



Burgundy Book

A report on economic conditions in the Memphis zone

Second 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.

The Memphis Zone's Unemployment Rate Falls to its Lowest Level Since 2008

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

A May survey of Memphis-zone business contacts indicated a modestly less optimistic assessment of the economic outlook in 2015 compared with three months earlier. Still, the percentage of respondents expecting better conditions greatly surpassed the percentage expecting worsening conditions.

Transportation services employment registered strong growth in the first quarter: Specifically, growth in Memphis and in Tennessee and Mississippi surpassed the nation's growth. Furniture manufacturing continues to grow at a healthy rate in Mississippi, which spurred strong gains in durable goods employment in the first quarter.

The Memphis zone's unemployment rate averaged 7.4 percent in the first quarter of 2015, a sharp decline from the previous quarter (8.1 percent) and the lowest rate since 2008. Surveys of hiring managers suggest that wage pressures continue to build.

In the first quarter, single-family building permits rose in Memphis but declined in Jackson and Jonesboro, Arkansas. The commercial real estate market improved in the first quarter. In particular, retail employment and asking rents rose sharply.

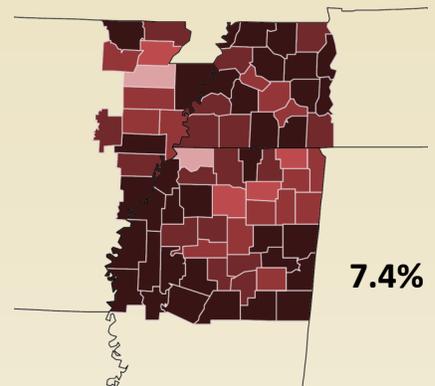
Credit card delinquency rates rose sharply in the Memphis zone in the first quarter; however, auto and mortgage delinquency rates were essentially unchanged.

A survey of commercial bankers suggests that commercial and industrial loan demand is expected to strengthen in the third quarter. Net interest margins edged lower at Arkansas, Tennessee, and Mississippi banks in the first quarter.

Arkansas and Tennessee farmers planted fewer acres of corn this year. However, in contrast to the national trend, Mississippi farmers devoted more acres to corn.

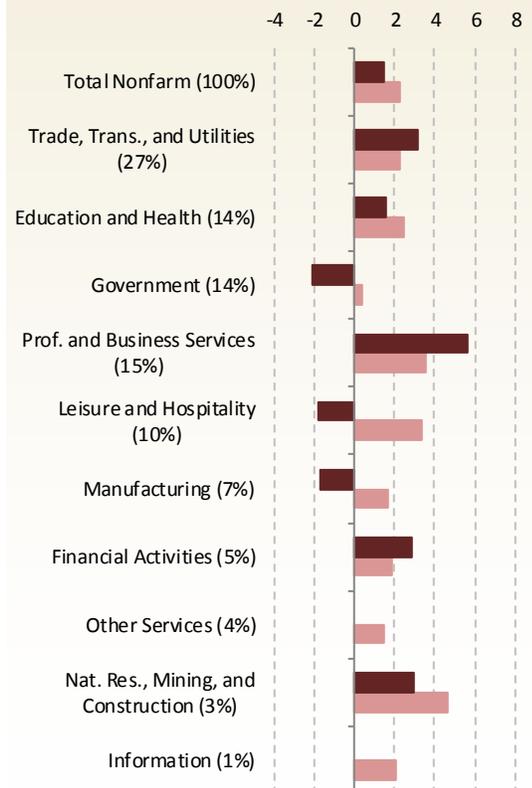
Data Snapshot

County unemployment rates (SA, Q1-15)



Nonfarm payroll employment by industry

Percent change from one year ago (Q1-15)



■ 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 May 8 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.

Higher Wage Growth Expected Amid Growing Demand for Skilled Laborers

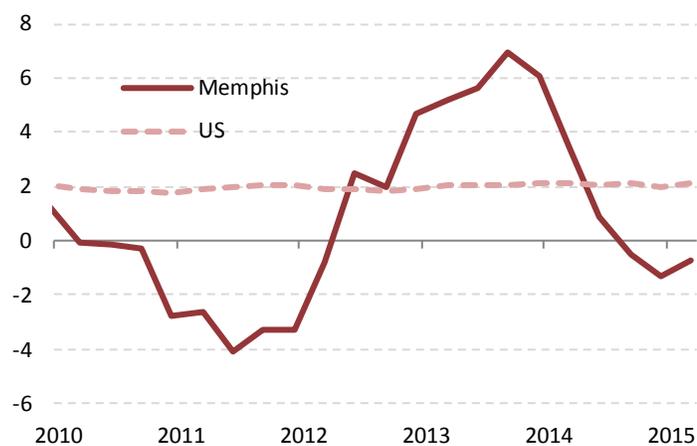
By Maria A. Arias, Senior Research Associate

“Consistent employment and wages are providing more qualified customers for loans.”

— Memphis area commercial banker

Nominal earnings growth in Memphis is slightly negative

Average hourly earnings, percent change from one year ago



Source: BLS.

- Service sector job growth was the main driver of overall employment growth across the zone. In Memphis, the professional services and trade, transportation, and utilities sectors grew at a rate faster than the national average, though overall employment growth remains below the national average (see table and bar chart on cover).
- Overall, about 75 percent of business contacts expect employment and hours worked to remain about the same during the third quarter compared with the same period last year.
- In the first quarter, average hourly earnings growth for the private sector remained slightly negative, but evidence of a rebound (see figure). Preliminary second-quarter data and anecdotes suggest this upward trend will continue: About half of the 18 hiring managers surveyed reported they are raising starting and current pay to attract or retain employees, especially since most of them reported having trouble finding enough qualified job candidates to fill open positions.
- Over half of the hiring managers surveyed in the Memphis zone reported actively seeking employees, particularly for professional, technical, sales, and maintenance positions.
- Despite rising wage pressures, only a third of hiring managers reported they were raising prices to pass-on the higher labor costs to customers. Over half of business contacts expect prices to remain about the same, while one-third expect them to grow slightly faster than the same time last year.

	Memphis	Jackson	Jonesboro, AR	US
Unemployment rate (Q1-15) (%)	7.0	6.7	5.1	5.5
Nonfarm employment (Q1-15)	1.5	1.2	5.0	2.3
Goods-producing sector	-0.3 ▼	2.5	5.2	2.7
Private service-providing sector	2.4 ▲	1.8	5.6 ▲	2.6
Government sector	-2.1	-1.5	2.7	0.4

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 Employment Dips in Memphis

By Daniel Eubanks, Senior Research Associate

“Orders continue to increase and some industrial customers are hiring and considering plant expansion.”

— West Tennessee banker

- Manufacturing employment contracted in the Memphis MSA in the first quarter, with declines coming from both durable and nondurable goods. Growth weakened in Mississippi, but remained positive due to a significant acceleration in nondurable goods manufacturing employment.
- Manufacturing exports from Mississippi continued to decline. Exports declined across multiple industries, but were concentrated in petroleum and coal products, chemical products, and computer and electronic products.
- Tennessee manufacturing export growth turned negative in the first quarter as a result of broad-based declines. A decrease in exports of chemical products was the largest source of the contraction.
- Transportation and warehousing employment accelerated slightly across the Memphis zone. Transportation employment growth in Tennessee exceeded the national rate for the first time in over a year.
- Furniture manufacturing continues to grow in north Mississippi. Several furniture makers opened or expanded facilities in the area during the first quarter.
- Contacts continue to note difficulty in finding qualified employees in rural areas.

Manufacturing employment dips in Memphis

Percent change from one year ago



Source: BLS

	Memphis	Tennessee	Mississippi	US
Transportation employment (Q1-15)	4.5	3.7	5.0	3.6
Manufacturing employment (Q1-15)	-1.7 ▼	2.5	0.5	1.8
Durable goods	-0.3 ▼	3.4	0.0	2.5
Nondurable goods	-3.4 ▼	0.8	1.5 ▲	0.5
Manufacturing exports (Q1-15)	--	-3.7	-6.6	-3.8

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.

Retail Market Strengthens in Memphis

By Usa Kerdnunvong, *Research Associate*

“The market’s starting to move again...we are ahead on year-to-date sales volume.”

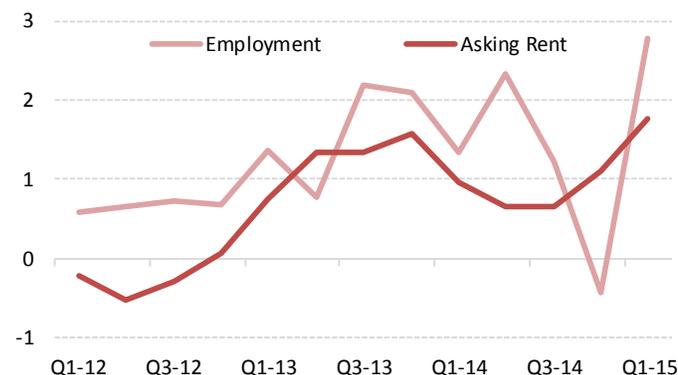
— Memphis area realtor

“Demographic shifts and migration continue to support more [apartment] construction.”

— Memphis area business contact

Memphis retail employment and asking rent rose

Percent change from one year ago



Source: Reis.com.

- Residential real estate market conditions were mixed in the first quarter. Home prices increased in two of the three MSAs. Contacts in the area expect home prices to continue increasing during the next few months as inventories remain low.
- Building permits decreased in Jackson and Jonesboro while increasing in Memphis. Contacts in Memphis expect the real estate transaction closing rules, which will take effect in August, to tilt the residential real estate market toward non-ownership and further slow down new home construction.
- The commercial real estate market improved in the first quarter. The retail market was especially strong; both retail employment and asking rents grew briskly (see figure). Vacancy rates dropped significantly for apartment properties and continued to decline for industrial properties. Contacts report that office leasing momentum is returning.
- Commercial construction in the Memphis area was mixed in the first quarter. National retailers are expanding in the Memphis area; many new projects are planned, proposed, or currently under construction. Contacts do not expect new office construction.

Non-residential market (Memphis, Q1-15)	Apartment	Office	Retail	Industrial
Vacancy rate (%)	7.6 ▼	23.7	11.8	13.5
Asking rent	2.3	1.0	1.8 ▲	-1.1

Percent change from one year ago

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

Residential market (Q1-15)	Memphis	Jackson	Jonesboro	US
CoreLogic Home Price Index	3.4 ▲	-1.3 ▼	4.0 ▲	4.8
Single-family building permits	6.5	-15.5 ▼	-10.7	8.6
New and existing home sales	-0.1	--	--	8.4 ▲

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.

Income Growth Accelerates, Credit Card Delinquencies Tick Up

By Peter B. McCrory, Senior Research Associate

“Gas prices have provided a lift to the auto business. Customers are buying larger vehicles and larger engines. Consumers have more money available for car loan payments.”

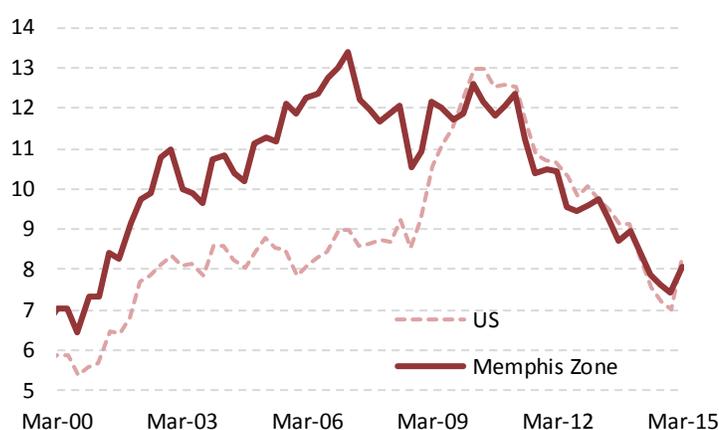
—Memphis area auto dealer

“The biggest effect on retail sales is consumers have more spendable income due to lower fuel costs.”

—Memphis area auto dealer

Credit card delinquency rates jump in first quarter

Percent



Source: FRBNY Consumer Credit Panel and Equifax.

- Personal income growth accelerated in Arkansas, Mississippi, and Tennessee in the fourth quarter of 2014.
- Auto dealer contacts reported a shift in demand away from smaller cars toward larger vehicles and trucks as well as high-end models, which they attributed to consumers having additional disposable income as a result of low gas prices.
- Compared with the prior quarter, mortgage and auto loan delinquency rates in the Memphis zone were essentially unchanged. The delinquency rate on credit card loans increased in the first quarter of 2015, the first significant increase since March 2010. However, the credit card delinquency rate in Memphis remained lower than it has been since mid-2001 (see figure).
- In the first quarter of 2015, households in the Memphis zone made only minor year-over-year adjustments to their holdings of mortgage and credit card debt. Auto loan balances continued to grow at a historically rapid rate, increasing year-over-year by 8.5 percent.

	Memphis Zone	Arkansas	Mississippi	Tennessee	US
Per capita personal income (Q4-14)	--	4.2	2.1 ▲	3.5	3.8
Per capita debt balances (Q1-15)					
Mortgage	-0.8	-0.6	-0.4	0.1	-1.4
Credit card	0.6	0.9	2.3	1.9	2.0
Auto loan	8.5	9.5	9.7	8.0	8.7
90+ day delinquency rates (Q1-15) (%)					
Mortgage	2.3	1.9	2.4	1.7	2.5
Credit card	8.1 ▲	7.8 ▲	7.1 ▲	7.6 ▲	8.2 ▲
Auto loan	4.5	2.8	5.3	3.2	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.

Margins in Memphis Zone Squeezed by Strong Competition

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

“Strong competition for loans in the Jonesboro market has driven rates to lows that have not been seen in a number of years.”

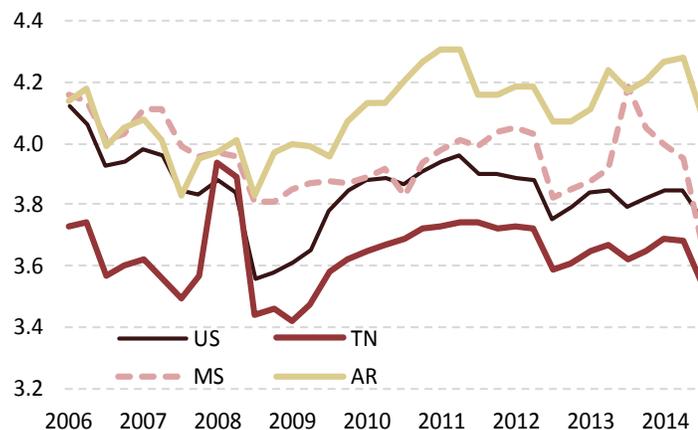
—East Arkansas banker

“The mortgage business has been extremely positive; it is moving toward new home purchases with a slow-down in refinancing.”

—Northeast Mississippi banker

Pressure on margins continues

Net interest margin at commercial banks, percent



Source: FRED.

- Half of bankers surveyed report slightly higher loan demand in the second quarter of 2015 compared with the same time last year. All bankers surveyed predict loan demand will be about the same or slightly higher in the third quarter.
- Bankers report mixed conditions for commercial and industrial loan demand in the second quarter. Several respondents report demand has been unchanged to slightly lower compared with one year ago, although a notable minority report it has been slightly stronger. Bankers are optimistic about the third quarter: More than half expect demand to improve.
- Profitability declined across the zone in the first quarter. The return on average assets (ROA) fell more than 50 basis points at Tennessee banks, reaching its lowest level since 2012; however the decrease can almost entirely be attributed to losses at one large institution. ROA also declined, though less severely, at Mississippi and Arkansas banks. Average net interest margins also decreased in all three states of the Memphis zone.
- Asset quality improved in the first quarter. The average ratio of nonperforming loans to total loans fell in each of the three states. Half of bankers surveyed report lower delinquencies in the second quarter of 2015 relative to the same time last year; the rest mostly report they have been unchanged. Delinquencies are expected to be unchanged to somewhat lower in the third quarter.

Banking performance (Q1-15)	Tennessee	Mississippi	Arkansas	8th District	US Peer Banks
Return on average assets	0.46 ▼	0.92	1.18	0.89	1.03
Net interest margin	3.55	3.68 ▼	4.10	3.69	3.75
Nonperforming loans / total loans	1.37	1.15	1.33	1.23	1.29
Loan loss reserve coverage ratio	100.73	104.35	109.77	113.01	110.08

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

Farmers Switch Crops in Search of Better Income Prospects

By Lowell R. Ricketts, *Senior Research Associate*

“We are getting off to a good start this year. We don’t expect the same yields as last year for corn, soybeans, and cotton just because those were historic levels. The number of acres planted with cotton are significantly down. There will be a lot more acres planted with soybeans.”

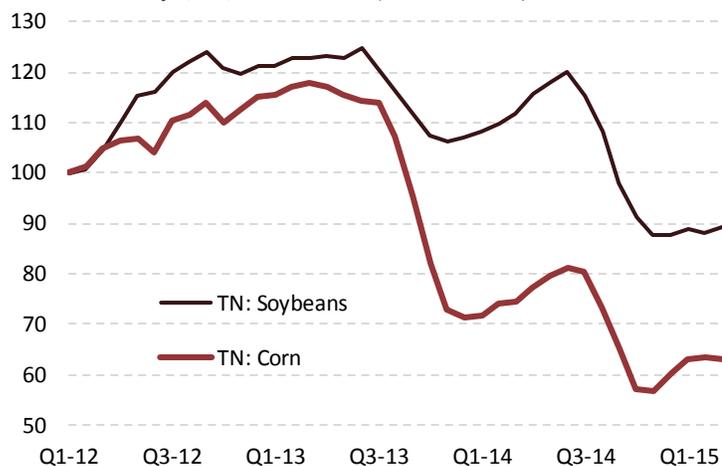
— Northern Mississippi farmer

“Most of our corn was planted in March. Soybean plantings were finished over the weekend. Things are off to a pretty good start so far, this of course bodes ill for commodity prices.”

— Western Mississippi farmer

Commodity prices stable at very low levels

3-Month MA of \$/BU, indexed value (Jan. 2012=100)



Source: USDA/NASS.

- Farmers across the zone finished plantings with considerable uncertainty about their income prospects this year. The search for greater returns, despite weak prices, has had a sizable impact on planting intentions across the zone (see figure). An Arkansas farmer noted, “Farmers have switched to crops that require fewer inputs such as soybeans.” Prospective cotton plantings dropped sharply across all three states as well as the nation (see table). Contrary to the trend across the District and the nation, Mississippi farmers will plant significantly more acres of corn this year.
- A farm equipment dealership in northeast Arkansas reported that 80 percent of transactions over the past 6 months have been lease arrangements rather than straight purchases. The owner noted, “Low leasing rates, the tax advantage of the lease, and not having to enter a long-term commitment during these challenging years are driving this market.”
- Tennessee coal production declined sharply in the first quarter relative to the same time last year. Quarterly production stood at the lowest level since data have been available. In contrast, coal production was up substantially in Arkansas, although production levels are often volatile.

	Arkansas	Mississippi	Tennessee	US
Natural resources (Q1-15)				
Mining and logging employment	-1.5	-2.9 ▼	--	1.7 ▼
Coal production	54.3	0.8	-17.8 ▼	-3.5 ▼
Prospective plantings (2015)				
Corn	-1.9	11.8 ▲	-8.7	-1.5
Cotton	-31.3 ▼	-17.6 ▼	-38.2 ▼	-13.5
Rice	-3.0 ▼	10.5	--	-0.8 ▼
Sorghum	47.1	-18.2	--	10.7
Soybeans	6.5	3.6	9.8	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.

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.

Average hourly earnings are in current dollars.

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 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

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)

Prospective plantings (March 2015), crop prices.

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.