



Burgundy Book

A report on economic conditions in the Memphis zone

First Quarter 2015

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.

Memphis Transportation Employment Enjoys Strongest Growth in Three Years

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

A February survey revealed improving optimism among Memphis-zone business contacts compared with three months earlier. Some contacts reported signs of building wage pressures.

Paced by brisk gains in transportation, private-sector employment advanced at a moderate pace in the fourth quarter (1.6 percent) in the Memphis MSA relative to a year earlier. Growth of durable goods manufacturing employment also rose strongly in the Memphis MSA, as it did for all of Tennessee and Mississippi. Employment gains in the Memphis and Jackson MSAs were tempered by declines in government payrolls.

The Memphis zone's unemployment rate averaged 8.1 percent in the fourth quarter, down appreciably from the previous quarter's average of 8.5 percent. Labor market conditions remained the strongest in the Jonesboro MSA.

Residential housing market conditions in the zone's three MSAs were mixed in 2014. Growth of single-family building permits outpaced the nation's growth, but house price gains trailed those seen nationally. Apartment construction surged in the Memphis MSA in 2014.

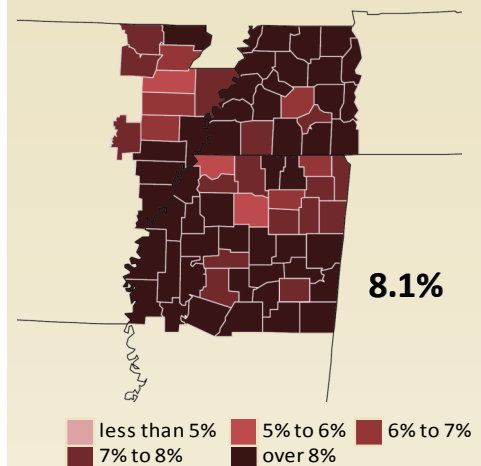
Helped by falling gasoline prices, retailers and restaurateurs in northeast Arkansas and northwest Mississippi reported strong sales in early 2015. In the fourth quarter, automotive loan delinquency rates in the zone rose for the first time since mid-2011.

Loan demand appears to be strengthening according to a recent survey of commercial bankers. In the fourth quarter, profits at Tennessee and Mississippi banks trailed their U.S. peers, while profits at Arkansas banks exceeded their U.S. peers.

Farmers continue to shift land from cotton production to growing corn, soybeans, and sorghum. Wheat plantings were lower in 2015.

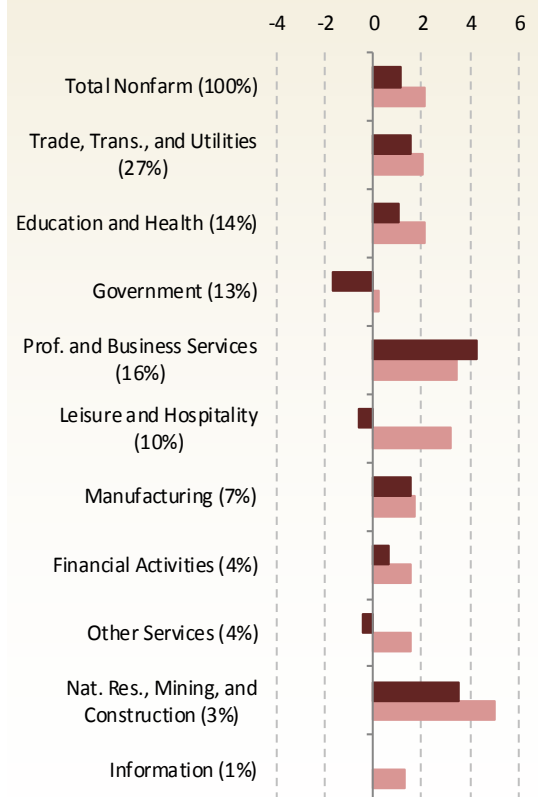
Data Snapshot

County unemployment rates (SA, Q4-14)



Nonfarm payroll employment by industry

Percent change from one year ago (Q4-14)



■ Memphis ■ US

How to read this report

Unless otherwise noted, **city names** refer to the metropolitan statistical areas (MSAs), which are geographic areas that include cities and their surrounding suburbs, as defined by the Census Bureau.

Statistics for the Memphis zone are based on data availability and are calculated as weighted averages of either the 73 counties in the zone or the three MSAs. As of 2012, approximately 53 percent of the zone’s labor force was located in an MSA. Specifically: 44 percent in Memphis, 4 percent in Jackson, and 4 percent in Jonesboro; 47 percent of the zone’s labor force was located in non-metropolitan areas.

Arrows in the tables are used to identify significant trends in the data. The direction of the arrow indicates the sign (up/down) and the color indicates the economic significance (green = good, red = poor). Arrows appear only when the change from the previous quarter is greater than 1 standard deviation. For example, the standard deviation of the change in the U.S. unemployment rate is 0.4 percent. If the U.S. unemployment rate declined from 8.4 percent to 8.2 percent, no arrow would appear; but if it declined from 8.4 percent to 7.9 percent, a green down arrow would appear in the table.

Selected **variable definitions** are located in the appendix.

Selected quotes from business contacts are generally verbatim, but some are lightly edited to improve readability.

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Join Our Panel of Business Contacts

The anecdotal information in this report was provided by our panel of business contacts, who were surveyed between February 1 and February 15.

If you’re interested in becoming a member of our panel, follow this link to complete a trial survey:

<http://research.stlouisfed.org/beigebooksurvey/>

or email us at beigebook@stls.frb.org.

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

Slow Improvements in Labor Market Conditions Across Zone

By Maria A. Arias, Senior Research Associate

“Job growth in the region, combined with a limited-skilled workforce, will put upward pressure on wages. Feedback from companies in the market indicate a continued problem with finding qualified labor without hiring from competing firms for additional benefits and wages.”

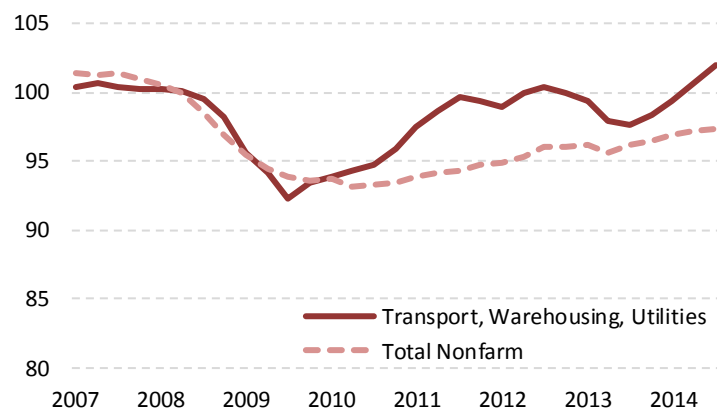
— Memphis area commercial banker

“There are plenty of people available for jobs, but those that are truly qualified are demanding higher pay.”

— Memphis area commercial banker

Transport, warehousing, and utilities employment strongly rebounded in 2014

Payroll employment, SA (Index 2008=100)



Source: BLS.

- Labor market conditions improved slightly in the Memphis zone at the end of 2014, with nonfarm employment growing moderately and unemployment rates inching lower throughout the zone's MSAs (see table).
- Throughout 2014, the unemployment rate declined a total of 1.3 percentage points in both Memphis and Jackson, on par with the national average decline, whereas it declined 1.6 percentage points in Jonesboro.
- Goods-producing employment grew at a faster pace during the fourth quarter than during the previous quarter in all three MSAs, particularly in Jonesboro.
- In Memphis, rapid annual growth in the transportation sector has helped raise the sector's employment to its pre-recession levels (see figure). This sector makes up 10 percent of the metro area's nonfarm employment.
- Anecdotal information from contacts surveyed in the Memphis zone suggests employment levels and labor costs are likely to remain about the same or increase slightly during the first half of 2015, relative to a year ago: About 70 percent of contacts expect these to remain about the same and about 25 percent expect them to increase slightly.
- Retail service and manufacturing companies in the zone have announced hiring plans to increase their presence and operations in the area.

	Memphis	Jackson	Jonesboro, AR	US
Unemployment rate (Q4-14) (%)	7.9	6.9	5.4	5.7 ▼
Nonfarm employment (Q4-14)	1.2	1.3	3.8 ▲	2.1
Goods-producing sector	2.2	2.4	7.1 ▲	2.9
Private service-providing sector	1.5	1.7	3.5	2.4
Government sector	-1.7	-1.0	1.9	0.3

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.

Transportation Employment Accelerates in Memphis

By Daniel Eubanks, *Research Associate*

“[Manufacturing] employment is strengthening. Finding employees is still an issue.”

— Memphis area industry contact

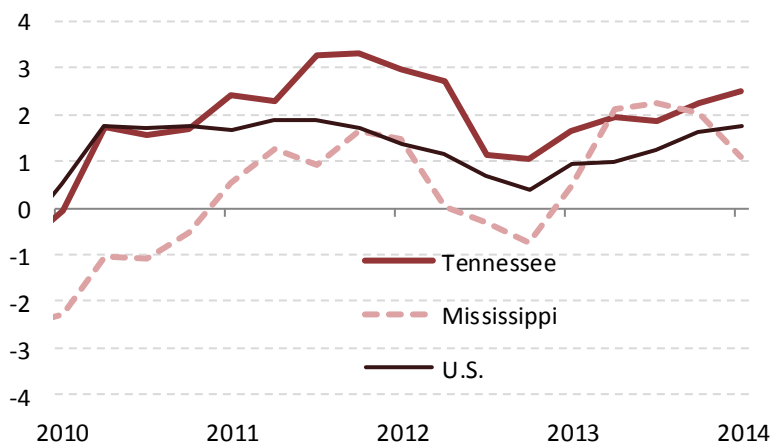
“We continue to see growth in transportation and logistics.”

— Memphis area banker

- Transportation employment growth in the Memphis area accelerated in the fourth quarter to exceed the U.S. average. Growth rates were steady in Tennessee and Mississippi.
- Manufacturing employment growth in Tennessee continued to outpace the national growth rate in the fourth quarter (see figure). In the Memphis area and in Mississippi, growth in durable goods manufacturing employment was offset by contractions in nondurables, resulting in below-average growth.
- Growth in aggregate weekly hours worked among production employees in Tennessee increased from 4.0 to 5.8 percent in the fourth quarter, while nationally growth decreased from 2.8 to 2.6 percent.
- Contacts in the trucking industry continue to report a shortage of drivers. Factors cited for the shortage include government regulations, retirements, and lack of interest in the profession among young people.
- Manufacturing contacts have reported negative impacts from the West Coast port slowdown. Furniture manufacturers in particular have reported cutting back hours and closing lines due to the delays.

Manufacturing growth above average in Tennessee

Percent change from one year ago



Source: BLS.

	Memphis	Tennessee	Mississippi	US
Transportation employment (Q4-14)	4.4	2.7	4.0	3.8
Manufacturing employment (Q4-14)	1.6	2.5	1.1	1.7
Durable goods	3.9	3.8	1.7	2.4
Nondurable goods	-1.0	0.2	-0.2	0.7
Manufacturing exports (Q4-14)	--	0.9	--	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.

Strength in the Memphis Real Estate Market Remains in the Apartment Sector

By Diana Cooke, Senior Research Associate

“Lenders want to lend. Interest rates are as cheap as they’ve been for a long time.”

— Memphis area real estate developer

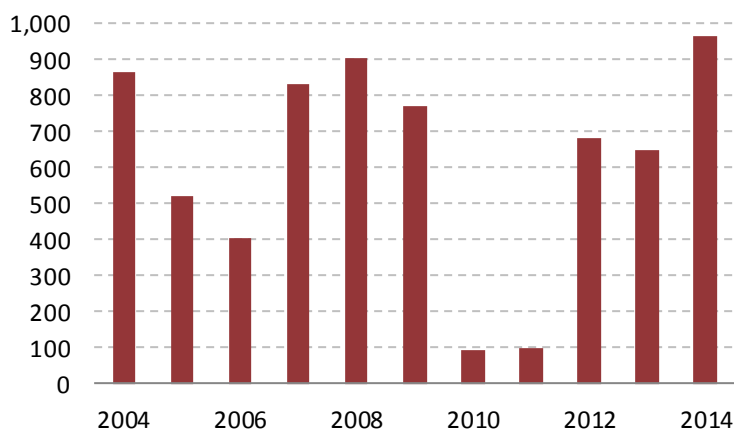
“We have far fewer bank sales that have sold. I think that’s really where you’re seeing the difference.”

— Memphis area realtor

- Memphis residential real estate market conditions were mixed in the fourth quarter. Year-over-year growth in home prices dropped significantly from the previous quarter. In Jonesboro, prices fell from a year earlier.
- Fewer homes were sold in 2014 than 2013. This is not all bad news; contacts note that the decline in home sales can be partially attributed to the decline in bank-owned sales. In December 2014, monthly home sales increased slightly from December 2013.
- The apartment market in Memphis continues to strengthen. Vacancy rates fell significantly and asking rents rose in the fourth quarter of 2014. Contacts noted that these conditions, along with low interest rates, are creating a favorable environment for more apartment construction. Apartment completions in Memphis rose by almost 50 percent in 2014 (see figure).
- The non-residential commercial market in Memphis shows signs of improvement. Contacts noted that the supply of office space is falling, causing rental rates to rise. Industrial space in Memphis posted its lowest vacancy rate in more than a decade and asking rents increased over 3 percent from one year ago.

Apartment market continues to display strength

New apartment completions, Memphis MSA



Source: Reis.

Non-residential market (Memphis, Q4-14)	Apartment	Office	Retail	Industrial
Vacancy rate (%)	8.1 ▼	23.6	11.5	14.0
Asking rent	2.2	0.4	1.1	3.2
<i>Percent change from one year ago</i>				

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

Residential market (Q4-14)	Memphis	Jackson	Jonesboro	US
CoreLogic Home Price Index	0.1 ▼	1.9	-0.1	6.0 ▼
Single-family building permits	2.7	23.2 ▲	13.4	2.1
New and existing home sales	-5.4	--	--	-2.8

Note: Sales and permits data are year-to-date percent change. Prices are percent change from one year ago. Arrows indicate a significant (±1 standard deviation) change from previous quarter. See appendix for notes and sources.

Auto Delinquencies Rise, Low Oil Prices Alter Auto Market

By Peter B. McCrory, Senior Research Associate

“While second- and third-tier financing is more readily available today, its growth also speaks volumes as to the overall financial condition in the region. Memphis continues to lead in bankruptcies. Over time there comes no redemption.”

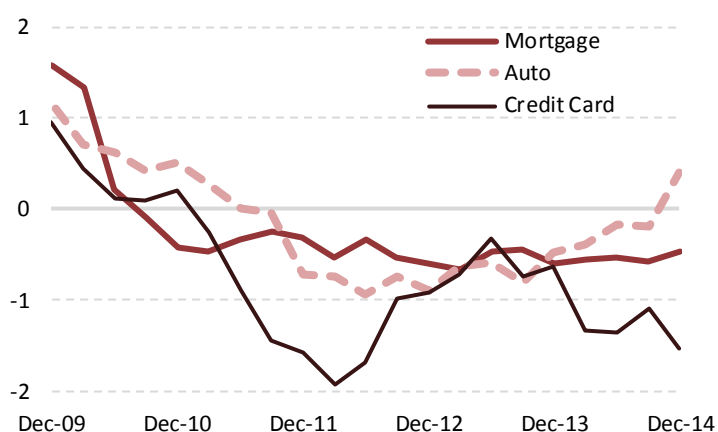
— Memphis area auto dealer

“[Low gasoline prices] have reduced the demand for more fuel-efficient vehicles.”

— Memphis area auto dealer

Auto delinquencies increase for first time since mid-2011

Percentage point change in delinquency rates from one year ago



Source: FRBNY Consumer Credit Panel and Equifax.

- Personal income growth decelerated in Mississippi in the third quarter, while in Arkansas and Tennessee the rate of growth was essentially unchanged (see table). Due largely to low gasoline prices, inflation slowed in the fourth quarter, implying that decelerating nominal income growth is unlikely to lead to a real income growth slowdown. In Arkansas and Tennessee, low inflation possibly indicates that real income grew at a faster pace in the latter months of 2014.
- Retailers and restaurateurs in northeast Arkansas and in northeast Mississippi reported strong sales in early 2015. Those contacts in Arkansas anticipate sustained growth as a result of lower gas prices and, in turn, more disposable income for consumers. One Memphis contact noted improvements in the tourism industry, observing rapidly growing demand for overnight river cruises.
- One Memphis area auto dealer attributed lower demand for fuel-efficient vehicles to the low price of gasoline, which now stands 50 percent lower than its July 2014 level.
- Although delinquency rates on mortgage and credit card debt continued to fall in the fourth quarter, auto delinquencies increased across the zone for the first time since mid-2011 (see figure).

	Memphis Zone	Arkansas	Mississippi	Tennessee	US
Per capita personal income (Q3-14)	--	2.6	0.5	3.1	3.2
Per capita debt balances (Q4-14)					
Mortgage	-0.3	-1.3	-0.6	0.6	-0.4
Credit card	-0.5	1.1	-0.1	2.0	0.7
Auto loan	9.2	9.8	10.4	8.8	8.8
90+ day delinquency rates (Q4-14) (%)					
Mortgage	2.3	1.8	2.2	1.7	2.6
Credit card	7.4	6.7	6.3	6.8	7.0
Auto loan	4.7 ▲	2.8 ▲	5.4 ▲	3.4 ▲	3.3 ▲

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.

Loan Demand, Confidence on the Rise in Memphis Zone

By Michelle Neely, *Economist*, and Hannah Shell, *Research Associate*

“We continue to see rate competition for deposits with above-market introductory rates on money market accounts and guaranteed ‘step up’ rates on certificates of deposit.”

— Memphis area banker

“Improved consumer optimism, buying power, and an improved job market are driving business growth and thus loan demand for working capital needs and fixed asset purchases.”

— Memphis area banker

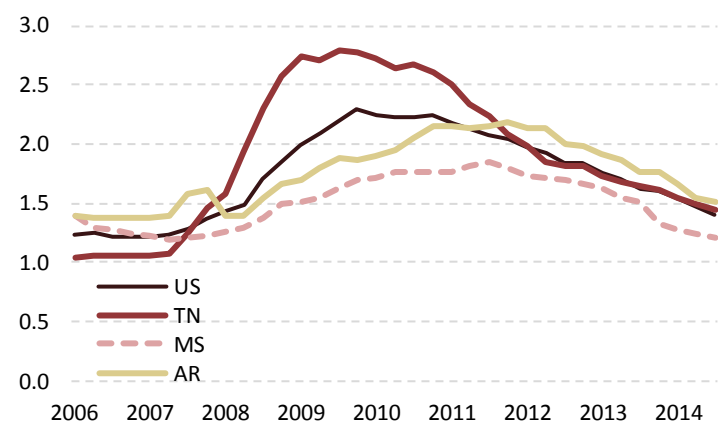
“Mortgage loan demand remained strong in the fourth quarter, especially in October and November. We typically see a slowdown in December, but business remained brisk all year.”

— Northeast Mississippi banker

- More than half of area bankers report that loan demand has been somewhat higher and is expected to remain higher in the first quarter of 2015 when compared with demand one year ago; the rest indicated it would be about the same. Most bankers expect demand to remain somewhat higher into the second quarter.
- Profitability dipped slightly in the fourth quarter in the zone. Return on average assets (ROA) fell 2 basis points between the third and fourth quarters in Tennessee to 1 percent and declined 3 basis points to 0.96 percent during the same period in Mississippi. ROA was unchanged at Arkansas banks at 1.27 percent. Average ROA is above year-ago levels in all three states.
- The average net interest margin (NIM) fell in both Tennessee and Mississippi in the fourth quarter, while it rose slightly in Arkansas. In Arkansas and Mississippi, the average NIM remains significantly above District and U.S. peer averages, while the reverse still holds true for Tennessee.
- The ratio of nonperforming loans to total loans took another sharp drop in all three states of the zone last quarter. Nonperforming loan ratios are down more than 50 basis points from year-ago levels across the zone and are unlikely to decline much further.

Loan loss reserve to loans ratio near pre-crisis levels

Loan Loss Reserve / Average Total Loan at Commercial Banks, Percent



Source: FRED.

Banking performance (Q4-14)	Tennessee	Mississippi	Arkansas	8th District	US Peer Banks
Return on average assets	1.00	0.96	1.27	1.09	1.02
Net interest margin	3.68	3.95	4.28	3.82	3.85
Nonperforming loans / total loans	1.43	1.22	1.38	1.27	1.33
Loan loss reserve coverage ratio	101.40	99.18	110.14 ▲	113.39	106.02

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

Cotton Continues To Lose Acreage Across Zone

By Lowell R. Ricketts, *Senior Research Associate*

“Cotton farmers are cutting acres due to price pressure. Cotton is an expensive crop, and they are shifting acres to lower-cost options like peanuts, sorghum, soybeans, etc.”

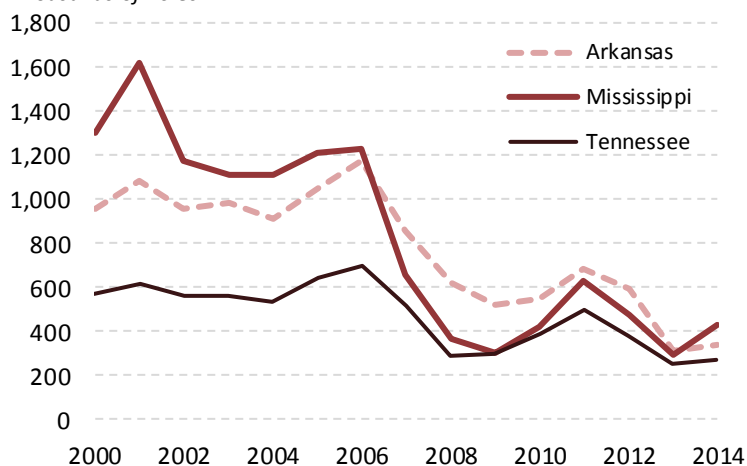
— Western Tennessee investment banker

“Low prices are shifting cotton acreage to soybeans and corn acreage. With the shifts in acreage, there may be a continuing loss of fixed assets unique to harvesting, processing, and storing cotton.”

— Western Tennessee commodity trader

Farmland used for cotton has declined substantially

Thousands of Acres



Source: USDA.

- The amount of farmland devoted to growing cotton has been on a downward path in the zone states over the past century. In 2006, the decline in cotton plantings accelerated (see figure). In 2014, farmers across the zone states planted 66 percent fewer acres of cotton than in 2006. Cotton has had a difficult time competing with the popularity of both corn and soybeans (see comments). On the supply side, cotton surpluses from Chinese producers have kept prices low.
- Coal production across the zone states and the nation as a whole has increased significantly, with the exception of Tennessee (see table). In particular, Mississippi’s production reached its highest level (for data that was available) in the fourth quarter. This is particularly impressive as Mississippi produces over five times the *combined* production of Arkansas and Tennessee.
- Red meat production dropped substantially for both Arkansas and Mississippi, but remained unchanged for Tennessee (see table). Production levels in Arkansas have scaled back by more than 60 percent for two years in a row. Winter wheat production will fall this year due to substantially fewer acres planted in Arkansas and Mississippi.
- A contact noted the biggest question for area farmers is “what are we going to plant?” Many farmers haven’t booked their seed. While peanuts have the greatest profitability, the necessary sandy soil conditions naturally limit plantings.

	Arkansas	Mississippi	Tennessee	US
Natural resources (Q4-14)				
Mining and logging employment	-2.2 ▲	2.6	--	4.8
Coal production	10.9	33.5 ▲	-19.2	4.7 ▲
Red meat production (2014)	-70.6	-52.6	-0.6	-3.7
Share of national production	<0.1	<0.1	0.5	100
Winter wheat, area planted (2015)	-16.1	-34.8	-5.7	-4.6

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

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

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 Manufac-

turing); 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

Sources

Energy Information Administration (EIA)

Coal production. Note: Production trends identified in report may be inconsistent with previous reports due to data revisions.

Bureau of Labor Statistics (BLS)

Mining and logging employment.

United States Department of Agriculture (USDA)

Winter wheat plantings, cotton plantings, red meat production.

Notes

The results of the Federal Reserve Bank of St. Louis *Agricultural Finance Monitor* are not reported due to a low response rate for the Memphis zone.

Total **red meat production** includes: beef, veal, pork, and lamb and mutton production.