Burgundy Book

A report on economic conditions in the St. Louis zone

Third 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.

Surge in Manufactured Exports Bolsters Zone's Economy

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

In an August survey, nearly half of business contacts expected local economic conditions to improve over the second half of 2014.

The St. Louis zone's unemployment rate averaged 6.6 percent in the second quarter of 2014, down sharply from the previous quarter's average of 7.2 percent. Nonfarm payroll employment growth picked up modestly across most of the zone's MSAs, led by a 2.7 percent increase in Springfield, Missouri.

Paced by a sharp increase in durable goods production, manufacturing employment increased by 2.1 percent in Missouri in the second quarter. In contrast, manufacturing employment in Illinois declined by 1.6 percent. However, both states registered sizable increases in manufactured exports in the second quarter.

The pace of residential construction activity in the second quarter slowed in most areas. In particular, building permits fell sharply in Jefferson City. Similar to the nation, though, multi-family construction activity remains vibrant. In the St. Louis MSA, the commercial office market showed signs of improvement in the second quarter.

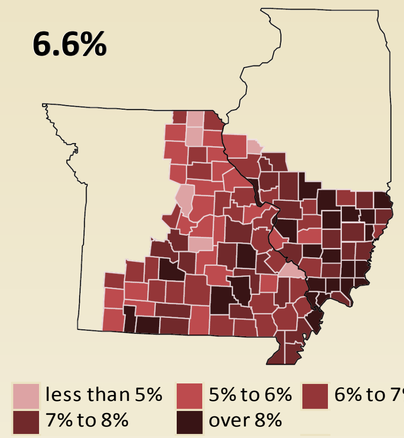
Household balance sheets improved across the zone in the second quarter, as mortgage and credit card delinquencies fell significantly and balances continued to contract.

Missouri and southern Illinois banks registered an increase in profits (return on average assets) in the second quarter and a drop in nonperforming loans. Roughly one-quarter of bankers surveyed expected loan demand to increase over the second half of 2014.

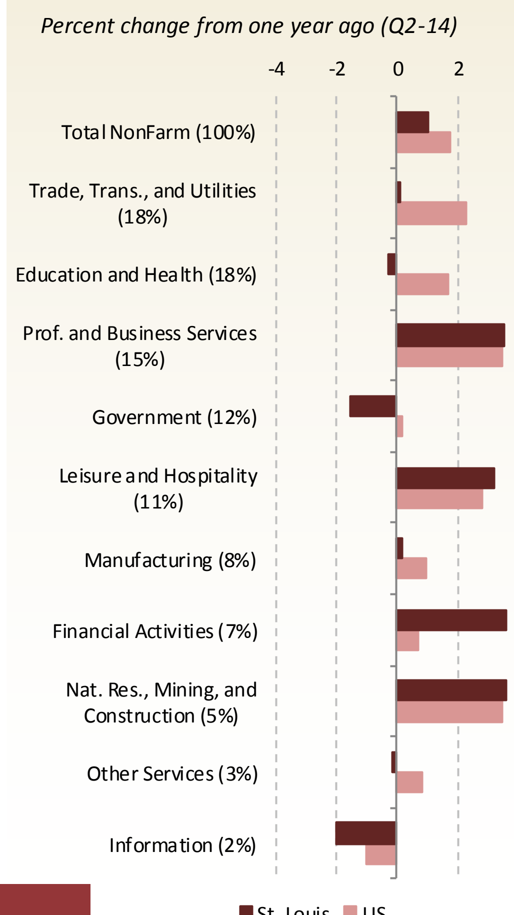
According to current USDA projections, Missouri farmers will harvest the state's largest corn crop on record. Illinois farmers are projected to harvest the state's second-largest corn crop.

Data Snapshot

County unemployment rates (SA, Q2-14)



Nonfarm payroll employment by industry



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

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.

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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 August 8 and August 16.

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.

Moderate Employment Growth and Higher Labor Costs Expected for Year-End

By Maria A. Arias, *Research Associate*

"We are finding that even recent masters degree grads do not have high expectations of starting salaries and we have all but no pressure on wages from existing employees."

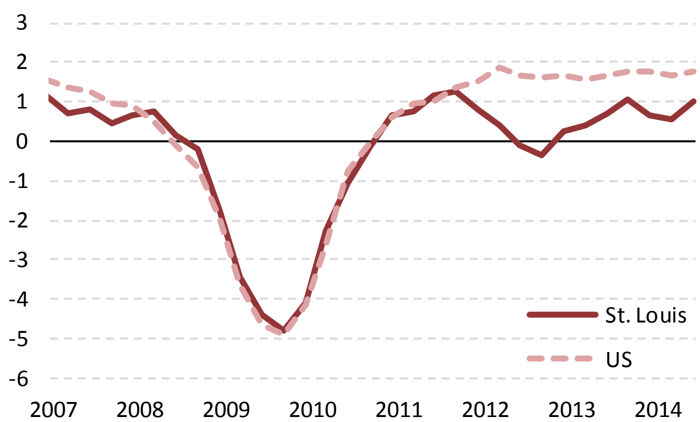
—St. Louis area consultant

"Labor costs are rising; it costs more to retain quality help in agriculture."

—Jefferson City area farmer

Employment growth in St. Louis is gaining momentum

Nonfarm payroll employment, SA (Index 2007=100)



Source: BLS.

- St. Louis and Cape Girardeau were the only MSAs in the zone where the unemployment rate did not increase from the previous quarter, though their rates continue to be higher than the national average (see table).
- Employment growth in the zone continued to be slower than the national average in most MSAs during the second quarter. Preliminary data suggest, however, that St. Louis employment picked up going into the third quarter (see figure).
- The goods-producing employment sector in St. Louis grew significantly faster than in the previous quarter, mainly due to an increase in construction-related jobs. The private service-providing sector continued to grow at a moderate pace (see bar chart on cover page).
- For the remainder of the year, 33 percent of the contacts expect employment to be somewhat higher or higher than last year, 55 percent expect employment to remain about the same, and the remainder expect a slight decline.
- Anecdotal information also suggests labor costs are rising, with just below 40 percent of business contacts surveyed expecting labor costs for the second half of the year to be somewhat higher or higher than the same time last year. Almost 60 percent of the contacts expect labor costs to remain the same.

	St. Louis	Springfield	Jefferson City	Columbia	Cape Girardeau	US
Unemployment rate (Q2-14) (%)	7.2	5.5	5.7	4.5	6.7	6.2 ▼
Nonfarm employment (Q2-14)	1.0	2.7	0.1	2.4	-0.1	1.8
Goods-producing sector	1.4 ▲	-1.4	-0.4	-0.4	-2.7	1.9
Private service-providing sector	1.4	3.8	1.2	3.5 ▼	1.2	2.1
Government sector	-1.5	0.5	-1.2	0.9	-4.0	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.

St. Louis Manufacturing Activity Shows Some Improvement

By Sean P. Grover, *Senior Research Associate*

"Overall, demand in manufacturing is stable and slightly increasing across various industries."

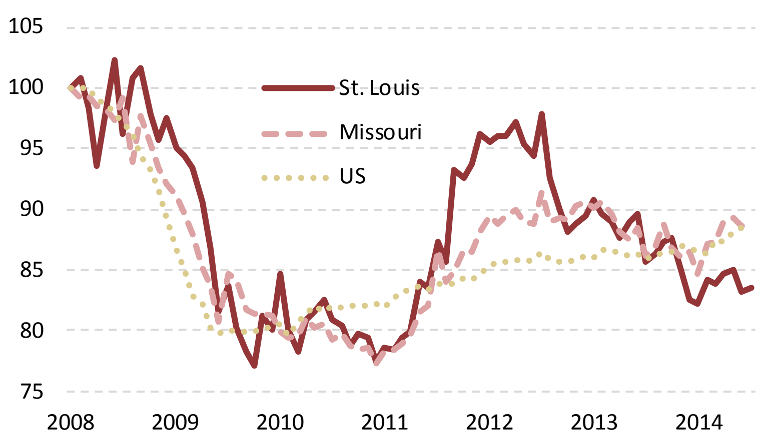
—Eastern Missouri manufacturer

"The industrial and manufacturing sectors are booming locally which has led to plans for multiple speculative developments, some of which are already underway."

—St. Louis area manufacturer

Aggregate manufacturing hours in St. Louis slow to recover

Production and nonsupervisory employees, Jan 2008=100



Source: BLS.

- St. Louis manufacturing employment saw a slight increase in the second quarter, below the national average, despite a significant increase of 3.1 percent in durable goods. St. Louis transportation employment showed no change in the second quarter, while the national average was 2.7 percent.
- Aggregate weekly hours among St. Louis production employees continues its divergent trend from the Missouri and national figures that began in late 2013.
- Area manufacturing contacts have noted the stability of the industry but with cautious optimism about expansion plans and growth.
- Missouri saw a 2.1 percent gain in manufacturing employment during the second quarter, led by a significant 2.5 percent gain from durable goods. Meanwhile, Illinois saw a 1.6 percent decrease in manufacturing employment, with large decreases in both durable and nondurable goods employment. Transportation employment increased for both Missouri and Illinois, although below the national average.
- Manufacturing exports for Missouri and Illinois increased in the second quarter and both outpaced the national average. Missouri increased 2.9 percent and was led by apparel, furniture, and electronics. Illinois was led by furniture, petroleum and coal products, and fabricated metal, showing an increase of 3.9 percent.

	St. Louis	Missouri	Illinois	US
Transportation employment (Q2-14)	0.0	2.3	0.6	2.7
Manufacturing employment (Q2-14)	0.2	2.1 ▲	-1.6	0.9
Durable goods	3.1 ▲	2.5 ▲	-2.4	1.4
Nondurable goods	-4.4	1.6	-0.3 ▼	0.1
Manufacturing exports (Q2-14)	--	2.9	3.9	1.4

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.

Growth in Office Employment Pushes Vacancy Rates Down

By Diana Cooke, *Research Associate*

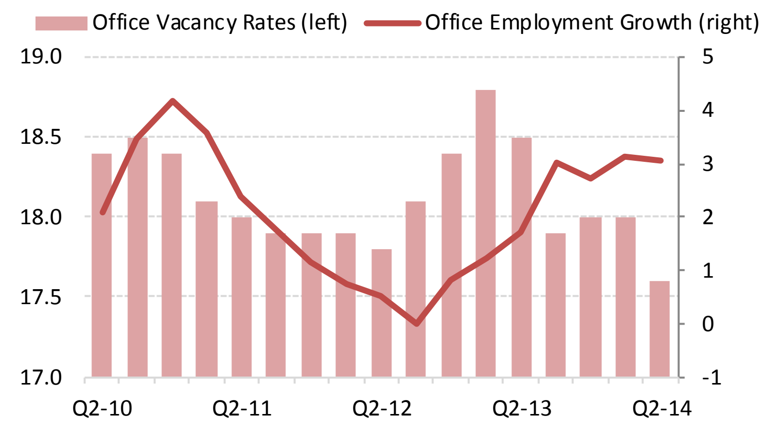
"[The homebuilding industry] is not on a fast-moving track to recovery, but it is on a slow-moving upward climb."

— St. Louis area realtor

"The increasingly scarce supply of commercial real estate space is putting upward pressure on rental rates..."

— St. Louis area builder

Office vacancy rates trend down as office employment remains strong



Source: Reis.com and author's calculations.
Note: See appendix for office employment definition.

- The residential market slowed in the second quarter. Compared with last year, home prices are up, but growing at a significantly slower rate. St. Louis home sales recorded negative yearly growth rates for the second consecutive quarter. However, growth in home sales showed signs of improvement (see table).
- Single-family building permits displayed negative yearly growth rates in St. Louis, Springfield, and Jefferson City and slowed significantly in Columbia and Jefferson City (see table). Contacts noted that construction may be down a bit, but only because 2013 was so strong.
- The multi-family market is strong. Net absorption of apartment space continues to increase, along with the number of multi-family construction projects near completion. As a result, vacancy rates are expected to persist. Asking rents continue to increase.
- The St. Louis office market shows signs of improvement. Vacancy rates continue to trend downward as office employment grows (see figure). A lack of construction in the office market and a lack of class-A buildings in the industrial market will continue to tighten the commercial real estate market.

Non-residential market (St. Louis, Q2-14)	Apartment	Office	Retail	Industrial
Vacancy rate (%)	4.7	17.6	12.3	6.7
Asking rent *Percent change from one year ago*	2.6 ▲	0.8	1.6	-17.2

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

Residential market (Q2-14)	St. Louis	Springfield	Jefferson City	Columbia	US
CoreLogic Home Price Index	8.1 ▼	-0.2	--	4.7	8.3 ▼
Single-family building permits	-0.3	-2.9	-11.5 ▼	1.3 ▼	0.3
New and existing home sales	-8.6 ▲	--	--	--	-5.8

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.

Income Grows and Delinquency Rates Fall Across The Zone

By Peter B. McCrory, *Research Associate*

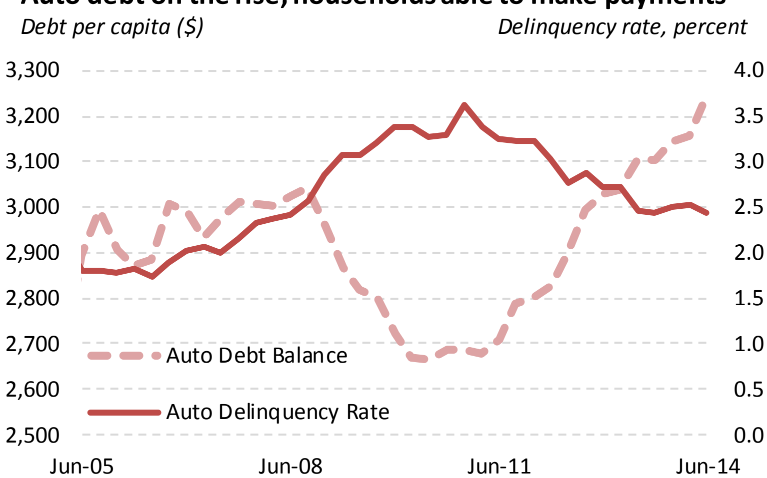
"Price is the major factor in new car sales. Low end is very hot!"

– St. Louis area auto dealer

"The age of vehicles is driving additional purchases…. Consumer mortgage requests are being driven by fears of rising rates."

– St. Louis area banker

Auto debt on the rise, households able to make payments



Source: FRBNY Consumer Credit Panel and Equifax.

- Personal income growth increased briskly in both Missouri and Illinois in the first quarter. The year-over-year increase in per capita income in Missouri was 2.7 percent, up from the prior quarter's rate of 1.0 percent. In Illinois, it jumped to 3.0 percent from tepid year-over-year growth of 0.8 percent last quarter (see table).
- Mortgage, credit card, and auto delinquency rates declined in the second quarter. Credit card delinquency rates had the sharpest drop, falling by 50 basis points in Missouri, 90 basis points in Illinois, and 60 basis points across the St. Louis zone (see table).
- Auto dealer contacts noted that low-end cars are in high demand by price-conscious consumers.
- Households in the St. Louis zone increased their auto debt in the second quarter at a faster rate than in the first. At pace with a downward trend that began in early 2011, auto delinquency rates declined in the second quarter and are nearing pre-recession levels (see figure).
- In line with national trends, households continued to unwind their mortgage and credit card debt in the second quarter.

	St. Louis Zone	Missouri	Illinois	US
Per capita personal income (Q1-14)	--	2.7 ▲	3.0 ▲	2.8 ▲
Per capita debt balances (Q2-14)				
Mortgage	-2.2	-2.3	-3.7	-1.8
Credit card	-3.7	-3.5	-5.2	-4.6
Auto loan	4.7	5.4	5.0	5.5
90+ day delinquency rates (Q2-14) (%)				
Mortgage	1.6 ▼	1.5	3.6 ▼	3.0 ▼
Credit card	6.5 ▼	7.1 ▼	6.7 ▼	7.5 ▼
Auto loan	2.4	2.9	2.6	3.1

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.

Picture Brightens Somewhat for St. Louis Zone Banks

By Michelle Neely, *Economist*

"The upper end of the middle market and the corporate segment are doing well. There is tepid demand from the small business market. Consumer demand is improving somewhat."

—St. Louis area banker

"Generally, we're seeing a diverse employment base so overall demand has remained steady."

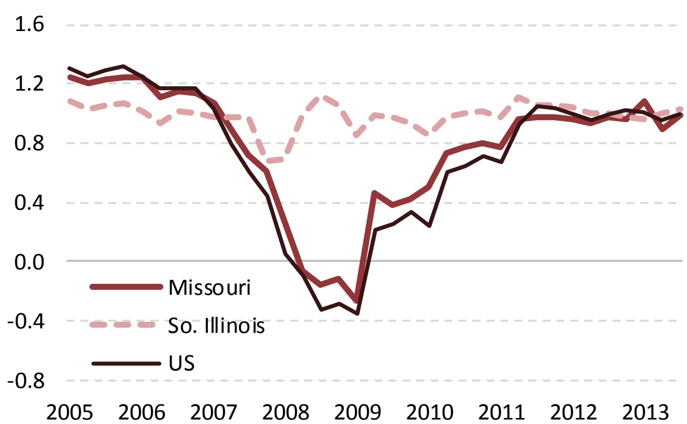
—Eastern Missouri banker

"Larger companies and corporate markets are doing better and willing to spend money on a new building or leasing new space. I look for cranes and there are more cranes now."

—St. Louis area banker

ROA getting close to pre-crisis levels

Return on average assets at commercial banks, percent



Source: FRED.

- More than one-quarter of bankers surveyed expect loan demand to increase during the second half of 2014.
- Return on average assets (ROA) at Missouri banks rose 10 basis points to 0.99 percent in the second quarter, finishing just above its year-ago level of 0.97 percent. ROA at southern Illinois banks increased more modestly, rising 3 basis points to 1.03 percent. Profitability at both sets of banks was roughly on par with the national averages of 1 percent, but slightly below the District average of 1.10 percent.
- Net interest margins stabilized or rebounded in the second quarter. For Missouri banks, the average net interest margin (NIM) increased 1 basis point to 3.40 percent; at southern Illinois banks, the increase was 4 basis points. District and U.S. peer banks also posted modest increases in the average NIM of 2 and 3 basis points, respectively.
- Nonperforming loan ratios fell across the board in the second quarter. The average nonperforming loan ratio declined 7 basis points in Missouri to 1.15 percent in the second quarter and declined 3 basis points at southern Illinois banks; ratios at both sets of banks are below those of their District and national peers.

Banking performance (Q2-14)	Missouri	Illinois	So. Illinois	8th District	US Peer Banks
Return on average assets	0.99	0.78	1.03	1.10	1.00
Net interest margin	3.40	2.70	3.54	3.77	3.82
Nonperforming loans / total loans	1.15	1.99 ▼	1.24	1.54	1.60
Loan loss reserve coverage ratio	136.52	73.37	111.29	79.89 ▼	95.63

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

Crop Production Estimates Suggest New Records

By Lowell R. Ricketts, *Senior Research Associate*

"Expanded production is seen leading to lower prices than we have experienced in recent years. This pressure might reduce overall revenues. Farm incomes could be challenged while some input prices may remain high into 2015; there is a potential for pressure on agribusinesses in the future."

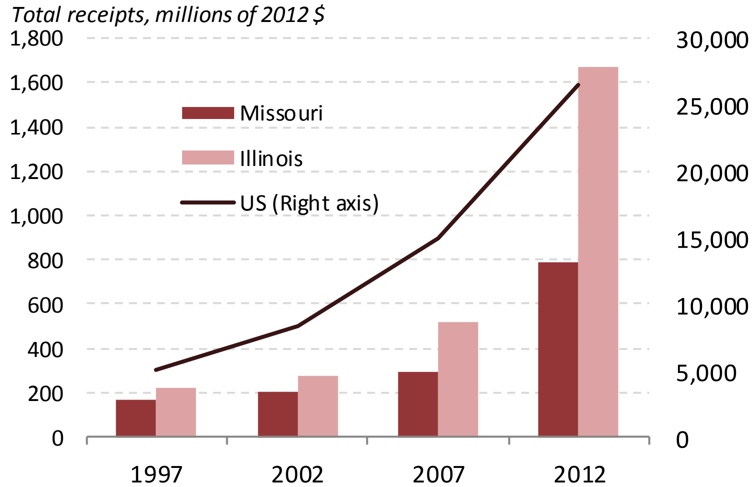
— St. Louis area agribusiness contact

"Increased profitability of the sector has led to reduced lending. The lower commodity prices we are seeing should spur increased borrowing."

— St. Louis area banker

Farm income surges over five-year period

Total receipts, millions of 2012 $



Source: USDA Census of Agriculture; see appendix.

- About half of agricultural bankers surveyed this quarter expect both farm income and capital spending to decline in the third quarter relative to levels a year earlier (see right table). A small margin of bankers expect loan demand to increase over the same comparison period.
- Total farm receipts in 2012 for Illinois increased twofold between 2007 and 2012 (see figure). Missouri farm income also exhibited remarkable growth with about a 170 percent increase over the same period. Farm income growth in both states far outpaced the 77 percent growth for the nation as a whole.
- According to the latest USDA projections, Missouri farms will produce a record amount of corn this year (see left table). Current estimates indicate that Illinois will produce the second-largest state corn harvest (2.22 billion bushels), just short of the 2.28 billion bushels in 2007. Soybean production in both Illinois and Missouri are expected to set new records as well.
- Missouri coal production increased in the second quarter by close to 16 percent over levels last year (see left table). In contrast, Illinois coal production declined on a year-over-year basis for the second quarter in a row. Mining and logging employment increased modestly for both states.

	Illinois	Missouri	US
Natural resources (Q2-14)			
Mining and logging employment	1.4	0.8	5.0
Coal production	-4.0	15.6	0.8
Production (2014)			
Corn	5.6 ▼	22.4	0.8
Cotton	---	11.9	35.6 ▲
Rice	---	28.2	20.5 ▲
Sorghum	-8.0	25.0	10.3
Soybean	17.6	26.2	16.0

Note: Values 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.

St. Louis zone Ag. bankers' expectations Q3-14 vs. Q3-13

	Lower	Higher	Net
Loan demand	5	19	14
Available funds	5	10	5
Loan repayments	10	5	-5
Farm income	55	23	-32
Capital spending	45	9	-36

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

Manufacturing labor input is defined as the average weekly hours worked by production and nonsupervisory employees in the manufacturing industry multiplied by the monthly average of total number of production and nonsupervisory employees in the manufacturing 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)

Crop production.

Total farm income taken from the Census of Agriculture. The Census is conducted every five years; the last survey was in 2012. Consequently, total receipts shown in the figure are only available at 5-year intervals and a linear trend was used for interpolation of missing values.