



Burgundy Book

A report on economic conditions in the Memphis zone

Second 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 Improvement, Contacts Are Less Optimistic About 2014 Prospects

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

Our quarterly survey of business contacts revealed a slightly less optimistic view of economic conditions in 2014 than three months earlier. Nearly one in five respondents expect conditions this year to be worse than last year.

The Memphis zone's unemployment rate declined nearly 0.75 percentage points in the first quarter to 8.8 percent. In Memphis, employment in the trade, transportation, and utilities industry rose at a modest pace; this growth stemmed mostly from strong payroll gains in the retail and wholesale trade industries.

Wage growth in the first quarter was especially strong in Memphis, but generally weaker in other areas. Growth of Mississippi and Tennessee manufacturing exports in the first quarter continued to surpass the nation's growth by a healthy margin.

Like most areas of the District, the Memphis residential housing market was soft in the first quarter of 2014. Still, house prices were up strongly in Memphis and building permits rose sharply in Jonesboro. Office vacancy rates in Memphis remained exceptionally high in the first quarter.

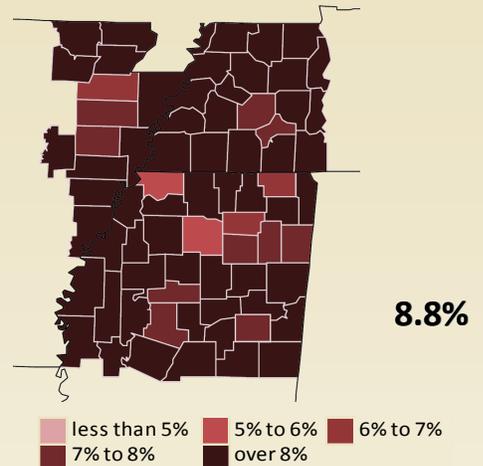
Households continued to reduce their credit card and mortgage balances in the first quarter. Relative to the nation, mortgage delinquency rates in the Memphis zone were modestly lower, while credit card and auto loan delinquency rates were modestly higher.

Compared with three months earlier, bank profitability (return on assets) increased noticeably at Tennessee and Mississippi banks in the first quarter, while easing slightly at Arkansas banks.

Farmers devoted considerably more acreage to cotton and rice this year and substantially less acreage to corn.

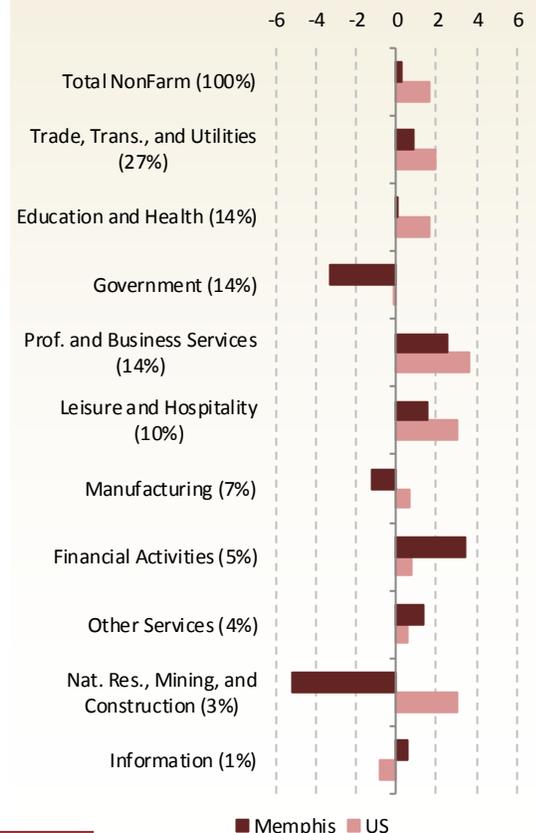
Data Snapshot

County unemployment rates (SA, Q1-14)



Nonfarm payroll employment by industry

Percent change from one year ago (Q1-14)



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.

Labor Markets Show Slow Improvement

By Daniel Eubanks, *Research Associate*

"I believe the jobless rate in Memphis is our biggest problem."

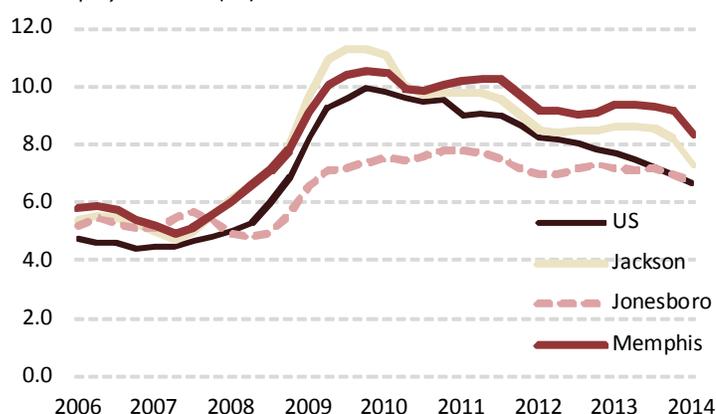
—Memphis area home builder

"Good labor is very hard to find."

—Helena, Arkansas farmer

Unemployment rates decrease across zone

Unemployment rate (SA)



Source: BLS.

- Unemployment decreased significantly across the zone’s metro areas. The unemployment rate fell 0.8 percentage points in Memphis, 0.9 percentage points in Jackson, and 0.3 percentage points in Jonesboro (see figure).
- Employment growth remained modest in Memphis and Jackson, while growth in Jonesboro continued to exceed the national average. Growth in Memphis was restrained by weakness in the construction, manufacturing, and government sectors (see table).
- Average weekly hours were mixed in the first quarter. Weekly hours declined to 35.5 in Jackson, down 0.6 from the previous quarter. In Memphis, hours increased 0.4 to 35.4. In Jonesboro, hours increased 1.9 to 36.6. The national average remained unchanged at 34.4. The majority of business contacts predict no change in average hours per employee in the next quarter.
- Wage growth was mixed in the Memphis zone. Year-over-year growth in hourly earnings was 5.5 percent in Memphis, well above the national average of 2.1 percent. Earnings grew a modest 0.8 percent in Jonesboro and fell 1.5 percent in Jackson. Anecdotal evidence suggests slight wage pressure in the third quarter: Just under half of contacts anticipated an increase in wages, while no contacts predicted a decline.

	Memphis	Jackson	Jonesboro, AR	US
Unemployment rate (Q1-14) (%)	8.4 ▼	7.3 ▼	6.7 ▼	6.7
Nonfarm employment (Q1-14)	0.2	1.2	3.2	1.7
Goods-producing sector	-2.4 ▼	0.9	1.2	1.5
Private service-providing sector	1.3 ▲	1.2	4.4	2.1
Government sector	-3.4	1.3	0.7	-0.1

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.

Contacts Report Mixed Development in Memphis

By Yang Liu, Senior Research Associate

“Manufacturing and services sectors continued to have trouble finding qualified employees.”

— Eastern Arkansas banker

“Mississippi county will be the second largest steel manufacturing county in the U.S. in a few years.”

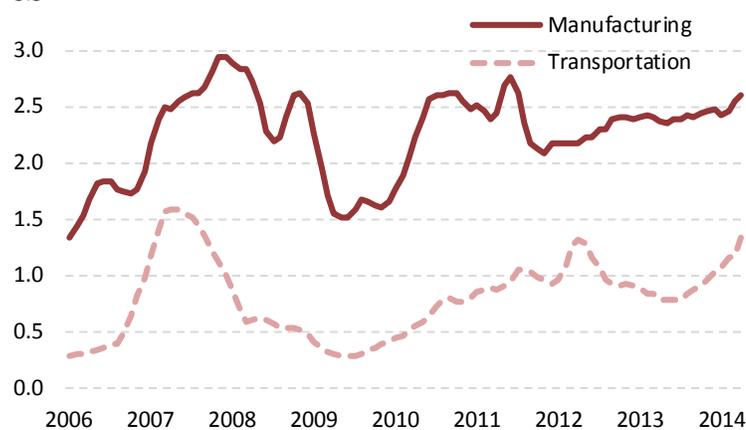
— Memphis area transportation executive

“Last year we set a historical record of capital expenditure on our entire railway network; but this year we plan to break that [capital expenditure] record.”

— Memphis area transportation executive

Job vacancy rates move up in Memphis

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



Source: Conference Board and BLS.

- Memphis’s manufacturing employment declined 1.2 percent in the first quarter, reflecting the first contraction in the past six quarters (see table). Transportation employment also declined in Memphis. According to our contacts, the contraction in manufacturing and transportation activities is likely due to the bad weather and road conditions in January and February.
- Memphis’s manufacturing job vacancy rate increased slightly in the first four months of 2014, above the national level. The transportation job vacancy rate was up 0.3 percent (see figure), but still significantly below the national level.
- Anecdotal information suggests that the larger trucking firms struggle to find qualified drivers.
- Manufacturing employment increased significantly in Mississippi. The durable goods sector was a strength, while the nondurable goods sector was flat. In Tennessee, manufacturing employment grew modestly (0.8 percent), higher than the national average (0.6 percent). The durable goods sector saw moderate growth; but the nondurable goods sector contracted significantly compared with the previous quarter (see table).
- Mississippi and Tennessee experienced modest growth in manufacturing exports compared with one year ago. Their growth rates were higher than the national level (see table). Petroleum and coal exports were the main drivers for Mississippi; transportation equipment and electronic products exports were the top contributors for Tennessee.

	Memphis	Tennessee	Mississippi	US
Transportation employment (Q1-14)	-2.4	1.0	2.3	2.1
Manufacturing employment (Q1-14)	-1.2	0.8	1.9 ▲	0.6
Durable goods	-0.4	2.5	2.9 ▲	0.9
Nondurable goods	-2.1	-2.0 ▼	0.0	0.2
Manufacturing exports (Q1-14)	--	2.5	2.1	1.1

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.

Apartment Rental Market in Memphis Remains Tight

By Diana Cooke, *Research Associate*

“Fewer people are buying homes and younger buyers are not as interested in buying homes.”

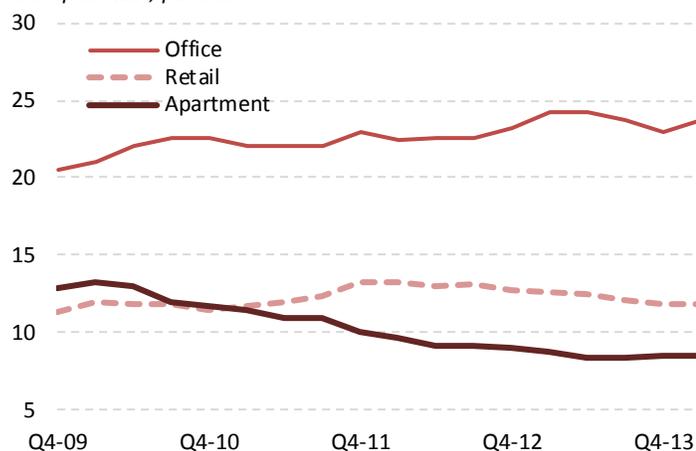
— Memphis area residential realtor

“Office space per worker has been trending down, which in turn has limited the need for new office space. So the office vacancy rate still remains elevated.”

— Memphis area broker

Vacancy rate for office space increases modestly

Memphis MSA, percent



Source: Reis.com.

- The Memphis residential housing market was soft in the first quarter of 2014. Home prices slowed in Memphis and dropped in Jackson and Jonesboro (see table). In Memphis, single-family building permits and home sales dropped significantly. A contact in Memphis noted that single-family housing starts remain lower than desired.
- The multi-family outlook remains stable. The Memphis apartment vacancy rate was 8.5 percent for the second consecutive quarter. Asking rents continue to climb (see table).
- Apartments are popping up across the MSA, including the expansion of an apartment community in Germantown. A contact in Memphis noted that the highest rents in the market are in the Central Business District.
- The Memphis office market remains soft; the vacancy rate increased by 70 basis points compared with the previous quarter (see figure) as net absorption dipped below zero in the first quarter of 2014.
- The vacancy rate for retail space declined for the eighth consecutive quarter, as net absorption declined for the third consecutive quarter. There are a few new projects underway in Memphis, including the expansion of a grocery store and the addition of two new fitness facilities.

Non-residential market (Memphis, Q1-14)	Apartment	Office	Retail	Industrial
Vacancy rate (%)	8.5	23.7 ▲	11.8	14.5
Asking rent	2.0	0.7	1.0 ▼	-0.4
<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 (Q1-14)	Memphis	Jackson	Jonesboro	US
CoreLogic Home Price Index	5.1 ▼	-1.0	-6.0 ▼	11.4
Single-family building permits	-4.1 ▼	-5.5 ▼	47.4 ▲	0.0 ▼
New and existing home sales	-0.7 ▼	--	--	-6.4 ▼

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.

Solid Auto Activity Despite Hesitation in Retail Spending

By Elise A. Marifian, *Research Associate*

“Sales of small sub-compacts remain slow despite the cost of gasoline; the biggest change in market is in the smaller SUV market which is growing at a good pace.”

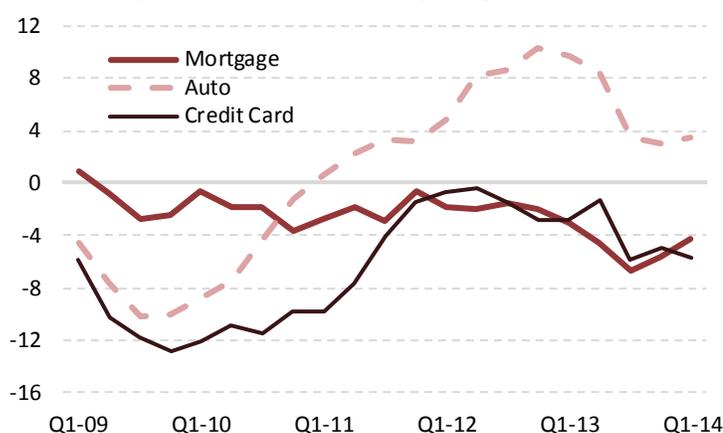
—Memphis area auto dealer

“Businesses, for the most part, are not that confident; it would be best described as holding. In the Memphis area employment improvement would be a huge boost [to consumer confidence].”

— Memphis area auto dealer

Households shed credit debt while adding auto debt

Percent change in debt balances from one year ago



Source: FRBNY Consumer Credit Panel and Equifax.

- Fourth-quarter income growth was slow in Arkansas and Tennessee (see table); only Mississippi incomes grew faster than the nation.
- Zone households reduced their credit card debt balances at a faster rate than the previous quarter (see figure). Mortgage balances also fell relative to last year, but slower than the previous report.
- Auto loans in the first quarter were up 3.4 percent from last year (see table). Auto dealers reported a good start to 2014 with strong sales. Easier credit standards have provided favorable financing. Some contacts noted that manufacturers' inventories are elevated and may result in increased consumer rebates.
- Reports indicate that first-quarter consumer activity was affected by uncertainty. Zone retailers reported that sales were on and off in the first quarter. Small retailers experienced a slowdown in foot traffic and noted that sales were off by as much as 25 percent in January and February; however, home improvement stores saw increased sales. Spring-like weather in March brought improved activity for retailers, although restaurant contacts noted increases in food costs and corresponding customer resistance to higher menu prices.

	Memphis Zone	Arkansas	Mississippi	Tennessee	US
Per capita personal income (Q4-13)	--	0.3 ▼	1.3 ▼	0.2	0.6 ▼
Per capita debt balances (Q1-14)					
Mortgage	-4.2	-2.5	-2.3	-2.4	-2.1 ▲
Credit card	-5.7	-3.6	-6.5	-4.2	-4.9
Auto loan	3.4	6.7	5.4	4.3	4.8
90+ day delinquency rates (Q1-14) (%)					
Mortgage	2.6	2.1	2.6	2.0	3.3
Credit card	8.4	7.8	7.1	7.6 ▼	8.3 ▼
Auto loan	4.3	2.4	4.8	3.3	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.

Banking Conditions Little Changed in Memphis Zone

By Michelle Neely, *Economist*

“The bank’s credit standards have not eased, but we have become more aggressive in order to compete. We might offer a longer amortization schedule for a loan repayment, for example.”

—Memphis area banker

“Home builder customers are holding on. They have begun to build again, but at a slower pace. Houses are on the market for a shorter period of time.”

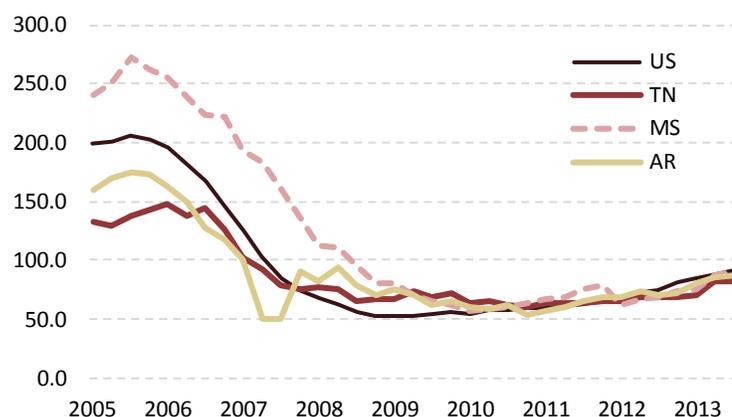
—Western Tennessee banker

“The economy appears to be better. However, it has not rebounded to pre-recession levels. Growth is slow and steady.”

—Memphis area banker

Coverage ratios nearing 100 percent

Loan Loss Reserve Coverage Ratio, Percent



Source: FRED.

- Bankers surveyed expect credit standards to stay the same or tighten during the next three months.
- Return on average assets (ROA) improved on average at both Mississippi and Tennessee banks in the first quarter, while it faltered slightly in Arkansas. ROA increased 10 basis points to 0.98 percent in Mississippi between year-end 2013 and the first quarter of 2014, while it rose 8 basis points to 0.92 percent in Tennessee. Despite a 3-basis-point decline in Arkansas, average ROA in the state (1.20 percent) is still substantially higher than that of District and national peers.
- Net interest margin (NIM) results were uneven in the Memphis zone in the first quarter. The average NIM was up 27 basis points in Mississippi, but that very large increase was mostly due to strong results at one large bank. In Arkansas and Tennessee, average NIMs declined slightly in the first quarter. In all three states, average NIMs were above their year-ago levels.
- Asset quality improved once again in the first 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, nearing 100 percent. Memphis zone banks have almost one dollar reserved for every dollar of nonperforming loans.

Banking performance (Q1-14)	Tennessee	Mississippi	Arkansas	8th District	US Peer Banks
Return on average assets	0.92	0.98	1.20	1.02	0.97
Net interest margin	3.62	4.19 ▲	4.17	3.75	3.79
Nonperforming loans / total loans	1.94	1.47 ▼	2.01	1.66	1.75
Loan loss reserve coverage ratio	82.99	90.48	87.56	79.89 ▼	92.00

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

Rice Plantings Rise Significantly as Corn Plantings Fall

By Lowell R. Ricketts, *Senior Research Associate*

“It’s becoming harder and harder to find U.S. raised catfish in the supermarket or restaurant. Catfish imports are undercutting our product with low prices..”

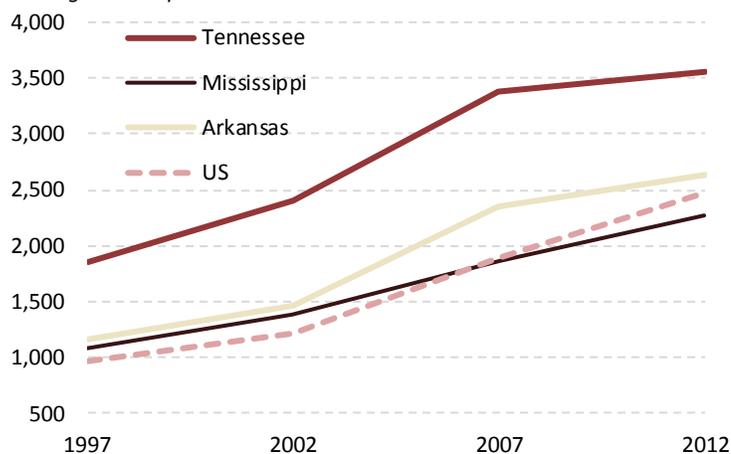
— Western Mississippi catfish producer

“If supply and demand still reigns, land prices won’t be going down anytime soon.”

— Western Mississippi farmer

Growth in land values slows across zone states

Average dollars per acre



Source: USDA Census of Agriculture, see appendix.

- Agricultural bankers surveyed expect lower farm income and loan repayments during the second quarter compared with the same time last year (see right table). In contrast, respondents expect available funds and loan demand to be higher during the same period.
- As farmers have pulled back from corn, cotton and rice plantings have surged past last year’s levels (see left table). The three zone states will plant 620,000 fewer acres of corn this year. Lower commodity prices and crop rotation motivated most of the decline. Close to 445,000 more acres of rice will be planted in Arkansas. Soybeans remain the dominant crop in the region. Across the zone states, 270,000 more acres of soybeans will be planted this year.
- Coal production in Tennessee took a significant plunge in the first quarter compared with the same time last year (see left table). This continued a persistent decline in production that roughly began in 2005. Arkansas production levels jumped up almost 500 percent but this is typical of the extremely volatile small-scale production.
- Agricultural land values have continued to increase over the past five years, but they did so at a much slower rate than earlier in the previous five years (see figure). The average land value in Mississippi fell behind that of the nation between Census surveys.

	Arkansas	Mississippi	Tennessee	US
Natural resources (Q1-14)				
Mining and logging employment	-1.4	-0.4	--	4.1
Coal production	499.7	-12.0	-32.8 ▼	-1.1
Prospective plantings (2014)				
Corn	-31.8 ▼	-32.6	-6.7	-3.9
Cotton	9.7 ▲	31.0 ▲	12.0 ▲	6.7
Rice	41.4 ▲	36.0	--	15.6 ▲
Sorghum	7.7	7.7	--	-17.1 ▼
Soybeans	2.8	7.0	2.6 ▼	6.5

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 Q2-14 vs. Q2-13

Loan demand	117
Available funds	133
Loan repayments	83
Farm income	83
Capital spending	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 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 Memphis 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.

Memphis Area 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 spending 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.

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.