Burgundy Book

A report on economic conditions in the St. Louis zone

Third 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.

Signs of broader recovery; businesses express positive third quarter outlook

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

The St. Louis zone's economy appeared to pick up steam in the second quarter, as employment in all of the zone's MSAs registered positive growth for the first time in five years. Business optimism also improved over the past three months, as only 11 percent of business contacts surveyed expect to reduce their payrolls, down from 20 percent from three months earlier.

The pace of manufacturing activity was slow in the second quarter, as hours worked was essentially unchanged from three months earlier. Statewide, though, manufacturing employment growth in Missouri was slightly positive and fared better than in Illinois.

The zone's unemployment rate averaged 7.4 percent in the second quarter, which was unchanged from three months earlier. Unemployment rates remained below 6 percent in three of the five zone MSAs.

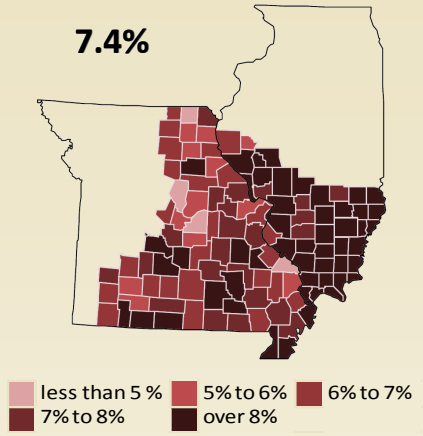
Commercial real estate conditions improved modestly over the past three months, as vacancy rates fell across most segments. On the residential side, home sales and building permits continued to post solid gains and the pace of house-price appreciation accelerated.

Household financial conditions improved modestly over the past three months, as delinquency rates continued to fall. Commercial bank profitability rebounded slightly in the St. Louis zone, though the improvement was more noticeable among banks in southern Illinois.

Corn and soybean production in Illinois and Missouri is expected to increase sharply in 2013, following last year's drought-damaged harvest.

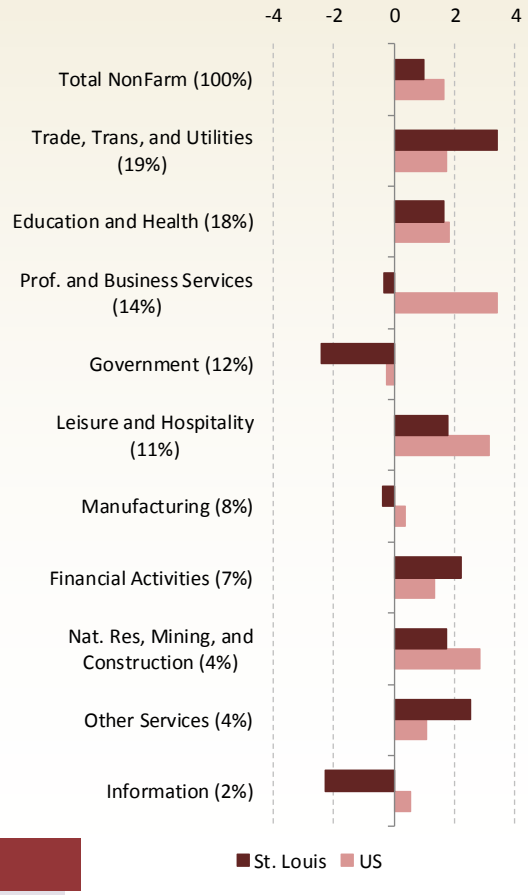
Data Snapshot

County unemployment rates (SA, Q2-13)



Nonfarm payroll employment by industry

Percent change from one year ago (Q2-13)



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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Table of Contents

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.

Labor Markets Slowly Gain Momentum; Positive Growth in All Metro Areas

By Charles S. Gascon, *Regional Economist*

"The general economy and our non government work has continued to improve at a modest pace. Qualified labor is still available at reasonable prices."

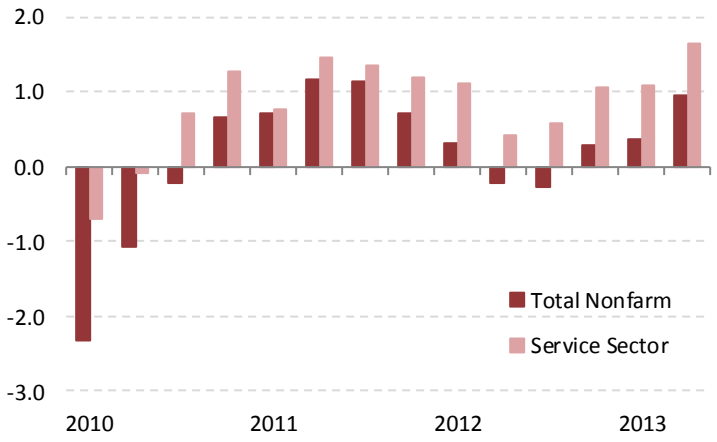
— St. Louis area architect

"We are heavily driven by tourism but are now seeing significant expansion within the health care industry."

— Branson area banker

Service sector gains boost St. Louis employment

St. Louis employment, percent change from one year ago



Source: BLS.

- For the first time in over five years, employment growth in all of the zone's metropolitan statistical areas was positive (see table). The strongest gains were in Springfield, MO, with year-over-year growth of 2.4 percent.
- Evidence from a survey of business contacts suggests modest employment growth during the next three months: 37 percent of business contacts expect to increase payrolls, while less than 11 percent expect to reduce payrolls.
- Shrinking government payrolls continue to slow employment gains across the zone. With the exception of Springfield, MO, the declines are noticeably more severe than the national rate of –0.3 percent.
- A significant uptick in service sector hiring in the second quarter pushed the total nonfarm rate of growth in the St. Louis metro area to 1.0 percent, its highest level in almost two years (see figure).
- Unemployment rates in the second quarter remained essentially unchanged across the zone and still remain below the national rate of 7.6 percent (see table).
- Weekly earnings growth is modest, with all metro areas except Springfield reporting positive growth. Half of businesses surveyed expect to increase wages during the next three months; the other half expect wages to remain unchanged.

	St. Louis	Springfield	Jefferson City	Columbia	Cape Girardeau	US
Unemployment rate (Q2-13) (%)	7.4	5.8	5.6	4.8	6.4	7.6
Nonfarm employment (Q2-13)	1.0	2.4	0.5	0.3	0.6	1.6
Goods-producing sector	0.3	1.4	5.5 ▲	4.1	0.0	1.2
Private service-providing sector	1.7	2.8	0.4	3.3	1.4	2.2
Government sector	-2.4	0.9	-0.9	-6.1 ▲	-2.4	-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 Recovery Slowed in the Second Quarter

By Yang Liu, *Senior Research Associate*

"We face many challenges including a difficult competitive environment and unfavorable currency headwinds."

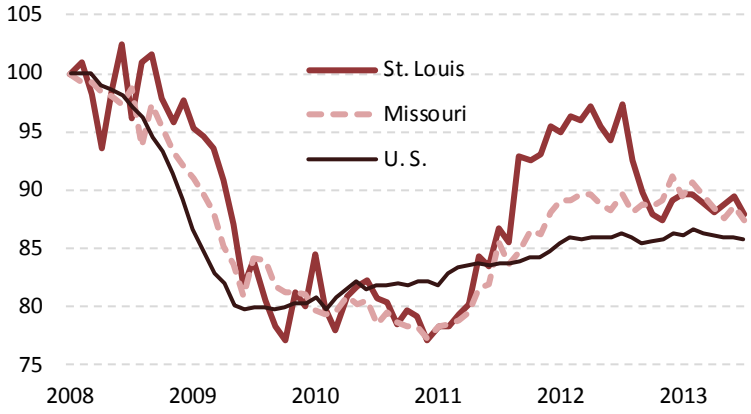
— St. Louis area manufacturer

"Business conditions in the second quarter remained challenging, but I am optimistic regarding our prospects for growth through the remainder of this year and into next."

— St. Louis area manufacturer

Aggregated Weekly Hours indicates weaker manufacturing growth in St. Louis

Index of total hours, (Jan 2008= 100)



Source: BLS.

- St. Louis and Missouri both added manufacturing jobs in the second quarter of 2013. Missouri's durable goods sector was a particular strength. Still, the 400 additional jobs in St. Louis was not enough to offset earlier losses, translating into a slight decline in year-over-year growth; while Missouri's 1,900 new jobs resulted in 0.7 percent growth compared with one year ago (see table).
- Anecdotal information suggests that poor export growth is hurting St. Louis manufacturing output and employment.
- St. Louis manufacturing labor input, measured as average weekly hours worked multiplied by employment, decreased considerably since the previous summer. It is currently 12 percent lower than the prerecession level. After a December 2012 peak, Missouri's labor input has been on a downward trend. Despite recent declines, St. Louis' and Missouri's manufacturing labor input both remained moderately higher than the nation's (see figure).
- Missouri's and Illinois' manufacturing earnings growth dropped significantly in the first quarter of 2013. Their corresponding year-over-year growth rates were below the national pace (see table).

	St. Louis	Missouri	Illinois	US
Manufacturing employment (Q2-13)	-0.4	0.7	-0.5	0.4
Durable goods	0.7	1.7 ▲	-0.4	0.6
Nondurable goods	-1.9	-0.5	-0.5	0.1
Manufacturing earnings (Q1-13)	--	4.6 ▼	2.6 ▼	6.0 ▼
Durable goods	--	5.9	4.4 ▼	7.4 ▼
Nondurable goods	--	2.7	-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.

Positive Trends Continue in the Residential Market

By Li Li, *Research Associate*

"Basically the [residential] market is stabilizing based on steady demand, and very low inventory, with little prospect for short-term supply increase."

— St. Louis area realtor

"[Office] construction will remain limited to build-to-suit and owner-occupied developments."

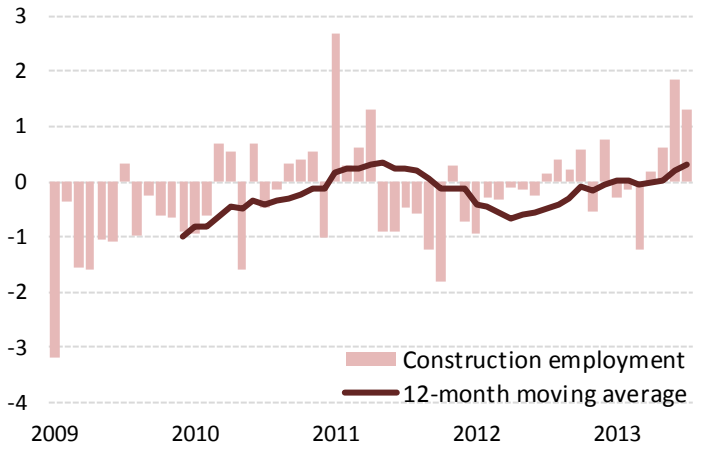
— St. Louis area broker

"We are seeing some upswing with residential real estate, more new home purchases, more construction loans. "

— St. Louis area banker

St. Louis construction employment increased for 4 months

Percent change from one year ago, monthly



Source: BLS.

- The housing market continues to look promising: Home prices increased across MSAs (see table). The outlook for a continued housing expansion remains positive for the second half of 2013.
- There appeared to be a demand shift from apartment units to residential homes. Data shows that the St. Louis homeownership rate in this quarter increased by 4.5 percent from a year ago. Meanwhile, the growth rate of apartment asking rents dropped significantly (see table).
- With single-family building permits steadily increasing (see table), home builders have started to consider hiring more workers and data indicate that construction employment has increased for four consecutive months (see figure).
- The industrial real estate market showed positive signs. Vacancy rates dropped from 9 percent a year ago to 8.2 percent. Leasing activities increased through the second quarter. These improvements are spurring industrial construction. For example, a major new distribution facility is to break ground this year.
- The retail real estate market experienced moderate growth for another quarter. Vacancy rates were unchanged from last quarter. Asking rents inched up on a year-over-year basis.

Non-residential market (St. Louis, Q2-13)	Apartment	Office	Retail	Industrial
Vacancy rate (%)	5.1	18.5	12.5	8.2
Asking rent *Percent change from one year ago*	1.9 ▼	0.6	0.3 ▲	-3.6

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

Residential market (Q2-13)	St. Louis	Springfield	Jefferson City	Columbia	US
CoreLogic Home Price Index	2.0 ▲	7.5 ▲	--	1.4 ▲	11.6
Single-family building permits	17.5	45.3	33.3 ▲	49.0 ▲	25.4
New and existing home sales	11.7	--	--	--	11.4

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.

Delinquencies are Down Across the Zone

By Bryan Noeth, *Policy Analyst*

"Foot traffic is way down, the only thing that I can think of given an improving economy is [the impact of fiscal policy] on our customers pocket-books… every-one has a budget yes?"

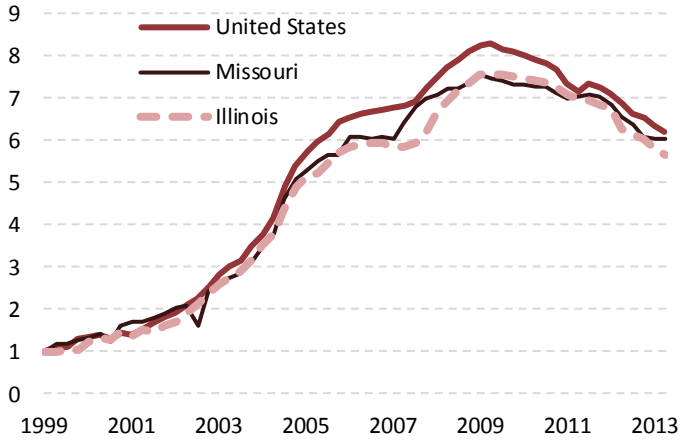
—St. Louis area auto dealer

"I hear from many potential buyers that they are up-side down/underwater with their current mortgage."

—St. Louis area relator

Zone states still shedding home equity loans

Average HELOC balance (Indexed to 1 in 1999)



Source: FRBNY Consumer Credit Panel, Equifax, and Haver Analytics.

- Income growth across the St. Louis zone and the nation was sluggish in the first quarter of the year, partially due to the expiration of the payroll tax holiday. Although Missouri had slow income growth, it outpaced the growth of the nation overall.
- Households continued to repair their balance sheets. Percentages of balances in severe delin-quency decreased for mortgages, credit cards, and auto loans.
- Households also continued to shed mortgage and credit card debt. In Illinois, where house price increases were especially pronounced, house-holds have been lowering their average balances at a faster rate than the United States.
- Home equity lines of credit (HELOCs) were popular prior to the housing downturn when originations ground to a halt (see figure). The boom and bust in HELOC lending was similar in percentage terms between the zone and the nation. However, in nominal terms, the average HELOC balance per capita was much less in Missouri than in Illinois or the nation, likely stemming from differences in home values between the states.

	St. Louis Zone	Missouri	Illinois	US
Per capita personal income (Q1-13)	--	2.7 ▼	1.7 ▼	2.0 ▼
Per capita debt balances (Q2-13)				
Mortgage	-3.2	-4.4	-5.9	-5.4
Credit card	-1.7 ▲	-2.1 ▲	-1.4	-2.3
Auto loan	7.1	7.1	6.7	7.3
90+ day delinquency rates (Q2-13) (%)				
Mortgage	2.1 ▼	2.1 ▼	5.2 ▼	4.2 ▼
Credit card	7.6	8.4	8.5 ▼	9.4
Auto loan	2.4 ▼	3.0 ▼	2.7 ▼	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.

Missouri, Southern Illinois Banks Holding Their Own Despite Margin Squeeze

By Michelle Neely, *Economist*

"We've tried to maintain margins, but we're having to become cheaper on the price of our loans to stay competitive."

—St. Louis Area banker

"Creditworthiness has improved in the customers we see. There's more equity, more liquidity. Businesses aren't quite as leveraged, and it seems to be a conscious decision on their part."

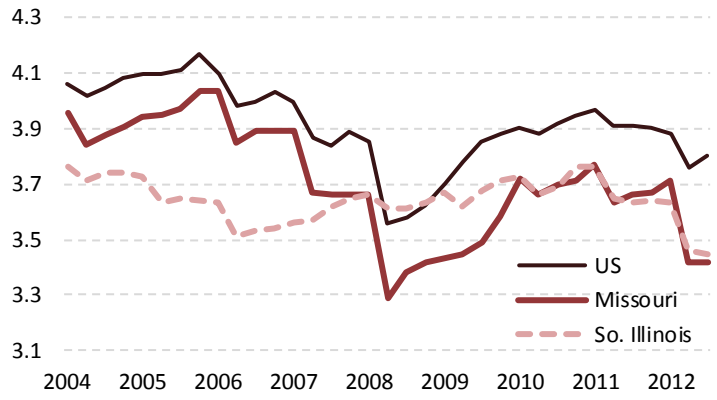
—Southeast Missouri banker

"Competitors seem to be taking on too much interest rate risk—many are offering low, fixed rates on loans for too long a period, in our opinion."

—St. Louis Area banker

Margins under pressure

Net interest margin at commercial banks, percent



Source: FRED.

- Most bankers surveyed in the St. Louis zone expect loan demand to increase during the next three months.
- Profitability rebounded slightly in the western half of the St. Louis zone, as return on average assets (ROA) rose 2 basis points from its first-quarter level to 0.97 percent. Banks in southern Illinois performed slightly better, posting an average ROA of 1.00 percent. ROA in both states nearly matched the District and U.S. peer ratios of 1.01 percent and 0.99 percent, respectively.
- Net interest margins (NIMs) were essentially unchanged in the St. Louis zone in the second quarter. The average NIM in Missouri and southern Illinois trailed the District and U.S. peer averages by a significant amount. Declining loan loss provisions contributed to the small profit bump.
- Nonperforming loans fell again in Missouri and southern Illinois for the fifth straight quarter. The average nonperforming loan rate in each state is well below average rates in both the District and the U.S. Banks in Missouri and southern Illinois have, on average, more than a dollar set aside for every dollar of nonperforming loans, compared with the 80 cents reserved by the District and U.S. peers.

Banking performance (Q2-13)	Missouri	Illinois	So. Illinois	8th District	US Peer Banks
Return on average assets	0.97	0.71	1.00	1.01	0.99
Net interest margin	3.42 ▼	2.74 ▼	3.45	3.72	3.80
Nonperforming loans / total loans	1.52	2.59 ▼	1.36	2.12	2.17 ▼
Loan loss reserve coverage ratio	113.82	64.86	114.71	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; Farmers Hope It Will Lower Feed Costs

By Lowell R. Ricketts, *Senior Research Associate*

"Agriculture has been performing well...The income agriculture is seeing is then filtering though the rest of the area's businesses."

— Southeast Missouri banker

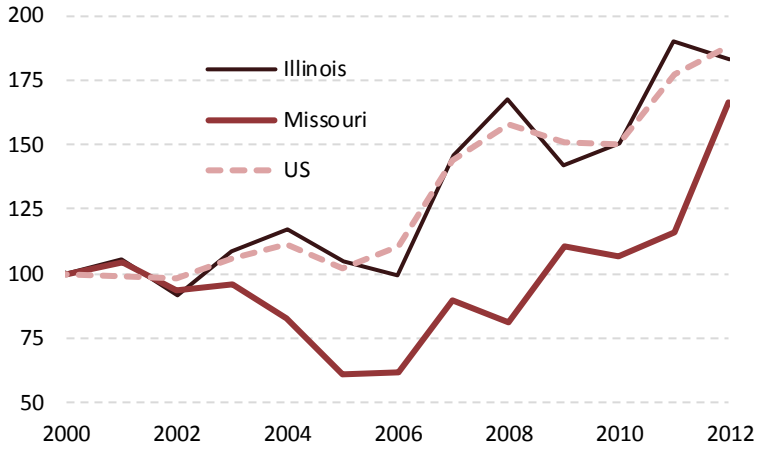
"I don't think the increase in agriculture land prices is a bubble. My understanding is many farmers are paying cash and aren't increasing their debt load with their purchases."

— St. Louis area agricultural banker

- Agricultural bankers surveyed in the zone expect the demand for loans and the availability of loanable funds to increase in the third quarter relative to the same time last year (see right table). In contrast, respondents expect a drop in farm income over the same period.
- Prospective corn production is expected to be considerably higher in the zone relative to last year's drought-damaged harvest (see left table). Furthermore, sorghum production in Missouri is expected to double last year's harvest. Similar to all states in our District, cotton production in Missouri is projected to be lower this year, as farmers substituted corn and soybeans in place of cotton.
- Coal production declined for both Illinois and Missouri relative to the same time last year (see left table). The decline in coal production for Illinois marks the first year-over-year decline in production since the third quarter of 2010 according to the latest data.
- Total spending on feed has reached a recent historical high in the zone states (see figure). Feed costs began to rise around the middle of the past decade and have continued to do so in recent years. Farmers are hopeful that the upcoming bountiful harvest will push feed costs down in the coming year.

Spending on feed has climbed to new heights

Inflation adjusted index (2000=100)



Source: USDA/NASS.

	Illinois	Missouri	US
Natural resources (Q2-13)			
Mining and logging employment	0.3	-0.8	1.8
Coal production	-13.1 ▼	-17.2	0.0 ▲
Production (2013)			
Corn	52.7 ▲	70.7	27.7 ▲
Cotton	---	-17.9	-24.6
Rice	---	-9.0	-9.1
Sorghum	-23.3	105.6	45.3
Soybean	14.6	41.8	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.

St. Louis zone Ag. bankers' expectations Q3-13 vs. Q3-12

	Lower	Higher	Net
Loan demand	5	23	18
Available funds	5	18	14
Loan repayments	10	10	0
Farm income	29	17	-13
Capital expenditure	17	17	0

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

Cover Page

Sources

Bureau of Labor Statistics

Unemployment rate, nonfarm payroll employment.

Labor Markets

Table Sources

Bureau of Labor Statistics

Unemployment rate. Nonfarm employment and contributions by sector.

Notes

Goods-producing sector comprises the manufacturing and natural resources, mining, and construction sectors.

Private Service Providing sector includes the following 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

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.

Chart Sources

Bureau of Labor Statistics

Office employment is the sum of employment in professional and business services, financial activities, and information services.

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 companies or bank loans. Credit cards are revolving accounts at banks, bankcard companies, national credit card companies, credit unions, and savings and loan associations.

Haver Analytics

Per capita income.

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 the Federal Reserve bank of St. Louis Economic Database FRED® .

Notes

Loan loss provisions are expenses banks set aside as an allowance for bad loans.

Nonperforming loans are those loans managers classify as 90 days or more past due or nonaccrual, which means they are more likely to default.

Loan loss coverage ratio is loan loss reserves divided by non performing loans.

So. Illinois refers to the portion of Illinois within the eighth district.

US peer banks are those commercial banks with assets of less than $15 billion.

Due to the seasonal nature of bank return on average assets and net interest margin, the **arrows** in the table denote significant changes from one year ago.

Agriculture and Natural Resources

Table Sources

Federal Reserve Bank of St. Louis Survey of Agricultural Credit Conditions

Agriculture Bankers' expectations of loan demand, available funds, loan repayment rates, farm income, and capital 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, August forecast