Burgundy Book

A report on economic conditions in the St. Louis zone

Fourth Quarter 2014

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.

Yuletide Cheer in the St. Louis Zone: More Optimism and Lower Unemployment!

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

According to our November survey of business contacts, two-thirds of respondents expect that local economic conditions will improve in 2015. This is a marked upward shift in sentiment compared with three months earlier.

In the St. Louis MSA, total nonfarm employment increased by 1.5 percent in the third quarter, a noticeable acceleration from the previous quarter. Among the zone MSAs, St. Louis's employment growth was surpassed only by Springfield's (2 percent).

The St. Louis zone's unemployment rate averaged 6.3 percent in the third quarter of 2014, its lowest level since the second quarter of 2008. In the third quarter, unemployment rates were lowest in these three Missouri MSAs: Columbia (4.3 percent), Jefferson City (5.3 percent), and Springfield (5.1 percent).

Residential housing market activity slowed in the third quarter in most areas. For example, single-family building permits were below year-earlier levels in three of the four MSAs. In the St. Louis MSA, the apartment market continues to improve, as asking rents in the third quarter rose to new highs.

For the first time since mid-2009, households increased their outstanding balances of mortgage and credit card debt. Delinquency rates in the St. Louis zone remained below the national average in the third quarter.

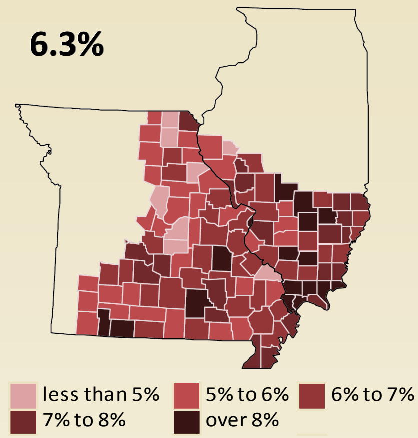
Net interest margins rose at Missouri and Southern Illinois banks in the third quarter, and the ratio of nonperforming loans to total loans fell modestly from the previous quarter at Missouri banks.

Missouri and Illinois farmers harvested bumper crops in 2014. However, with prices falling, a majority of agricultural bankers expect net farm income to decline over the near term.

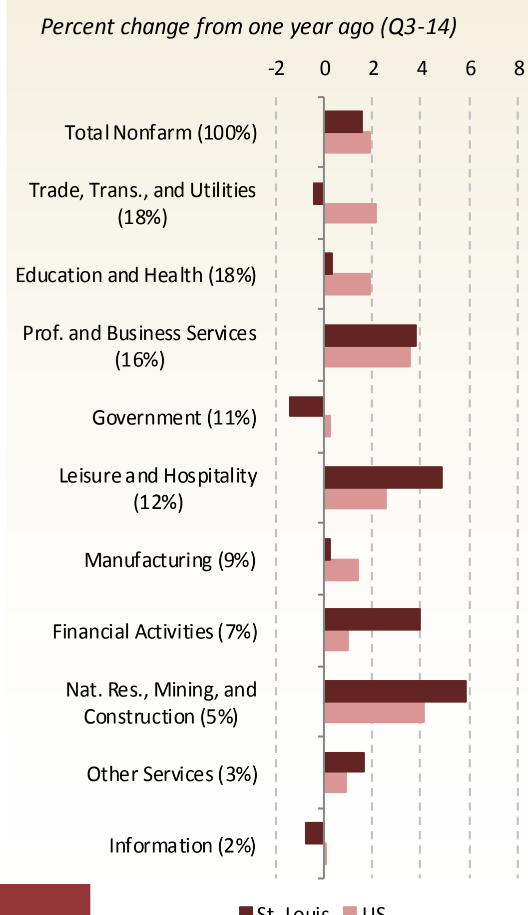
This report is published by the Federal Reserve Bank of St. Louis

Data Snapshot

County unemployment rates (SA, Q3-14)



Nonfarm payroll employment by industry



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 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 November 3 and November 14.

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.

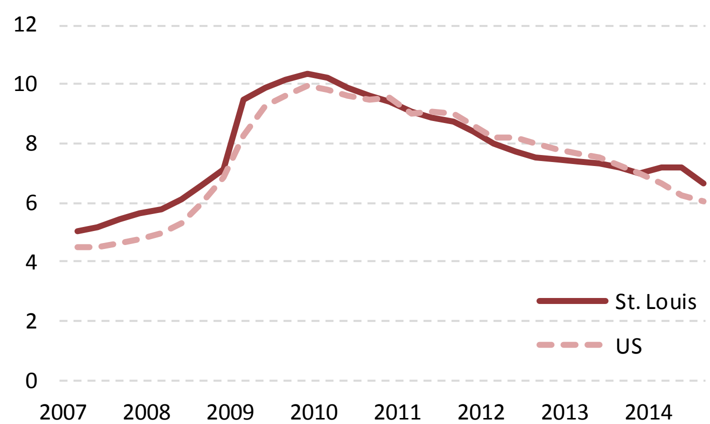
Lower Unemployment Rates, Moderate Employment Growth Across St. Louis Zone

By Maria A. Arias, *Research Associate*

> *"Labor has been difficult to find for construction now that the economy is approaching normalization."*
>
> —Columbia area banker
>
> *"Competition for higher-educated employees is driving up labor costs."*
>
> —St. Louis area real estate broker
>
> *"We see modest increases in labor expenses."*
>
> —St. Louis area farmer

Unemployment rate in St. Louis declined significantly in Q3

Unemployment rate, percent



Source: BLS.

- Labor market conditions continued to improve throughout the majority of the St. Louis zone during the third quarter. Overall employment growth was positive in all MSAs and was stronger than during the second quarter in St. Louis, Jefferson City, and Cape Girardeau (see table).
- Business contacts surveyed are moderately optimistic about labor market conditions through the fourth quarter and first quarter of 2015. About 35 percent of contacts expect employment will be somewhat higher or higher than it was during the same time last year, while about 60 percent expect employment to remain unchanged. The rest expect a slight decline.
- Private service employment growth in Springfield declined significantly from the second quarter, slowing overall growth in the MSA despite stronger growth in the goods-producing and government sectors. Similarly, government employment growth declined significantly from the previous quarter in Columbia, slowing overall growth (see table).
- The unemployment rate declined in all of the zone's MSAs, with St. Louis experiencing a decline of 0.5 percent, the largest across the zone (see figure).
- Hourly earnings growth has remained slow so far. Business contacts expect labor costs will remain about the same or increase slightly going into the first quarter of 2015.

	St. Louis	Springfield	Jefferson City	Columbia	Cape Girardeau	US
Unemployment rate (Q3-14) (%)	6.6 ▼	5.1	5.3 ▼	4.3	6.2 ▼	6.1
Nonfarm employment (Q3-14)	1.5	2.0	0.7	0.7 ▼	0.2	1.9
Goods-producing sector	2.4	-1.2	1.8	-1.3	0.5 ▲	2.4
Private service-providing sector	1.9	2.8 ▼	1.9	2.9	0.9	2.2
Government sector	-1.4	0.7	-1.4	-2.9 ▼	-4.7	0.2

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.

Manufacturing Conditions Mixed in St. Louis Zone

By Daniel Eubanks, *Research Associate*

"Manufacturing is one of the bright spots in our market. For a small market, we are diversified in the manufacturing sector and all of our manufacturers appear to be doing well."

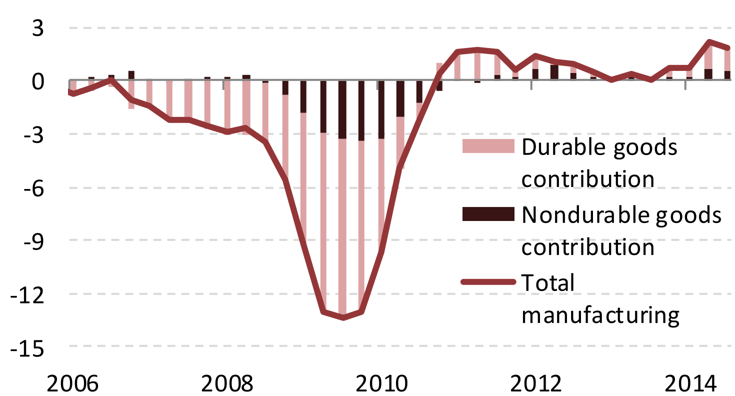
– Southwestern Missouri banker

"Manufacturing activity is doing well and I expect this to continue."

– Southeastern Missouri banker

Durable and nondurable goods manufacturing both contribute to employment growth in Missouri

Percent change from one year ago



Source: BLS.

- Manufacturing employment in St. Louis grew slightly in the third quarter. Above-average growth in durable goods manufacturing employment was offset by a decline in nondurables. Transportation employment growth remained below the national average despite a significant increase to 3.0 percent.
- Aggregate weekly hours among St. Louis production employees declined for the third consecutive quarter.
- Missouri manufacturing employment grew by 1.8 percent, led by moderately above-average growth in both durable and nondurable goods manufacturing employment (see figure).
- Business contacts in Missouri were more optimistic about manufacturing conditions in the fourth quarter than the same time last year.
- Illinois manufacturing employment contracted 0.7 percent, with declines in both durables and nondurables. Transportation employment increased in both Missouri and Illinois, but by less than the national average.
- Manufacturing exports increased for both Missouri and Illinois in the third quarter. Missouri's above-average growth was led by petroleum and coal products and primary metals. Illinois saw strength in printing and primary metals.

	St. Louis	Missouri	Illinois	US
Transportation employment (Q3-14)	3.0 ▲	3.0	1.2	3.4
Manufacturing employment (Q3-14)	0.2	1.8	-0.7	1.4
Durable goods	3.0	2.3	-1.0	2.1
Nondurable goods	-4.1	1.2	-0.1	0.2
Manufacturing exports (Q3-14)	--	7.8	2.6	3.1

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.

Promising Signs from the Commercial Real Estate Market in St. Louis

By Diana Cooke, *Research Associate*

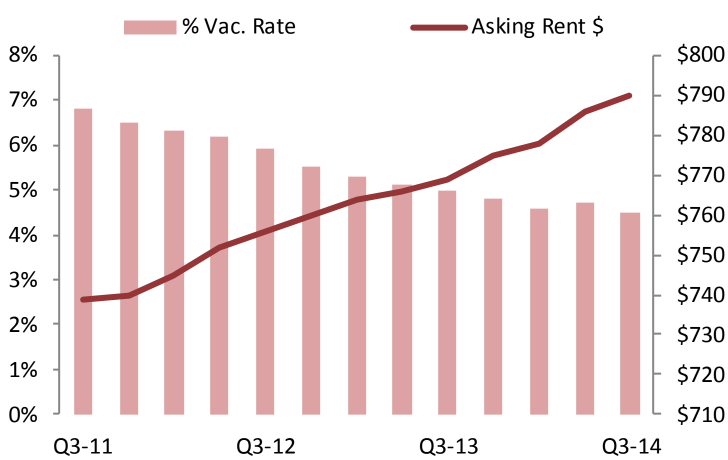
"Many buyers are looking only at existing homes because the cost of construction is too high."

— St. Louis area realtor

"Businesses that have been reluctant to commit to a long-term lease have finally taken the steps to enter into longer-term commitments."

— St. Louis area realtor

Apartment asking rents increase, vacancy rates decline



Source: Reis.com.

- The residential market remained slow in the third quarter. Compared with last year, home prices are up, but growing at a significantly slower rate than the previous quarter. St. Louis home sales continue to decline.
- Single-family building permits displayed negative yearly growth rates in St. Louis, Jefferson City, and Columbia (see table). Contacts partly attributed the low supply of new homes to the severe shortage of quality lots and high costs of construction materials.
- The commercial real estate market remained stable in the third quarter. For the multi-family sector, asking rents continue to climb as vacancy rates fall (see figure). Office vacancy rates did not change compared with the second-quarter rates, while retail and industrial vacancy rates both declined.
- The commercial construction market is active in St. Louis. In the apartment market, ground was recently broken in Midtown St. Louis for two new apartment buildings. Realtors in the St. Louis area predict that, as unemployment falls, the office market will continue to tighten. In St. Louis city, a new mixed-use project is in the first phase of development.

Non-residential market (St. Louis, Q3-14)	Apartment	Office	Retail	Industrial
Vacancy rate (%)	4.5	17.6	12.2	6.3
Asking rent *Percent change from one year ago*	2.7	1.3	1.6	1.0

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

Residential market (Q3-14)	St. Louis	Springfield	Jefferson City	Columbia	US
CoreLogic Home Price Index	5.2 ▼	1.2	--	5.5	6.0 ▼
Single-family building permits	-3.0	0.2	-12.6	-8.2	1.2
New and existing home sales	-4.6	--	--	--	-4.5

Note: Sales and permits data are year-to-date percent change. Prices are percent change from one year ago. Arrows indicate a signficant (±1 standard deviation) change from previous quarter. See appendix for notes and sources.

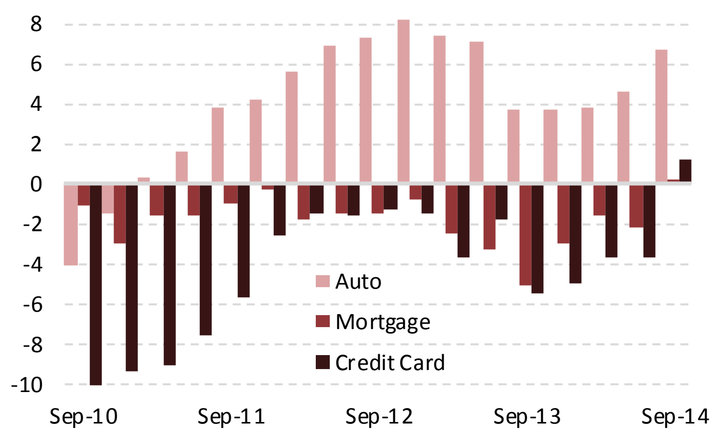
Households in St. Louis Zone Accumulate Debt for First Time Since 2009

By Peter B. McCrory, *Research Associate*

"Low borrowing costs along with increased consumer confidence appear to be helping purchases in our market."
– St. Louis area auto banker

"Whether consumers feel safe enough to go shopping is a key factor driving holiday spending this year."
– St. Louis area retailer

Households increase auto, mortgage, and credit debt
Percent change in debt balances from one year ago



Source: FRBNY Consumer Credit Panel and Equifax.

- Relative to one year ago, personal income in Missouri grew by 2.8 percent and in Illinois grew by 3.1 percent—rates essentially unchanged from last quarter. Both states saw slightly slower personal income growth in the second quarter when compared with the nation (see table).
- For the first time since the middle of 2009, households in the St. Louis zone increased their balances of mortgage and credit card debt (see figure). While auto debt accumulation began again in early 2011, households continued for the next three years to unwind their non-auto debt balances in an effort to repair their balance sheets. The deleveraging of non-auto debt has apparently ended.
- Protests and destruction of property occurred in the St. Louis region following a grand jury decision in the Michael Brown case. Area businesses closed early the evening of the announcement. Roughly 60 businesses (including restaurants, auto parts dealers, and groceries) were vandalized and looted; 12 were destroyed by arson. Black Friday sales were negatively affected by protesters disrupting holiday shopping, and some retailers report concern that continuing unrest will further dampen holiday spending.

	St. Louis Zone	Missouri	Illinois	US
Per capita personal income (Q2-14)	--	2.8	3.1	3.3
Per capita debt balances (Q3-14)				
Mortgage	0.3 ▲	0.2 ▲	-0.5 ▲	1.3 ▲
Credit card	1.3 ▲	1.5 ▲	-0.8 ▲	-0.2 ▲
Auto loan	6.8	8.7 ▲	8.5	8.8 ▲
90+ day delinquency rates (Q3-14) (%)				
Mortgage	1.5	1.5	3.4	2.8
Credit card	6.2	6.9	6.4	7.2
Auto loan	2.5	2.9	2.5	3.0

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 Steady in St. Louis Zone

By Michelle Neely, *Economist* and Hannah Shell, *Research Analyst*

"The economy has improved and borrowers are better off. Industry has rebounded from the loan losses of five years ago."

—Southeastern Missouri banker

"Competition between banks has intensified. Banks are stealing loans from each other."

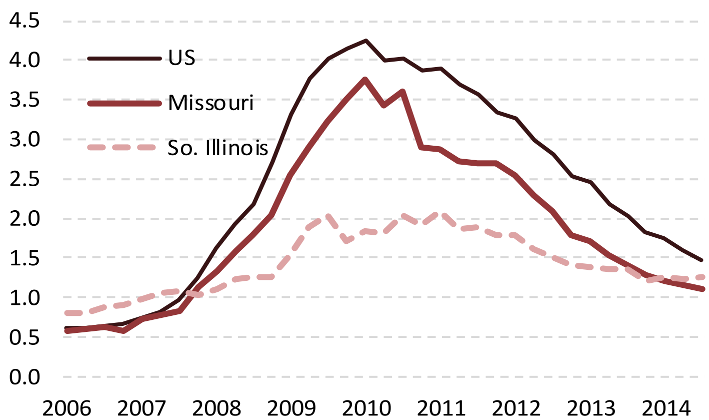
—Southern Illinois banker

"The economy is improving, more people are getting back to work, inflation is in check, interest rates are low, and the residential market is picking up."

—Southern Illinois banker

Asset quality near pre-crisis levels

Nonperforming loan ratio at commercial banks, percent



Source: FRED.

- All banks surveyed in the St. Louis zone expect loan demand to increase or stay the same during the next three months.
- Return on average assets (ROA) did not change at Missouri and southern Illinois banks between the second and third quarters, and it hovered near the US average of 1.01 percent at both sets of banks (see table). Average ROA is above its year-ago level at Missouri, southern Illinois, and District banks.
- Net interest margins (NIMs) improved again in the third quarter. The average NIM rose 1 basis point to 3.41 percent at Missouri banks and 7 basis points to 3.60 percent at southern Illinois banks between the second and third quarters. Average St. Louis zone NIMs still trail District and U.S. averages, however.
- Asset quality remains a bright spot in the St. Louis zone. The ratio of nonperforming loans to total loans fell 5 basis points at Missouri banks in the third quarter while it ticked up just 1 basis point at southern Illinois banks. Nonperforming loan ratios are well below their year-ago levels across the District and the nation (see figure).
- Some St. Louis-area bankers expect higher delinquency rates in the fourth quarter of 2014. However, they note that the problem is contained among a few customers and is not widespread. Almost all bankers surveyed expect delinquencies to either hold constant or decline in the first quarter of 2015.

Banking performance (Q3-14)	Missouri	Illinois	So. Illinois	8th District	US Peer Banks
Return on average assets	0.99	0.75	1.02	1.10	1.01
Net interest margin	3.41	2.67	3.60	3.81	3.85
Nonperforming loans / total loans	1.10	1.92	1.25	1.40 ▼	1.48
Loan loss reserve coverage ratio	140.00	72.92	108.00	106.43	99.32

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

Another Bountiful Harvest Slashes Commodity Prices & Farm Income

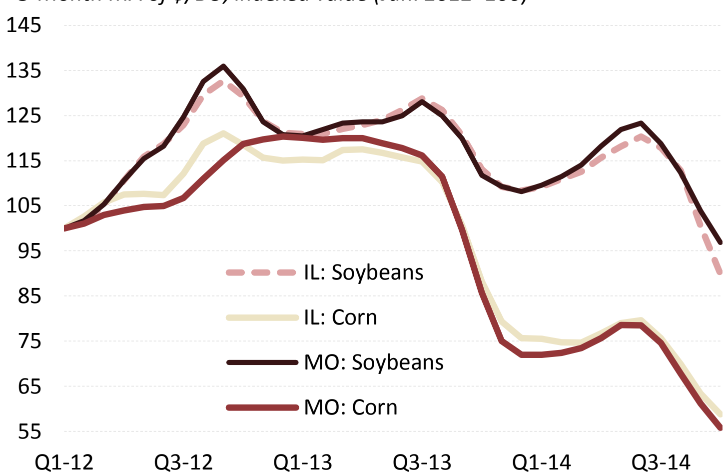
By Lowell R. Ricketts, *Senior Research Associate*

> *"If commodity prices remain depressed beyond next year, I expect land values will start to feel downward pressure and weaker producers will experience significant financial difficulty."*
>
> — St. Louis area agricultural banker

> *"Low commodity prices will affect highly leveraged borrowers. This will lead to reduced land prices."*
>
> — Central Missouri real estate lawyer

Weak commodity prices plummet to new lows

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



Source: USDA/NASS.

- Crop production levels in 2014 were higher than levels seen last year across the major crops of Illinois and Missouri (see left table). These gains are surprising since last year's harvest was bountiful. Area row crop farmers attributed the phenomenal yields and production levels to good weather and the use of genetically engineered seeds.
- Tremendous crop yields have driven commodity prices down at a time when they were still weak from last year's harvest (see figure). Compared with the same time last year, corn prices have declined close to 35 percent for both Illinois and Missouri farmers. Meanwhile, soybean prices have declined by 13 and 21 percent in Missouri and Illinois over the same period, respectively.
- A majority of agricultural bankers surveyed expect farm income to decline in the near-term (see right table). Lower farm income will likely stress the balance sheets of area farmers and could force highly leveraged operations to conduct distressed sales of farmland. Accordingly, almost two-thirds of agricultural bankers surveyed expect farmland values to decline over the fourth quarter relative to the same time a year ago.

	Illinois	Missouri	US
Natural resources (Q3-14)			
Mining and logging employment	3.5	2.4	5.7
Coal production	12.8	-15.7	-1.9
Production (2014)			
Corn	11.4 ▼	38.5	3.5
Cotton	---	5.8	27.0 ▲
Rice	---	34.0	16.4 ▲
Sorghum	6.1	37.2	4.9
Soybean	16.4	24.8	17.9

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 Q4-14 vs. Q4-13

	Lower	Higher	Net
Farmland Values	61	4	-57
Loan demand	20	36	16
Available funds	20	8	-12
Loan repayments	28	16	-12
Farm income	68	5	-64
Capital spending	73	9	-64

Note: Percentage of responses. Net values may not add up due to rounding. See appendix for source.

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: 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 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 St. Louis covers transportation, warehousing, and utility industries. About 90 percent of the reported jobs are contributed by transportation and warehousing industries.

Manufacturing exports is 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.

Bureau of Economic Analysis

Year-to-date new and existing home sales, US.

St. Louis Association of Realtors

Year-to-date new and existing home sales, St. Louis.

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 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.

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.

More information about the **Michael Brown Case** and protesting in the St. Louis region is available at http://online.wsj.com/articles/ferguson-businesses-face-rebuilding-effort-1417039397

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 Agricultural Finance Monitor

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. Note: Production trends identified in report may be inconsistent with previous reports due to data revisions.

Bureau of Labor Statistics (BLS)

Mining and logging employment.

United States Department of Agriculture (USDA)

Crop production and commodity prices.