Burgundy Book

A report on economic conditions in the St. Louis zone

Fourth 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 the Region's Economy to Improve in 2014

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

Business contacts surveyed in the St. Louis zone expressed moderate optimism about local economic conditions in 2014. A little more than half believe that the economy will improve next year, while only about a quarter expect conditions will worsen.

Employment growth throughout the zone's MSAs continues to be positive. The zone's unemployment rate averaged 7.1 percent in the third quarter, down 0.2 percentage points from the second quarter.

Missouri and the St. Louis MSA added manufacturing jobs in the third quarter of 2013, but the year-to-year gains have been more modest—or flat in the case of St. Louis. Anecdotal reports suggest that the pace of manufacturing activity has been tempered by poor export growth.

Single-family building permits continued to increase across all major MSAs in the third quarter, and house prices moved higher. The consensus outlook for 2014 is cautiously positive.

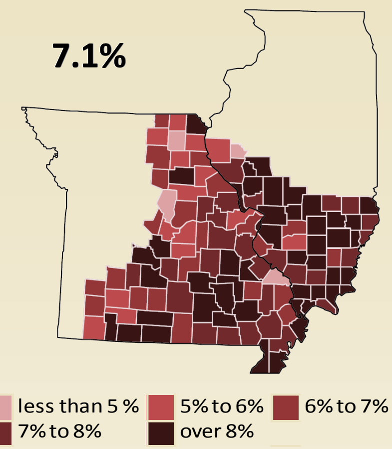
Although growth of per capita personal income in the second quarter for Missouri and Illinois outpaced that of the nation, scattered data and anecdotal evidence suggest that consumers remained cautious spenders in the third quarter.

Bank profitability was essentially unchanged in the St. Louis zone in the third quarter. Most bankers expect loan demand to stay the same or increase during the next three months.

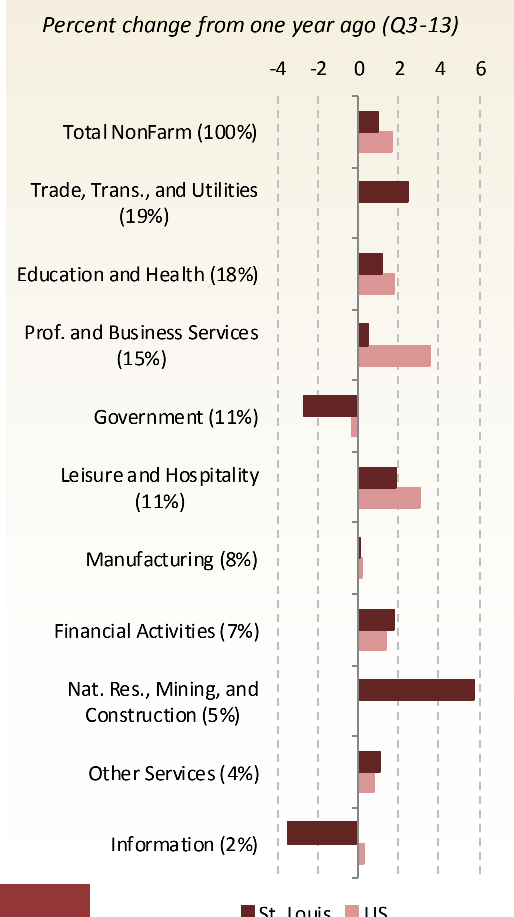
Corn, sorghum, and soybean production was exceptional for both Illinois and Missouri in 2013 compared with last year's harvest.

Data Snapshot

County unemployment rates (SA, Q3-13)



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.

For more information contact the St. Louis office:

Charles Gascon
charles.s.gascon@stls.frb.org

Media inquiries:
mediainquiries@stls.frb.org

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 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.

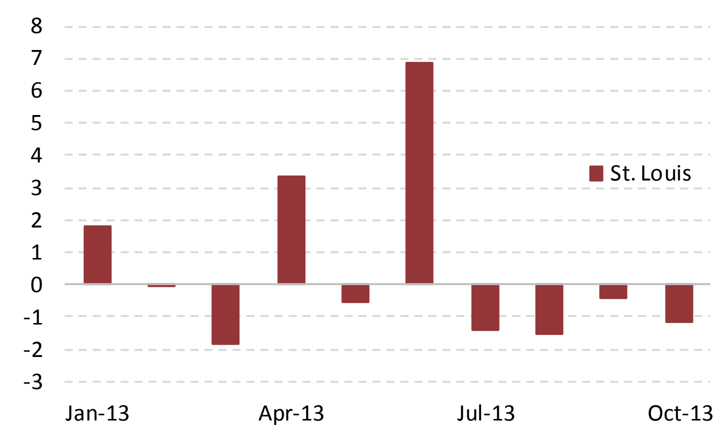
Business Contacts Expect Higher Labor Costs Through the St. Louis Zone

By Maria A. Arias, *Research Analyst*

> *"We are finding candidates are still available but the cost to hire new people has increased slightly from a year ago and significantly from two/three years ago."*
>
> —St. Louis area banker
>
> *"The economy is soft, no question about it. [It is] trending barely positive, but still not good."*
>
> —St. Louis area manufacturer

Employment growth slows during second half of 2013

Monthly changes in nonfarm payroll employment, SA (Thousands)



Source: BLS.

- Employment throughout the zone's MSAs continues to be higher than one year ago, though it has not changed significantly from the previous quarter. These data confirm anecdotal information about slow employment growth during the previous months. For next year, 67 percent of contacts expect employment to remain the same and 27 percent expect an increase in payrolls; the remaining contacts expect a decrease.
- Both Springfield and Cape Girardeau saw a slight decline in growth, while St. Louis and Jefferson City employment remained the same. Columbia is the exception, where nonfarm employment grew by more than 2 percentage points from the second quarter (see table).
- Results from business contacts surveyed suggest unit labor costs are expected to continue increasing during 2014, compared with 2013: 60 percent of the zone's contacts expect unit labor costs to increase and 38 percent expect them to stay relatively stable through next year.
- Although unit labor costs have increased, wages have remained flat. Average weekly earnings increased at an annual rate of about 4.5 percent during the second half of 2012 and the first half of 2013 in the St. Louis MSA. Annual earnings growth has significantly slowed since, increasing by less than one percentage point during the past year.

	St. Louis	Springfield	Jefferson City	Columbia	Cape Girardeau	US
Unemployment rate (Q3-13) (%)	7.3	5.8	5.7	4.8	6.6	7.3
Nonfarm employment (Q3-13)	1.0	1.7	0.5	2.4 ▲	0.3	1.7
Goods-producing sector	2.0 ▲	-0.3	7.6	5.7	0.5	1.2
Private service-providing sector	1.4	2.3	-0.2	2.8	0.5	2.2
Government sector	-2.7	-0.1	-1.0	0.7 ▲	-1.1	-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 Were Mixed in the Third Quarter

By Yang Liu, *Senior Research Associate*

"We expect to realize ongoing benefits as the economy strengthens and raw material prices stabilize."

— St. Louis area manufacturer

"Hiring will be replacing retired personnel, not for expansion. Capital spending will be replacing aging infrastructure, not for growth."

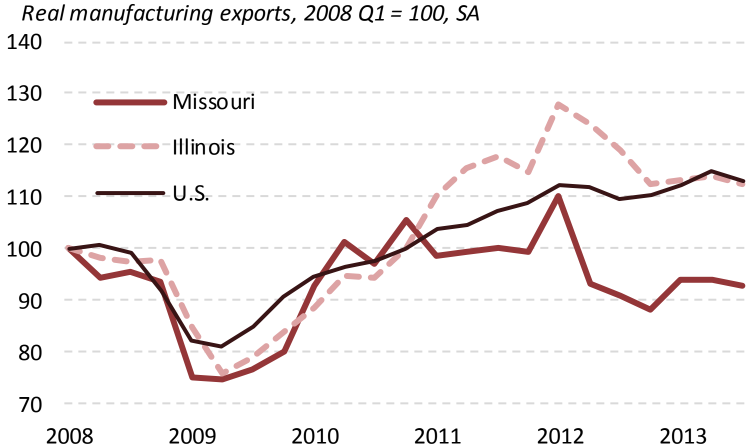
— St. Louis area transportation executive

"We're seeing really strong growth and we need to make sure we can keep up with the demand."

— St. Louis area manufacturer

Manufacturing exports in Missouri have been below the pre-recession level since the second quarter of 2012

Real manufacturing exports, 2008 Q1 = 100, SA



Source: World Institute for Strategic Economic Research.

- Anecdotal information continued to suggest that poor export growth has been hurting St. Louis manufacturing output and employment.
- Missouri and St. Louis both added manufacturing jobs in the third quarter of 2013. A slight increase (100) in St. Louis manufacturing jobs was translated into flat year-over-year growth; while Missouri's 600 new jobs resulted in 0.8 percent growth compared with one year ago (see table).
- Missouri's real manufacturing exports contracted slightly in the third quarter. It is currently 7 percent lower than the prerecession level. After a peak during the first quarter of 2012, Missouri's exports have been on a downward trend, which are now significantly below the national level. These sluggish data are consistent with the anecdotal information. Illinois's manufacturing exports also dropped after a peak in the first quarter of 2012. But the level is currently in line with the national average (see figure).
- Missouri's and Illinois's manufacturing earnings growth increased moderately in the second quarter of 2013. Their corresponding year-over-year growth rates were above the national pace (see table).

	St. Louis	Missouri	Illinois	US
Manufacturing employment (Q3-13)	0.0	0.8	-1.5	0.1
Durable goods	0.7	1.7	-1.9	0.4
Nondurable goods	-0.9	-0.3	-0.8	-0.5
Manufacturing earnings (Q2-13)	--	3.9	2.8	1.7
Durable goods	--	6.0	1.8	1.6
Nondurable goods	--	1.1	4.3	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.

Lively Activities Across the Majority of Properties

By Li Li, *Senior Research Associate*

"A significantly higher percentage of homes purchased either out of foreclosure or at market rates are being offered as rental property. This may soften some demand for apartments but both should still see significant improvement based upon the renters mentality in the market."

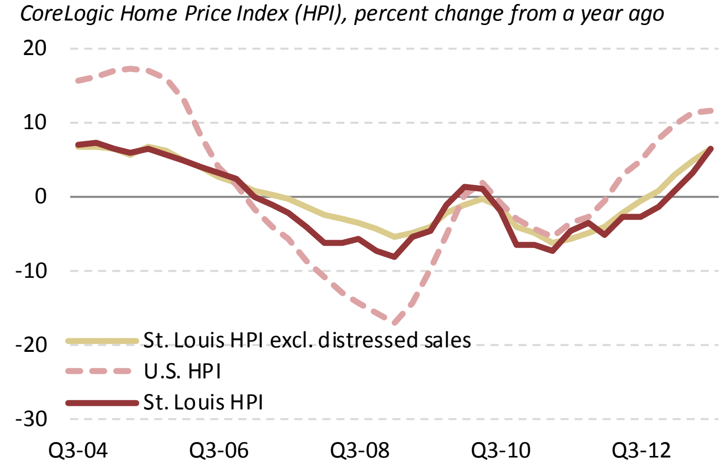
— Clayton area residential real estate contact

"The industrial market is improving significantly as rising demand is catching up to a static inventory."

— Clayton area commercial real estate contact

St. Louis home prices experienced steady growth

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



Source: CoreLogic.

- The performance of the St. Louis housing market continued to improve. Home prices have the highest year-over-year increase since 2005 (see figure). Four out of five industry contacts reported that home sales in September and October met their expectations. The consensus outlook for 2014 is cautiously positive.
- Single-family building permits continued to increase across all major MSAs (see table). As housing demand continued to rise, all realtors surveyed expected higher new residential construction levels in the first half of 2014.
- Office market conditions are mixed. Sales activity in St. Louis increased and vacancy rates dropped significantly compared with last quarter. One news is that AT&T announced it will be vacating its 1.2 million sq. ft. building in St. Louis by 2015. The historical average net absorption rate for St. Louis metro area is about 600,000 square feet per year, which is the equivalent of 2 years of space.
- Recently, IKEA announced a commercial construction plan in St. Louis to be completed in 2015. A highlight in the industrial market is Kraft's recently announced expansion plans in Granite City, Illinois. Also, two build-to-suit projects will be delivered in 2014. The east side of the Gateway Center is expected to have increased development in 2014.

Non-residential market (St. Louis, Q3-13)	Apartment	Office	Retail	Industrial
Vacancy rate (%)	5.0	17.9 ▼	12.6	8.1
Asking rent *Percent change from one year ago*	1.7	0.5	0.3	-13.9

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

Residential market (Q3-13)	St. Louis	Springfield	Jefferson City	Columbia	US
CoreLogic Home Price Index	6.5 ▲	6.4	--	2.7 ▲	11.8
Single-family building permits	14.6	33.5	22.8	35.6	23.3
New and existing home sales	8.7	--	--	--	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.

Consumer Spending Slows in the Third Quarter

By E. Katarina Vermann, *Senior Research Associate*

"Looking at our fundamentals over the last two years, sales are strong, but costs are too high… Our cautiously optimistic outlook for 2014 is based not on increased sales, but rather on management getting better at applying cost control measures."

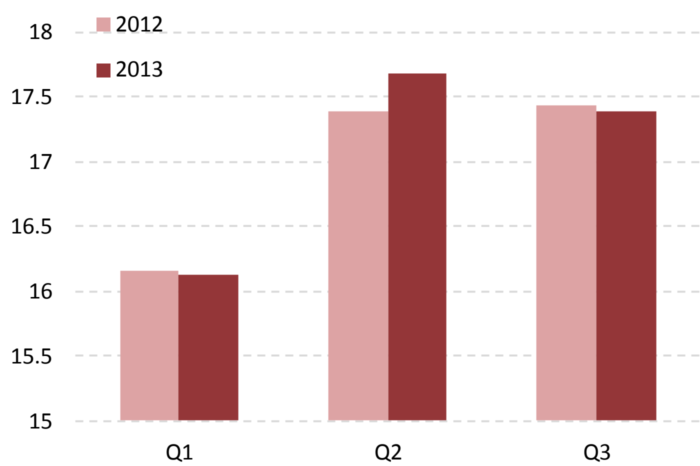
– St. Louis area retailer

"[Consumers are] much more conservative in making financing decisions regarding new automobiles and new homes."

– St. Louis area banker

Missouri sales tax recepits fall in third quarter

Sales tax receipts in billions of dollars



Source: Missouri Department of Revenue.

- Personal income growth in the second quarter in the St. Louis zone outpaced the growth of the nation, despite being relatively sluggish.
- Mortgage debt in the St. Louis zone decreased 5 percent this quarter relative to the same quarter last year. This decrease is less than that of the nation.
- Missouri sales tax receipts, a proxy for consumer spending, decreased 1.7 percent between the second and third quarter of 2013. Compared with a year ago, sales tax receipts in the third quarter of 2013 were down 0.2 percent. Nonetheless, year-to-date sales tax receipts remain higher than last year due to a strong second quarter (see figure).
- Households in the St. Louis zone more aggressively paid off their credit card debt in the third quarter relative to the second quarter. Consumer credit card balances will likely increase in November and December, as retailers anticipate higher levels of holiday spending this year compared with last year. Despite the decrease in consumer credit card debt, there was no significant change in delinquency rates for credit card payments.

	St. Louis Zone	Missouri	Illinois	US
Per capita personal income (Q2-13)	--	2.5	2.3	1.9
Per capita debt balances (Q3-13)				
Mortgage	-5.0	-5.7	-7.8	-6.8
Credit card	-5.4 ▼	-6.0 ▼	-5.1 ▼	-5.4 ▼
Auto loan	3.7	3.6 ▼	3.8	4.3
90+ day delinquency rates (Q3-13) (%)				
Mortgage	1.9 ▼	1.8 ▼	4.7 ▼	3.8 ▼
Credit card	7.4	8.1	8.2	9.1
Auto loan	2.4	2.8	2.8	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.

St. Louis Zone Banks in a Holding Pattern

By Michelle Neely, *Economist*

"The financial performance for our borrowing clients continues to improve, which we feel will improve their confidence levels."

—St. Louis area banker

"Commercial loan demand has been very soft due to the sluggish economy and we have tried to reduce pricing defensively to keep other banks from taking some of our business."

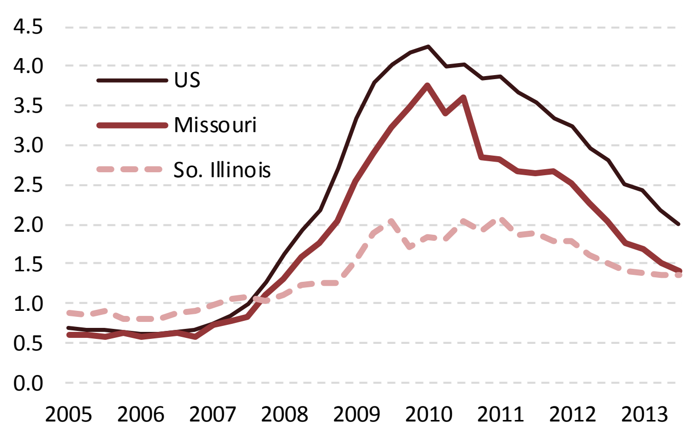
—Central Missouri banker

"We've noticed an increase in businesses completing capital upgrades to their business."

—St. Louis area banker

Delinquent loans still falling

Nonperforming loan ratio at commercial banks, percent



Source: FRED.

- Most bankers surveyed in the St. Louis zone expect loan demand to stay the same or increase during the next three months.
- Bank profitability was essentially unchanged in the St. Louis zone in the third quarter. Return on average assets (ROA) held steady in Missouri at 0.97 percent, while declining slightly in southern Illinois to 0.98 percent. Banks in both states of the zone outperformed their District peers but remained below their national peers in profitability.
- Net interest margins (NIMs) inched up a bit in the third quarter, offsetting slight increases in noninterest expenses. NIMs in the St. Louis zone remain 30 to 40 basis points below those of their District and U.S. counterparts; very competitive loan markets in the region put downward pressures on margins. Loan loss provisions as a percent of average assets were little changed in the third quarter in Missouri, southern Illinois, the District, and the nation.
- The average nonperforming loan ratio fell 12 basis points in Missouri to 1.40 percent in the third quarter, while it rose just 1 basis point to 1.37 percent in southern Illinois. The average nonperforming loan ratios in the St. Louis zone are still well below those of other District states and the U.S. as a whole. Banks in Missouri and southern Illinois have, on average, more than a dollar set aside for every dollar of nonperforming loans.

Banking performance (Q3-13)	Missouri	Illinois	So. Illinois	8th District	US Peer Banks
Return on average assets	0.97	0.73	0.98	0.94	1.01
Net interest margin	3.43 ▼	2.76	3.47	3.74	3.85
Nonperforming loans / total loans	1.40	2.49	1.37	1.95 ▼	2.01 ▼
Loan loss reserve coverage ratio	122.14	65.86	110.95	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.

Harvest Brings Fantastic Production; Winter Wheat Plantings on Historical Decline

By Lowell R. Ricketts, *Senior Research Associate*

"There is a lot of concern about the farm bill and the detrimental impact it might have. People should be more concerned about its impact than that of the ACA based on the importance of agriculture. Everybody has to eat, not everybody gets sick."

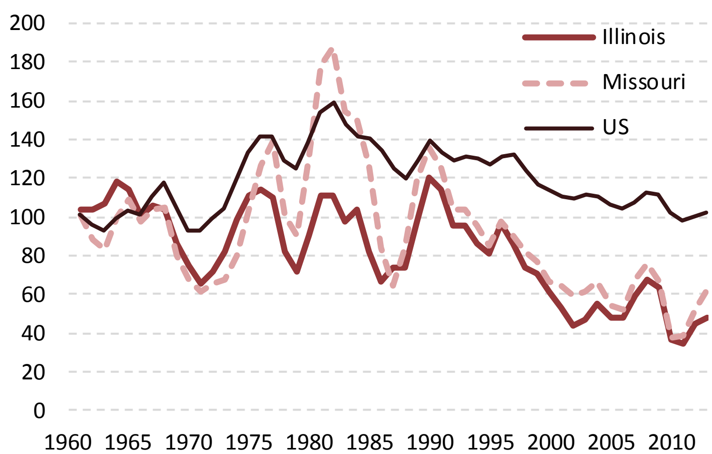
— St. Louis area agribusiness contact

"Thanks to some long hours and today's technology, farmers are able to make rapid progress when Mother Nature opens the window of opportunity. Missouri corn growers have done a tremendous job of recovering first from a flood, then a drought to provide a quality product for customers."

— Central Missouri corn industry contact

Winter wheat planting less popular in MO and IL

2-Year MA of total acres planted, indexed value (1960=100)



Source: USDA/NASS

- Agricultural bankers surveyed expect mixed developments in the fourth quarter relative to the same time last year (see right table.) On net, respondents expect loan demand and total lendable funds to increase. In contrast, bankers expect a decline in both farm income and capital expenditures.
- Corn, sorghum, and soybean production was exceptional for both Illinois and Missouri in 2013 compared with last year's harvest (see left table). Gains in corn production for both states were over twice that of the national average. Cotton production in Missouri declined by over a quarter partly due to a 17 percent decrease in the number of acres planted this year.
- Winter wheat planting has declined significantly for both Missouri and Illinois (see figure). Since a jump at the beginning of the 90s, the average number of acres planted has declined every decade. This trend has been mirrored to a much smaller degree for the nation as a whole. Over the past three years this trend has continued.
- The natural resources picture in the third quarter was mixed for Illinois and negative for Missouri (see left table). Both coal production and mining and logging employment declined in Missouri, consistent with a downward trend for the state industry. In contrast, Illinois exhibited employment growth that mirrored the national average.

	Illinois	Missouri	US
Natural resources (Q3-13)			
Mining and logging employment	3.3	-1.6	3.3
Coal production	-5.0	-5.0	1.8
Production (2013)			
Corn	63.7 ▲	69.3	29.8 ▲
Cotton	---	-28.2	-24.3
Rice	---	-14.1	-5.4
Sorghum	17.3	67.4	68.3
Soybean	20.0	22.6	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.

St. Louis zone Ag. bankers' expectations Q4-13 vs. Q4-12

	Lower	Higher	Net
Loan demand	23	32	9
Available funds	5	14	9
Loan repayments	9	9	0
Farm income	30	26	-4
Capital expenditure	32	18	-14

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

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.

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

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