



Burgundy Book

A report on economic conditions in the Little Rock zone

Third Quarter 2014

The Little Rock zone of the Federal Reserve comprises the majority of Arkansas, except northeast Arkansas. The total population is approximately 2.5 million people, including the 710,000 who live in the Little Rock MSA.

Little Rock Zone's Unemployment Rate Falls to Lowest Level Since 2008

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

The near-term outlook remains one of cautious optimism. According to an August survey of business contacts in the Little Rock zone, a little less than half expect economic conditions to improve over the second half of 2014.

The zone's unemployment rate averaged 6.2 percent in the second quarter of 2014, equaling the nation's rate. In the Fayetteville and Little Rock MSAs, unemployment rates were below the U.S. average and nonfarm employment grew in the second quarter. However, employment declined slightly in Fort Smith and Texarkana.

Manufacturing employment rose at a modest pace in Arkansas in the second quarter, after declining in the first quarter. Growth of employment in Arkansas's transportation industry remained slightly positive in the second quarter.

In contrast to the national picture, house prices and single-family building permits declined in the second quarter in a majority of the zone's MSAs. The commercial office market remained stable in Little Rock, although the retail office market showed signs of distress in the second quarter.

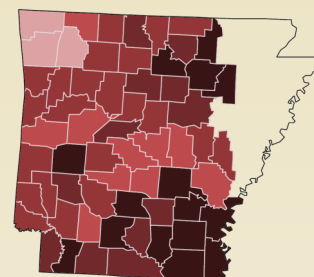
Per capita personal income growth in Arkansas trailed the nation's growth in the second quarter. Since mid-2009, growth of auto and student loan debt balances has roughly offset the decline in mortgage and credit card balances in the Little Rock zone.

Compared with the previous three months, Arkansas banks experienced an uptick in profitability (return on average assets) and a reduction in nonperforming loans in the second quarter.

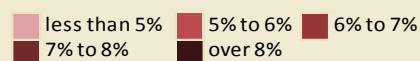
According to the latest USDA projections, Arkansas farmers should reap bumper soybean and rice crops in 2014.

Data Snapshot

County unemployment rates (SA, Q2-14)

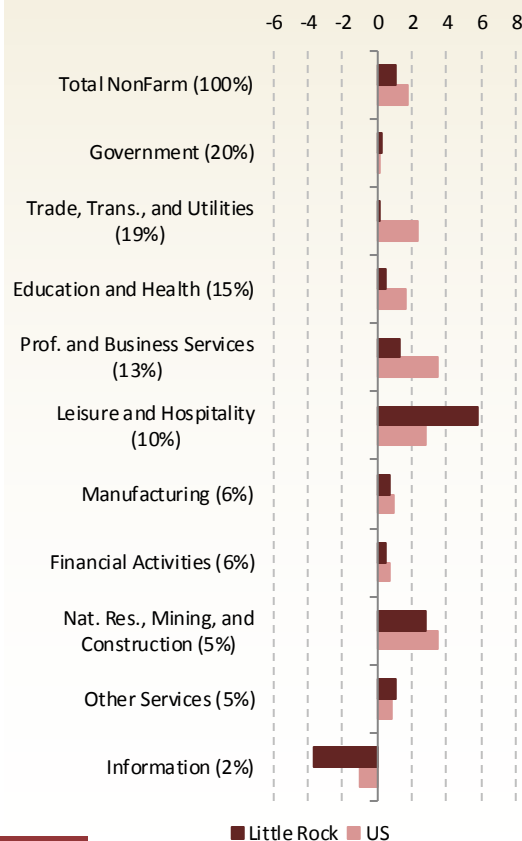


6.2%



Nonfarm payroll employment by industry

Percent change from one year ago (Q2-14)



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 Little Rock zone are based on data availability and are calculated as weighted averages of either the 62 counties in the zone or the six MSAs. As of 2012, approximately 74 percent of the zone’s labor force was located in an MSA. Specifically: 29 percent in Little Rock, 20 percent in Fayetteville, 11 percent in Fort Smith, 6 percent in Texarkana, 4 percent in Pine Bluff, and 4 percent in Hot Springs; 26 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 US unemployment rate is 0.4 percent. If the US 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 8 and August 16.

If you’re interested in becoming a member of our panel, follow this link to complete a trial survey:

<http://research.stlouisfed.org/outlooksurvey/>

or email us at beigebook@stls.frb.org.

Views expressed do not necessarily reflect official positions of the Federal Reserve System.

Unemployment Rates Decrease Across Little Rock Zone

By Maria A. Arias, *Research Associate*

“Predicted demand for services is driving hiring of additional technical staff and additional labor acquired in 2013 or [first half of 2014] has been fully utilized.”

—Little Rock area IT consultant

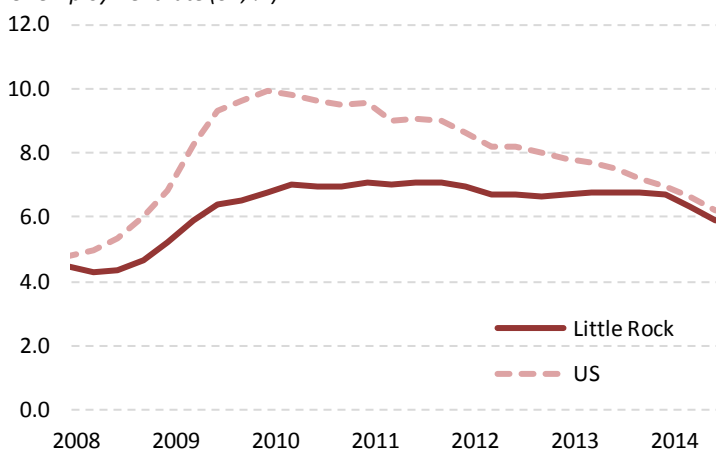
“Skilled blue collar workers will be the limiting factor in expanding output in many industrial facilities.”

—Little Rock area manufacturing contact

- Labor market conditions improved in Little Rock during the second quarter. The unemployment rate decreased 0.4 percentage points from the first quarter (see figure).
- Nonfarm employment in Little Rock also grew significantly faster than in the previous quarter, with all sectors growing at a faster year-over-year rate than in the first quarter (see table).
- Most of the job gains in Little Rock in the second quarter were due to strong increases in the leisure and hospitality sector, as well as the natural resources and construction sector (see bar chart on cover page). These sectors make up 10 percent and 5 percent of total nonfarm employment, respectively.
- Fayetteville, Fort Smith, and Texarkana also saw a significant decline in the unemployment rate, though nonfarm employment growth was weaker in the second quarter in both Fayetteville and Fort Smith (see table).
- Business contacts in the Little Rock zone expect employment and hours worked to remain about the same during the third quarter and increase slightly toward year-end, continuing the slow and steady trend seen in recent quarters.

Unemployment rate continues to decline in Little Rock

Unemployment rate (SA, %)



Source: BLS.

	Little Rock	Fayetteville	Fort Smith	Texarkana	US
Unemployment rate (Q2-14) (%)	6.0 ▼	5.0 ▼	6.5 ▼	6.3 ▼	6.2 ▼
Nonfarm employment (Q2-14)	1.0 ▲	1.5	-0.1	-0.5	1.8
Goods-producing sector	1.6 ▲	0.8	-2.6	0.5 ▲	1.9
Private service-providing sector	1.2 ▲	1.6	0.7	1.0	2.1
Government sector	0.2	2.1	0.2	-5.1 ▲	0.1

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 Conditions Are Mixed

By Sean P. Grover, Senior Research Associate

“Manufacturing customers are placing orders for smaller quantities and are not making long term commitments.”

—Little Rock area manufacturer

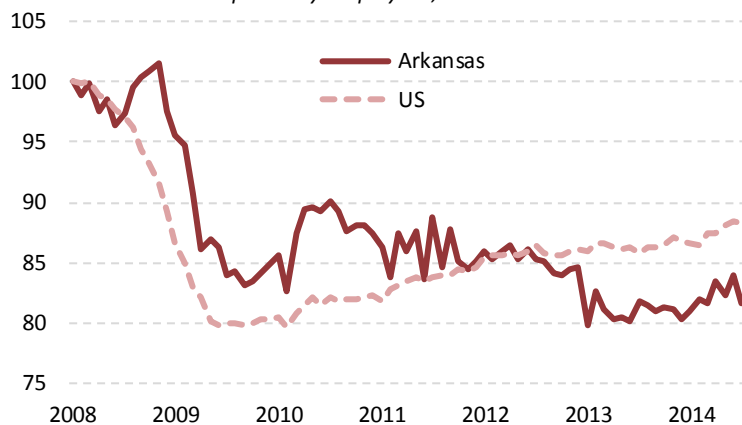
“Profitability is up in 2014 for all lines of business. We’ve hired four new employees but have no plans for expansion of plant. We are concerned about health care affordability moving forward.”

—Northwest Arkansas manufacturer

- Arkansas saw a marked improvement in manufacturing employment, which grew 1.4 percent. This turnaround was led by strong growth in durable goods manufacturing employment and a significant 0.8 percent increase in nondurables. Manufacturing employment in Little Rock grew by 0.7 percent in the second quarter, just below the national average. Fayetteville registered a decline of 0.9 percent.
- Across the board in the second quarter, transportation employment was weak. In Arkansas overall, transportation increased very slightly, well below the national average. In Little Rock it declined 1.2 percent, while in Fayetteville it declined 3.4 percent.
- Aggregate weekly manufacturing hours among Arkansas production employees has been substantially below the national average since early 2013, on an indexed basis, with no indications of improvement.
- Manufacturing exports increased in the nation, but contracted in Arkansas, declining 11.4 percent, with notable weakness in primary metals and printing.
- Many contacts noted an unwillingness to expand operations in light of heavily increased healthcare costs. Manufacturing contacts also noted difficulty in finding skilled or readily trainable labor.

Disparity still exists in aggregate manufacturing hours between Arkansas and national average

Production and nonsupervisory employees, Jan 2008 = 100



Source: BLS.

	Little Rock	Fayetteville	Arkansas	US
Transportation employment (Q2-14)	-1.2	-3.4	0.1	2.7
Manufacturing employment (Q2-14)	0.7	-0.9	1.4 ▲	0.9
Durable goods	--	--	2.1	1.4
Nondurable goods	--	--	0.8 ▲	0.1
Manufacturing exports (Q2-14)	--	--	-11.4	1.4

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.

Home Sales Drop in Little Rock, Matching the National Trend

By Diana Cooke, *Research Associate*

“Realtors and homebuilders are concerned that increasing mortgage rates and student loan debt are muting the housing recovery.”

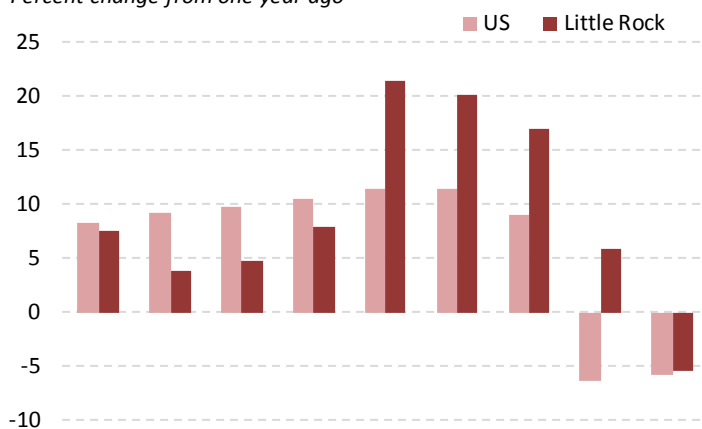
—El Dorado area realtor

“Solid wood products sales prices and volumes continue to exhibit some weakness as new home construction struggles to keep pace with last year.”

—Little Rock building supplier executive

Little Rock home sales follow national trend downward

Percent change from one year ago



Source: Census Bureau and National Association of Realtors.

- The residential market took a hit in the second quarter. Home sales in the U.S. and Little Rock show signs of convergence; year-over-year home sales in Little Rock were negative for the first time in over two years (see figure).
- Residential construction worsened in the second quarter. Growth in single-family building permits declined significantly in Texarkana compared with the previous quarter (see table). In Little Rock, single-family building permits displayed negative yearly growth rates for the fourth consecutive quarter.
- The office market in Little Rock remains stable. Asking rents continue to climb. Contacts noted that low class-A vacancy rates are a signal that additional development could be supported.
- The Little Rock retail market showed signs of distress in the second quarter; the market experienced negative absorption, declining asking rents, and increasing vacancy rates.
- Contacts reported that two large firms in north-west Arkansas will close their plants by the end of the year, which will affect industrial vacancy rates in the area.

Non-residential market (Little Rock, Q2-14)	Apartment	Office	Retail	Industrial
Vacancy rate (%)	6.6	11.8	12.1	8.9
Asking rent <i>Percent change from one year ago</i>	1.2	0.6	0.6	1.5

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

Residential market (Q2-14)	Little Rock	Fayetteville	Fort Smith	Hot Springs	Pine Bluff	Texarkana	US
CoreLogic Home Price Index	-1.9	2.3 ▼	-3.7	-3.7 ▲	-0.2	2.7	8.3 ▼
Single-family building permits	-26.3	2.7	-1.3	-11.1	-88.0	75.0 ▼	0.3
New and existing home sales	-5.4 ▼	--	--	--	--	--	-5.8

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.

Income Growth in Arkansas Trails Nation

By Peter B. McCrory, *Research Associate*

“Construction seems to be on the rise. Consumer sentiment regarding announcements of local firms enlarging facilities is positively influencing consumer spending.”

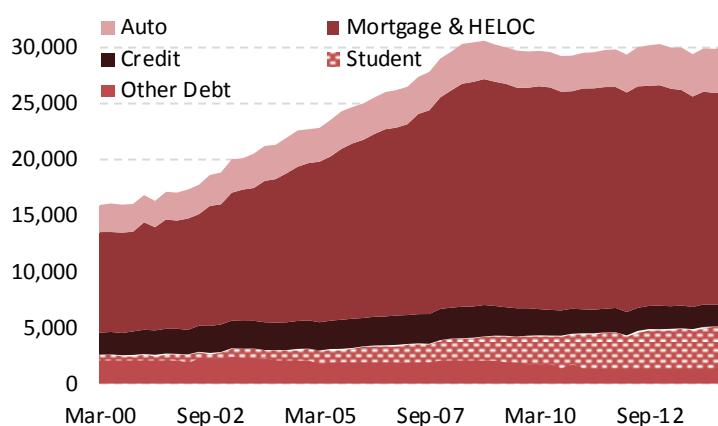
– Northwest Arkansas auto dealer

“While our overall new vehicle inventory remains similar to last year, we have more trucks and fewer cars.”

– Little Rock area auto dealer

Household debt portfolio restructured, remains flat

Nominal debt per capita (\$)



Source: FRBNY Consumer Credit Panel and Equifax.

- Income growth in Arkansas trailed the nation by more than 2 percentage points in the first quarter (see table). Per capita income growth in Arkansas ticked up slightly to 0.6 percent, a modest improvement over the 0.3 percent growth rate in the fourth quarter of 2013.
- Second-quarter delinquency rates for mortgage, credit card, and auto loan debt continued to decline, relative to the previous quarter.
- Debt accumulation and deleveraging patterns in the Little Rock zone tracked trends across the nation. Households continued to reduce their mortgage and credit card debt balances while increasing auto loan debt balances. Auto loan debt balances grew at a brisk year-over-year rate of 7.0 percent, outpacing the nation's growth rate for three consecutive years (see table).
- The growth in auto and student debt balances has nearly completely offset the deleveraging of other debt balances since the recession (see figure). Relative to the second quarter of 2009, households increased their holdings of auto debt by \$799 and student debt by \$1,430. Over the same time span, the net change in household debt per capita was a reduction of \$5.

	Little Rock Zone	Arkansas	Little Rock MSA	US	
Per capita personal income (Q1-14)	--	0.6	--	2.8	▲
Per capita debt balances (Q2-14)					
Mortgage	-2.0	-1.9	0.5	-1.8	
Credit card	-3.5	-3.5	-4.6	-4.6	
Auto loan	7.0	7.0	6.8	5.5	
90+ day delinquency rates (Q2-14) (%)					
Mortgage	1.8 ▼	1.9 ▼	1.9	3.0 ▼	
Credit card	7.1 ▼	7.1 ▼	6.0 ▼	7.5 ▼	
Auto loan	2.3	2.3	2.6	3.1	

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.

Higher Margins, Lower Delinquency Rates Buoy Arkansas Banks

By Michelle Neely, *Economist*

“The industry as a whole is better. Loan demand is weak, even though the economy is better. There is a concern about making margin with such low interest rates.”

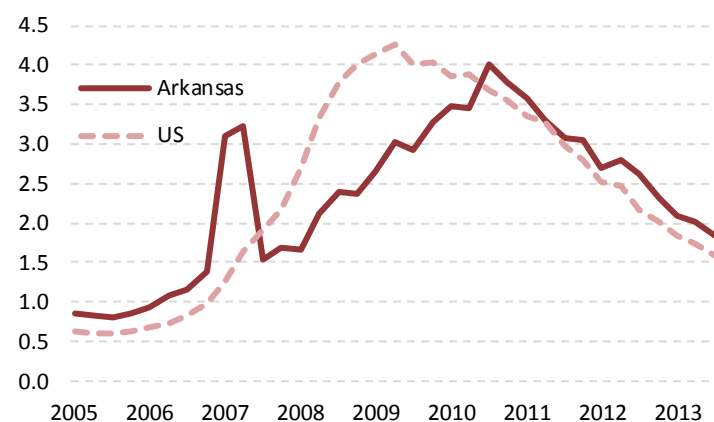
—Eastern Arkansas banker

“Banks have made it through the hardest times. Problem assets are almost gone.”

—Eastern Arkansas banker

Delinquency rates near pre-crisis levels

Nonperforming loan ratio at commercial banks, percent



Source: FRED.

- Return on average assets (ROA) ticked up slightly again at Arkansas banks in the second quarter to 1.25 percent. Although ROA also rose at District and U.S. peer banks, Arkansas banks remain considerably more profitable than their peers.
- The improvement in ROA at Arkansas banks is a result of a small increase in the net interest margin (NIM) and a slight decline in net noninterest expenses. Arkansas banks' superior profitability performance is largely the result of higher NIMs. In the second quarter, the average NIM at Arkansas banks was 43 basis points higher than that of District peers and 38 basis points higher than that of national peers.
- Nonperforming loans continued their descent in the second quarter—in Arkansas, the District, and the nation. The average nonperforming loan ratio at Arkansas banks declined 17 basis points to 1.84 percent, but it remains well above the District (1.54 percent) and national (1.60 percent) averages. Mergers and acquisitions by Arkansas institutions of failing banks largely explain the gap.

Banking performance (Q2-14)

	Arkansas	8th District	US Peer Banks
Return on average assets	1.25	1.10	1.00
Net interest margin	4.20	3.77	3.82
Nonperforming loans / total loans	1.84	1.54	1.60
Loan loss reserve coverage ratio	91.30	79.89 ▼	95.63

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

Record Arkansas Crop Production Projected

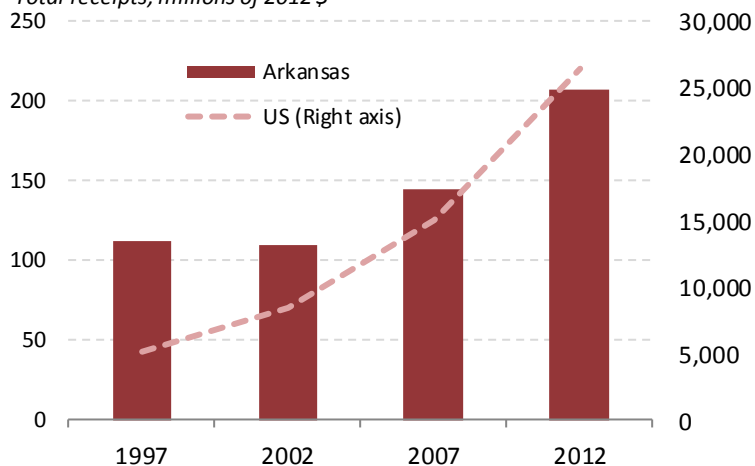
By Lowell R. Ricketts, *Senior Research Associate*

“Lower commodity prices (rice, soybeans, corn, wheat) and the reduction in government farm programs payments will significantly lower farm income this year.”

— Central Arkansas agribusiness contact

Farm income surges over five-year period

Total receipts, millions of 2012 \$



Source: USDA Census of Agriculture; see appendix.

- According to the latest Agricultural Census data from the USDA, total farm income in Arkansas increased by 43 percent from 2007 to 2012 (see figure). This falls short of the 77 percent national increase. USDA forecasts of lower 2014 U.S. farm income suggest that the upward trend seen over this period may discontinue at the state level.
- Agricultural bankers surveyed within the zone expect greater availability of loanable funds and a higher rate of loan repayment in the third quarter relative to the same time last year (see right table). Bankers were evenly split in terms of third-quarter farm income.
- Arkansas mining and logging employment in the second quarter increased modestly over values from a year earlier (see left table). Mining and logging employment growth for the nation continued in the second quarter, marking 4 years of continuous growth.
- According to current USDA estimates, Arkansas soybean production will increase 9.7 percent and set a new record in 2014 with 154 million bushels (see left table). Arkansas rice production will also set a new record with 117 million CWT in 2014. Cotton production also increased substantially, although levels remain below the historical average. Corn production is expected to fall significantly from 2013 levels.

Little Rock zone Ag. bankers' expectations Q3-14 vs. Q3-13

	Lower	Higher	Net
Loan demand	17	17	0
Available funds	0	17	17
Loan repayments	0	17	17
Farm income	33	33	0
Capital spending	33	17	-17

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

	Arkansas	US
Natural resources (Q2-14)		
Mining and logging employment	0.7	5.0
Coal production	--	0.8
Production (2014)		
Corn	-36.9	0.8
Cotton	20.8 ▲	35.6 ▲
Rice	45.1 ▲	20.5 ▲
Sorghum	-12.1	10.3
Soybean	9.7	16.0

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.

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 and Transportation

Table Sources

Bureau of Labor Statistics

Transportation employment: includes transportation and warehousing industries.

Manufacturing employment: total, durable, and nondurable goods.

World Institute for Strategic Economic Research

Manufacturing exports: dollar value.

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.

Transportation employment in Little Rock and Fayetteville covers transportation, warehousing, and utility industries. About 90 percent of the reported jobs are contributed by transportation and warehousing industries.

Manufacturing exports are defined as total dollar amount of exports by the manufacturing industries.

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).

Real Estate and Construction

Table Sources

CoreLogic

Home price index, including distressed sales.

Census Bureau

Year-to-date single-family building permits.

Janet Jones Company 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 consist 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.

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.

Banking and Finance

Table Sources

Federal Financial Institutions Examination Council

Return on average assets: USL15ROA. Net interest margin: USL15NIM. Nonperforming loans: USL15NPTL. Loan loss reserve/Total loans: USL15LLRTL. Net loan losses/Average total loans: USL15LSTL.

Note: The data available in the table can be found in FRED.

Notes

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

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

Loan loss coverage ratio is loan loss reserves divided by 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 spending are relative to one year ago. Respondents can answer "increase," "decrease," or "no change."

Energy Information Administration (EIA)

Coal production.

Arkansas coal production data has been omitted due to the high volatility in year-over-year percentage changes. For example, coal production in the second quarter of 2014 was 1,524 percent higher than at the same time in 2013. The year-over-year changes are exceptionally volatile due to the small amount of overall production.

Bureau of Labor Statistics (BLS)

Mining and logging employment.

United States Department of Agriculture (USDA)

Crop production.

Agricultural land values taken from the Census of Agriculture. The Census is conducted every five years; the last survey was in 2012. Consequently, land values shown in the figure are only available at 5-year intervals and a linear trend was used for interpolation of missing values. Land values include the value of buildings located on the land.



