Burgundy Book

A report on economic conditions in the St. Louis zone

First Quarter 2013

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.

Majority of business contacts expect local business conditions to improve during 2013

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

Employment growth in the zone during the fourth quarter of 2012 was weaker than for the nation. However, business contacts appear cautiously optimistic about the outlook for employment and earnings growth. Many of Missouri's smaller cities continue to register some of the lowest unemployment rates in the District.

Manufacturing conditions in Missouri weakened in the fourth quarter: Manufacturing employment fell for the first time in this business expansion. In contrast, manufacturing employment in Illinois increased by 3.3 percent, far surpassing the nation's 1.2 percent increase.

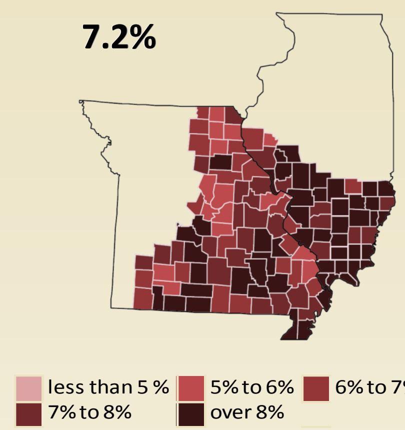
Much like the nation, single-family home building activity remains strong in the zone and well above last year's pace. New and existing home sales in the fourth quarter in the St. Louis MSA were up sharply from four quarters earlier. In contrast, home prices in the zone fell in the fourth quarter compared with the nation's brisk increase.

Per capita personal income growth in Illinois during the third quarter surpassed growth in both Missouri and the nation. Household mortgage and credit card balances fell slightly in the fourth quarter, though the declines were smaller than for the nation. Illinois's public finances worsened in the third quarter, as tax revenues were about 2.5 percent lower than a year earlier.

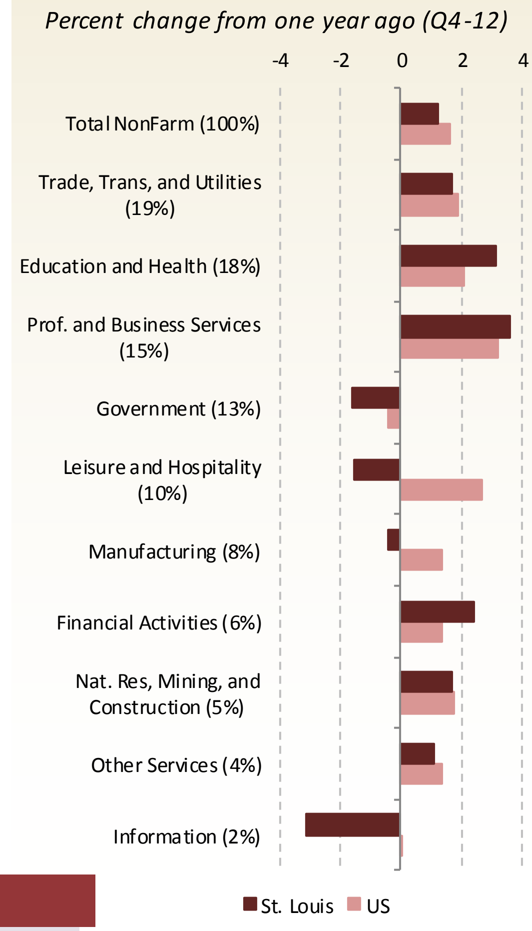
Commercial bank performance in both Illinois and Missouri continued to trail both Eighth District and U.S. peer banks during the fourth quarter. In contrast, southern Illinois banks outperformed their Illinois and Missouri counterparts. Agricultural banks in the zone have been helped by large crop insurance payments paid to farmers in the aftermath of last year's drought.

Data Snapshot

County unemployment rates (SA, Q4-12)



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 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.

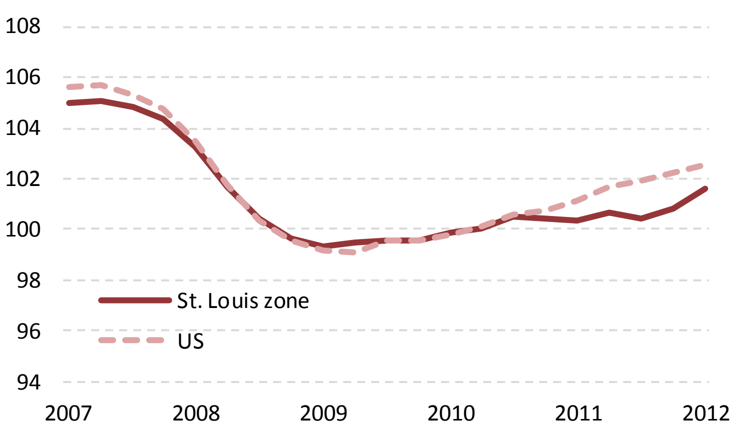
After Stalling, Labor Market Begins to Show Stronger Signs of Recovery

By Charles S. Gascon, *Senior Research Support Coordinator*

> *"Our industry made deep cuts during the recession. There is little if any excess capacity. Slow reasonable growth would allow the industry to add capacity without causing significant stress to hire and train new staff."*
>
> — St. Louis area architect
>
> *"Overall companies are trying to stay efficient without adding employees."*
>
> — Southern Illinois banker

Labor market recovery picks up pace in fourth quarter

Nonfarm payroll employment, SA (Index 2010=100)



Source: BLS.

- Nonfarm payroll employment growth in the St. Louis zone remains slower than the nation (see chart); however, data from the fourth quarter are much stronger in St. Louis, Springfield, and Cape Girardeau. Stagnant (or negative) growth in the goods-producing sectors and the government sector remains a considerable drag on total employment growth (see table).
- Although there are some headwinds stemming from the uncertainty around fiscal policy, the employment outlook is generally positive: 40 percent of business contacts expect to increase employment in the next three months and 50 percent expect hiring to remain unchanged.
- Unemployment rates continued on a steady decline: The average unemployment rate in the zone is 7.6 percent, which is lower than the national rate of 7.8 percent. Among the zone's MSAs Columbia has the lowest rate at 4.5 percent (see table).
- December data indicate strong growth in average weekly earnings across the St. Louis zone. In all MSAs, year-over-year growth topped the national rate of about 2 percent. Anecdotal evidence suggests wage growth will continue though mid 2013: 50 percent of businesses surveyed expect to pay higher wages; the remaining contacts expect wages to remain unchanged.

	St. Louis	Springfield	Jefferson City	Columbia	Cape Girardeau	US
Unemployment rate (Q4-12) (%)	7.3	5.8	5.4	4.5	6.2	7.8
Nonfarm employment (Q4-12)	1.2 ▲	3.1 ▲	-0.1	-0.6	-0.3 ▲	1.6
Goods-producing sector	0.3	0.5	0.0	0.5	-2.9	1.5
Private service-providing sector	1.9 ▲	3.7 ▲	0.6 ▼	2.0 ▲	3.6 ▲	2.2
Government sector	-1.6	1.8	-1.2	-5.2 ▼	-16.7	-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.

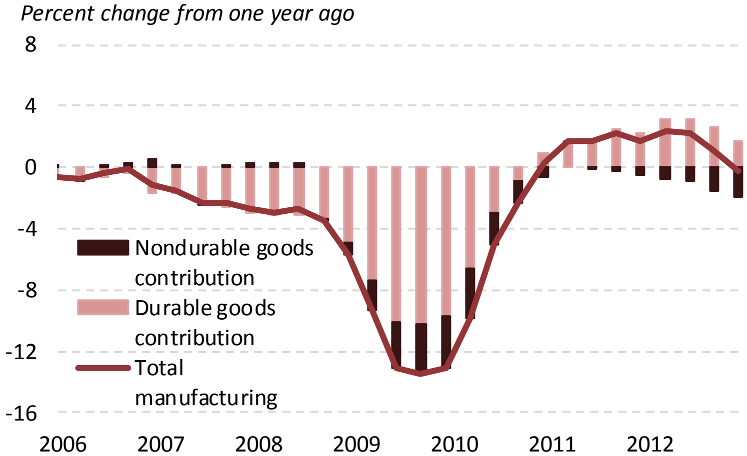
Manufacturing Employment Growth Stalls Slightly

By David Lopez, *Senior Research Associate*

> *"Construction markets are slowly recovering, which will help appliance and other durable goods [manufacturing]."*
>
> — St. Louis area manufacturer
>
> *"The uncertainty regarding the federal government's ability to address core economic issues has resulted in cautious business people across the supply chain in my industry. The result is more cautious investment in capital equipment and delayed hiring."*
>
> — St. Louis area manufacturer

Recent Missouri manufacturing employment growth driven by durable goods sector

Percent change from one year ago



Source: BLS.

- Manufacturing employment in both St. Louis and Missouri contracted slightly for the first time in over two years. This change in employment contrasted with gains in Illinois and the nation (see table). Anecdotal information suggests manufacturing employment may continue to be mixed in the short-term; the outlook for the longer term remains more robust.
- Prior to its recent renaissance, Missouri's manufacturing employment had been in a steady decline since 2006 — generally driven by changes to durable goods manufacturing employment (see chart).
- Recent trends in earnings provide an alternative view on manufacturing conditions: They suggest that manufacturing in Missouri remains on a path to recovery. The latest data show total manufacturing earnings in Missouri grew by 5.3 percent, closely matching the nation (see table).
- Earnings growth in Missouri's nondurable goods sector outpaced growth in both Illinois and the nation (see table).

	St. Louis	Missouri	Illinois	US
Manufacturing employment (Q4-12)	-0.4	-0.2 ▼	3.3	1.2
Durable goods	1.7	2.9	2.5	1.8
Nondurable goods	-3.7 ▼	-4.8	4.5	0.3
Manufacturing earnings (Q3-12)	--	5.3	5.5	5.4
Durable goods	--	5.0	8.4	7.5
Nondurable goods	--	5.6	1.5	1.7

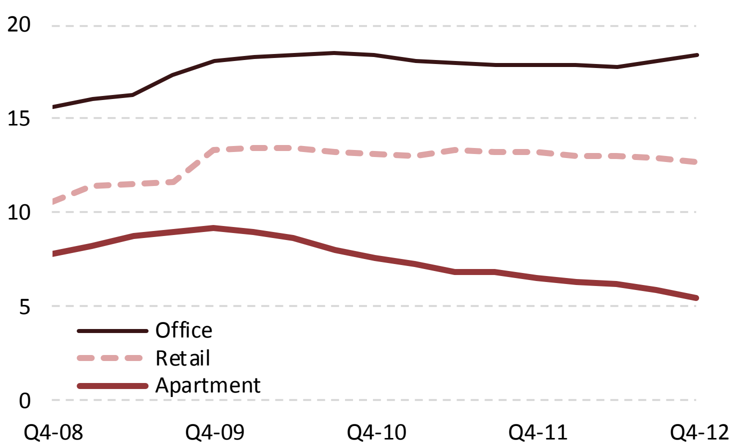
Note: Values are percent change from one year ago. Arrows indicate a significant (± 1 standard deviation) change from the previous quarter. See appendix for notes and sources.

Gradual but Steady Improvements in Real Estate and Construction

By Li Li, *Research Associate*

> *"[The] market is better but has a long way to go to reach a stabilized level."*
>
> — St. Louis area home builder
>
> *"The technology and financial services sectors are expected to set the pace in office demand. Both industries are anticipating St. Louis job growth in 2013."*
>
> — St. Louis area broker

St. Louis apartment vacancy rate continues decreasing
Percent



Source: Reis.com.

- Residential real estate activity has strengthened in the region. St. Louis new and existing home sales increased by 18.5 percent in 2012 compared with 2011. Meanwhile, the fall in home prices continued to slow, especially in St. Louis (see table). The growth rate of single-family building permits across the St. Louis zone is also robust, especially in Columbia (see table).
- The steadily falling unemployment rate had a positive impact on the area's office real estate market. Asking rent in the fourth quarter slightly increased (see table), and a contact also pointed out strong leasing activity in the quarter.
- Industrial real estate conditions also improved in the fourth quarter. Vacancy rates declined by 50 basis points to 8 percent compared with a year ago. Anecdotal information also confirmed that sales activity was strong in this quarter due to large purchases by institutional investors.
- On the construction side, contacts in St. Louis reported plans for a speculative industrial building in the Gateway Commerce Center, which will be one of the first speculative buildings in St. Louis since the recession. In the office market, regional contacts noted that new construction will be limited to build-to-suit projects in 2013. In downtown St. Louis, construction is under way on Ballpark Village.

Non-residential market (St. Louis, Q4-12)	**Apartment**	**Office**	**Retail**
Vacancy rate (%)	5.5 ▼	18.4	12.7
Asking rent *Percent change from one year ago*	2.7	0.4	0.3

Source: Reis.com.

Residential market (Q4-12)	**St. Louis**	**Springfield**	**Jefferson City**	**Columbia**	**US**
CoreLogic Home Price Index	-0.8 ▲	-4.3	--	-3.3	7.4 ▲
Single-family building permits	27.4	28.8	18.2	94.9 ▲	24.3
New and existing home sales	18.5 ▲	--	--	--	11.1

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.

Mortgage and Credit Card Deleveraging Continues

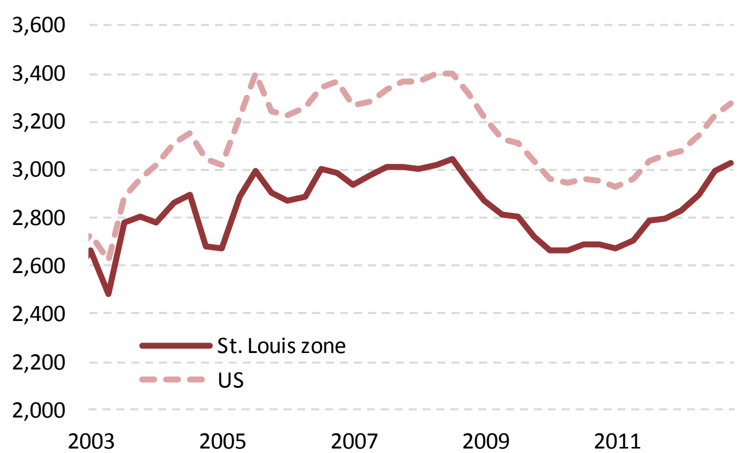
By Bryan Noeth, *Policy Analyst*

"Anytime there is an election there is always a level of uncertainty, which leads to an unstable market."

— St. Louis area auto dealer

Auto debt continues to grow

Auto debt per capita, dollars



Source: FRBNY Consumer Credit Panel, Equifax.

- Per capita income in the St. Louis zone continued to increase, although at a slower rate than in 2011. Income growth was about 2.5 percentage points slower than its post-recession peak.
- Individuals continued the trend of mortgage deleveraging for the fourth straight year. Mortgage debt levels were down 0.7 percent over the year and 6.8 percent from its peak.
- The percent of mortgage balances seriously delinquent remained unchanged. Delinquency rates across the zone are now about 1.1 percentage points below 2010 levels and well below the national rate.
- Consumers are still shedding credit card debt. Levels were down 1.5 percent over the year. Additionally, the percentage of seriously delinquent credit card balances fell to 7.8 percent in the fourth quarter, significantly below the national average.
- Increased auto sales have led to consumers taking on more auto debt, continuing the upward trend that began in the second quarter of 2010. The average auto debt per capita in the zone was $3,030 in the fourth quarter, only slightly below the pre-crisis peak (see chart).

	St. Louis Zone	Missouri	Illinois	US
Per capita personal income (Q3-12)	--	2.1	2.8	2.5
Per capita debt balances (Q4-12)				
Mortgage	-0.7	-1.7	-3.5	-2.9
Credit card	-1.5	-1.9	-1.7	-3.4
Auto loan	8.3	8.1	7.8	7.1
90+ day delinquency rates (Q4-12) (%)				
Mortgage	2.4	2.4	6.1 ▼	4.9 ▼
Credit card	7.8	8.5	9.1	10.0
Auto loan	2.7	3.4	3.1	3.7 ▼

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.

Earnings and Asset Quality on the Rise at Illinois, Missouri Banks

By Michelle Neely, *Economist*

"Net interest margins are getting so narrow that within five years compression will force many banks out of business."

— St. Louis area banker

"There is not much talk of expanding operations, mostly refinancing existing loans."

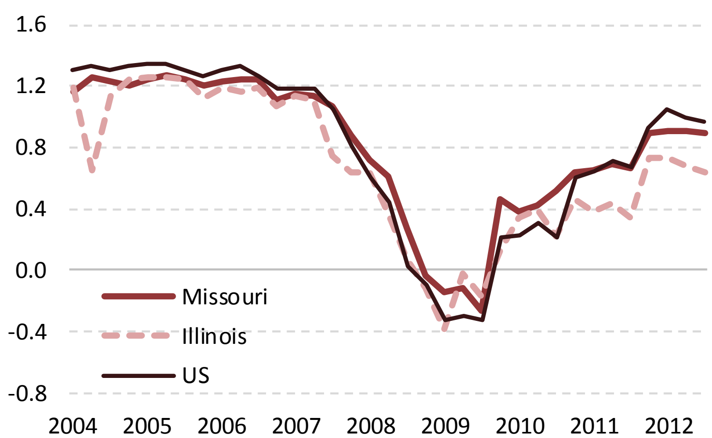
— Southern Missouri banker

"Had a good year in mortgage lending last year. Houses are moving much better now than the last few years."

— St. Louis area banker

Earnings ratios inching toward pre-crisis levels

Return on average assets at commercial banks, percent



Source: FRED.

- Most bankers surveyed in the St. Louis zone expect loan demand to be unchanged or up during the next three months.
- Return on average assets is up substantially at Missouri and Illinois banks from a year ago, thanks to improvements in asset quality that have allowed bankers to take smaller provisions for nonperforming loans.
- Net interest margin averages at Illinois and Missouri banks continue to trail those of their District and U.S. peers, an indication of very competitive loan and deposit markets.
- Nonperforming loan ratios at Illinois and Missouri banks fell again in the fourth quarter. Southern Illinois banks recorded a nonperforming loan ratio of 1.40 percent, less than half that of the full state and substantially below the Missouri, District, and U.S. peer averages (see table).
- The coverage ratio at southern Illinois banks also outpaced that of its upstate, Missouri, District, and U.S. peers. Southern Illinois banks have $1.11 set aside for every dollar of nonperforming loans.

Banking performance (Q4-12)	Missouri	Illinois	So. Illinois	8th District	US Peer Banks
Return on average assets	0.89	0.64	1.04	0.93	0.97 ▲
Net interest margin	3.77	3.61	3.63	3.90	3.87
Nonperforming loans / total loans	2.00 ▼	3.20 ▼	1.40	2.32 ▼	2.59 ▼
Loan loss reserve coverage ratio	90.75	63.16	111.43	79.89	71.78

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

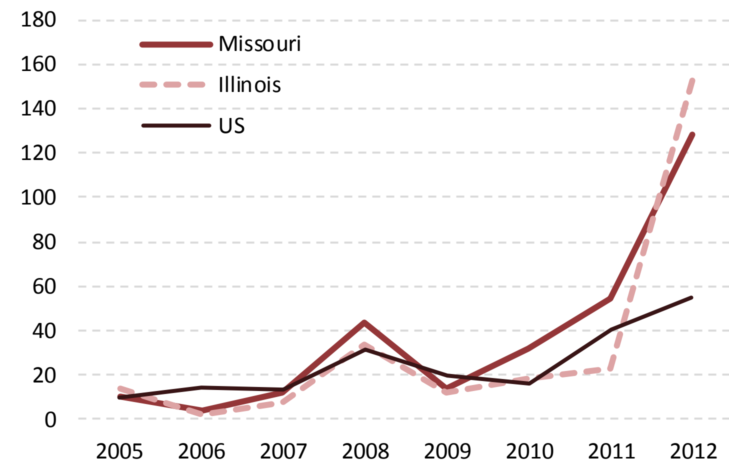
Midwest Hit Hard by Drought, Large Crop Insurance Payouts to Come

By Brett Fawley, *Senior Research Associate*

> *"Crop insurance is going to be the saving grace for this year with repayment to loans and farmers getting by."*
>
> — Missouri agricultural banker
>
> *"Farmers with crop insurance might make more money per acre than last year. Livestock farmers that need to purchase most of their feed will be hurt the most by this year's drought."*
>
> — Illinois agricultural banker

Crop insurance will ease negative income shock

Federal insurance payout, dollars/net acre insured



Source: FCIC.

- Local prices for corn, sorghum, and soybeans increased by 14 to 17 percent in Missouri and Illinois in 2012, partially offsetting declines in production. The dollar value of sorghum and soybean production in Illinois increased by 3.4 percent from 2011 to 2012.
- Federal crop insurance covered roughly 60 percent of the acres planted in Missouri and 80 percent in Illinois in 2012. As of early March, the Federal Crop Insurance Corporation has paid out $1.1 billion and $2.7 billion to Missouri and Illinois farmers, respectively, or $640 million and $2.3 billion more than it paid on the 2011 crop.
- Ag. bankers surveyed indicated that contrary to their expectations for the fourth quarter, farm income, spending, loan availability, and loan repayment rates were higher than the same time last year.
- Missouri and Illinois farmers planted 25 percent more winter wheat in 2012 than in 2011, although the number of acres planted remained 20 to 30 percent below the peak levels of 2008.
- Coal production in the zone's states was 25.4 percent higher in 2012 than in 2011. In the most recent quarter, Missouri coal production was 14.8 percent lower and Illinois production was 9.5 percent higher, relative to one year ago (see left table).

	Missouri	Illinois	US
Natural resources (Q4-12)			
Mining and logging employment	0.8	-1.0	3.2 ▼
Coal production	-14.8	9.5 ▼	-10.2 ▼
Crop production (2012)			
Corn	-29.3	-33.9	-12.8
Cotton	-4.2	---	9.2
Rice	48.9	---	7.9 ▲
Sorghum	34.3	-11.0	15.2
Soybean	-18.4	-9.4	-2.5

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' expections Q1-13 vs. Q1-12

	Lower	Higher	Net
Loan demand	10	32	23
Available funds	0	10	10
Loan repayments	13	10	-3
Farm income	32	10	-23
Capital expenditure	29	13	-16

Note: Percentage of respondents. See appendix for notes and sources.

Government Workforce Continues to Shrink in St. Louis

By Lowell R. Ricketts, *Senior Research Associate*

"Public pension funds in Missouri have shifted toward less traditional and higher-risk investments as interest rates on safer investments... anguish at record lows."

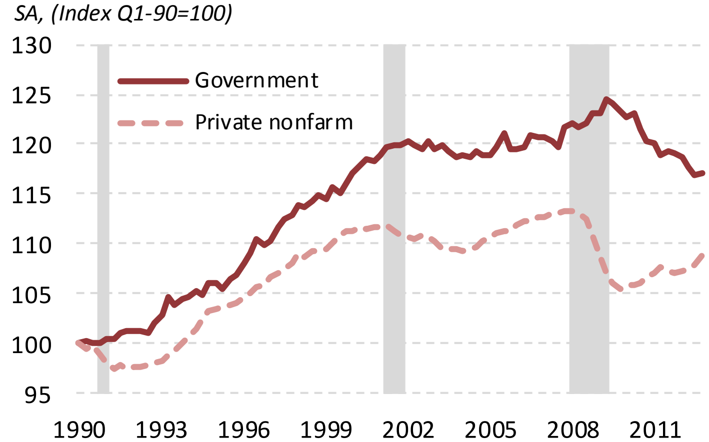
— St. Louis area reporter

"The most significant issue facing businesses in my industry is uncertainty stemming from the regulatory environment and government policy."

— St. Louis area banker

Government employment in St. Louis continues post-recession decline

SA, (Index Q1-90=100)



Source: BLS.

- Tax revenue growth in the third quarter of 2012 was less impressive than the growth seen in the previous quarter. Both total tax revenue and revenue from the personal income tax suffered a significant drop for both states. Measured on a year-over-year basis, Illinois tax revenue declined across all sources in the third quarter. Missouri fared better with gains across all sources.
- Government employment is 1.6 percent lower than one year ago in St. Louis (see table). In fact, government employment in St. Louis has been steadily declining since the end of the recession, even as private payrolls have stabilized (see chart).
- Estimates of unfunded liabilities remain a concern. At 45 percent funded, Illinois has the largest unfunded public pension liability in the country. Furthermore, it continues to fall short on the actuarially required contribution and has done so for 13 of the past 14 years that data were available. At 77 percent funded, Missouri's pension liability is slightly better than the national average.
- Growing unfunded liabilities undermine long-term fiscal stability and are likely to constrict state government budgets going forward. In that vein, on January 25 S&P downgraded Illinois's credit rating, citing the state's large budget imbalance and unfunded pension liability.

	St. Louis	Missouri	Illinois	US
Tax revenue (Q3-12)	--	3.9 ▼	-2.6 ▼	2.8
Personal income	--	4.6 ▼	-1.2 ▼	4.3
Corporate income	--	8.2	-2.4	6.9
General sales	--	3.4	-2.0 ▼	3.3
Other sources	--	2.7	-5.0 ▼	-0.3 ▼
Government employment (Q4-12)	-1.6	-1.0	-0.8	-0.4
Federal	-1.9	-2.7	-2.6	-1.5
State	-5.7	1.0	1.6 ▲	-0.1
Local	-0.9	-1.4	-1.2	-0.3

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.

State Government Bond Ratings

Missouri

Moody's	S&P
Aaa	AAA

Illinois

Moody's	S&P
A2	**A-** ▼

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 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

Table Sources

Bureau of Labor Statistics

Manufacturing employment: total, durable, and nondurable goods.

Bureau of Economic Analysis

Manufacturing earnings: total, durable, and nondurable goods.

Notes

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).

Manufacturing earnings is the sum of wage and salary disbursements, supplements to wages and salaries, and proprietors' income less contributions for government social insurance.

In the **contributions to employment chart**, bars represent the respective contribution of each sector to the area's total employment as a percent change from one year ago, while the line represents the net percent change from one year ago in total employment.

Real Estate and Construction

Table Sources

CoreLogic

Home price index, including distressed sales.

Census Bureau

Year-to-date single-family building permits.

National 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 consists 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.

Census Bureau

Homeownership rates.

Notes

The CredAbility Index is a quarterly measure of the financial condition of the average consumer. The scores are defined as follows: 90-100 implies excellent or secure, 80-89 implies good or stable, 70-79 implies weakening or at risk, 60-69 implies distressed or unstable, and 59 or below implies emergency or crisis.

Delinquency rates are calculated as the percentage of payments past due by more than 90 days, weighted by the dollar value of the loan.

Homeownership rates are the proportion of households in each area that are owners. It is calculated by dividing the number of households that are owners by the total number of occupied households.

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 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 expenditures 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.

USDA

Crop production.

Public Sector

Quotes Sources

St. Louis Business Journal

Greg Edwards. "Mo. pension funds look to lumber, Noodles & Co." St. Louis Business Journal [St. Louis] Aug 3, 2012.

Table Sources

Bureau of Labor Statistics

Government employment: federal, state, and local. Private nonfarm employment.

Census Bureau

Tax revenue: total, personal income, corporate income, general sales, and other sources.

Pew Center on the States

Public sector pensions.

Notes

Approximately 46 percent of Missouri's (42 percent of Illinois's) **tax revenues** come from income taxes, 31 percent (23 percent) from sales tax, and 3 percent (7 percent) from corporate income taxes. The remaining tax revenues are from other sources.

Required contribution is the annual amount state actuaries recommend that states contribute to retirement funds in order to fully fund those promises over the long term.

Unfunded liability is an outstanding financial obligation that is not covered by state financial assets.