



Burgundy Book

A report on economic conditions in the Memphis zone

First Quarter 2014

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

Despite Ongoing Difficulties, Business Contacts Are More Optimistic Than Pessimistic about Memphis Economy in 2014

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

Half of business contacts surveyed believe that economic conditions in the Memphis zone will be better next year; this is a modest improvement from three months earlier. In the current survey, only 7 percent expect conditions to worsen in 2014.

In the Memphis MSA, employment growth in the fourth quarter of 2013 (from a year earlier) outpaced the nation in the education and health, manufacturing, and financial activities industries; however, overall growth was weaker. Tennessee's manufacturing employment rose briskly in the fourth quarter, but manufacturing employment was little changed in Mississippi.

In the fourth quarter, the Memphis zone's unemployment rate averaged 9.6 percent, essentially unchanged from the previous quarter and much higher than the national average. Labor market conditions remain strongest in the Jonesboro MSA.

Residential housing conditions remain healthy in the Memphis MSA, as house prices and single-family building permits posted robust gains in the fourth quarter. Conditions were generally weaker in other metro areas. The Memphis office vacancy rate in the fourth quarter was the highest among the four major MSAs in the District.

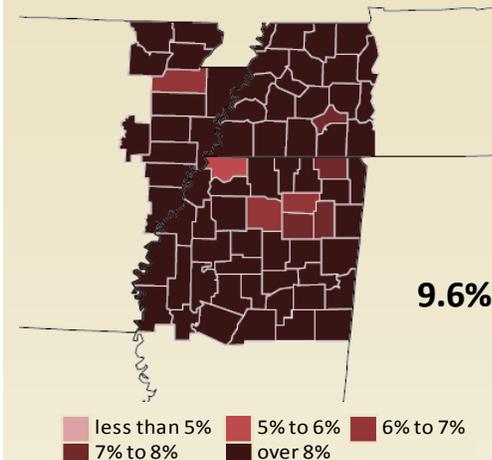
Families continued to reduce their credit card and mortgage balances in the fourth quarter, and delinquency rates in the zone were generally lower than those seen nationally.

The number of nonperforming loans at Tennessee and Mississippi banks fell appreciably in the fourth quarter.

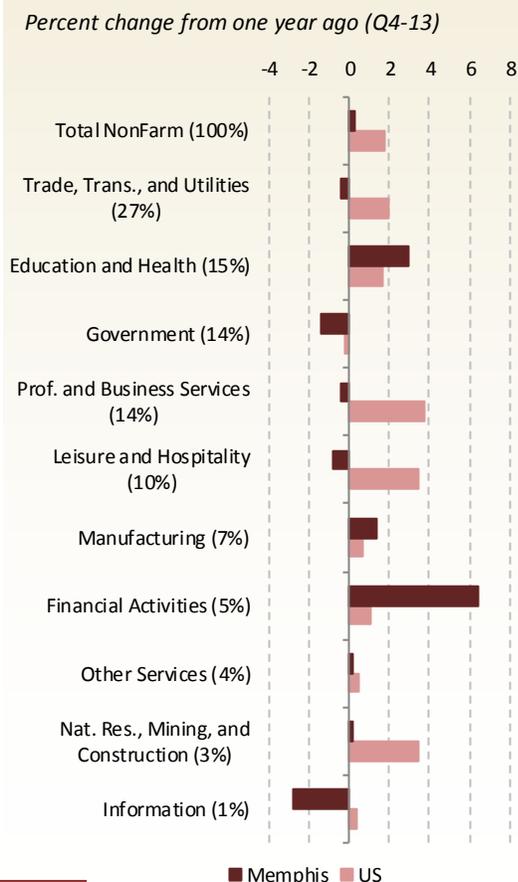
Because of declines in commodity prices over the past year, a majority of agricultural bankers expect lower farm income and capital expenditures compared with last year's levels.

Data Snapshot

County unemployment rates (SA, Q4-13)



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 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.

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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.

Employment Growth in the Memphis Zone Remains Sluggish

By Brian Greaney, *Research Associate*

“Long-term growth in excess of expected productivity improvement is the determinant for permanent hiring. All other hiring required to satisfy short-term or seasonal changes in output is accommodated by temporary hiring.”

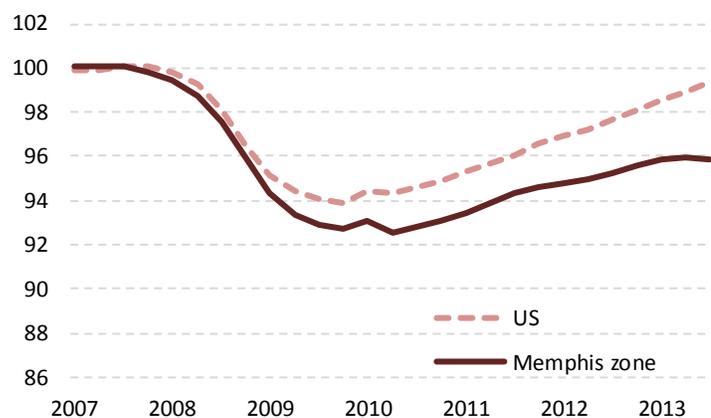
—Memphis area manufacturer

“Excluding agriculture, we are seeing business spending slow down.”

—Memphis area banker

Employment falls farther below national average

Payroll employment, SA (Index 2007=100)



Source: BLS.

- Nonfarm employment growth in the zone was positive but slower than in the previous quarter. Growth continued to be slow in Memphis and Jackson and moderately strong in Jonesboro (see table). Jonesboro was the only MSA in which growth exceeded the national average. Overall, the zone’s employment lagged behind the national average (see figure).
- Jonesboro experienced a 0.1 percent increase in its unemployment rate, while the unemployment rate in Memphis was unchanged. Jackson was the only MSA with a decrease in its unemployment rate, which fell 0.3 percentage points.
- Anecdotal evidence suggests local labor market conditions will stay the same or improve slightly in the next year: 60 percent of business contacts expect employment to remain unchanged, while 30 percent foresee an increase.
- Wage growth continues to be strong in the Memphis zone. The year-over-year growth in hourly earnings was 6.2 percent, which far exceeds the national average of 2.1 percent. Wage growth was particularly strong in Memphis, where hourly earnings increased 7.4 percent relative to last year. Business contacts generally expect this trend to continue: 50 percent of contacts expect wages to continue to increase in the next year, while only 5 percent predict a decline.

	Memphis	Jackson	Jonesboro, AR	US
Unemployment rate (Q4-13) (%)	9.4	8.4	6.9	7.0
Nonfarm employment (Q4-13)	0.3	0.9	4.4	1.8
Goods-producing sector	1.0	-4.0	5.5	1.7
Private service-providing sector	0.6	1.8	4.8	2.2
Government sector	-1.5	2.4	1.5	-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 Conditions Have Been Improving in Memphis

By Yang Liu, Senior Research Associate

“Most [eastern Arkansas] manufacturers indicated year-end sales growth of approximately 4 to 4.5 percent and are optimistic that those increases can be maintained into 2014.”

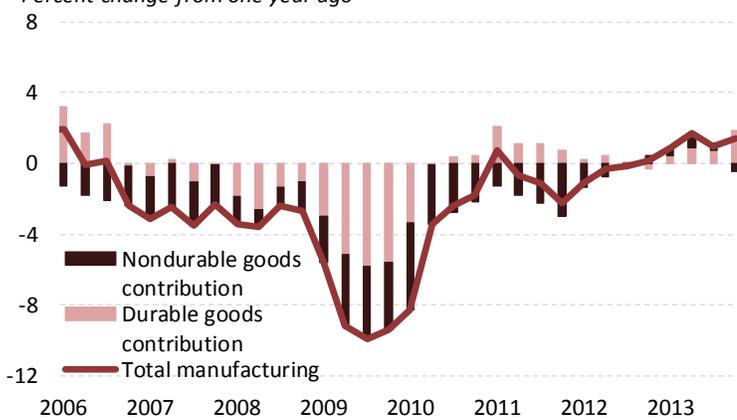
— Eastern Arkansas banker

“The greatest threat to expansion is the lack of mechanics, electricians and technicians. Currently, manufacturers are having to fly these specialists into Memphis for much higher costs.”

— Memphis area transportation executive

Memphis manufacturing employment saw modest growth in 2013

Percent change from one year ago



Source: BLS.

- According to anecdotal information, the transportation industry has been expanding in the Memphis area. For example, a contact mentioned that the demand for truck drivers has been very high.
- Manufacturing employment has increased for the fifth consecutive quarter in Memphis. The durable goods sector has been a strength in the fourth quarter, while the nondurable goods sector contracted (see figure).
- Tennessee’s manufacturing employment grew 2.1 percent, higher than the national average (0.7 percent), during the fourth quarter. Tennessee’s durable goods sector saw moderate growth; the nondurable goods sector contracted slightly. Manufacturing employment was flat in Mississippi (see table).
- Tennessee’s manufacturing exports increased 9.4 percent in the fourth quarter (see table). Transportation equipment and chemical exports were the main drivers.
- Mississippi experienced 20 percent growth in manufacturing exports compared with one year ago (see table). Petroleum and coal products and transportation equipment exports were the top contributors.

	Memphis	Tennessee	Mississippi	US
Manufacturing employment (Q4-13)	1.4	2.1	0.1	0.7
Durable goods	3.5	3.6	0.5	1.1
Nondurable goods	-1.0	-0.3	-0.5	0.0
Manufacturing exports (Q4-13)	--	9.4	19.9	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.

Residential Housing Market Entering 2014 with Uncertainty

By Li Li, Senior Research Associate

“Sales were down a little, but that has been the case all across the country because of inclement weather.”

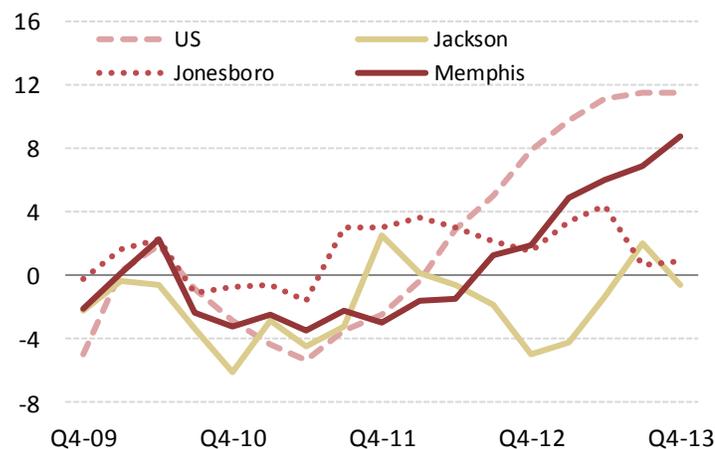
— Memphis area realtor

“We have a balanced supply of new homes under construction. Sales of existing homes are up slightly.”

— Jackson area banker

Home prices in Memphis outperformed other MSAs

Percent change from one year ago



Source: CoreLogic.

- Residential housing conditions have been mixed throughout the zone. While home prices in Memphis have mirrored the national trend and enjoyed a rapid growth since the third quarter of 2012, Jackson and Jonesboro’s performance is weak (see figure).
- Although Memphis home sales for the year rose by 7.3 percent (see table), home sales for the months of October, November, and December went up by only about 1.3 percent on average. While some blame can be attributed to adverse weather, the residential market outlook remains cautious.
- The office market had a slight gain in the fourth quarter. Vacancy rates dropped to 23 percent: 70 basis points lower than last quarter and 20 basis points lower than a year ago (see table).
- The fourth quarter’s office vacancy rate in Memphis remains the highest among the four major MSAs in the District, and it is 6.1 percentage points above the national level.
- A contact in northeast Arkansas commented that there is new commercial and residential construction in the Jonesboro and Paragould areas. In the Memphis area, there are new apartment buildings under construction in downtown and an industrial project announced by FedEx.

Non-residential market (Memphis, Q4-13)	Apartment	Office	Retail	Industrial
Vacancy rate (%)	8.0	23.0 ▼	11.9	14.4
Asking rent	2.4	0.8	1.6	-1.2
<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)	Memphis	Jackson	Jonesboro	US
CoreLogic Home Price Index	8.7 ▲	-0.7 ▼	0.9	11.5
Single-family building permits	12.2	12.4	-27.4	20.1
New and existing home sales	7.3	--	--	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.

Households Reduce Debt; Retailers Look Forward to 2014

By Elise A. Marifian, *Research Associate*

“Consumer spending was cautious this past holiday season. We did not experience the same growth as in the past three seasons. The market appears shallow.”

– Memphis area auto dealer

“Fewer of my customers shopped with us, but those that did spent more money.”

– Memphis area retailer

Consumer credit and mortgage debt balances continue to be lower than previous year

Percent change in debt balances from one year ago



Source: FRBNY Consumer Credit Panel and Equifax based on author's calculations.

- Per capita income in Arkansas, Mississippi, and Tennessee grew in the third quarter relative to 2012 (see table).
- Households in the Memphis zone continued to reduce their credit and mortgage debt balances relative to last year, although at a slightly slower rate than the previous quarter (see figure). A contact believes consumers are cautiously optimistic that their financial conditions will improve over the next few years and that many will focus on controlling credit card debt.
- Auto loans in the fourth quarter were up 3.1 percent from last year. Although 2013 was a great year for auto dealers, with strong growth in new cars, some noted that sales were slightly off in December. They anticipate good sales in 2014.
- Anecdotal evidence suggests that fourth-quarter sales for retailers were slightly higher than expected and that a shorter holiday season was actually favorable. Many said they are hiring.
- 90+ day mortgage delinquency rates fell from the previous quarter's rate of 2.9 percent, while credit card and auto loan delinquency rates increased from the third quarter's rates of 8.7 and 4.2 percent, respectively (see table).

	Memphis Zone	Arkansas	Mississippi	Tennessee	US
Per capita personal income (Q3-13)	--	3.1	4.3 ▲	2.1	2.9
Per capita debt balances (Q4-13)					
Mortgage	-5.7	-3.5	-3.8	-3.6 ▲	-4.8 ▲
Credit card	-4.9	-4.5	-5.1	-4.9	-4.9
Auto loan	3.1	4.9	4.7	4.3	4.4
90+ day delinquency rates (Q4-13) (%)					
Mortgage	2.7	2.2	2.8	2.1	3.5 ▼
Credit card	9.0	8.1	7.5	8.2	9.1
Auto loan	4.3	2.3	4.9	3.4	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.

Memphis Zone Bankers Still Concerned About Loan Demand

By Michelle Neely, *Economist*

“Mortgage lending volume continues to be weak as a result of higher mortgage rates. Refinance activity continues to be slow and purchase money mortgages are growing as a percentage of loan volume.”

—Memphis area banker

“Good loans are hard to find outside agriculture. We’re concerned about agricultural loans for the 2014 crop year as prices for all major commodities continue to drop, with the exception of rice.”

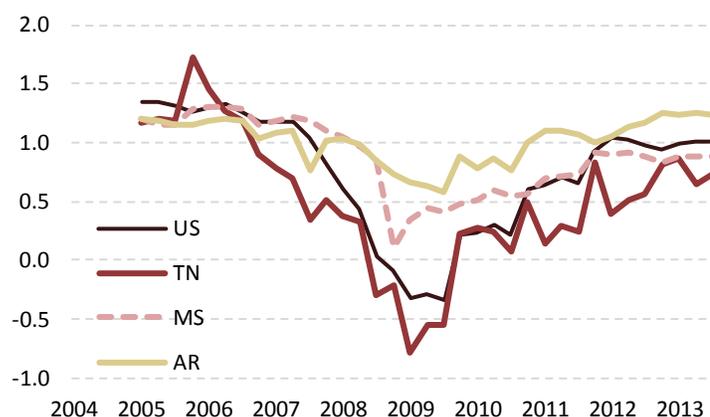
—Northwest Mississippi banker

“Loan demand is soft but improving and bankers report seeing a softening in terms for loans as banks struggle to book loans in search of higher-yielding assets.”

—Memphis area banker

Arkansas banks still lead the pack

Return on average assets at commercial banks, percent



Source: FRED.

- Bankers surveyed in the Memphis zone expect loan demand and credit standards to stay the same or improve during the next three months.
- Return on average assets (ROA) results were uneven in the Memphis zone in the fourth quarter. ROA increased 9 basis points to 0.74 percent in Tennessee, but declined 1 basis point in Mississippi and 2 basis points in Arkansas between the third and fourth quarters. Despite the quarterly declines, average ROA at Mississippi and Arkansas banks still exceeded Tennessee’s year-end level. Arkansas banks continue to lead the District and most of the nation in measures of profitability, with an average ROA of 1.23 percent at year-end 2013.
- Net interest margins were up across the board in the Memphis zone at year-end 2013. Arkansas banks experienced the largest increase from the third quarter: 12 basis points. Loan loss provisions declined slightly in the fourth quarter, providing a small boost to earnings.
- Asset quality improved once again in the fourth quarter. The ratio of nonperforming loans to total loans fell in all three states of the Memphis zone, the District, and the nation. Coverage ratios—the ratio of loan loss reserves to nonperforming loans—consequently rose, meaning banks have more funds set aside for each dollar of nonperforming loans.

Banking performance (Q4-13)	Tennessee	Mississippi	Arkansas	8th District	US Peer Banks
Return on average assets	0.74	0.88	1.23	1.03	1.01
Net interest margin	3.67	3.92	4.23	3.77	3.85
Nonperforming loans / total loans	2.17 ▼	1.75 ▼	2.08	1.77 ▼	1.82 ▼
Loan loss reserve coverage ratio	75.58	86.86	85.10	79.89	89.01

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

Big Yields Slash Commodity Prices; Farm Income and Capital Spending Declines

By Lowell R. Ricketts, *Senior Research Associate*

“Lower commodity prices, less farm income, and fewer profits are all weighing on my outlook for business in 2014.”

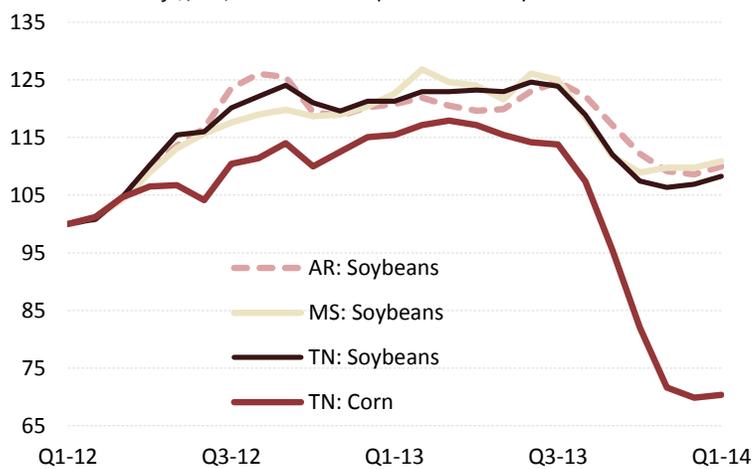
— Northeastern Arkansas farmer

“Erosion in commodity prices is affecting spending habits of our farmers. We would generally supply 2 to 3 new houses for young farmers each year but we have none on the horizon for 2014.”

— Western Tennessee lumber worker

Soybean prices tumble; corn prices plummet

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



Source: USDA/NASS.

- Commodity prices in the zone began to decline around the third quarter of last year (see figure). Prices continued to free-fall until December whereupon they stabilized at close to 40 percent (corn) and 10 percent (soybeans) lower than levels seen in January of 2013. Following the decline in prices, agricultural bankers surveyed in the zone expect lower farm income in the first quarter of this year relative to the same time in 2013 (see right table). Respondents also expect lower capital expenditure and a slower rate of loan repayment. In contrast, bankers expect higher levels of loan demand.
- Coal production increased across the zone states with the exception of Arkansas (see left table). Arkansas production fell precipitously. However, overall coal production in Arkansas is quite small and prone to extremely large swings. Mining and logging employment also expanded modestly during the end of 2013.
- 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. Furthermore, the Memphis zone accounts for less than 1 percent of national production and has a small impact on overall trends in the District.

	Arkansas	Mississippi	Tennessee	US
Natural resources (Q4-13)				
Mining and logging employment	2.3	1.4	---	4.3
Coal production	-57.1	17.5	4.9	0.5
Red meat production (2013)	-64.8 ▼	-6.7	1.5	-0.5
Share of national production	<0.1	0.1	0.5	100
Winter wheat, area planted (2014)	-41.2	-50.0	-16.4 ▼	-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.

Memphis zone Ag. bankers' expectations Q1-14 vs. Q1-13

Loan demand	140
Available funds	100
Loan repayments	67
Farm income	86
Capital expenditure	86

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.

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."

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 National Agricultural Statistics Services (USDA/NASS)

Red meat production and winter wheat plantings.