Burgundy Book

A report on economic conditions in the St. Louis zone

Second Quarter 2014

The St. Louis zone of the Federal Reserve comprises central and eastern Missouri and southern Illinois and a total population of approximately 5.6 million people, including the almost 3 million who live in the St. Louis MSA.

Mixed Bag: Business Optimism, Job Growth, but Higher Unemployment

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

Similar to our February survey, a majority of St. Louis-area business contacts continue to expect that local economic conditions in 2014 will be better than last year.

The St. Louis zone's unemployment rate averaged 7.2 percent in the first quarter, a sizable increase from the previous quarter. Still, the zone continues to have some of the lowest unemployment rates in the District. Nonfarm payroll employment growth picked up modestly across most of the zone's MSAs.

The St. Louis MSA experienced a modest decline in manufacturing employment in the first quarter that more than offset the previous quarter's increase. In Illinois, manufacturing payrolls declined for the second straight quarter despite a brisk increase in manufactured exports.

Residential home prices increased in three of the four MSAs, paced by sizable increases in St. Louis and Columbia. However, single-family building permits were more mixed. Nonresidential vacancy rates were generally lower in the first quarter than in the previous quarter.

Mortgage and credit card balances rose modestly in the first quarter, but still remained below last year's levels; mortgage loan delinquencies were about half of the national average.

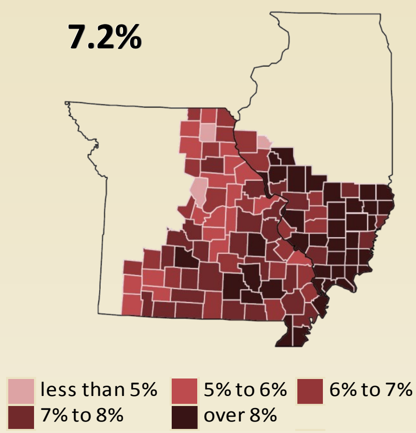
For the first time in nearly two years, southern Illinois banks registered an increase in profits (return on average assets). Most bankers surveyed expect loan demand and credit standards to remain unchanged over the next three months.

A late-March survey of agricultural banks showed that a sizable proportion expect that farm income and capital expenditures by farmers in the second quarter of 2014 will be lower than a year earlier.

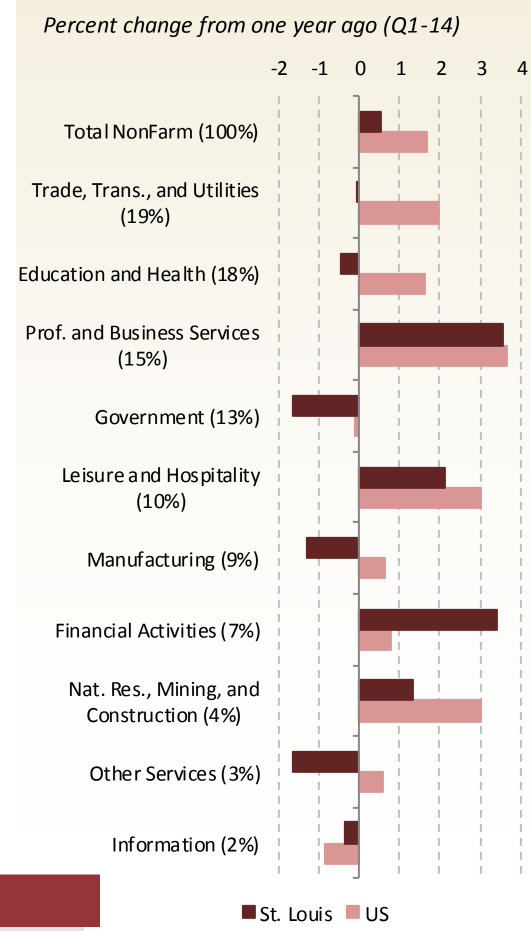
This report is published by the Federal Reserve Bank of St. Louis

Data Snapshot

County unemployment rates (SA, Q1-14)



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 St. Louis zone are based on data availability and are calculated as weighted averages of either the 116 counties in the zone or the five MSAs. As of 2012, approximately two-thirds of the zone's labor force was located in an MSA. Specifically: 52 percent in St. Louis, 8 percent in Springfield, 3 percent in Jefferson City, 3 percent in Columbia, and 2 percent in Cape Girardeau; one-third 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

Table of Contents

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 8 and May 19.

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.

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

Employment Sluggish in the St. Louis Zone

By E. Katarina Vermann, *Senior Research Associate*

"We anticipate slow and steady growth but we are also finding ways to increase productivity. So the short-term hiring outlook doesn't show much growth."

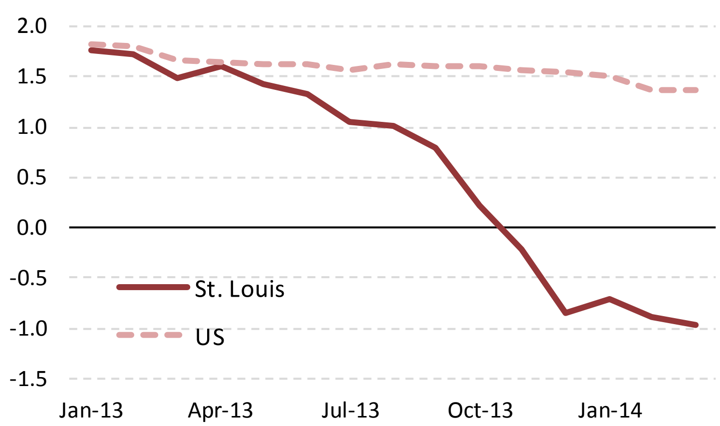
—St. Louis area transportation contact

"Cost of regulatory compliance continues to increase at the same time payments for healthcare services are declining. There remains an over-supply of healthcare physical assets and an under-supply of healthcare professional assets."

—St. Louis area healthcare provider

Healthcare sector continues decline

Year-over-year growth in healthcare employment, SA (Thousands)



Source: BLS.

- In the past quarter, the unemployment rate in all five MSAs in the St. Louis zone increased. But, only St. Louis's rate is above the national average (see table).
- With the exception of Springfield, year-over-year employment growth in the zone is lower than that of the nation. Relative to the previous quarter, however, the nonfarm employment growth rates in St. Louis, Springfield, and Jefferson City have increased, while they have decreased in Columbia and Cape Girardeau.
- Business contacts in the St. Louis zone expect little change in labor market conditions: The majority of contacts expect employment and hours to remain the same in the second and third quarters. Half of contacts expect wages in the second and third quarters to remain the same, while the other half expect wages to increase significantly.
- Employment in the healthcare sector, the largest sector in the St. Louis zone, continues to decline (see figure). However, anecdotal evidence suggests that contacts are cautiously optimistic about future growth.

	St. Louis	Springfield	Jefferson City	Columbia	Cape Girardeau	US
Unemployment rate (Q1-14) (%)	7.2	5.3	5.6 ▲	4.4	6.7	6.7
Nonfarm employment (Q1-14)	0.6	3.2	0.0	3.1 ▼	-0.5	1.7
Goods-producing sector	-0.5 ▼	-0.9	-0.7 ▼	-1.9 ▼	-1.7	1.5
Private service-providing sector	1.1	4.5	1.1	4.7	0.5	2.1
Government sector	-1.6	0.2	-1.4	1.2 ▼	-4.1	-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.

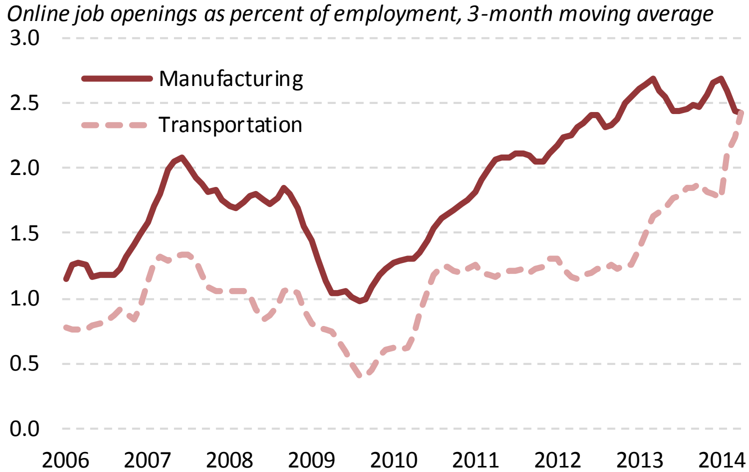
Manufacturing Activities Contracted in St. Louis

By Yang Liu, *Senior Research Associate*

> *"While the markets we serve did not demonstrate any significant strength, and in some instances declined both year-over-year and sequentially, we were able to generate net sales and earnings in line with our expectations."*
>
> — St. Louis area manufacturer
>
> *"We expect the shipment volume to increase in the summer and fall as manufacturers recover their supply chain [from weather-related backlog]."*
>
> — St. Louis area transportation executive

Job vacancy rates remain high in St. Louis

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



Source: Conference Board and BLS.

- Manufacturing employment in St. Louis dropped significantly in the first quarter. This contraction was primarily due to a large decline in the nondurable goods sector. However, the manufacturing industry has recovered some of the previous loss that occurred in April.
- Transportation employment was flat in St. Louis and Illinois during the first quarter. Missouri saw a significant uptick in transportation employment, well above the national average.
- The manufacturing job vacancy rate in St. Louis dropped moderately in the first four months of 2014, but is still above the national level. The transportation job vacancy rate surged from 1.8 percent to 2.4 percent (see figure), slightly under the national average.
- Missouri's manufacturing jobs increased by 0.7 percent. The durable goods sector was the main contributor. In contrast, Illinois's manufacturing jobs declined by 1.3 percent; the durable goods sector, which declined by 2.6 percent, was the main contributor (see table).
- Missouri's manufacturing exports contracted by 3.8 percent compared with one year ago, in contrast to 1.1 percent growth for the nation (see table). The decline in transportation equipment exports was the main driver.
- Illinois's manufacturing exports increased by 4.8 percent, faster than the national average (see table). Increases in petroleum, coal, and electronic products exports were the top contributors.

	St. Louis	Missouri	Illinois	US
Transportation employment (Q1-14)	0.2	4.1	-0.1	2.1
Manufacturing employment (Q1-14)	-1.3 ▼	0.7	-1.3	0.6
Durable goods	0.1	0.8	-2.6	0.9
Nondurable goods	-3.5 ▼	0.4	0.7	0.2
Manufacturing exports (Q1-14)	--	-3.8	4.8	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.

The Residential Market Is Picking Up

By Li Li, *Senior Research Associate*

"Pending sales are up about 10 percent through April versus a year ago. May is progressing very well—stronger than the past two years. Inventory is growing, although there are segments where inventory is painfully low."

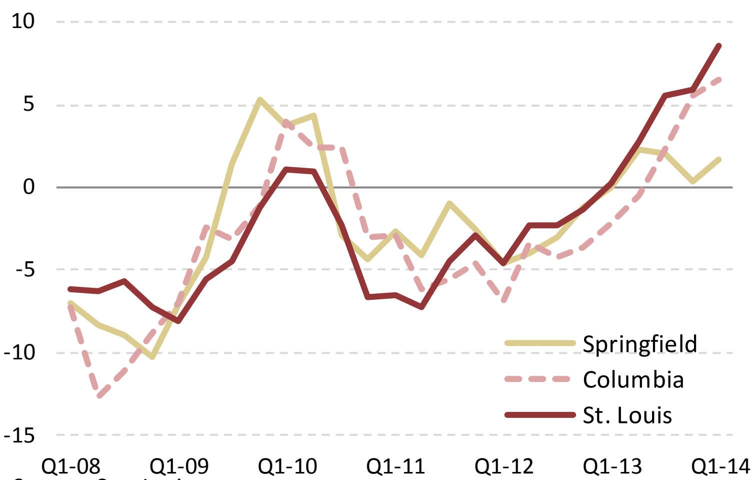
— St. Louis area realtor

"Not much [apartment construction] here. Cost to construct is higher than most markets, so many large apartment builders skip the area entirely."

— St. Louis area builder

Home prices increased in major MSAs

CoreLogic Home Price Index (HPI), percent change from a year ago



Source: CoreLogic.

- The residential market continues to recover. Compared with last year, home prices in the first quarter have improved across the major MSAs. The increase is especially significant in St. Louis (see figure). According to regional contacts, second-quarter home sales are expected to pick up to last year's level. Contacts also noted that we should see more demand as the job market continues to improve.
- Single-family building permits were down by about 4 percent compared with last year. Contacts noted that, in addition to the effects of bad weather, access to new home construction loans remains a major obstacle.
- Growth in the office market slowed in the first quarter: Asking rents and vacancy rates remained unchanged. St. Louis vacancy rates are 120 basis points above the national rate. Contacts noted that, in addition to AT&T's departure from the St. Louis area by 2015, other large companies have also announced plans to consolidate their offices. This trend will have an impact on future vacancy rates.
- The construction market continues to see more speculative industrial construction projects. For example, new plans have been announced in southwest Illinois and the Gateway Commerce Center in St. Louis.

Non-residential market (St. Louis, Q1-14)	Apartment	Office	Retail	Industrial
Vacancy rate (%)	4.5	18.0	11.9	7.2
Asking rent *Percent change from one year ago*	1.8	0.4	1.4 ▲	-1.5

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

Residential market (Q1-14)	St. Louis	Springfield	Jefferson City	Columbia	US
CoreLogic Home Price Index	8.6 ▲	1.7	--	6.5	11.4
Single-family building permits	-4.4	-15.1	42.9 ▲	36.9 ▲	0.0 ▼
New and existing home sales	-18.3 ▼	--	--	--	-6.4 ▼

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

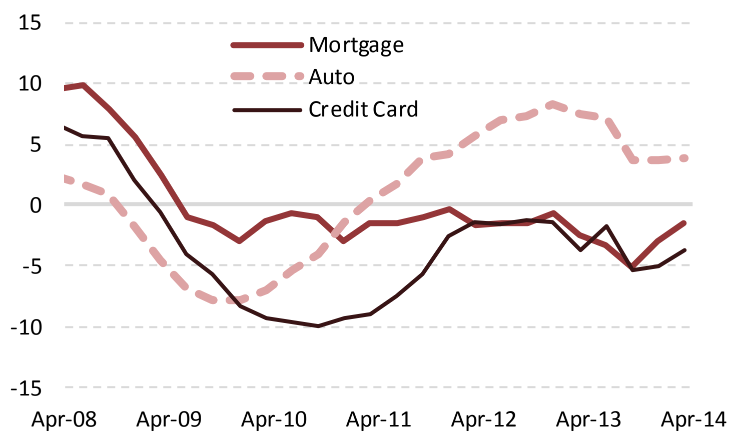
Households Reduce Debt in the First Quarter

By Elise A. Marifian, *Research Associate*

"Last year it seemed to me that the economy was on the upswing. I had hoped to see that trend continue into this year, but it has not. I have had fewer guests traveling for pleasure and fewer business guests."
– St. Louis MSA tourism contact

"Brand new product is always hot, although inventory levels are low...2013 models are slow sellers."
– St. Louis MSA auto dealer

Zone households paying down debt
Percent change in debt balances from one year ago



Source: FRBNY Consumer Credit Panel and Equifax.

- Personal income growth fell sharply in Missouri and Illinois during the fourth quarter (see table). Relative to 2012, per capita income grew 1.0 percent in Missouri and 0.8 percent in Illinois.
- Households continued to reduce their mortgage debt in the first quarter. The year-over-year decline in mortgage balances was 1.6 percent, up from the previous quarter's rate of -3.0 percent. Households also continued to reduce their credit card debt, but like their mortgage debt, at a slower rate than the previous quarter (see figure).
- Auto debt ticked up slightly from the previous quarter to a year-over-year growth rate of 3.8 percent; this rate was 1.0 percent slower than the national growth rate (see table). Auto dealer contacts noted that customers right now are very price conscious, and first-quarter snow storms and bad weather kept customers from dealerships.
- Credit card and mortgage delinquency rates fell slightly from the previous quarter, while auto loan rates were unchanged.
- In St. Louis, a variety of food establishments opened in the first quarter. However, foot traffic was down in many local malls.

	St. Louis Zone	Missouri	Illinois	US
Per capita personal income (Q4-13)	--	1.0 ▼	0.8 ▼	0.6 ▼
Per capita debt balances (Q1-14)				
Mortgage	-1.6	-1.8	-3.6 ▲	-2.1 ▲
Credit card	-3.7	-3.5	-5.2	-4.9
Auto loan	3.8	4.6	3.8	4.8
90+ day delinquency rates (Q1-14) (%)				
Mortgage	1.7	1.7	4.0	3.3
Credit card	7.1	7.6	7.6 ▼	8.3 ▼
Auto loan	2.5	3.0	2.7	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.

St. Louis Zone Banks Holding Their Own

By Michelle Neely, *Economist*

"We're working very diligently not to relax our credit standards."

—St. Louis area banker

"There is not much business expansion in our market and, therefore, not much demand for credit."

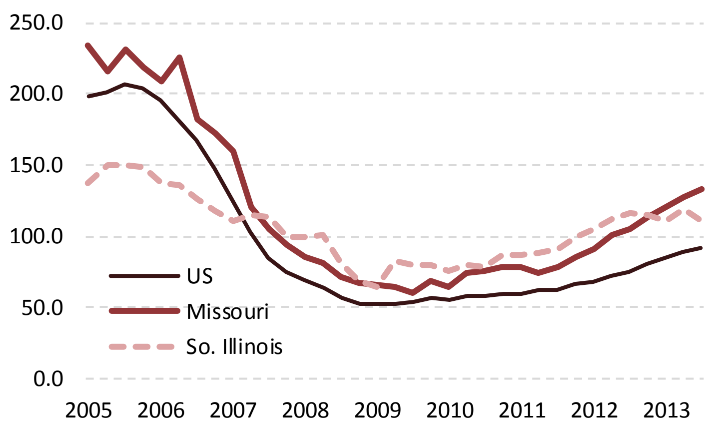
—Central Missouri banker

"Increased regulatory challenges are putting those marginal borrowers on the wrong side of the line. Strong borrowers with substantial liquidity are proceeding with purchasing."

—St. Louis area banker

Area banks well reserved against potential losses

Loan loss reserve coverage ratio, percent



Source: FRED.

- Most bankers surveyed expect loan demand and credit standards to stay the same over the next three months.
- Return on average assets (ROA) at Missouri banks declined 19 basis points between year-end 2013 and the first quarter of 2014; that decline was entirely due to big swings in earnings at one large Missouri bank. Illinois banks' ROA dropped 3 basis points between the fourth and first quarters; but at 0.73 percent, it is still 10 basis points above its year-ago level. For the first time in almost two years, southern Illinois banks experienced an uptick in average ROA; it increased 4 basis points to 1.00 percent, just slightly above the 0.97 percent average for all U.S. banks and just slightly below the 1.02 percent average for District banks.
- After showing signs of stabilizing at year-end 2013, net interest margins (NIMs) have resumed their downward trend. At the U.S., District, and state levels, the average NIM declined between 2 and 9 basis points in the first quarter. The only exception to the trend was in southern Illinois, where the average NIM increased 3 basis points to 3.50 percent.
- The average nonperforming loan ratio fell 7 basis points in Missouri to 1.22 percent in the first quarter; it dropped 8 basis points nationally and 6 basis points in the District. In contrast, the nonperforming loan ratio rose 7 basis points at southern Illinois banks; but, like the ratio for Missouri banks, it remains well below District and U.S. averages.

Banking performance (Q1-14)	Missouri	Illinois	So. Illinois	8th District	US Peer Banks
Return on average assets	0.89	0.73	1.00	1.02	0.97
Net interest margin	3.39	2.69	3.50	3.75	3.79
Nonperforming loans / total loans	1.22	2.27	1.27	1.66	1.75
Loan loss reserve coverage ratio	132.79	67.84	111.02	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.

Less Capital Spending by Farmers Expected in Region

By Lowell R. Ricketts, *Senior Research Associate*

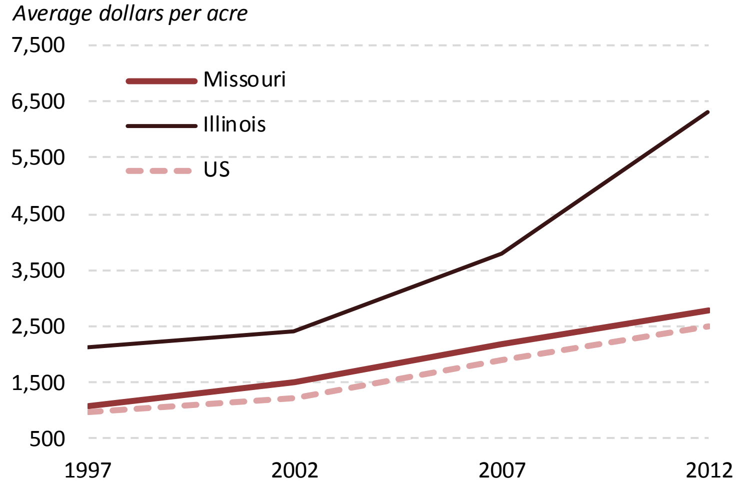
"The cold winter has damaged our major crop so revenue will be reduced this summer as a result. We will not be making major capital improvements or adding significant overhead this year."

— Southwestern Illinois farmer

- About half of the agricultural bankers surveyed expect lower capital spending by farmers in the second quarter compared with the same time last year (see right table). Respondents also expect lower farm income and higher loan demand.
- The average value of agricultural land in Illinois continues to grow at an increasing rate (see figure). Meanwhile, average land values in Missouri were close to those of the nation, both in terms of levels and growth rate.
- Coal mining employment during the first quarter of 2014 declined in Illinois and was unchanged in Missouri (see left table). Despite the strong growth in the fourth quarter of 2013, Illinois coal production suffered its largest year-over-year decline since the first quarter of 2008. Coal production in both states also declined by double digits in the first quarter. However, Missouri production levels are smaller (less than 1 percent of Illinois production) and prone to severe swings.
- Despite lower commodity prices, the share of corn plantings in both Illinois and Missouri will fall only slightly this year compared with 2013 (see left table). In lieu of corn and other crops, Illinois farmers will plant over 30 percent more sorghum this year, a marked contrast to a significant decline at the national level. Rice plantings in both Missouri and the nation are expected to increase this year.

Illinois land values increase 66 percent in 5 years

Average dollars per acre



Source: USDA Census of Agriculture, see appendix.

	Illinois	Missouri	US
Natural resources (Q1-14)			
Mining and logging employment	-1.7	0.0	4.1
Coal production	-14.0 ▼	-11.2	-1.1
Prospective plantings (2014)			
Corn	-0.8	-1.5	-3.9
Cotton	--	2.0	6.7
Rice	--	13.2	15.6 ▲
Sorghum	30.4	0.0	-17.1 ▼
Soybeans	0.5	-1.8	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.

St. Louis zone Ag. bankers' expectations Q2-14 vs. Q2-13

	Lower	Higher	Net
Loan demand	0	17	17
Available funds	0	4	4
Loan repayments	9	13	4
Farm income	35	13	-22
Capital spending	48	4	-43

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: Trade, Transportation, and Utilities industry, 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 opening as percent of total employment in an industry.

Transportation employment in St. Louis covers transportation, warehousing, and utility industries. About 90 percent of the reported jobs are contributed by transportation and warehousing industries.

Manufacturing exports is 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.

Bureau of Economic Analysis

Year-to-date new and existing home sales, US.

St. Louis Association of Realtors

Year-to-date new and existing home sales, St. Louis.

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 companies 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 the Federal Reserve Bank of St. Louis Economic Database 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 non-performing loans.

So. Illinois refers to the portion of Illinois within the Eighth District.

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.