



Burgundy Book

A report on economic conditions in the Memphis zone

Third Quarter 2014

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.

Rising Manufacturing Employment Helps Boost Job Growth

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

In an August survey, slightly less than half of Memphis zone business contacts expected economic conditions to improve over the second half of 2014.

The Memphis zone's unemployment rate declined from 8.8 percent in the first quarter to 8.4 percent in the second quarter. Although labor market conditions remained the strongest in the Jonesboro, Arkansas, MSA, the unemployment rate fell to 7.8 percent in the second quarter in the Memphis MSA.

Growth of nonfarm payroll employment strengthened modestly across the zone. However, employment in the transportation industry in the Memphis MSA fell by 2.6 percent in the second quarter. Manufacturing employment growth in the second quarter was especially strong in Mississippi (2.9 percent).

House prices were up strongly in the Memphis MSA for the second consecutive quarter, but single-family building permits and total home sales declined. Housing market conditions, on balance, were stronger in Jonesboro and Jackson,.

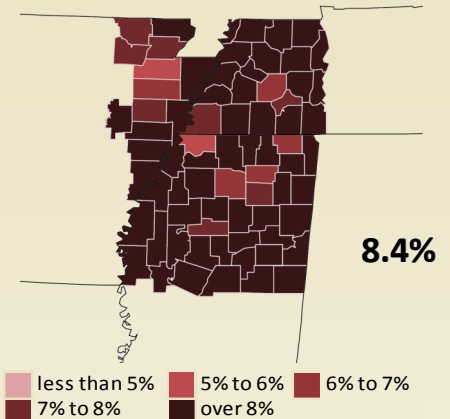
Households in the Memphis zone reduced their credit card and mortgage balances in the second quarter at a faster rate than that seen nationally. Contacts across the zone generally reported improving consumer sentiment. Mortgage and credit card delinquency rates fell significantly in the second quarter in Tennessee.

Commercial bank profitability (return on average assets) improved at Tennessee banks but remained essentially unchanged at Mississippi banks in the second quarter. A sizable minority of bankers (40 percent) expect loan demand to remain unchanged over the next three months.

According to the USDA, the 2014 cotton and soybean crops are expected to be appreciably larger than last year's crop.

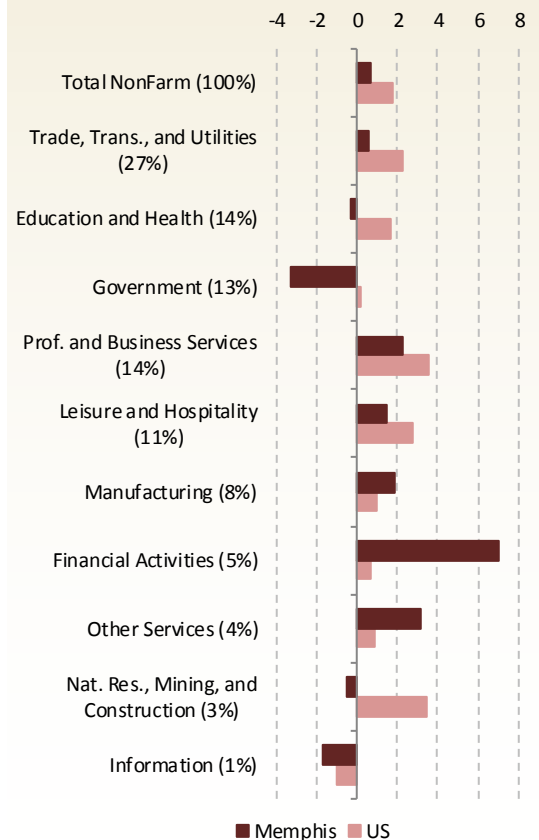
Data Snapshot

County unemployment rates (SA, Q2-14)



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 Memphis zone are based on data availability and are calculated as weighted averages of either the 73 counties in the zone or the three MSAs. As of 2012, approximately 53 percent of the zone's labor force was located in an MSA. Specifically: 44 percent in Memphis, 4 percent in Jackson, and 4 percent in Jonesboro; 47 percent of the zone's labor force was located in non-metropolitan areas.

Arrows in the tables are used to identify significant trends in the data. The direction of the arrow indicates the sign (up/down) and the color indicates the economic significance (green = good, red = poor). Arrows appear only when the change from the previous quarter is greater than 1 standard deviation. For example, the standard deviation of the change in the U.S. unemployment rate is 0.4 percent. If the U.S. unemployment rate declined from 8.4 percent to 8.2 percent, no arrow would appear; but if it declined from 8.4 percent to 7.9 percent, a green down arrow would appear in the table.

Selected **variable definitions** are located in the appendix.

Selected quotes from business contacts are generally verbatim, but some are lightly edited to improve readability.

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Join Our Panel of Business Contacts

The anecdotal information in this report was provided by our panel of business contacts, who were surveyed between August 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/beigebooksurvey/>

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

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

Employment Growth Picked Up, Unemployment Remained Elevated in Memphis

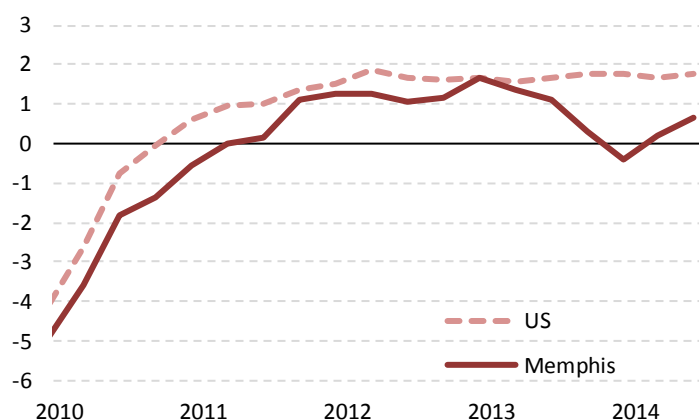
By Maria A. Arias, *Research Associate*

"Very few new office tenants [are] moving into the city. Unemployment is still very high."

— Memphis area real estate broker

Employment growth picked up in Memphis

Payroll employment, percent change from year ago



Source: BLS.

- The unemployment rate in Memphis remained elevated, though it continued to decline significantly from the previous quarter in all of the zone's MSAs (see table).
- Most of the decline in unemployment rates throughout the zone was due to an increase in employment. In Memphis, employment grew 0.5 percent faster year-over-year than in the previous quarter; preliminary data suggest this momentum is continuing into the third quarter (see figure). Growth in Jonesboro continues to outpace the nation's growth (see table).
- Business contacts in the Memphis zone expect labor market conditions to improve somewhat toward year-end. Just over half of the contacts expect employment to stay about the same as it was last year, while over one-third expect employment to increase.
- Wage growth differed across the zone's MSAs in the second quarter. Average hourly earnings in Memphis increased 2.2 percent from the previous year, while increasing only 0.1 percent in Jonesboro and decreasing 3 percent in Jackson.
- For the third and fourth quarters, about half of business contacts expect wages to remain unchanged, while 43 percent expect wages to be somewhat higher or higher than the same time last year. The remaining contacts expect average wages to decrease.

	Memphis	Jackson	Jonesboro, AR	US
Unemployment rate (Q2-14) (%)	7.8 ▼	6.7 ▼	6.1 ▼	6.2 ▼
Nonfarm employment (Q2-14)	0.7	0.7	3.6	1.8
Goods-producing sector	1.1 ▲	0.9	1.6	1.9
Private service-providing sector	1.3	0.8	4.5	2.1
Government sector	-3.3	0.3	2.3	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 Activity in Memphis Shows Marked Improvement

By Sean P. Grover, Senior Research Associate

“Manufacturing has been steady with increased employment over the last quarter.”

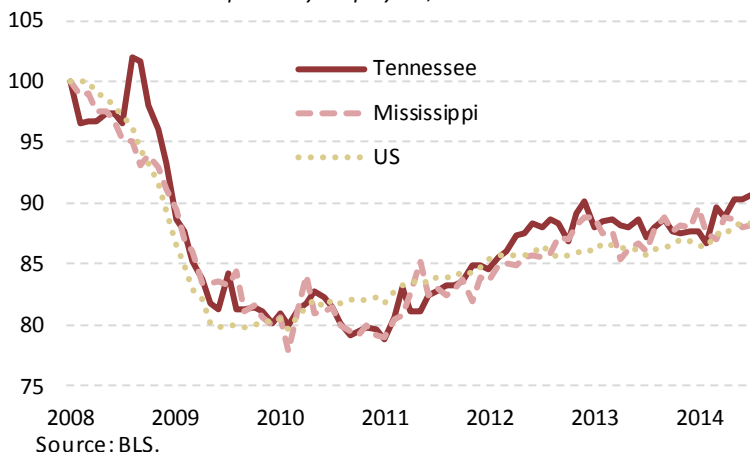
—Western Tennessee manufacturer

“We are responding positively to our customers’ demands for specialty, large-scale fabrication and field construction.”

—Memphis area manufacturer

Aggregate manufacturing hours in Tennessee steadily increase in 2014

Production and nonsupervisory employees, Jan 2008 = 100



- Memphis manufacturing employment increased 1.9 percent in the second quarter, led by a significant increase in durable goods manufacturing employment of 3.9 percent, well above the national average. Transportation employment in Memphis decreased 2.6 percent, substantially lower than the national average.
- Tennessee’s manufacturing employment remained steady. The 1.3 percent increase was led by an increase in durable goods manufacturing employment. Mississippi’s manufacturing employment increased 2.9 percent, also on the strength of durable goods. Both states showed positive transportation employment changes but were below the national average.
- Aggregate weekly manufacturing hours among production employees in Tennessee have risen above the national and Mississippi numbers in 2014.
- Compared with the national average, both Tennessee and Mississippi saw large swings in manufacturing exports in the second quarter. With a 7.2 percent increase, Tennessee saw strength from wood products, textiles, and primary metals. The large 11.5 percent decrease in Mississippi came from weakness in textiles and electrical equipment.

	Memphis	Tennessee	Mississippi	US
Transportation employment (Q2-14)	-2.6	1.0	1.9	2.7
Manufacturing employment (Q2-14)	1.9 ▲	1.3	2.9	0.9
Durable goods	3.9 ▲	3.1	4.0	1.4
Nondurable goods	-0.5	-1.7	0.9	0.1
Manufacturing exports (Q2-14)	--	7.2	-11.5	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 Are Down in Memphis, but the Market Is Still Competitive

By Diana Cooke, *Research Associate*

“Although total sales were off a little, pricing remains solid and inventory reflects the fact more people are looking to make a move.”

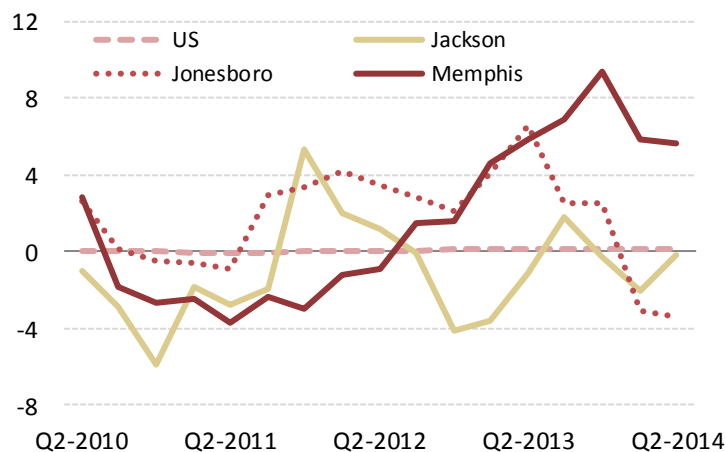
— *Memphis area realtor*

“It’s easier to build 200 apartment units than to qualify for a home loan. We are in the new norm. Developers are more comfortable building apartments than new housing developments.”

— *Memphis area banker*

Home prices in Memphis outperformed other MSAs

Percent change from one year ago



Source: CoreLogic.

- The Memphis residential housing market showed signs of improvement in the second quarter of 2014. Home prices continued to increase in Memphis. In Jackson, home prices, while lower than a year ago, significantly improved (see figure).
- Contacts noted that the Memphis housing market is competitive, but the lack of developed lots is affecting new home construction and sales. In the majority of MSAs across the zone, single-family building permits displayed negative yearly growth rates (see table). Total home sales are down 4.3 percent in Memphis.
- The multi-family outlook remains stable. Asking rents increased 60 basis points compared with the previous quarter. Contacts noted that new supply is pushing up vacancy rates.
- Contacts in Memphis report a tight office space market in the Poplar/240 Corridor. Tenants are widening their search to include class-B space and other submarkets.
- There continue to be new plans for commercial construction projects in Memphis. A building in uptown Memphis is being redeveloped. A new class-A medical space is under construction in the Germantown Parkway/Wolf River Boulevard area.

Non-residential market (Memphis, Q2-14)

	Apartment	Office	Retail	Industrial
Vacancy rate (%)	8.8	23.8	11.6	14.6
Asking rent <i>Percent change from one year ago</i>	2.5	0.5	0.7	1.6

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

Residential market (Q2-14)

	Memphis	Jackson	Jonesboro	US
CoreLogic Home Price Index	5.6	-0.2 ▲	-3.4	8.3 ▼
Single-family building permits	-2.9	-4.4	20.3	0.3
New and existing home sales	-4.3	--	--	-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.

Delinquency Rates Recover More Slowly Than National Average

By Peter B. McCrory, *Research Associate*

“Our unemployment rate continues to slowly decrease. Cost of food, fuel, and healthcare are the primary drivers in consumer purchasing decisions.”

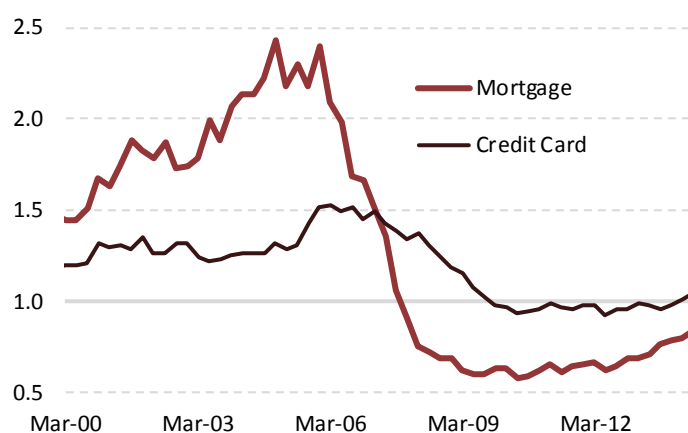
—Memphis area banker

“The economy is stable and the stock market has created a mental wealth increase... [But consumers] are still burdened by ... distressed credit.”

— Memphis area auto dealer

Trend reversals in delinquency ratios

Ratio, zone delinquency to national delinquency



Source: FRBNY Consumer Credit Panel and Equifax.

- Per capita income growth in Arkansas, Mississippi, and Tennessee ticked up in the first quarter. However, all three states trailed the rate of income growth in the nation.
- Prior to the recession, households in the zone tended to be more delinquent on mortgage, auto, and credit card debt than those across the nation. During the downturn, these long-run ratios in mortgage and credit card delinquency rates reversed dramatically (see figure). In recent quarters, national delinquency rates have recovered more quickly than in the Memphis zone—revealing that even as the economy recovers, zone households face financial struggles likely more longer-lasting than those temporarily faced across the country.
- Contacts across the zone reported modestly improving consumer sentiment, luxury retail openings, and mixed auto sales activity.
- Relative to one year ago, households in the Memphis zone reduced mortgage and credit card debt balances at a faster rate than the nation and accumulated auto debt balances at a slower rate. Poor credit history might explain the lower auto debt demand in the zone, as one auto dealer contact suggested.

	Memphis Zone	Arkansas	Mississippi	Tennessee	US
Per capita personal income (Q1-14)	--	0.6	2.2	2.3	2.8 ▲
Per capita debt balances (Q2-14)					
Mortgage	-4.7	-1.9	-3.2	-1.5	-1.8
Credit card	-6.7	-3.5	-6.8	-4.7	-4.6
Auto loan	3.6	7.0	5.1	4.7	5.5
90+ day delinquency rates (Q2-14) (%)					
Mortgage	2.5	1.9 ▼	2.4	1.8 ▼	3.0 ▼
Credit card	7.9	7.1 ▼	6.8	7.0 ▼	7.5 ▼
Auto loan	4.2	2.3	4.7	3.2	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.

Loan Demand on Upswing in Memphis Zone

By Michelle Neely, *Economist*

“Loan volume has improved slightly this quarter. The bank has experienced fewer loan declines in the last year because credit scores are better.”

—Northern Mississippi banker

“Loan demand continues to improve and competition for solid credits remains fierce. Terms continue to be relaxed regarding covenants, pricing and the length of fixed-rate loans.”

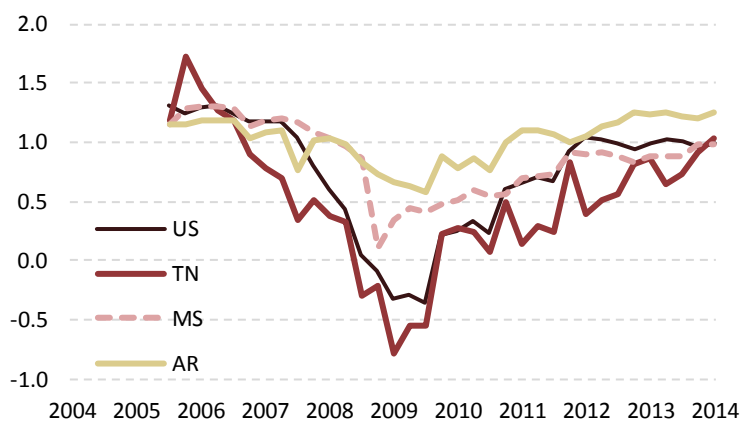
—Memphis area banker

“Agriculture banks are beginning to have concerns about overall cash flows of their borrowers as commodity prices, especially for corn and cotton, have seen a significant decline over the past few months.”

—Northeast Arkansas banker

Profit ratios converging in Memphis zone

Return on average assets at commercial banks, percent



Source: FRED.

- About 40 percent of bankers surveyed expect loan demand to remain unchanged during the next three months.
- Return on average assets (ROA) improved on average at both Arkansas and Tennessee banks in the second quarter, while it remained the same in Mississippi. ROA increased 11 basis points to 1.03 percent in Tennessee in the second quarter, while it rose 5 basis points to 1.25 percent in Arkansas. Average ROA in all three states is above year-ago levels and is on par with or higher than the national peer average.
- Net interest margin (NIM) results were once again uneven in the Memphis zone. The average NIM was up slightly at both Arkansas and Tennessee banks, but fell 14 basis points at Mississippi banks as a strong result from one large Mississippi bank in the first quarter did not carry over to the second quarter. In all three states, average NIMs remain above their year-ago levels.
- Nonperforming loan ratios fell again in all three states, the District, and the nation. The ratio of nonperforming loans to total loans at Mississippi banks declined to 1.35 percent, well below the District and U.S. peer averages. In contrast, the nonperforming loan ratios in Arkansas and Tennessee, while declining, remain above their District and U.S. peer levels.

Banking performance (Q2-14)	Tennessee	Mississippi	Arkansas	8th District	US Peer Banks
Return on average assets	1.03	0.98	1.25	1.10	1.00
Net interest margin	3.65	4.05	4.20	3.77	3.82
Nonperforming loans / total loans	1.81	1.35	1.84	1.54	1.60
Loan loss reserve coverage ratio	85.08	94.81	91.30	79.89 ▼	95.63

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

Record Crop Production Expected in 2014

By Lowell R. Ricketts, Senior Research Associate

“We are currently seeing much lower commodity prices.”

— Northern Mississippi farmer

“Crops will be very good due to plentiful rain during July and August, but prices are forecasted to be down.”

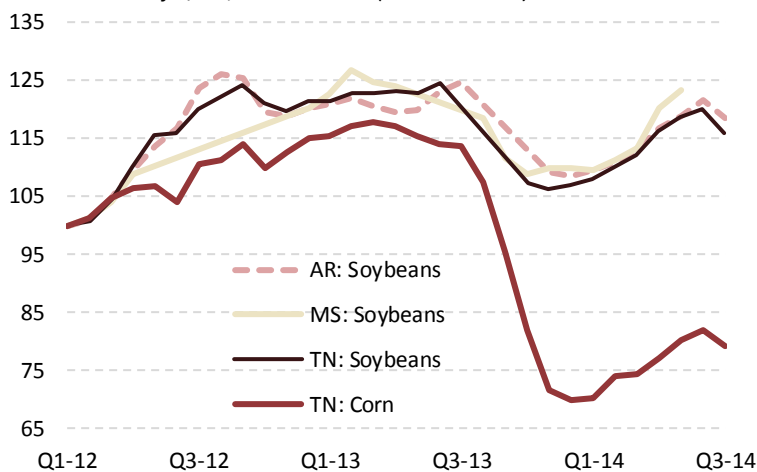
— Western Tennessee agricultural banker

“Our increasing operating costs stem mostly from seeds and capital equipment. Paired with below-cost commodity prices we have some tight conditions.”

— Eastern Arkansas farmer

Already-low corn and soybean prices start to fall again

3-Month MA of \$/BU, indexed value (Jan. 2012=100)



Source: USDA/NASS. See appendix regarding missing data.

- Agricultural bankers surveyed in the Memphis zone expect more available loanable funds and faster rates of loan repayments in the third quarter of 2014 compared with a year earlier. However, bankers also expect loan demand, farm income, and capital spending to be lower relative to the same period (see right table).
- According to current USDA estimates, Arkansas and Mississippi soybean production will set new records in 2014. Additionally, estimated Arkansas rice production levels will also set a new record in 2014. Cotton production in 2014 increased substantially across all zone states, although levels remain below historical averages. Expected corn production across the zone declined significantly from 2013 levels.
- Coal production in Tennessee and Mississippi declined for the second consecutive quarter (see left table). Despite declining production, mining and logging employment increased slightly over the same period in 2013 for Mississippi.
- Falling commodity prices reported by zone contacts are reflected in the latest state-level data provided by the USDA (see figure). Soybean prices in both Arkansas and Tennessee fell 10 percent in July from the previous month.

	Arkansas	Mississippi	Tennessee	US
Natural resources (Q2-14)				
Mining and logging employment	0.7	1.8	--	5.0
Coal production	--	-1.1	-28.8	0.8
Production (2014)				
Corn	-36.9	-36.6	-3.8 ▼	0.8
Cotton	20.8 ▲	29.3 ▲	6.3 ▲	35.6 ▲
Rice	45.1 ▲	28.9	---	20.5 ▲
Sorghum	-12.1	40.0	---	10.3
Soybean	9.7	19.0	-0.6	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.

Memphis zone Ag. bankers' expectations Q3-14 vs. Q3-13

Loan demand	50
Available funds	125
Loan repayments	125
Farm income	80
Capital spending	60

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 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 Memphis 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.

Memphis Area 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 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."

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.

United States Department of Agriculture (USDA)

Commodity prices.

June and July observations for Mississippi soybean prices were withheld by the USDA to avoid disclosing data for individual operations.