



Burgundy Book

A report on economic conditions in the Little Rock zone

Second Quarter 2015

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.

Arkansas's Transportation Industry Registers Its Strongest Job Growth in a Decade

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

A May survey of business contacts revealed that a little more than half of respondents expect that economic conditions in 2015 will be better than in 2014. Three months earlier, a little more than 80 percent were optimistic about the near-term outlook.

In the first quarter of 2015, nonfarm payroll employment rose 0.9 percent (from a year earlier) in the Little Rock MSA. Job growth was strongest in the natural resources, mining, and construction industries and weakest in the professional and business services industry. Arkansas's transportation employment growth in the first quarter was the strongest in a decade.

The zone's unemployment rate averaged 5.6 percent in the first quarter of 2015, basically unchanged from the previous quarter (5.5 percent). Three of the zone's four MSAs posted an unemployment rate below the nation's average (5.5 percent) in the first quarter. About two-thirds of managers surveyed said they are raising wages to attract and retain employees.

For the second consecutive quarter, home prices and single-family building permits rose in most areas of the zone and year-to-date home sales were up 8.5 percent in the Little Rock MSA.

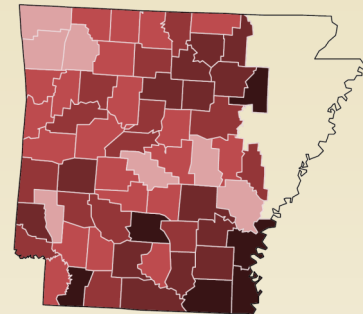
Credit card delinquency rates in the Little Rock zone rose significantly in the first quarter, though still below the nation's increase.

According to a survey of Arkansas bankers, the demand for mortgage loans is expected to increase modestly in the third quarter, after little growth in the second quarter.

The USDA's planting intentions report suggests that Arkansas farmers plan to plant fewer acres of corn, cotton, and rice in 2015, but more acres of sorghum and soybeans.

Data Snapshot

County unemployment rates (SA, Q1-15)

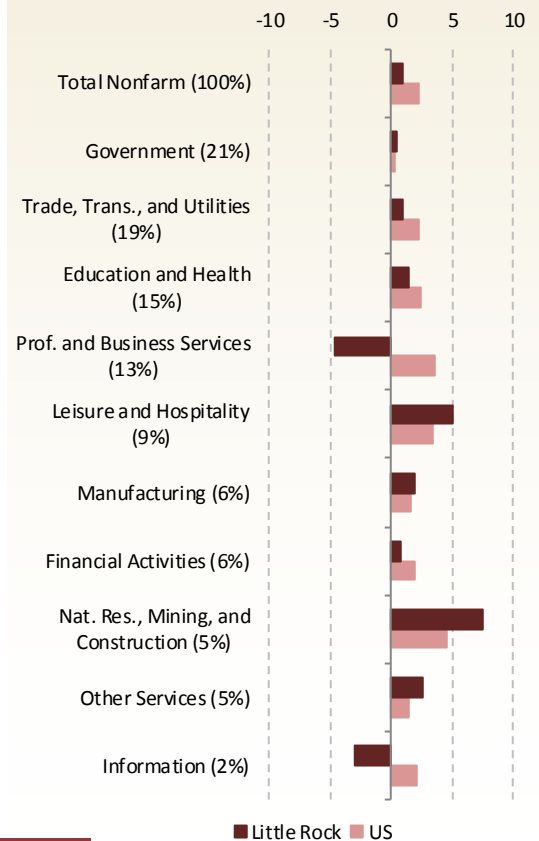


5.6%



Nonfarm payroll employment by industry

Percent change from one year ago (Q1-15)



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 May 8 and May 18.

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.

Employment and Wage Growth Remain Slow in Little Rock

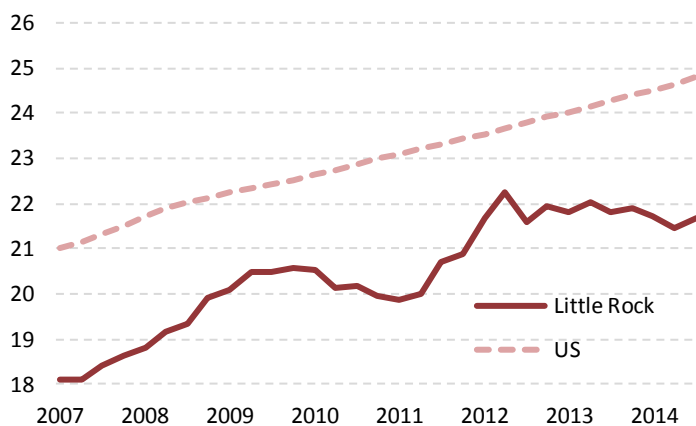
By Maria A. Arias, Senior Research Associate

“Lower oil prices have taken the pressure off transportation rate increases.”

—Little Rock area manufacturer

Nominal earnings in Little Rock turned up in first quarter

Average hourly earnings of private sector employees, SA



Source: BLS.

- Labor market conditions in the Little Rock zone improved slightly at the beginning of 2015, with the unemployment rate decreasing in all MSAs. Overall, business contacts expect hours worked and employment growth to remain about the same through the middle of the year, compared with the same time last year. They also expect wages and labor costs to increase slightly.
- Employment growth during the first quarter remained steady but weak in all MSAs compared with the national average, except in Fayetteville (see table). Job growth accelerated slightly from the previous quarter in Little Rock, driven by job growth in the logging, mining, and construction sector.
- A survey of hiring managers in the zone revealed that most are actively looking for employees to fill openings, particularly for professional, technical, managerial, and administrative positions. However, most reported not having enough qualified applicants to fill such positions.
- Nominal hourly earnings for private sector workers in Little Rock have declined slightly during the past two years, though turned up during the first quarter this year (see figure). About two thirds of managers surveyed said they are raising starting and current pay to attract and retain employees, but they are not increasing prices to pass the costs to consumers.

	Little Rock	Fayetteville	Fort Smith	Texarkana	US
Unemployment rate (Q1-15) (%)	5.0	4.1	5.5	5.3 ▼	5.5
Nonfarm employment (Q1-15)	0.9	4.1	0.7	0.5	2.3
Goods-producing sector	4.5	2.0 ▼	2.2	0.4	2.7
Private service-providing sector	0.5	4.9	0.5	0.3	2.6
Government sector	0.6	2.4	-0.7	1.2	0.4

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.

Arkansas Transportation Employment Growth Reaches Decade High

By Daniel Eubanks, Senior Research Associate

“Export sales are lower and some of what is normally exported is being shipped to U.S. markets [because of the strong dollar].”

— Southern Arkansas manufacturer

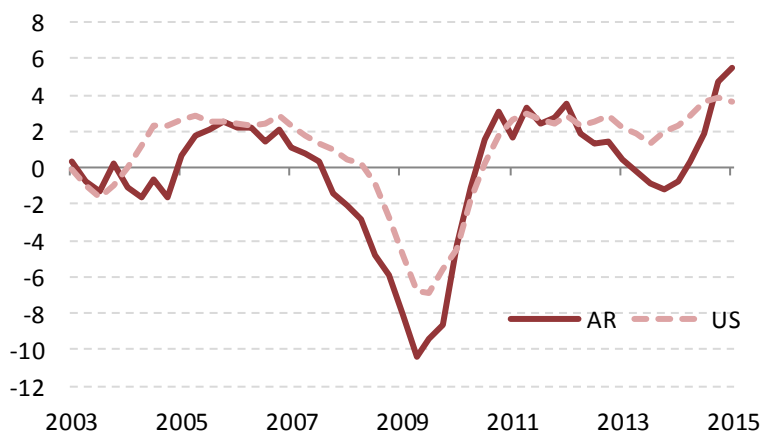
“Through the first four and a half months of 2015, business conditions in our area are very similar to the same time frame in 2014.”

— Southern Arkansas manufacturer

- Transportation employment growth statewide accelerated by 1 percentage point to 5.8 percent, its fastest year-over-year growth rate in over a decade (see figure).
- Transportation employment in the Little Rock MSA grew in the first quarter after several quarters of decline, while growth in the Fayetteville MSA continues to far exceed the U.S. average.
- After a strong fourth quarter in 2014, manufacturing employment growth in Arkansas slowed to below the U.S. average in the first quarter of 2015. The slowdown was particularly sharp in nondurable goods, which fell 2.2 percentage points to 0.5 percent. Durable goods employment fell 1.7 percentage points to 1.2 percent.
- Growth in manufacturing exports from Arkansas fell 10 percentage points to 1.2 percent in the first quarter. The decline was driven by reduced exports of transportation equipment and primary and fabricated metal products. Growth in exports of computer and electronic products, which have nearly tripled over the past year, offset the decline, along with strong growth in exports of chemical products.
- Contacts note a decrease in exports as a result of the strong dollar (see quote), but only limited impacts from the decrease in oil prices.

Transportation employment growth is at a decade high

Percent change from one year ago



Source: BLS

	Little Rock	Fayetteville	Arkansas	US
Transportation employment (Q1-15)	1.2	6.3	5.8	3.6
Manufacturing employment (Q1-15)	2.0	1.2 ▼	0.9 ▼	1.8
Durable goods	--	--	1.2	2.5
Nondurable goods	--	--	0.5 ▼	0.5
Manufacturing exports (Q1-15)	--	--	1.2	-3.8

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.

Real Estate Market Improves Across All Fronts in Little Rock

By Diana Cooke, Senior Research Associate

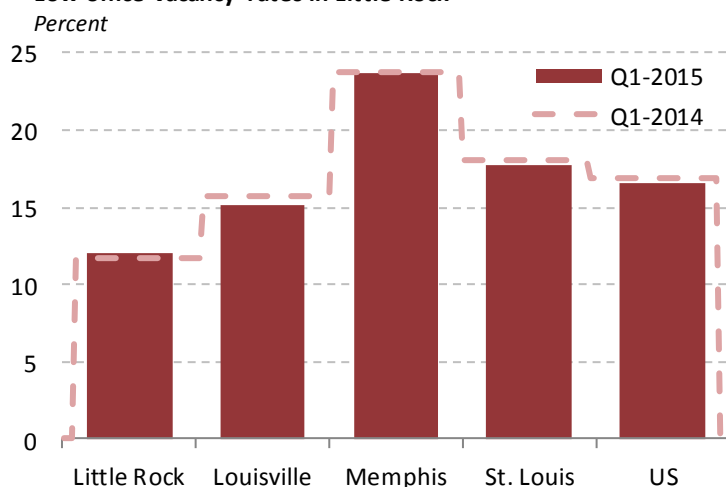
“If we get our inventories up, it should help keep prices down and that in turn may lessen the impact of a Fed rate increase.”

—Little Rock area realtor

“The local residential real estate market is ‘in balance,’ and real estate continues to recover from the financial crisis.”

—Arkansas river valley area realtor

Low office vacancy rates in Little Rock



Source: Reis.

- The residential real estate market in Little Rock strengthened in the first quarter of 2015. Year-to-date home sales increased 8.5 percent and prices increased 2.5 percent from one year ago. Realtors from the area noted that existing homes have been selling fast with multiple offers.
- The residential construction market in the Little Rock zone improved in the first quarter. Single-family building permits increased significantly in the majority of the MSAs in the zone. Realtors from the zone reported that it is difficult to get banks to lend for speculative home construction and that the redevelopment of lots for single-family houses is very limited.
- The commercial real estate market improved. In all property types, except for office, vacancy rates fell in the first quarter of 2015. Still, the office market is strong (see figure). The industrial market performed exceptionally well; asking rents increased over 6 percent and vacancy rates dropped for the first time in a year.
- Contacts reported that there is speculative office space being developed for the first time in many years and major national retailers and manufacturing firms are opening up stores and facilities in the Little Rock area.

Non-residential market (Little Rock, Q1-15)	Apartment	Office	Retail	Industrial
Vacancy rate (%)	6.6	12.1	11.4	8.5
Asking rent	1.9 ▲	0.3	0.2	6.4
<i>Percent change from one year ago</i>				

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

Residential market (Q1-15)	Little Rock	Fayetteville	Fort Smith	Hot Springs	Pine Bluff	Texarkana	US
CoreLogic Home Price Index	2.5 ▲	5.1	4.9	0.5 ▲	3.1	20.4	4.8
Single-family building permits	22.0 ▲	21.4	33.3 ▲	25.0 ▲	400.0 ▲	-92.6 ▼	8.6
New and existing home sales	8.5 ▲	--	--	--	--	--	8.4 ▲

Income Growth Accelerates, Credit Card Delinquencies Tick Up

By Peter B. McCrory, Senior Research Associate

“Oil prices have had little impact on overall sales due to the fact that most people know gas prices will rise again relatively soon.... It is a long-term purchase.”

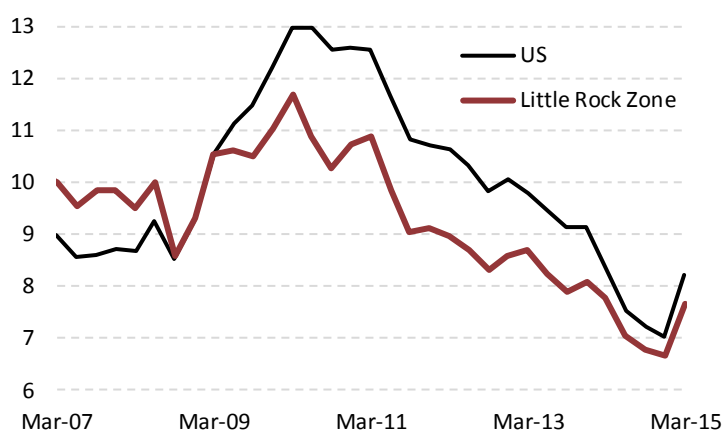
—Conway area auto dealer

“[Low gas prices] have given our customers more disposable income, which I translate into fewer bankruptcies and more on-time loan payments.”

—Little Rock area banker

Credit card delinquency rates move up, but remain low

Percent



Source: FRBNY Consumer Credit Panel and Equifax.

- Arkansas' personal income grew by 4.2 percent in the fourth quarter, nearly 2 percentage points faster than in the prior quarter. Income growth was faster in Arkansas than it was in the nation.
- Households in the Little Rock zone continued to increase auto debt balances while leaving credit card debt balances essentially unchanged. Reports from contacts in northwest Arkansas indicate that luxury auto dealers exceeded their sales objectives in April. A Conway area auto dealer reported that low gas prices have had little-to-no effect on sales. A Little Rock banker suggested that consumers were less delinquent on loans than they would be otherwise as a result of low gas prices.
- Despite improvements in the housing market, households continued to reduce their mortgage debt balances at a relatively modest pace.
- The zone's credit card delinquency rate increased in the first quarter, returning to its level in early 2014. This was the first significant increase since early 2009. The credit card delinquency rate in the Little Rock zone remained below the national rate (see figure). Auto and mortgage delinquency rates were largely unchanged in the first quarter of 2015.

	Little Rock Zone	Arkansas	Little Rock MSA	US
Per capita personal income (Q4-14)	--	4.2	--	3.8
Per capita debt balances (Q1-15)				
Mortgage	-0.6	-0.6	-1.1	-1.4
Credit card	0.9	0.9	-0.3	2.0
Auto loan	9.1	9.5	6.2	8.7
90+ day delinquency rates (Q1-15) (%)				
Mortgage	1.8	1.9	1.8	2.5
Credit card	7.7 ▲	7.8 ▲	6.9 ▲	8.2 ▲
Auto loan	2.8	2.8	3.2	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.

Loan Demand Stable, Asset Quality Improving in Little Rock Zone

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

“We are in a potentially prime position to ramp-up our momentum for generating organic loan growth, resulting in increased income for the company.”

— Conway banker

“Home mortgage refinancing remains strong.”

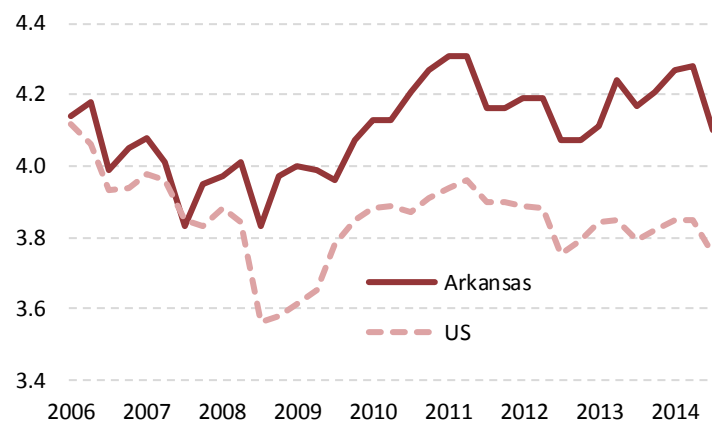
— Little Rock banker

“The rate and the length of time businesses can obtain a fixed rate is influencing borrowing decisions.”

— Little Rock banker

Net interest margins trending down

Net interest margin at commercial banks, percent



Source: FRED.

- Most area bankers surveyed report that overall loan demand has been and will remain about the same in the second and third quarters of 2015 as it was a year ago. One-third of bankers report slightly higher current and expected demand.
- Bankers surveyed indicate that demand for commercial and industrial loans is unchanged to slightly higher in the second quarter compared with one year ago. The same conditions are expected to hold into the third quarter.
- Two-thirds of bankers report demand has been unchanged to somewhat lower in the second quarter, while one-third report it has been slightly higher. All respondents expect demand to be somewhat higher in the third quarter.
- Profitability declined at Arkansas banks in the first quarter. Return on average assets (ROA) declined 9 basis points in the first quarter but was down just 2 basis points from its year ago level. Fluctuations in the average net interest margin are largely responsible for the profitability swing. Nevertheless, Arkansas banks remain more profitable, on average, than their District and U.S. peers (see chart).
- Asset quality continued to improve in the first quarter. The ratio of nonperforming loans to total loans declined 5 basis points at Arkansas banks. Area bankers surveyed report loan delinquencies have been and are expected to remain slightly lower in the second and third quarters of 2015 than they were one year ago.

Banking performance (Q1-15)

	Arkansas	8th District	US Peer Banks
Return on average assets	1.18	0.89	1.03
Net interest margin	4.10	3.69	3.75
Nonperforming loans / total loans	1.33	1.23	1.29
Loan loss reserve coverage ratio	109.77	113.01	110.08

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

Arkansas's Long-Grain Rice Production Remains Strong Amidst Industry Woes

By Lowell R. Ricketts, *Senior Research Associate*

“We are way late on plantings. There will likely be a 30 percent reduction in corn plantings in northeastern Arkansas. However, in southern Arkansas the corn stalks are already up to the hip.”

— Central Arkansas industry contact

“Plantings are late due to the wet spring. However, most of the plantings were completed in about a week when the weather cleared up. The number of acres planted with corn is close to 40-50 percent lower this year. Soybeans and sorghum have been planted in place of corn.”

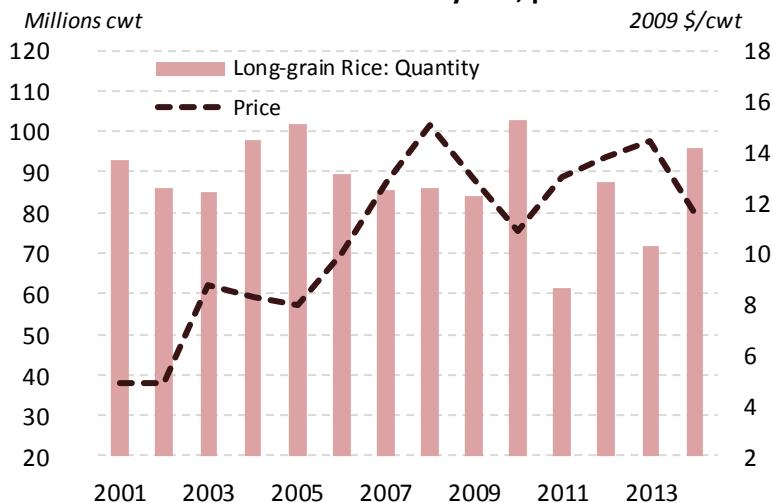
— Northwest Arkansas farmer

- Arkansas farmers wrapped up the spring planting season after unusually wet weather delayed progress in the northern part of the state. Due to these delays—and expectations of continued low prices—farmers planted fewer acres of corn this year. Although March USDA estimates indicate a 1.9 percent reduction nationally, anecdotal reports suggest that the number may be revised higher. Cotton plantings are expected to be sharply down this year. Rice plantings declined modestly but remain higher than in recent years.

- Unlike other commodities, long-grain rice prices remain stable for the time being: The price for Arkansas's largest rice product has been on a volatile ride over the past 14 years (see figure). The average price of long-grain rice fell to its lowest level (for which data are available) in 2001 and 2002, and six years later it rose to its highest historical level. Meanwhile, Arkansas's long-grain rice production remained relatively stable and typically amounts to around 60 percent of national production. Commodity prices paired with production are important determinants of farm income.

- Arkansas coal production was 54 percent higher than at the same time last year (see table). That said, Arkansas coal production tends to be quite volatile. Meanwhile, national coal production fell by a significant margin and employment growth in the mining and logging industries slowed down.

Production rebounds from weaker years; price declines



Source: USDA.

	Arkansas	US
Natural resources (Q1-15)		
Mining and logging employment	-1.5	1.7 ▼
Coal production	54.3	-3.5 ▼
Prospective plantings (2015)		
Corn	-1.9	-1.5
Cotton	-31.3 ▼	-13.5
Rice	-3.0 ▼	-0.8 ▼
Sorghum	47.1	10.7
Soybeans	6.5	1.1

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.

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.

Average hourly earnings are in current dollars.

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

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: USL15NPPL. Loan loss reserve/Total loans: USL15LLRTL. Net loan losses/Average total loans: USL15LSTL.

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

Notes

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

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

Loan loss coverage ratio is loan loss reserves divided by nonperforming loans.

US peer banks are those commercial banks with assets of less than \$15 billion.

Due to the seasonal nature of bank return on average assets and net interest margin, the **arrows** in the table denote significant changes from one year ago.

Agriculture and Natural Resources

Sources

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)

Prospective plantings (March 2015), long-grain rice production, long-grain rice prices. Prices adjusted using GDP chain price index provided by the bureau of Economic Analysis.

Notes

The results of the Federal Reserve Bank of St. Louis *Agricultural Finance Monitor* are not reported due to a low response rate for the Little Rock zone.