



Burgundy Book

A report on economic conditions in the Little Rock zone

First Quarter 2014

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.

The Little Rock Zone Ends 2013 on a Soft Note; Business Contacts Appear Cautiously Optimistic About 2014

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

A sizable minority of business contacts in the Little Rock zone expect some improvement in economic conditions in 2014. The remainder expect conditions in 2014 to be about unchanged from 2013.

Employment growth in the fourth quarter was stronger than the nation in Fayetteville and Fort Smith, but weaker in Little Rock and Texarkana. Manufacturing employment in Arkansas declined for the third consecutive year in 2013. Manufacturing conditions weakened, in part, because of a significant drop in manufactured exports.

The zone's unemployment rate in the fourth quarter averaged 7.2 percent, a slight uptick from the previous two quarters. The Fayetteville MSA unemployment rate (5.5 percent) remained appreciably below the US average (7 percent) in the fourth quarter, while the Little Rock MSA unemployment rate (6.7 percent) was modestly below the national rate.

Residential housing market conditions softened in the fourth quarter compared with the previous quarter. In particular, house prices and single-family building permits fell in most areas relative to a year earlier.

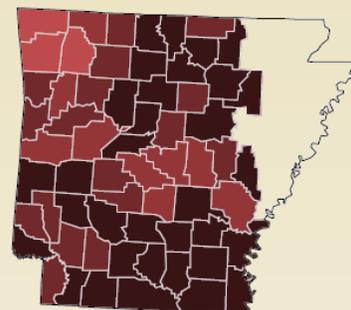
In a continuation of recent trends, households in the Little Rock zone reduced their outstanding mortgage debt and credit card balances but continued to increase auto loan debt.

Arkansas banks remained the most profitable among all District banks in the fourth quarter, as return on average assets measured 1.2 percent, well above the District average of 1.0 percent.

Lower commodity prices are raising concerns among producers and their lenders, while offering some relief to livestock producers.

Data Snapshot

County unemployment rates (SA, Q4-13)

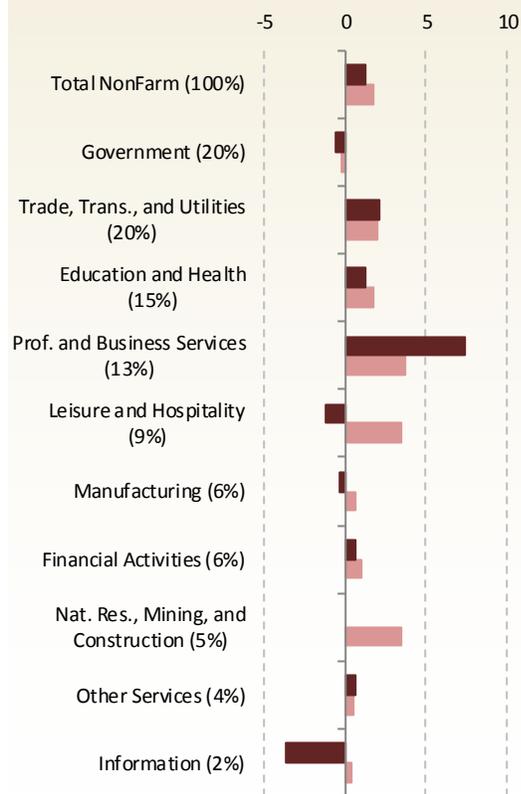


7.2%



Nonfarm payroll employment by industry

Percent change from one year ago (Q4-13)



■ Little Rock ■ US

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 US unemployment rate is 0.4 percent. If the US 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.

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

Unemployment Rate Holds Steady in Little Rock Zone

By Brian Greaney, *Research Associate*

“Spending has declined in our area...retirees are holding on to assets.”

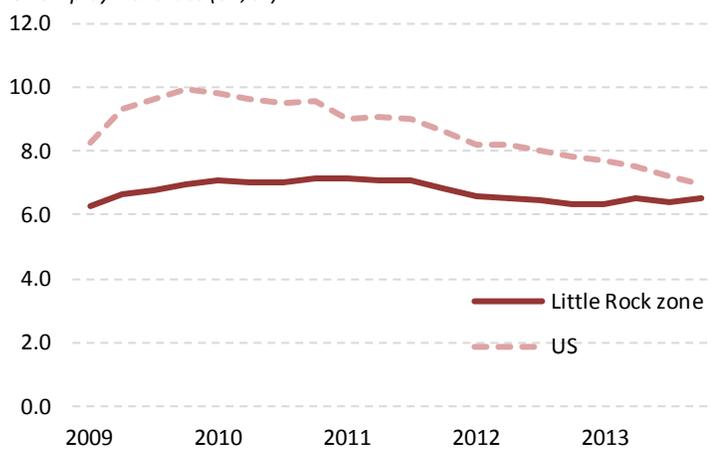
—Little Rock area auto dealer

“In the engineering industry, we are seeing a shortage of qualified candidates. Wages and labor costs are continuing to rise at a faster rate than fees for our services, which is eroding profitability. We believe the tight labor market will continue for several years.”

—Little Rock area engineer

Unemployment rate approaches the national average

Unemployment rate (SA, %)



Source: BLS.

- Anecdotal evidence from business contacts suggests that labor market conditions may improve in the upcoming year: 45 percent of contacts expect both employment and hours per employee to increase, while the remaining 55 percent predict no change.
- The unemployment rate increased in all of the zone’s MSAs except for Fort Smith, where it remained unchanged from the previous quarter. The unemployment rate has remained little changed in the Little Rock zone during the past year, while the national unemployment rate has moved steadily downward (see figure). As a result, the Little Rock zone’s unemployment rate is now nearly identical to the national average.
- The private service-providing sector continues to be a source of employment growth in the Little Rock zone. Each MSA experienced positive growth in this sector compared with the previous year (see table). However, the pace of growth has decreased or stayed the same in all of the MSAs except Texarkana when compared with last quarter. In Little Rock and Fayetteville, this slowdown in growth was significant.
- The government sector declined in Texarkana for the fourth consecutive quarter. The decrease in government sector employment was so strong that overall employment fell in Texarkana despite positive growth in each of the other sectors.

	Little Rock	Fayetteville	Fort Smith	Texarkana	US
Unemployment rate (Q4-13) (%)	6.7 ▲	5.5	7.5	7.3	7.0
Nonfarm employment (Q4-13)	1.3	4.3 ▼	2.6	-1.2	1.8
Goods-producing sector	-0.2	2.5	-0.1	0.5	1.7
Private service-providing sector	2.1 ▼	5.4 ▼	4.2	1.2	2.2
Government sector	-0.6	1.3	0.3	-8.6 ▼	-0.2

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 Activity Still Lacking Momentum

By Yang Liu, Senior Research Associate

“[We expect] the company to have good first and second quarters with the second half of the year to be down due to an oversupply.”

— Central Arkansas manufacturer

“Wood product manufacturing facilities in the state were operating near historical [high] operating rates until the harsh winter weather impacted the ability to get human resources and raw materials to the mills.”

— Southern Arkansas manufacturer

Manufacturing employment growth in Arkansas has been slowed by nondurable goods sector

Percent change from one year ago



Source: BLS.

- Manufacturing employment in Arkansas has declined three years in a row (see figure). In the fourth quarter Arkansas’s manufacturing employment dropped 0.2 percent, compared with one year ago. Little Rock’s manufacturing employment declined by 0.3 percent; while Fayetteville reported 0.6 percent manufacturing employment growth. National manufacturing employment increased by 0.7 percent, faster than growth rates for Arkansas, Little Rock, and Fayetteville (see table).
- The durable goods sector in Arkansas grew modestly in 2013, but the nondurable goods sector continued to contract, driving overall manufacturing employment growth into negative territory (see figure).
- In contrast to the nation’s 3.2 percent growth, Arkansas’s manufacturing exports dropped 13.9 percent compared with one year ago (see table). The declines in transportation equipment, primary metal, and food exports were the drivers.

	Little Rock	Fayetteville	Arkansas	US
Manufacturing employment (Q4-13)	-0.3	0.6	-0.2	0.7
Durable goods	--	--	2.1	1.1
Nondurable goods	--	--	-2.4	0.0
Manufacturing exports (Q4-13)	--	--	-13.9	3.2

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.

Little Rock Enjoyed Strong Home Sales

By Li Li, Senior Research Associate

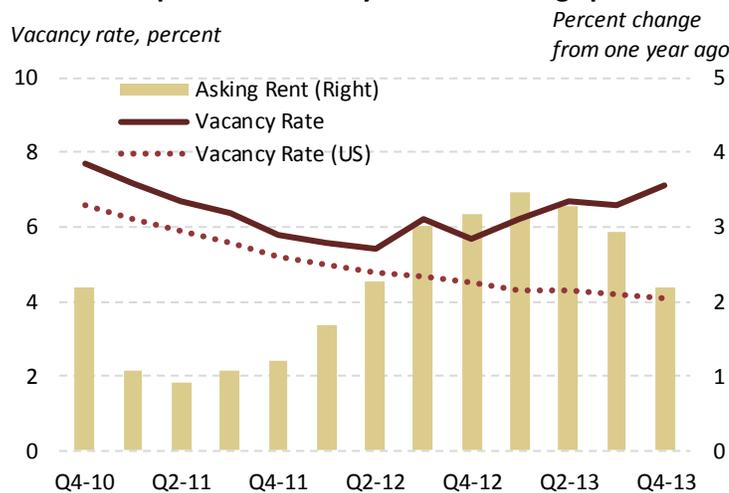
“Wood product manufacturing facilities in the state [Arkansas] were operating near historical operating rates in response to increased demand as housing starts continued to improve modestly until the harsh weather.”

— El Dorado area timber company executive

“I am encouraged that my sense of a healthier [office] marketplace is beginning to show up.”

— Little Rock area banker

Little Rock apartment vacancy rate is trending up



Source: CoreLogic.

- The residential market is improving. Single-family home sales continued to strengthen in the fourth quarter (see table). A realtor in northwest Arkansas described home sales for 2013 as “extremely strong,” especially luxury homes. It was also reported that Faulkner County had the greatest increase in homes sold.
- However, home prices in Little Rock stagnated in the fourth quarter, falling 0.5 percent from one year ago. Home prices in other MSAs in the zone also experienced negative year-over-year growth, except Fayetteville (see table).
- The multifamily market in Little Rock started to see some changes. Vacancy rates climbed up while year-over-year growth of asking rents slowed (see figure). At the same time, contacts continued to report that multifamily developers were looking for new sites to build apartment complexes. Contacts have raised concern that there is an oversupply of apartment buildings.
- There are a few construction plans in the commercial market. An outlet mall is planned at Gateway Town Center in Little Rock. A mixed-use project that includes apartment, office, and retail space is under construction in Little Rock. Retail vacancy rates in Little Rock experienced slight decreases over the past three quarters, while office vacancy flattened in 2013.

Non-residential market (Little Rock, Q4-13)	Apartment	Office	Retail	Industrial
Vacancy rate (%)	7.1	12.0	12.2	8.4
Asking rent	2.2 ▼	0.4	1.4	4.4
<i>Percent change from one year ago</i>				

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

Residential market (Q4-13)	Little Rock	Fayetteville	Fort Smith	Hot Springs	Pine Bluff	Texarkana	US
CoreLogic Home Price Index	-0.5	2.3	-6.1 ▼	-9.6 ▼	-0.1	-0.3	11.5
Single-family building permits	-9.2	29.2	-29.1	-6.8	342.1	-19.8	20.1
New and existing home sales	17.0	--	--	--	--	--	9.0 ▼

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.

Auto Sales Strong in High-End and Used Segments, Auto Loans Easy

By Elise A. Marifian, *Research Associate*

“We have a large group of lower income wage earners in our area. They are less likely to be able to purchase vehicles at today’s prices.”

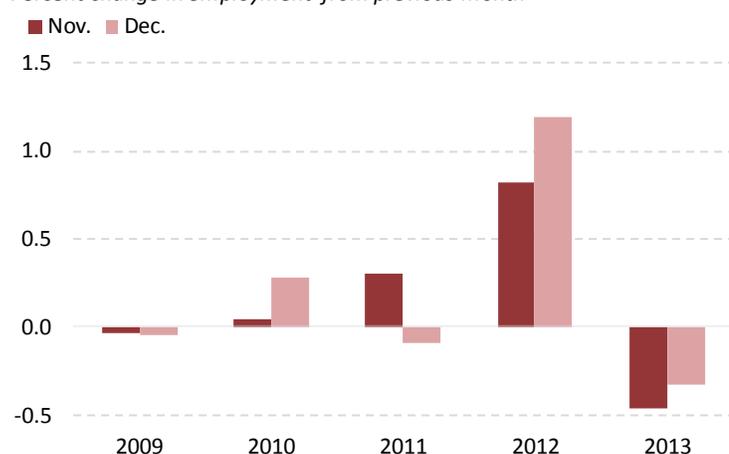
– Little Rock area auto dealer

“The most recent holiday season was slightly softer overall compared to the past three. Spending was down in all sectors of our market.”

– Little Rock area retailer

Holiday season retail employment falls in Nov. and Dec.

Percent change in employment from previous month



Source: BLS.

- Personal income growth in Arkansas picked up in the third quarter, slightly outpacing the US. The 3.1 percent increase over the past year represents an average income gain of \$1,107 per person.
- Households continued to reduce their debt balances. Per capita credit card and mortgage debt declined across the zone, although the Little Rock MSA saw little decline in mortgage balances. Fourth-quarter delinquency rates increased relative the previous quarter.
- Auto loan growth in the zone continued to increase in the fourth quarter (see table), reflecting what contacts described as an environment of easy auto credit with aggressive subprime lending. Contacts also noted that, despite setbacks from bad weather, auto sales were solid overall in December and January, particularly in luxury and mid-tier pre-owned vehicles. New luxury electric vehicles and performance cars are expected to be strong sellers in 2014.
- Retail employment in zone MSAs declined in November and December, unlike in 2012 (see figure), suggesting that retailers anticipated a slower holiday season.

	Little Rock Zone	Arkansas	Little Rock MSA	US
Per capita personal income (Q3-13)	--	3.1	--	2.9
Per capita debt balances (Q4-13)				
Mortgage	-3.2	-3.5	-0.6	-4.8 ▲
Credit card	-4.6	-4.5	-3.7	-4.9
Auto loan	5.1	4.9	6.0	4.4
90+ day delinquency rates (%) (Q4-13)				
Mortgage	2.3	2.2	2.1	3.5 ▼
Credit card	8.1	8.1	7.4	9.1
Auto loan	2.3	2.3	2.5	3.2

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.

Arkansas Banks Post Solid Results

By Michelle Neely, *Economist*

“Our costs will be up this year because of expenses associated with additional hiring, data processing and bank-owned real estate.”

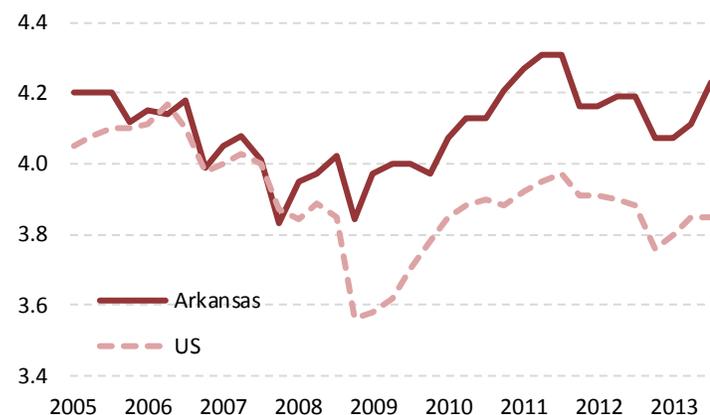
– Northwest Arkansas banker

“If you have good credit, the lenders are chasing you.”

– Northwest Arkansas auto dealer

Arkansas net interest margins headed in right direction

Net interest margin at commercial banks, percent



Source: FRED.

- Although return on average assets (ROA) dipped slightly at Arkansas banks in the fourth quarter, the state’s results still significantly exceeded those of their District and national peers. The state’s year-end average of 1.23 percent also exceeded its year-ago level of 1.17 percent.
- The small drop in ROA occurred despite a robust 12-basis-point increase in the average net interest margins (NIM) and a slight drop in loan loss provisions. The profit decline can be traced to substantial increases in noninterest expenses and declines in noninterest income that more than offset the positive margin results.
- Nonperforming loans remain on the decline across the state, District, and nation. The average nonperforming loan ratio at Arkansas banks continues to exceed the District and national averages because of mergers and acquisitions of failing banks by Arkansas institutions.

Banking performance (Q4-13)

	Arkansas	8th District	US Peer Banks
Return on average assets	1.23	1.03	1.01
Net interest margin	4.23	3.77	3.85
Nonperforming loans / total loans	2.08	1.77 ▼	1.82 ▼
Loan loss reserve coverage ratio	85.10	79.89	89.01

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

Commodity Prices Drag Down Farm Income; Lackluster Red Meat and Coal Output

By Lowell R. Ricketts, Senior Research Associate

“Lower grain and soybean prices, higher input costs, and a reduction in USDA farm program payments are my top concerns for my business in 2014.”

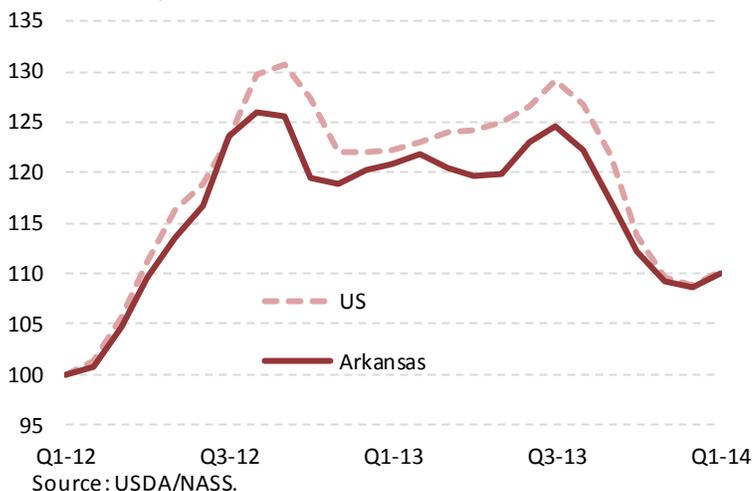
— Central Arkansas farmer

“Corn is about half of what it was last year, so our input costs are lower so that’s actually going to allow some of our producers to go ahead and hang on to some of their cows instead of liquidating their herds.”

— Western Arkansas Rancher

Soybean prices tumble but stabilize in the new year

3-Month MA of \$/BU, indexed value (Jan. 2012=100)



- Commodity prices have fallen precipitously in Arkansas as well as the nation (see figure). Soybean prices (43 percent of total crop) have fallen 11 percent since their recent peak in June 2013. Corn (11 percent of total crop) prices had a more severe decline but data for Arkansas were not available. Following the significant decline in prices, agricultural bankers expect farm income to decline in the first quarter of this year relative to the same time in 2013 (see right table). Similarly, respondents expect a slower rate of loan repayment over the same period.
- Arkansas coal production in the fourth quarter of 2013 was less than half that of a year earlier (see left table). However, overall coal production in Arkansas is quite small and subject to extremely large swings. In contrast, mining and logging employment was modestly higher relative to the same period last year.
- Red meat production in Arkansas for 2013 was less than half of the total for 2012 (see left table). However, Arkansas comprises the smallest share of national production among the District states. Consequently, the Little Rock zone has a small impact on overall trends in the District.

	Arkansas	US
Natural resources (Q4-13)		
Mining and logging employment	2.3	4.3
Coal production	-57.1	0.5
Red meat production (2013)	-64.8 ▼	-0.5
Share of national production	<0.1	100
Winter wheat, area planted (2014)	-41.2	-2.8

Note: Values (except for production shares) 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.

Little Rock zone Ag. bankers' expectations Q1-14 vs. Q1-13

	Lower	Higher	Net
Loan demand	20	20	0
Available funds	0	20	20
Loan repayments	20	0	-20
Farm income	29	14	-14
Capital expenditure	29	29	0

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.

World Institute for Strategic Economic Research

Manufacturing exports: dollar value, and metric tons.

Notes

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.

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 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

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 National Agricultural Statistics Services (USDA/NASS)

Red meat production and winter wheat plantings.