



# Burgundy Book

A report on economic conditions in the Little Rock zone

Second 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.

## Economic Conditions Improve in the Little Rock Zone

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

The near-term outlook for the Little Rock zone improved modestly according to a May survey of business contacts. Roughly two-thirds expect economic conditions in 2014 to be better or somewhat better than they were in 2013.

The Little Rock zone's unemployment rate averaged 6.8 percent in the first quarter of 2014, down modestly from the previous quarter (7.2 percent). Two of the four MSAs in the Little Rock zone (Fayetteville and Little Rock) had unemployment rates below the U.S. average (6.7 percent). The zone's payroll employment growth was modestly positive in the first quarter.

In contrast to the nation, manufacturing employment in the Little Rock zone declined in the first quarter. However, activity in the transportation sector appears to be ramping up, as reflected in a sizable increase in job openings over the past several months.

Compared with a year earlier, house prices and single-family building permits declined in the first quarter—although Fayetteville and Texarkana were notable exceptions. Vacancy rates in Little Rock were unchanged to slightly lower in the first quarter compared with the previous quarter.

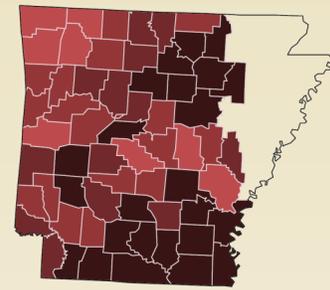
Households in the Little Rock zone continue to pare their mortgage debt and credit card balances. However, auto loan debt—a proxy for auto sales—increased at a healthy pace in the first quarter and by a larger percentage than seen nationally.

Compared with the previous three months, Arkansas banks' return on assets and net interest margins increased slightly in the first quarter; however, their nonperforming loan ratio was largely unchanged.

Arkansas farmers reduced their corn acreage in 2014, but boosted their rice acreage sharply.

### Data Snapshot

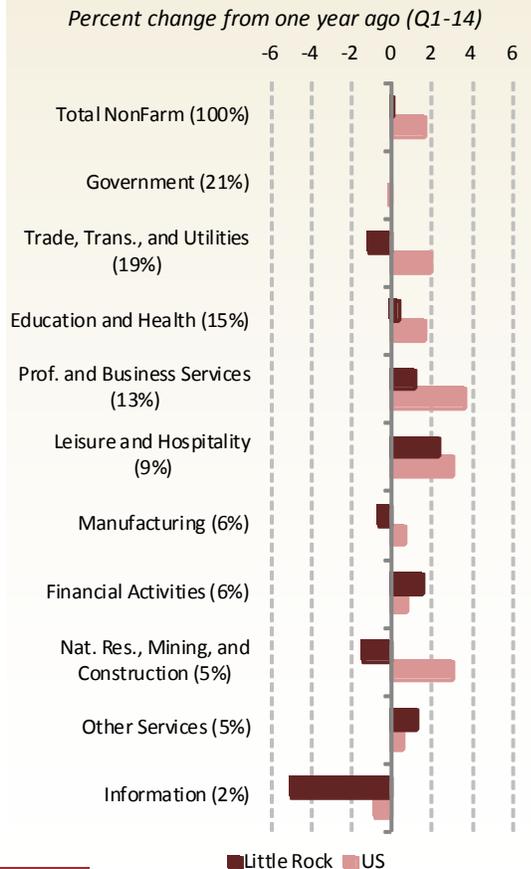
#### County unemployment rates (SA, Q1-14)



6.8%



#### 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 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.

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/outlooksurvey/>

or email us at [beigebook@stls.frb.org](mailto:beigebook@stls.frb.org).

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

## Labor Markets Continue To Grow Modestly in Little Rock Zone

By E. K. Vermann, *Senior Research Associate*

*“Managed IT services and... consulting projects are significantly higher in the short-term and [the pipeline of committed development projects is] indicating higher [hiring] for the long-term.”*

—Little Rock area IT consultant

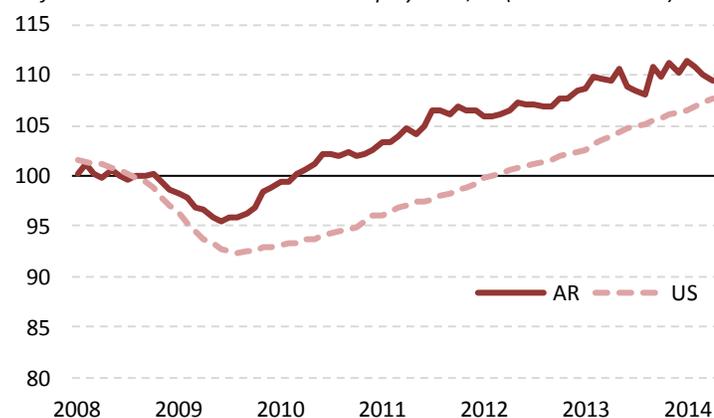
*“We continue to have trouble finding mechanics because very few training programs produce qualified candidates.”*

—Northwest Arkansas transportation executive

- The unemployment rate fell in all of the MSAs in the Little Rock zone. In fact, Little Rock, Fort Smith, and Texarkana all experienced significant decreases in the unemployment rate. Despite these changes, only Little Rock and Fayetteville have unemployment rates lower than the national average.
- With the exception of Fayetteville, employment growth in the nation continues to outpace that in the Little Rock zone: Employment in Little Rock and Fort Smith grew 0.1 and 0.5 percent, respectively. Employment in Texarkana, though continuing to fall, declined at a slower rate than the previous quarter due to smaller declines in the goods-producing and government sectors and a small gain in the service-providing sector.
- According to a survey of business contacts, employment, hours, and wages in the Little Rock zone are expected to remain the same in both the second and third quarters.
- Arkansas’ professional and business services sector continues to grow. Though it accounts for only 13 percent of the state’s total nonfarm employment, it has grown 10 percent since 2010 (see figure). Anecdotal evidence suggests this growth may be due to a increase in demand for IT services, especially within the healthcare sector.

### Professional and business services employment growth outpaces nation since 2008

*Professional and business services employment, SA (Index 2008=100)*



Source: BLS.

	Little Rock	Fayetteville	Fort Smith	Texarkana	US
Unemployment rate (Q1-14) (%)	6.4 ▼	5.3	7.0 ▼	7.0 ▼	6.7
Nonfarm employment (Q1-14)	0.1	1.9	0.5	-1.3 ▲	1.7
Goods-producing sector	-1.0	0.2	-0.3	-3.8	1.5
Private service-providing sector	0.3	2.1	0.7	1.2 ▲	2.1
Government sector	0.0	2.9	0.7	-7.0	-0.1

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.

## Contacts Remain Optimistic Despite Recent Slowdown

By Yang Liu, Senior Research Associate

*“[We expect] the business to grow substantially in the next five to six years. We plan to invest significantly on new equipment to add capacity for the new demand.”*

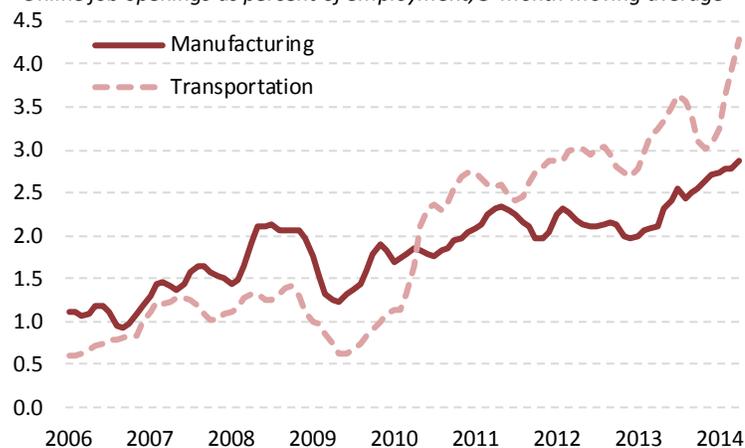
— Northern Arkansas manufacturer

*“Manufacturing activity has picked up in recent months; however there are indications that the expansion is slowing to moderate in the summer and fall.”*

— Northwest Arkansas transportation executive

### Demand for transportation jobs surges in Little Rock

Online job openings as percent of employment, 3-month moving average



Source: Conference Board and BLS.

- Manufacturing employment in Little Rock, Fayetteville, and Arkansas has declined slightly in the first quarter, while national manufacturing employment increased (see table).
- Transportation employment declined in Little Rock and Fayetteville. Arkansas saw transportation employment move up slightly, but much slower than the nation’s pace (see table).
- The job vacancy rate in Little Rock’s manufacturing industry increased 0.2 percentage points in the first four months in 2014. The job vacancy rate in transportation surged from 3.1 percent to 4.3 percent (see figure). Job vacancy rates in both industries are significantly higher than the corresponding national averages.
- Multiple contacts suggest that qualified truck drivers and mechanics have been very hard to find in Arkansas. Limited labor supply has led to a capacity shortage in the truck loading sector and an increase in service prices.
- The durable goods manufacturing sector in Arkansas grew modestly, but the nondurable goods sector continued to contract, resulting in a 0.3 percent decline in overall manufacturing employment (see table).
- In contrast to the nation’s 1.1 percent growth, Arkansas’s manufacturing exports dropped 17.1 percent compared with one year ago (see table). Declines in exports of transportation equipment and primary metal were the main drivers.

	Little Rock	Fayetteville	Arkansas	US
Transportation employment (Q1-14)	-2.1	-1.3	0.2	2.1
Manufacturing employment (Q1-14)	-0.7	-1.0	-0.3	0.6
Durable goods	--	--	0.8	0.9
Nondurable goods	--	--	-1.5	0.2
Manufacturing exports (Q1-14)	--	--	-17.1	1.1

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.

## Residential Real Estate and Construction Off to a Rocky Start

By Diana Cooke, *Research Associate*

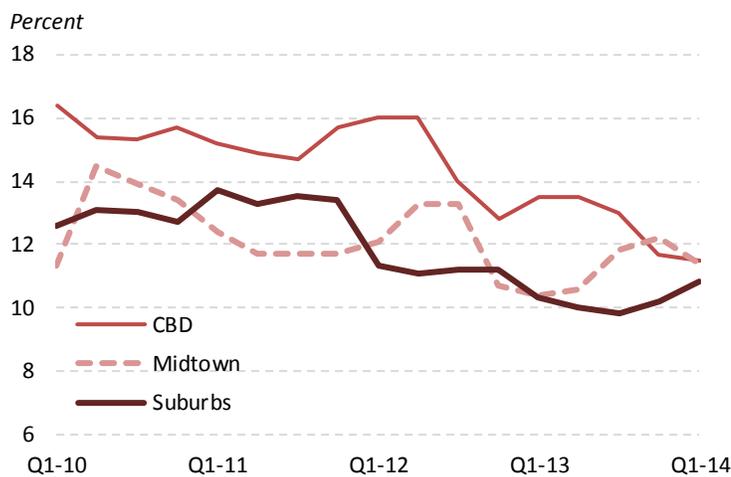
*“Wood product sales prices and volumes are low due to slow new home construction.”*

— Southern Arkansas timber company executive

*“There is a lack of available lots for residential construction.”*

— Little Rock area banker

### Office vacancy rates across the Little Rock MSA converge



Source: Reis.com.

- Residential construction worsened in the first quarter of 2014. Single-family building permits continued to display negative yearly growth rates in the majority of MSAs. This decline was significant in Little Rock, Hot Springs, and Pine Bluff.
- The sales of new and existing homes in Little Rock reached its lowest point in the first quarter of 2014 compared with all quarters in the past year. Contacts noted that weather was a likely factor. Home prices in Little Rock fell by 1.6 percent from one year ago.
- The multi-family housing market remains stable. The vacancy rate fell by 40 basis points from the previous quarter (see top table). Contacts report that developers continue to look for new sites for apartment complexes.
- Office market vacancy rates in Little Rock continue to fall. Vacancy rates in the central business district (CBD), midtown, and the suburbs show signs of convergence (see figure). The spread between office vacancy rates in the CBD and the suburbs has decreased by 4 percentage points in the past two years.
- There continue to be a few construction projects planned in the industrial market around Little Rock, including a steel mill that will break ground in late June.

Non-residential market (Little Rock, Q1-14)	Apartment	Office	Retail	Industrial
Vacancy rate (%)	7.0	11.7	11.9	8.4
Asking rent	1.6	0.6	1.1	-0.6
<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 (Q1-14)	Little Rock	Fayetteville	Fort Smith	Hot Springs	Pine Bluff	Texarkana	US
CoreLogic Home Price Index	-1.6	5.7 ▲	-2.8 ▲	-10.2	-4.0	2.2	11.4
Single-family building permits	-26.4 ▼	14.1	-23.1	-27.3 ▼	-75.0 ▼	285.7 ▲	0.0 ▼
New and existing home sales	5.9 ▼	--	--	--	--	--	-6.4 ▼

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

## Northwest Arkansas Luxury Retailers Report Strong Sales

By Elise A. Marifian, *Research Associate*

*“Vehicles that are between \$10,000 - \$25,000 with the lowest mileage possible is the sweet spot for the market.”*

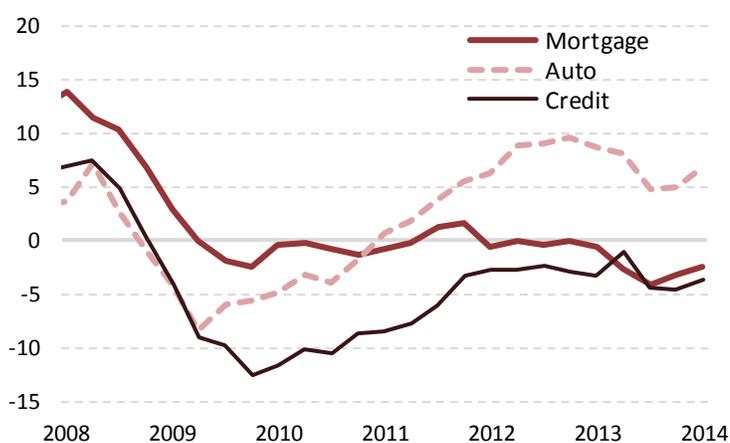
– Central Arkansas auto dealer

*“Recently introduced new, full-size trucks and sport utilities are drawing more attention than their predecessors did in the last year of their life cycle.”*

– Northwest Arkansas auto dealer

### Consumers continue to borrow to purchase vehicles

Percent change in debt balances from one year ago



Source: FRBNY Consumer Credit Panel and Equifax.

- Per capita personal income growth in Arkansas slowed to a modest 0.3 percent in the fourth quarter. This growth rate was below the national rate of 0.6 percent (see table).
- Households reduced their non-auto debt balances. Per capita credit card and mortgage debt declined across the zone, although the Little Rock MSA saw little decline in mortgage balances.
- Auto loan balances in the zone increased at a year-over-year rate of 6.9 percent in the first quarter, which was 1.8 percent higher than the previous quarter's growth rate. This is reflected by reports of strong increases in auto sales in February and March relative to last year. Anecdotal evidence indicates that few consumers have been declined for a car loan, and demand for used vehicles is strong as individuals have been using tax refunds to purchase used vehicles.
- Luxury retailers in northwest Arkansas reported positive sales growth. Other retailers reported a slight increase in sales.
- Fourth-quarter mortgage and credit card delinquency rates declined relative the previous quarter, while auto loan delinquency rates ticked up slightly.

	Little Rock Zone	Arkansas	Little Rock MSA	US
Per capita personal income (Q4-13)	--	0.3 ▼	--	0.6 ▼
Per capita debt balances (Q1-14)				
Mortgage	-2.5	-2.5	-0.6	-2.1 ▲
Credit card	-3.7	-3.6	-4.2	-4.9
Auto loan	6.9	6.7	6.8	4.8
90+ day delinquency rates (%) (Q1-14)				
Mortgage	2.1	2.1	2.1	3.3
Credit card	7.8	7.8	6.7 ▼	8.3 ▼
Auto loan	2.4	2.4	2.7	3.2

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.

## Banking Conditions Steady in Arkansas

By Michelle Neely, *Economist*

*“We have a robust pipeline of loans. Our optimism is due to a good solid business environment in northwest Arkansas.”*

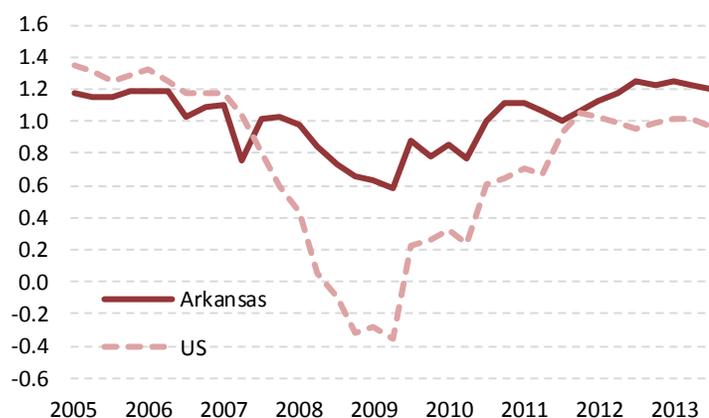
—Northwest Arkansas banker

*“Business practices and evaluation of credit worthiness are more deliberate and disciplined than a few years ago, hence less volume for both new and refinance markets.”*

—Little Rock area banker

### Arkansas banks still outperforming national peers

Return on average assets at commercial banks, percent



Source: FRED.

- Return on average assets (ROA) dropped slightly again at Arkansas banks in the first quarter to 1.20 percent. Nevertheless, the state’s average ROA still significantly exceeded those of their District and national peers. One year ago, ROA averaged 1.25 percent at Arkansas banks.
- The small drop in ROA can be traced to a 7-basis-point decline in the state’s average net interest margin (NIM) that more than offset a slight drop in loan loss provisions. At 4.17 percent, however, the average NIM for Arkansas banks is well above national and District averages.
- Nonperforming loans remain on the decline across the state, District, and nation. The average nonperforming loan ratio at Arkansas banks (2.01 percent) continues to exceed the District (1.66 percent) and national (1.75 percent) averages because of mergers and acquisitions by Arkansas institutions of failing banks.

Banking performance (Q1-14)	Arkansas	8th District	US Peer Banks
Return on average assets	1.20	1.02	0.97
Net interest margin	4.17	3.75	3.79
Nonperforming loans / total loans	2.01	1.66	1.75
Loan loss reserve coverage ratio	87.56	79.89 ▼	92.00

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.

## Growth in Agricultural Land Values Slows

By Lowell R. Ricketts, *Senior Research Associate*

*“Corn has become more popular in eastern Arkansas. Although people are pulling back, the trend is unlikely to be long-term.”*

— Central Arkansas farmer

*“Low corn prices don’t really matter, I was going to rotate to beans this year anyway.”*

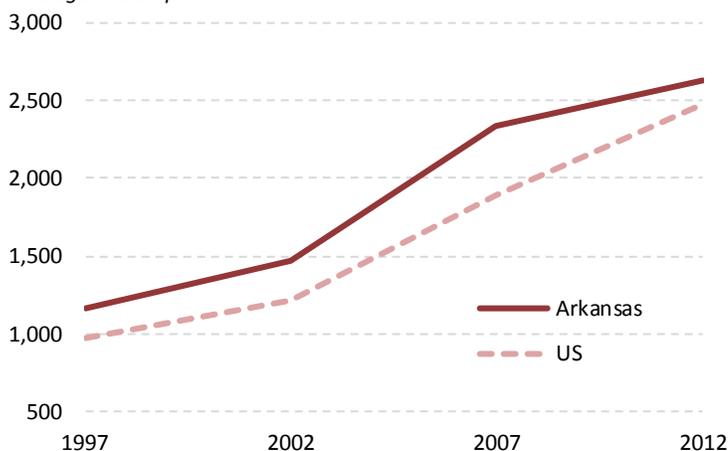
— Northwest Arkansas farmer

*“Land prices are still going up but the rate is slowing.”*

— Central Arkansas farmer

### Rapid growth in Arkansas land values slows down

Average dollars per acre



Source: USDA Census of Agriculture, see notes.

- Agricultural bankers surveyed in the zone expect slightly higher capital spending by farmers and greater availability of loanable funds in the second quarter of 2014 compared with the same period in 2013 (see right table). At the same time, bankers expect slightly lower loan demand over the same period.
- Farmers are pulling back from corn in response to low commodity prices and the need to rotate crops (see left table). Arkansas farmers will plant 280,000 fewer acres of corn in 2014 than they did in 2013. In lieu of corn, plantings of all other major crops listed are expected to grow. Rice improved the most with 445,000 more acres expected than last year.
- Coal production in Arkansas jumped by almost 500 percent relative to production levels at the same time last year (see left table). This should be taken with a grain of salt as Arkansas’s production scale is very small and subject to volatile swings.
- Agricultural land values in Arkansas grew at a slower rate over the past five years than the rate seen in the early 2000s (see figure). National land values grew at a faster rate during the same period and will soon surpass Arkansas if the trend persists.

	Arkansas	US
<b>Natural resources (Q1-14)</b>		
Mining and logging employment	-1.4	4.1
Coal production	499.7	-1.1
<b>Prospective plantings (2014)</b>		
Corn	-31.8 ▼	-3.9
Cotton	9.7 ▲	6.7
Rice	41.4 ▲	15.6 ▲
Sorghum	7.7	-17.1 ▼
Soybeans	2.8	6.5

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

### Little Rock zone Ag. bankers' expectations Q2-14 vs. Q2-13

	Lower	Higher	Net
Loan demand	17	0	-17
Available funds	0	17	17
Loan repayments	0	0	0
Farm income	20	20	0
Capital spending	20	40	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 and Transportation

### Table Sources

*Bureau of Labor Statistics*

Transportation employment: includes transportation and warehousing industries.

Manufacturing employment: total, durable, and nondurable goods.

*World Institute for Strategic Economic Research*

Manufacturing exports: dollar value.

### Notes

**Job vacancy rate** is defined as the online job openings as percent of total employment in an industry.

**Transportation employment** in Little Rock and Fayetteville covers transportation, warehousing, and utility industries. About 90 percent of the reported jobs are contributed by transportation and warehousing industries.

**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.

*Janet Jones Company 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 spending 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.

*United States Department of Agriculture (USDA)*

Prospective plantings.

Agricultural land values taken from the Census of Agriculture. The Census is conducted every five years; the last survey was in 2012. Consequently, land values shown in the figure are only available at 5-year intervals and a linear trend was used for interpolation of missing values. Land values include the value of buildings located on the land.