



Burgundy Book

A report on economic conditions in the Memphis zone

Fourth Quarter 2013

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.

Business Contacts Report Marginally Positive Outlook for 2014

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

A November survey of business contacts suggests more optimism than pessimism about the pace of economic activity in 2014. Forty-five percent of Memphis zone respondents believe that conditions will be better next year, while 25 percent believe conditions will be worse.

The zone's unemployment rate averaged 9.6 percent in the third quarter, down slightly from the previous quarter (10.0 percent). Labor market conditions generally remain the strongest in the Jonesboro MSA.

Anecdotal reports suggest some preference among manufacturers to delay planned capital outlays. Three-quarters of those firms surveyed plan to keep capital expenditures unchanged over the next three months.

Residential housing conditions are mostly positive; on the commercial side, the apartment and industrial markets continued to improve at a moderate pace.

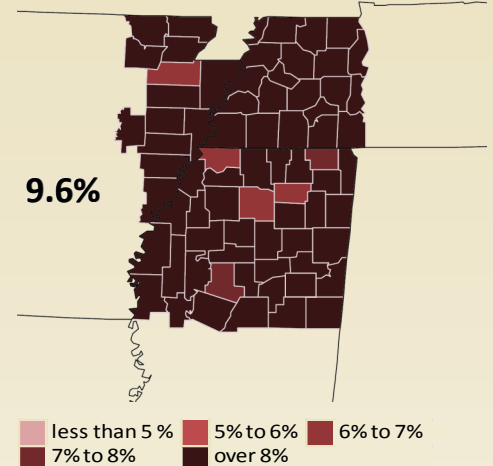
Real per capita incomes in Arkansas, Mississippi, and Tennessee grew at about the same rate as the nation over the past year. Families aggressively reduced their credit card balances in the third quarter.

Nonperforming loans at Memphis banks fell again in the third quarter. Memphis-zone bankers expect loan demand to stay the same or improve during the next three months.

This year's corn and soybean harvest exceeded the expectations of many in the farm sector. A late-fall survey of agricultural banks revealed that proportionately more bankers expect farm income, loan repayments, and capital expenditure to increase over last year's levels.

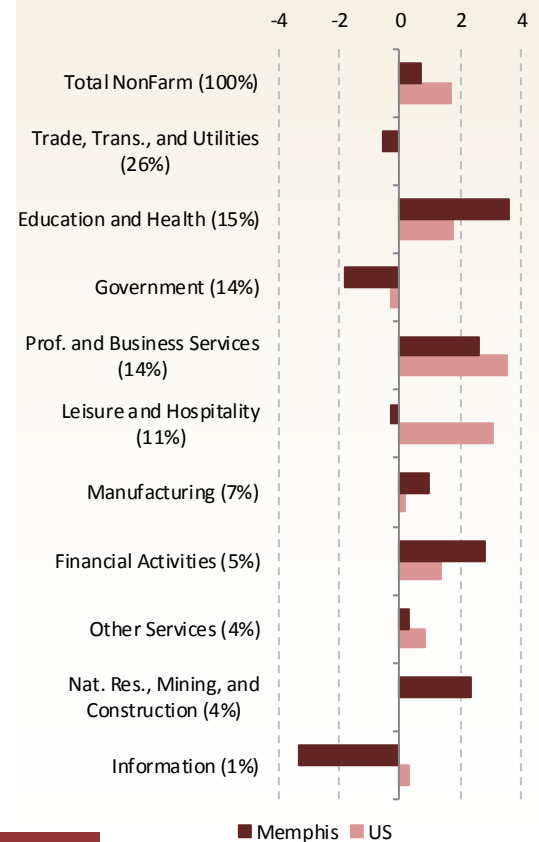
Data Snapshot

County unemployment rates (SA, Q3-13)



Nonfarm payroll employment by industry

Percent change from one year ago (Q3-13)



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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Table of Contents

Labor Markets	3
Manufacturing.....	4
Real Estate and Construction	5
Household Sector.....	6
Banking and Finance	7
Agriculture and Natural Resources	8
Appendix	9

Join our Panel of Business Contacts

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

Business Contacts Expect Few Changes in Labor Market During 2014

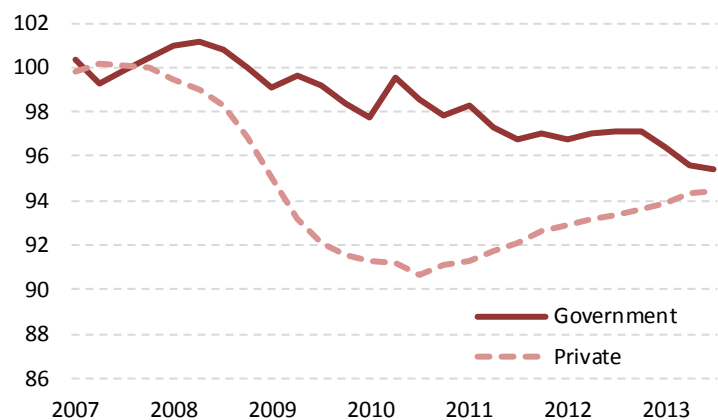
By Maria A. Arias, *Research Analyst*

“Limited skilled candidate pool in the market, recruitment costs and high salary expectations are affecting hiring.”

—Memphis area printer

Government employment continues to decline in Memphis

Payroll employment, SA (Index 2007=100)



Source: BLS.

- Unemployment rates across the zone’s MSAs were down slightly from the previous quarter. At the same time, employment growth continued to be slow in Memphis and Jackson, yet Jonesboro experienced moderately strong growth (see table).
- Negative government job growth continues to hold back overall Memphis employment: State government employment declined by 5 percent during the previous year, while federal and local government employment declined by 1 percent during the same period (see table and figure).
- Anecdotal evidence suggests the local labor market conditions will remain about the same or slightly better through 2014. The majority of business contacts surveyed expect employment and average weekly hours to stay the same (67 percent), while 25 and 21 percent of contacts expect employment and average weekly hours to increase, respectively.
- Survey results suggest labor costs will continue to rise throughout next year: 50 percent of the zone’s contacts expect labor costs to increase and 46 percent expect they will remain unchanged as during 2013. Contacts expressed concerns surrounding the Affordable Care Act’s uncertain effect on healthcare costs as well as the availability of qualified employees.

	Memphis	Jackson	Jonesboro, AR	US
Unemployment rate (Q3-13) (%)	9.4	8.7	6.8	7.3
Nonfarm employment (Q3-13)	0.7	1.1	4.5	1.7
Goods-producing sector	1.4	-4.0	6.7	1.2
Private service-providing sector	1.1	2.7	4.6	2.2
Government sector	-1.8	1.1	2.0	-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 Contacts Reserved about Capital Expenditure

By Yang Liu, Senior Research Associate

“We are holding off on capital investments through the winter in order to get into a better position to self-finance.”

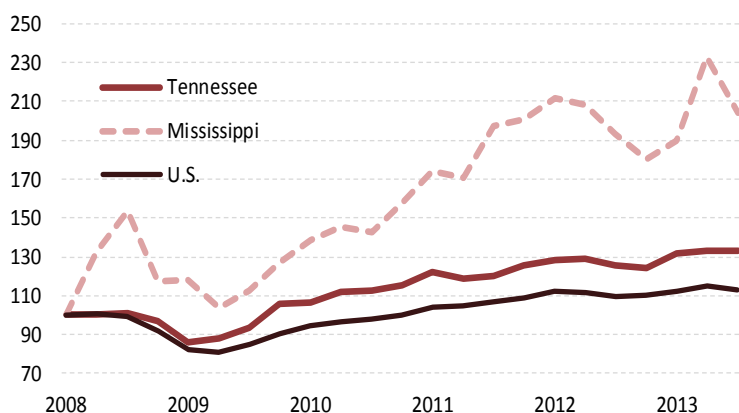
— Memphis area transportation executive

“No local companies are wanting to expand. They are conservative with spending because they are uncertain about the economy.”

— Northern Mississippi manufacturer

Manufacturing exports in Mississippi have been booming since 2009

Real manufacturing exports, 2008 Q1 = 100, SA



Source: World Institute for Strategic Economic Research.

- According to anecdotal information, many companies have been reluctant to invest in plants and equipment since the recession ended. Six of eight manufacturing contacts plan to keep capital spending unchanged in the next three months.
- Compared with one year ago, Memphis and Tennessee both reported modest job growth in manufacturing. Mississippi experienced no growth in manufacturing jobs in the third quarter. But due to the jobs losses in previous quarters, its year-over-year growth declined by 0.6 percent (see table).
- Mississippi’s real manufacturing exports dropped significantly from its peak in the second quarter. However, Mississippi’s exports remained twice as high as their prerecession level. Tennessee’s manufacturing exports have been growing steadily since 2009. It is currently 20 percent above the national pace (see figure).
- Manufacturing earnings growth remained positive during the second quarter. However, Tennessee’s year-over-year manufacturing growth slowed significantly due to weak earnings in the durable goods sector (see table).

	Memphis	Tennessee	Mississippi	US
Manufacturing employment (Q3-13)	1.0	2.0	-0.6	0.1
Durable goods	1.4	2.8	-0.7	0.4
Nondurable goods	0.5	0.6	-0.5	-0.5
Manufacturing earnings (Q2-13)	--	0.2 ▼	2.9	1.7
Durable goods	--	-3.2 ▼	1.4	1.6
Nondurable goods	--	5.8	6.2	2.0

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.

Residential Housing Market Is Mixed

By Li Li, Senior Research Associate

“Foreclosed homes are selling because there has been no new construction for a few years. As a result, the housing inventory is low. Any residential construction that is occurring is a pre-sale. The value of home lots is starting to increase.”

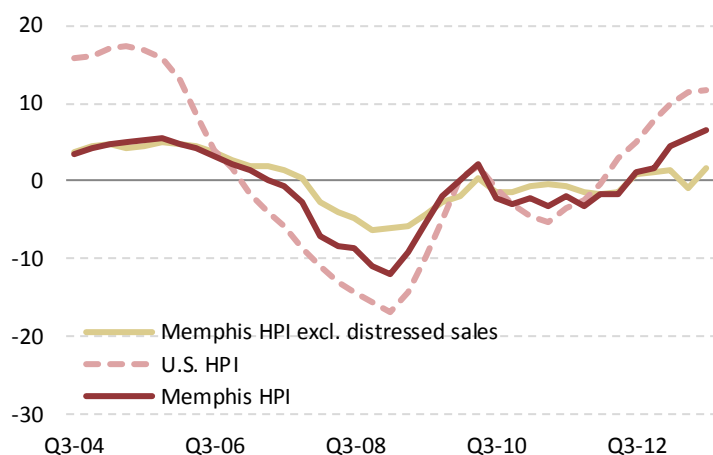
— Holly Springs area banker

“The real estate market has been stagnant for residential and commercial properties.”

— Jackson area banker

Home Prices in Memphis are trending up in Q3

CoreLogic Home Price Index (HPI), percent change from a year ago



Source: CoreLogic.

- Residential housing conditions are mixed in Memphis. Home prices increased by 6.5 percent from last year; however, home prices excluding distressed sales were stagnant: The average growth rate of the past three quarters is about 0.8 percent (see figure). A contact in Memphis also reported that less than half of the zip codes in the area had an increase in overall sales activity.
- On the residential supply side, contacts in Memphis noted low inventories in September and October, and they expected a lower level of new residential construction in November and December 2013. Single-family building permits remained relatively unchanged from the previous 2 quarters.
- The apartment real estate market continued to improve at a moderate pace. Vacancy rates remained the same as last quarter, while asking rents continued to increase, though at a slightly lower growth rate (see table).
- On the construction side, the industrial market is improving. In particular, DeSoto County, Mississippi, continues to see new construction industrial space.

Non-residential market (Memphis, Q3-13)	Apartment	Office	Retail	Industrial
Vacancy rate (%)	8.2	23.7 ▼	12.1 ▼	13.5
Asking rent Percent change from one year ago	2.0	0.5	1.3	-0.8

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

Residential market (Q3-13)	Memphis	Jackson	Jonesboro	US
CoreLogic Home Price Index	6.5	1.5	2.4 ▼	11.8
Single-family building permits	19.9	13.8	-39.1	23.3
New and existing home sales	9.9	--	--	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.

Consumers Reduce Debt Across the Zone

By E. Katarina Vermann, *Senior Research Associate*

“Foot traffic has been steady but sales dollars are dropping somewhat. Not as much disposable income available.”

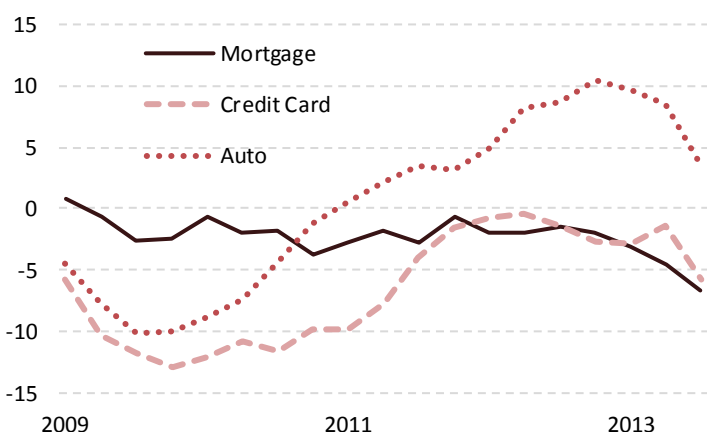
– Memphis area retailer

“Both August and September were very good, but the negative press associated with the federal government’s inability to resolve the government shutdown more or less cut business off in early October.”

– Memphis area auto dealer

Borrowers slowly paying down debt

Percent change from one year ago



Source: FRBNY Consumer Credit Panel and Equifax based on author's calculations.

- Per capita incomes grew at a slower rate (1.8 percent, see table) in the second quarter of 2013 relative to the first quarter of 2013 (2.3 percent).
- Families more aggressively paid down their credit cards. Credit card balances were down relative to the same period last year and relative to the previous quarter (see table). However, debt may increase in the fourth quarter retailers are optimistic about holiday sales.
- Mortgage debt decreased 6.6 percent this quarter relative to the same quarter last year. 90+ day delinquency rates for mortgages also fell during this time. Anecdotal evidence suggests that the decrease in debt is attributable to decreases in demand for mortgages.
- Auto loans increased at a slower rate this quarter than they did last quarter. Anecdotal evidence from bankers suggests that demand for auto loans was slightly lower in September and October. The majority of contacts anticipate the demand for auto loans to remain the same in November and December relative to the same time last year.

	Memphis Zone	Arkansas	Mississippi	Tennessee	US
Per capita personal income (Q2-13)	--	1.8	1.7	1.9	1.9
Per capita debt balances (Q3-13)					
Mortgage	-6.6 ▼	-4.3	-5.2	-5.9	-6.8
Credit card	-5.8 ▼	-4.7 ▼	-5.9 ▼	-5.4 ▼	-5.4 ▼
Auto loan	3.5 ▼	4.7	5.4	3.8 ▼	4.3
90+ day delinquency rates (Q3-13) (%)					
Mortgage	2.9	2.2	3.0	2.2	3.8 ▼
Credit card	8.7	7.9	7.4 ▼	8.0 ▼	9.1
Auto loan	4.2	2.2	4.7	3.3	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.

Banking Conditions Mostly Steady in Memphis Zone

By Michelle Neely, *Economist*

“Customers have paid down debt and are now willing to proceed cautiously with incurring new debt.”

– Western Tennessee banker

“Agricultural loans are down 8 to 10 percent from this time last year. Farmers had another good year and are paying off loans at a faster pace than normal.”

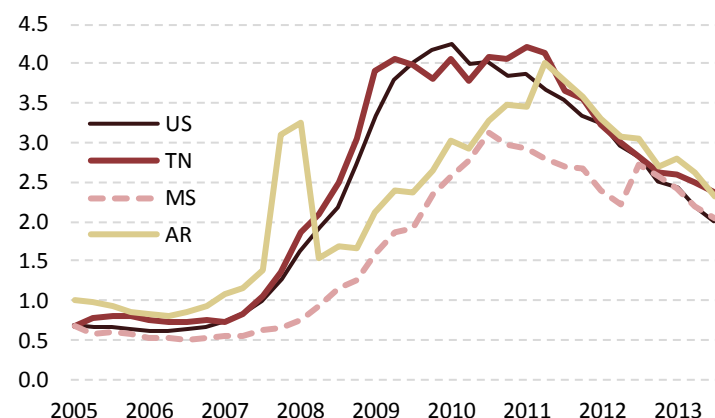
– Northwest Mississippi banker

“Business remains tight. The market is very competitive, with new business coming from customers moving from one bank to another.”

– Northeast Mississippi banker

Problem loans on the decline

Nonperforming loan ratio 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 1 basis point in Mississippi and declined 21 basis points in Tennessee between the second and third quarters.* Despite the quarterly decline, ROA at Kentucky banks was still up 13 basis points from a year ago. ROA rebounded a bit in the third quarter in Arkansas, rising 2 basis points to 1.25 percent, 12 basis points above its year-ago level.
- ROA rose in the third quarter in Arkansas and Mississippi because of modest increases in net interest margins (NIMs). The average NIM also edged up in Tennessee in the third quarter, but that was offset by a rather substantial increase in noninterest expense, causing the drop in ROA. Net interest margin compression is still being felt throughout the region, as margins are still down from their year-ago levels.
- Nonperforming loans fell again in the third quarter. The reductions were widespread, occurring in all three main categories of loans—commercial and industrial, consumer and real estate—in all three states in the Memphis region.

* This decline in ROA is driven by First Tennessee Bank of Memphis.

Banking performance (Q3-13)	Tennessee	Mississippi	Arkansas	8th District	US Peer Banks
Return on average assets	0.65	0.89	1.25	0.94	1.01
Net interest margin	3.65	3.89	4.11	3.74	3.85
Nonperforming loans / total loans	2.38	2.03 ▼	2.31 ▼	1.95 ▼	2.01 ▼
Loan loss reserve coverage ratio	70.59	76.35	80.95	79.89	85.07

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

Zone Experiences Strong Harvest Characterized by Record Yields and Production

By Lowell R. Ricketts, *Senior Research Associate*

“No one really expected the record yields we have been seeing, given the delayed planting and drought conditions. The cooler weather really saved the crops.”

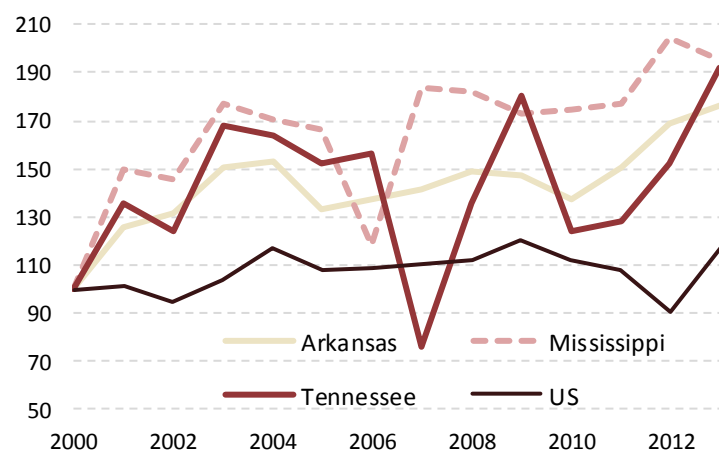
— Northwest Mississippi farmer

“I don’t think we’re going to see the profits we saw last year just because prices have come down.”

— Northeast Mississippi agricultural economist

Soybean yields exhibit remarkable growth, historic highs

Indexed value, 2000=100



Source: USDA/NASS.

- Agricultural bankers surveyed in the zone expect positive developments in the fourth quarter relative to the same time last year (see right table). Bankers expect farm income, loan repayments, available funds, and capital expenditure to increase over last year’s levels. In contrast, bankers foresee weaker demand for new loans.
- This year’s harvest exceeded many expectations with significant production gains for several crops (see left table). Corn production increased by an average 32 percent across the zone states; very close to the national increase. Tennessee approximately doubled that growth with a total corn harvest 60 percent larger than last year. Severe drops in cotton production were expected as 37 percent fewer acres were planted this year.
- Soybean yields in the zone have exhibited robust growth over the past 13 years (see left figure). The respective yields for soybeans in 2013 were historical records for both Arkansas and Tennessee, while Mississippi came close to matching last year’s record. Yield growth has far exceeded the national average.
- Previous quarterly gains in Tennessee coal production (see left table) have largely disappeared as third quarter levels are below those seen last year. Arkansas production appeared to fall precipitously. However, overall coal production in Arkansas is quite small and prone to extremely large swings, percentage-wise.

	Arkansas	Mississippi	Tennessee	US
Natural resources (Q3-13)				
Mining and logging employment	-0.6 ▲	1.8	---	3.3
Coal production	-32.6	12.7	4.6 ▼	1.8
Production (2013)				
Corn	25.8	11.8	59.6 ▲	29.8 ▲
Cotton	-46.0	-32.5	-42.1	-24.3
Rice	-15.8 ▼	4.2	---	-5.4
Sorghum	-3.0	25.4	---	68.3
Soybean	6.0	-3.0	56.1	7.4

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 Q4-13 vs. Q4-12

Loan demand	86
Available funds	114
Loan repayments	143
Farm income	150
Capital expenditure	117

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

Real manufacturing exports are defined as total dollar amount of exports by the manufacturing industries, deflated by the chained price index for exports of goods and services.

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.

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

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 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

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