BLS)

Mining and logging employment.

USDA

Crop production.