



Burgundy Book

A report on economic conditions in the Memphis zone

Third Quarter 2013

The Memphis zone of the Federal Reserve comprises northern Mississippi, northeastern 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.

Even as Unemployment Rates Inch Up, Business Outlook Remains Positive

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

The pace of economic activity in the Memphis zone appeared to weaken in the second quarter compared with three months earlier. However, the slowing was not uniform across cities or industries.

Weak employment growth in the service-producing sector continued to overshadow healthy job gains in the good-producing industry. Once again, job growth remained weak in the Memphis area's largest industry. A majority of our Memphis business contacts expect little change in their employment levels over the next three months.

After dipping below 10 percent in the first quarter, the Memphis zone's unemployment rate edged back above 10 percent in the second quarter. Of the 73 counties in the Memphis zone, 69 counties had unemployment rates that exceeded the nation's second-quarter average (7.6 percent).

Memphis's commercial retail market continued to strengthen in the second quarter, as seen by falling vacancy rates and increasing asking rents.

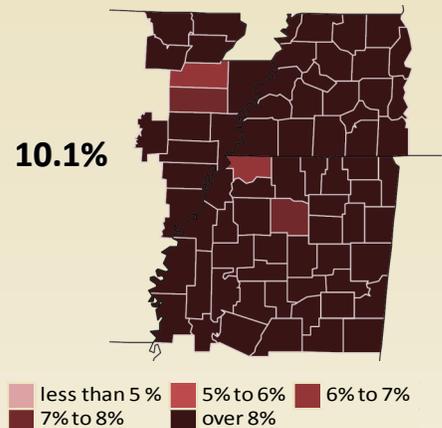
Household balance sheet repair continued apace in the Memphis zone. This is seen by falling loan delinquency rates and reductions in nonautomotive debt balances.

Profitability rose in the second quarter at Tennessee and Mississippi commercial banks because of slight increases in net interest margins and slight declines in loan loss provisions.

Our quarterly survey revealed that agricultural bankers expect greater loan demand and capital expenditures in the third quarter relative to the same period a year earlier.

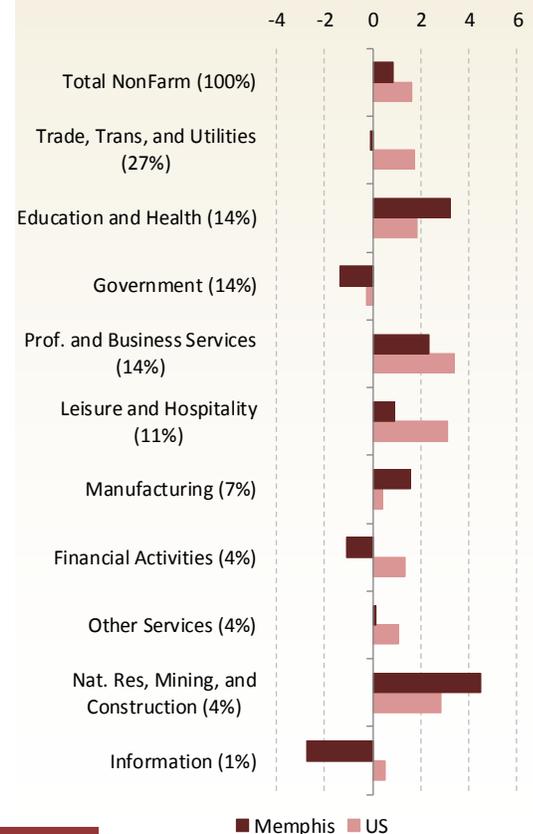
Data Snapshot

County unemployment rates (SA, Q2-13)



Nonfarm payroll employment by industry

Percent change from one year ago (Q2-13)



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 August 1 and August 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.

Employment Growth Slows in Memphis and Jackson

By Charles S. Gascon, *Regional Economist*

“There are no plans for additional hires in the next three months, perhaps in the long run.”

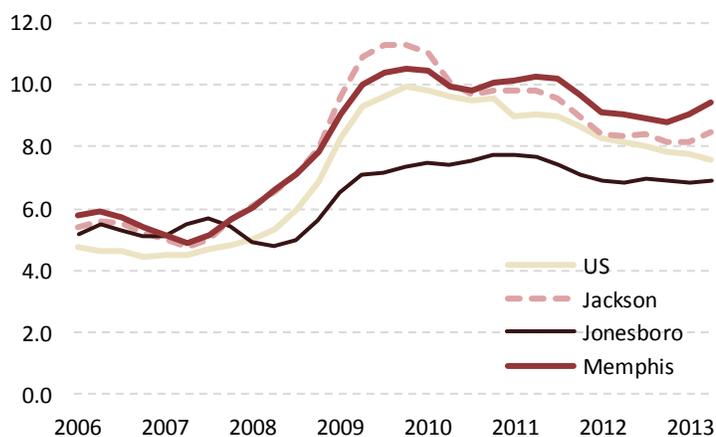
— Northeast Arkansas banker

“Sentiments across all sectors have improved and people are being better compensated.”

— Southwest Tennessee banker

Unemployment rates tick up across zone's metro areas

Unemployment rate (SA)



Source: BLS.

- After hovering above 1.25 percent during most of 2011 and 2012, employment growth in Memphis has slowed to less than 1 percent during the first two quarters of 2013. Net job losses in the trade, transportation, and utilities sector have been the key driver of this trend (see bar chart on cover).
- Employment growth in Jackson also slowed to around 1 percent in the second quarter. This slowdown was due to declines in the goods-producing sector (see table).
- Anecdotal reports suggest mild employment gains during the third quarter; 25 percent of contacts expect to increase payrolls during the next three months. However, the remaining contacts expect their payrolls to remain unchanged.
- Slow employment growth has resulted in a noticeable uptick in local unemployment rates. In Memphis the unemployment rate is at 9.4 percent, after ending the year at 8.8 percent. Similarly, in Jackson, the unemployment rate has increased from 8.1 percent to 8.4 percent (see figure and table).
- Jonesboro continues to be the bright spot in the region, where nonfarm employment growth of 3.7 percent was over twice the national rate and significantly faster than the 2.2 percent growth during the first quarter. Despite these gains, the unemployment rate remained unchanged at 6.9 percent (see table).

	Memphis	Jackson	Jonesboro, AR	US
Unemployment rate (Q2-13) (%)	9.4	8.4	6.9	7.6
Nonfarm employment (Q2-13)	0.9	1.1	3.7 ▲	1.6
Goods-producing sector	2.6	-1.5 ▼	5.7	1.2
Private service-providing sector	1.1	2.0	3.3 ▲	2.2
Government sector	-1.5	1.1	3.0	-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.

Manufacturing Activities Increased Slightly

By Yang Liu, Senior Research Associate

“Capital expenditures should increase because a lot of activities have picked up and consumer confidence is on the rise.”

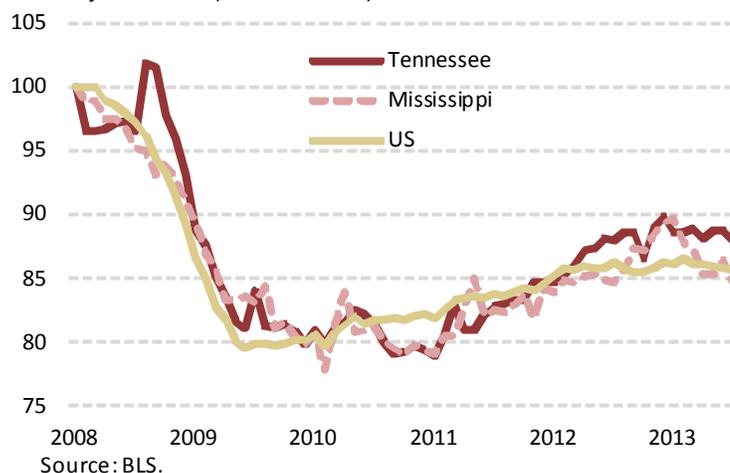
— Memphis area manufacturer

“Many new projects are in the works in several different sectors of manufacturing and will be announced soon.”

— Northeast Mississippi retailer

Labor input indicates marginally slower manufacturing growth in Memphis

Index of total hours (Jan 2008 = 100)



- Compared with one year ago, Memphis and Tennessee both reported moderate job growth in manufacturing, over three times the national rate. Mississippi experienced a reduction in manufacturing jobs in the second quarter, as year-over-year growth declined by 0.6 percent (see table).
- According to anecdotal information, the new auto plants and a growing supplier network have kept Tennessee in a great position in the automotive industry.
- Tennessee’s and Mississippi’s manufacturing labor input, measured as average weekly hours worked multiplied by employment, both reached a 4-year peak in early 2013. Thereafter, labor input declined slightly in Tennessee and dropped moderately in Mississippi. As of July, Tennessee’s manufacturing labor input remained above the national average while Mississippi’s labor input fell behind the national pace (see figure).
- Tennessee, Mississippi, and the nation all saw manufacturing earnings decline significantly in the first quarter of 2013 (see table).
- On a year-over-year basis, Tennessee’s and Mississippi’s manufacturing earnings outpaced the nation, primarily driven by the durable goods sector (see table).

	Memphis	Tennessee	Mississippi	US
Manufacturing employment (Q2-13)	1.7	2.0	-0.6	0.4
Durable goods	1.7	3.1	-1.0	0.6
Nondurable goods	1.8	0.3	0.4	0.1
Manufacturing earnings (Q1-13)	--	8.1 ▼	6.6 ▼	6.0 ▼
Durable goods	--	12.4 ▼	10.0 ▼	7.4 ▼
Nondurable goods	--	1.8 ▼	0.2 ▼	3.4 ▼

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.

Market Is Slowly Moving in the Right Direction

By Li Li, Research Associate

“Over the next three months, [real estate] conditions should improve somewhat. The trend is expected to continue.”

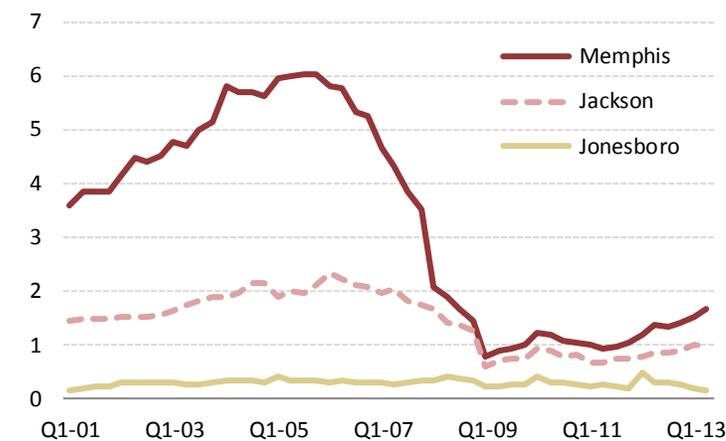
— Northern Mississippi banker

“The real estate market was fairly steady, even during the financial crisis. The area has not seen rapid growth. There was never an overabundance of vacant homes on the market.”

— Northeast Arkansas banker

Home prices trend up; so do building permits

Single-family building permits, SA thous



Source: Census Bureau.

- With strong June sales, residential real estate conditions further improved through the quarter. According to a contact in northeast Arkansas, sales of residential homes in the Jonesboro and Paragould areas remained strong. In Memphis, home prices increased steadily over the past four quarters. Realtors are forecasting an increase in activity in the last half of 2013.
- Residential construction is gradually coming back (see figure). One contact pointed out that Shelby County is one of the fast-growing areas for new home construction.
- The multifamily outlook remains strong. Vacancy rates in the second quarter dropped by 30 basis points from a year ago, and have declined for 3 years. Meanwhile, asking rents continued to climb. Currently, there are apartment buildings under construction or to be constructed.
- Memphis’s retail market showed strong growth. Vacancy rates dropped by 50 basis points from a year ago as asking rents moved upward significantly (see table).
- Commercial and industrial real estate construction continued to show improvement. There are plans for a speculative industrial project in Marshall County, MS, and a speculative industrial development is ongoing in DeSoto County, MS.

Non-residential market (Memphis, Q2-13)	Apartment	Office	Retail	Industrial
Vacancy rate (%)	8.2	24.3	12.5	14.0
Asking rent	2.3	1.0	1.3 ▲	0.8
<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 (Q2-13)	Memphis	Jackson	Jonesboro	US
CoreLogic Home Price Index	3.5	1.0 ▲	9.3 ▲	11.6
Single-family building permits	23.6	14.2	-44.2	25.4
New and existing home sales	8.5	--	--	11.4

Note: Values 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 Debt Continues Its Strong Growth Across the Zone

By Bryan Noeth, *Policy Analyst*

"We've been real pleased...We've had real heavy traffic."

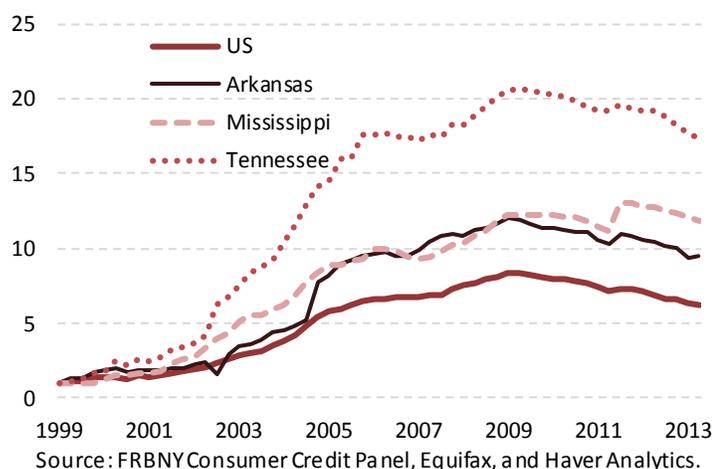
— North Mississippi furniture wholesaler

"Household budgets are tight...Don't have any idea how healthcare will affect consumers yet."

— Memphis area auto dealer

Borrowers slowly paying back HELOC loans

Average HELOC balance (indexed to 1 in 1999)



- Per capita incomes grew at an average rate of about 2 percent, a rate similar to that of the nation (see table). The sluggish growth coincided with the expiration of the payroll tax holiday.
- Across the zone, families continued to repair their balance sheets. Mortgage and credit card balances were down. Auto debt showed strong growth, continuing a trend starting since the market hit bottom in the middle of 2010.
- Delinquencies are down across most forms of debt. In particular, the percentage of mortgage and credit card balances in severe delinquency continued to trend downward.
- Anecdotal evidence suggests that recent retail sales were up in the zone, with retailers reporting that sales growth was up. Additionally, businesses said they had significant boosts during the sales-tax-free weekend.
- Borrowers were still paying down home equity lines of credit (HELOCs). However, a considerable amount of variation exists across the zone (see figure). Tennessee borrowers had large growth rates in HELOC balances prior to the crisis, although zone states had much lower per capita balances than the nation.

	Memphis Zone	Arkansas	Mississippi	Tennessee	US
Per capita personal income (Q1-13)	--	2.3 ▼	2.0 ▼	1.6 ▼	2.0 ▼
Per capita debt balances (Q2-13)					
Mortgage	-4.5	-2.5	-2.7	-4.5 ▼	-5.4
Credit card	-1.3	-1.6	-0.4	-1.8	-2.3
Auto loan	8.5	8.6	9.7	7.9	7.3
90+ day delinquency rates (Q2-13) (%)					
Mortgage	3.0	2.3 ▼	3.1 ▼	2.4 ▼	4.2 ▼
Credit card	9.2	8.3	8.1	8.4	9.4
Auto loan	4.3 ▼	2.4	4.6 ▼	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.

Banking Conditions on the Upswing in the Memphis Zone

By Michelle Neely, *Economist*

“Loan volume has increased somewhat, mainly due to an increase in consumer confidence. A few commercial customers have taken out loans to add on or build new buildings.”

— Northern Mississippi banker

“During the past three months, agriculture loans have increased, construction has also increased due to more houses being built, and, finally, consumer lending has picked up.”

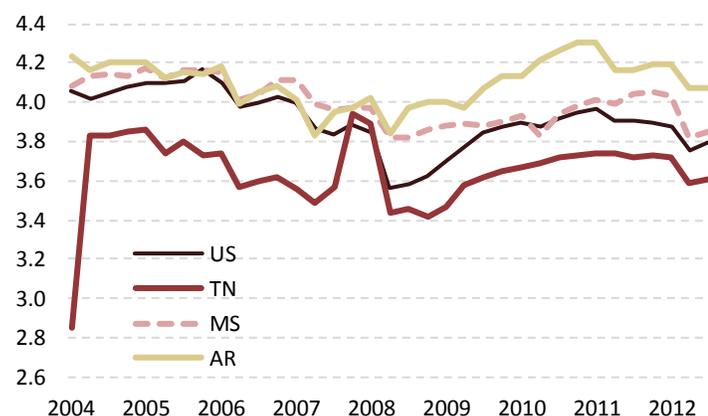
— Western Tennessee banker

“The credit standards of competitors have gone down, thus creating competition for customers.”

— Memphis area banker

The squeeze is on

Net interest margin at commercial banks, percent



Source: FRED.

- Bankers surveyed in the Memphis zone expect loan demand to stay the same or improve during the next three months.
- Return on average assets (ROA) increased 4 basis points between the first and second quarters in both Tennessee and Mississippi. In Tennessee, ROA was up 46 basis points from its year-ago level. ROA declined slightly in Arkansas, but at 1.24 percent, it remains well above that of its neighboring states and the District and U.S. peer averages.
- ROA rose in the second quarter in Tennessee and Mississippi thanks to slight increases in net interest margins (NIMs) and slight declines in loan loss provisions. In Arkansas, the small dip in ROA can be traced to a drop in noninterest income and an increase in noninterest expense. Despite the increases in the second quarter, net interest margin compression remains a significant concern in the District and nationally.
- Nonperforming loans continued their downward trend in the second quarter. The ratio of nonperforming loans to total loans declined by more than 10 basis points in each of the three states of the Memphis zone. In all three states, however, the average nonperforming loan ratios remain above the District and U.S. averages of 2.12 percent and 2.17 percent, respectively.

Banking performance (Q2-13)	Tennessee	Mississippi	Arkansas	8th District	US Peer Banks
Return on average assets	0.86 ▲	0.88	1.24 ▲	1.01	0.99
Net interest margin	3.61	3.85	4.07	3.72	3.80
Nonperforming loans / total loans	2.49	2.20 ▼	2.62	2.12	2.17 ▼
Loan loss reserve coverage ratio	69.48	74.09	72.52	79.89	80.65

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

Corn Harvest Expected to be Bountiful; Coal Production Drops Further in TN

By Lowell R. Ricketts, *Senior Research Associate*

“Corn and soybean prices continue to be very profitable for growers. Cotton, on the other hand, is not profitable due to low market prices and expensive labor-intensive harvest costs.”

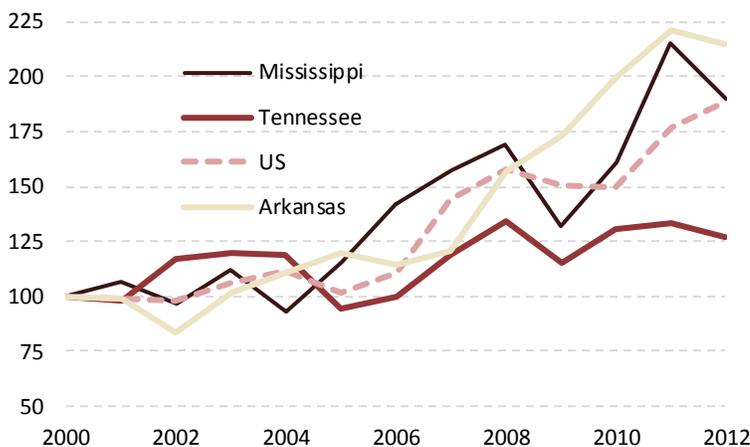
— Northwest Mississippi farmer

“Many area farmers are being forced to borrow additional funds on their operating lines of credit to compensate for the replanting of their crops due to the wet planting season.”

— Northeast Arkansas farmer

Spending on feed has climbed to new heights

Inflation adjusted index (2000=100)



Source: USDA/NASS.

- Agricultural bankers surveyed expect greater loan demand and capital expenditure in the third quarter relative to the same time last year (see right table).
- Coal production in Tennessee declined in the second quarter relative to the same time last year (see left table). The rate of the decline in production has significantly increased since our previous report. Data on mining and logging employment was not available for the state. At the same time, coal production for the nation has stabilized from consistent declines seen in our previous reports.
- 2013 corn production across the zone is expected to be considerably higher than last year’s harvest (see left table). In contrast, this year’s cotton harvest will be at least a third smaller across the zone. The Arkansas rice harvest is expected to be significantly smaller than last year. Cooler growing temperatures have contributed to the shortfall as well as flooding in the northern part and drought in the southern part of the state.
- Total spending on feed has reached recent historical highs for several of the zone states (see figure). Spending increased around the middle of the last decade and has remained elevated the past few years. Farmers are hopeful that the promising harvest will draw feed costs down in the coming year.

	Arkansas	Mississippi	Tennessee	US
Natural resources (Q2-13)				
Mining and logging employment	-7.9	1.1	---	1.8
Coal production	190.4	10.3	-18.9 ▼	0.0 ▲
Production (2013)				
Corn	33.3	13.2	57.5 ▲	27.7 ▲
Cotton	-47.6	-34.5	-30.0	-24.6
Rice	-20.9 ▼	16.4	---	-9.1
Sorghum	16.4	-13.0	---	45.3
Soybean	-0.4	-9.1	19.5	8.0

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.

Memphis zone Ag. banker's expectations Q3-13 vs. Q3-12

Loan demand	129
Available funds	100
Loan repayments	100
Farm income	100
Capital expenditure	113

Note: Values reported using a diffusion index. 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

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

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.

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: USL15NPPL. 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.

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."

The diffusion index was created by subtracting the percent of bankers that responded "decrease" from the percent that responded "increase" and then adding 100. Index values from 0 to 99 indicate overall expectations of decreasing values; index values from 101 to 200 indicate overall expectations of increasing values; and an index value of 100 indicates an even split.

Energy Information Administration (EIA)

Coal production.

Bureau of Labor Statistics (BLS)

Mining and logging employment.

USDA

Crop production, August forecast