



# Burgundy Book

A report on economic conditions in the Memphis zone

Third Quarter 2015

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.

## Credit Card Balances Rise at Their Fastest Rate in More than Six Years

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

Optimism among Memphis-zone business contacts improved modestly compared with three months earlier. Although a little more than a third of respondents expect improving economic conditions in 2015 (relative to 2014), a little less than a quarter expect conditions to worsen.

Despite declines in goods-producing and government-sector payrolls, total nonfarm payroll employment rose modestly in the Memphis MSA in the second quarter. Growth was also modest in Jackson, Tennessee, but was substantially faster in Jonesboro, Arkansas. Jonesboro's employment growth exceeded the nation's growth for the ninth consecutive quarter.

The Memphis zone's unemployment rate averaged 7 percent in the second quarter of 2015, down appreciably from the previous quarter (7.4 percent). The unemployment rate averaged 6.2 percent in Jackson, 5.1 percent in Jonesboro, and 6.6 percent in Memphis.

Residential home building activity was mixed in the second quarter. Single-family building permits declined in Memphis and in Jonesboro, but rose in Jackson. In the Memphis MSA, office vacancy rates fell slightly in the second quarter but remained quite high (23.3 percent).

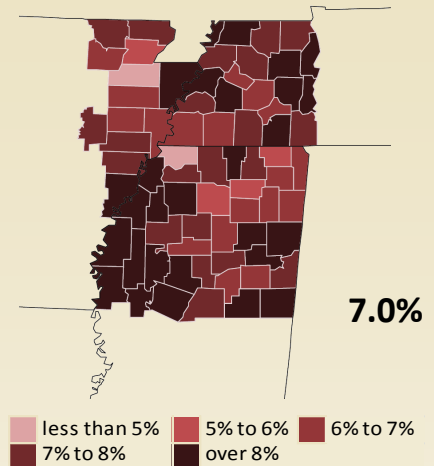
Per capita credit card balances increased 3.6 percent in the Memphis zone in the second quarter, the largest increase in more than six years. In the second quarter, mortgage delinquency rates fell significantly in Tennessee and Mississippi.

A survey of commercial bankers reported that loan demand thus far in the third quarter is higher than a year earlier. In particular, the demand for business loans has increased.

Cotton production in 2015 is projected to be sharply lower in Arkansas, Mississippi, and Tennessee, but yields are expected to be the highest in a decade.

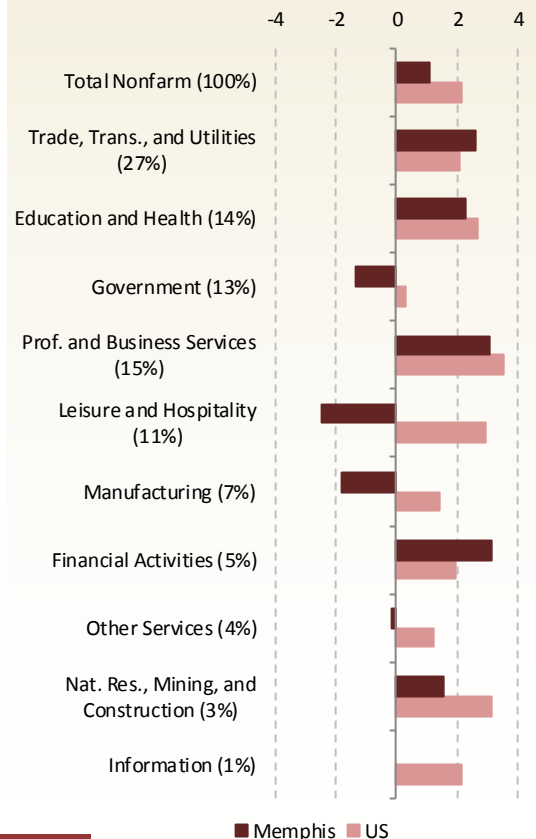
## Data Snapshot

### County unemployment rates (SA, Q2-15)



### Nonfarm payroll employment by industry

Percent change from one year ago (Q2-15)



## 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 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 7 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](mailto:beigebook@stls.frb.org).

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

## Slow Employment Growth Expected To Continue Through Next Quarter

By Maria A. Arias, Senior Research Associate

*“Employees with highly technical skills are in demand.”*

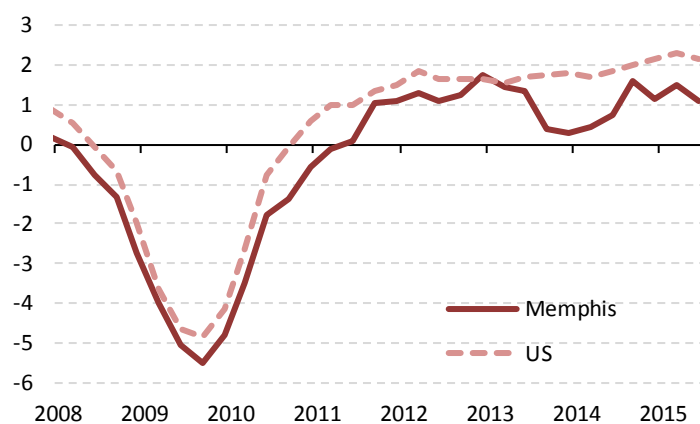
— Jonesboro area manufacturer

*“There is lots of job growth.”*

— Jonesboro area builder

### Employment growth slowed in Memphis

Payroll employment, Percent change from year ago



Source: BLS.

- Labor market conditions were mixed throughout the Memphis zone. On one hand, employment growth slowed slightly in all MSAs during the second quarter, mainly because of slower growth in the goods-producing sector. On the other hand, the service sector continued to drive employment growth across the zone and overall growth in Jonesboro was twice the national average (see table).
- In Memphis, overall employment growth slowed and remained at about half the national average (see figure). However, employment growth in the trade, transportation, and utilities sector and the financial activities sector was faster than the national average.
- A survey of business contacts in the region revealed that employment and hours worked have remained about the same as they were around the same time a year ago; contacts expect this pattern to continue throughout the rest of the year. Two-thirds of hiring managers reported actively looking for employees, mainly for sales and managerial positions.
- Hourly earnings growth for private-sector employees declined again during the second quarter. However, contacts reported labor costs and wages are slightly higher than they were a year ago, and they expect prices to stay about the same or increase slightly in the upcoming quarter.

	Memphis	Jackson	Jonesboro, AR	US
Unemployment rate (Q2-15) (%)	6.6	6.2	5.1	5.4
Nonfarm employment (Q2-15)	1.1	1.1	4.5	2.1
Goods-producing sector	-0.7	1.1	3.5	2.1
Private service-providing sector	1.8	1.7	5.4	2.6
Government sector	-1.3	-0.5	2.3	0.3

Note: Unless otherwise noted, values are percent change from one year ago. Arrows indicate a significant ( $\pm 1$  standard deviation) change from the previous quarter. See appendix for notes and sources.

## Manufacturing Sector Employment Continues To Decline in Memphis

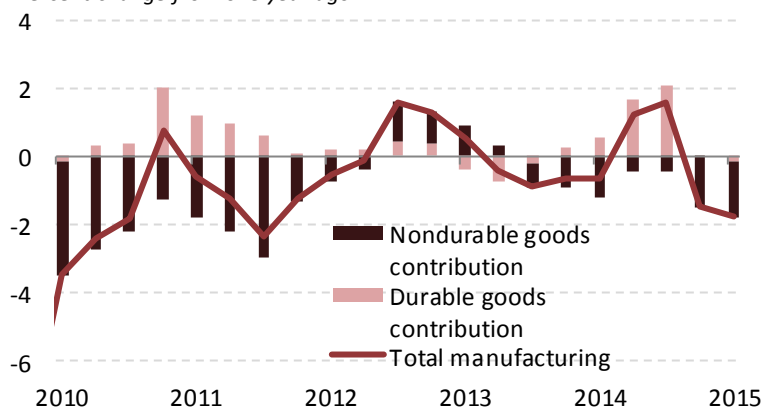
By Daniel Eubanks, Senior Research Associate

*“Buyers are holding back because of uncertainty.”*  
 – Memphis manufacturer

- Manufacturing employment in the Memphis MSA continued to contract in the second quarter. Employment losses were concentrated in the nondurable goods sector, although the durable goods sector also declined (see figure).
- Manufacturing employment in Tennessee grew faster than the national average despite declines in nondurable goods employment. However, employment in the sector still remains lower relative to pre-recession levels than in the nation overall.
- In Tennessee, transportation equipment, machinery, and electrical equipment manufacturing contributed the most to overall manufacturing employment growth, while textiles and apparel products, printing products, and paper products manufacturing all contributed negatively.
- Manufacturing exports from Mississippi and Tennessee changed little on net in the second quarter. In Mississippi, growth in exports of transportation equipment was offset by declines in exports of petroleum and coal products. In Tennessee, several sectors contributed to export growth, but a similar number posted declines.
- Transportation employment growth in Mississippi has steadily accelerated over the past year and is now nearly twice the national rate.

### Nondurable goods drive manufacturing employment decline in Memphis

Percent change from one year ago



Source: BLS

	Memphis	Tennessee	Mississippi	US
Transportation employment (Q2-15)	2.8	2.9	5.6	3.0
Manufacturing employment (Q2-15)	-1.8	2.3	1.1	1.4
Durable goods	-0.3	3.6	0.9	1.9
Nondurable goods	-3.6	-0.1	1.5	0.7
Manufacturing exports (Q2-15)	--	0.4	0.7	-4.6

Note: Values are percent change from one year ago. Arrows indicate a significant ( $\pm 1$  standard deviation) change from the previous quarter; see appendix for notes and sources.

## Conditions Improve Across All Markets in Memphis

By Usa Kerdnunvong, *Research Associate*

*“There are not many build-to-suits in the market. This will change in the future, as Class A office space is close to ‘full occupancy’. As such, anyone looking for large blocks of space will have to settle for class B or having a building built.”*

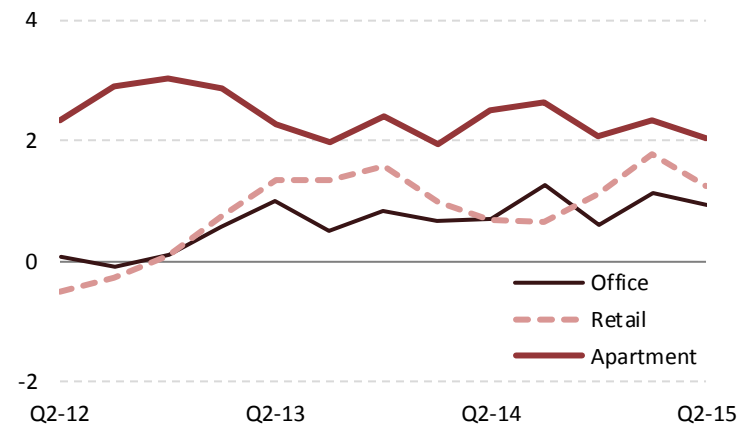
— Memphis area real estate contact

*“The return of some spec residential buildings indicates the housing market is strong enough to justify some spec building.”*

— Memphis area business contact

### Asking rents are rising at a slightly slower pace in all sectors

*Percent change from one year ago, Memphis*



Source: Reis.com.

- Memphis residential real estate market conditions improved slightly in the second quarter. Year-to-date home sales were up significantly from the prior quarter, but slower than the national rate (see table). Home prices rose in two of the three MSAs.
- Construction lagged behind the increase in home prices, as year-to-date single-family building permits growth slowed from one year ago (see table). Contacts note many residential permits were for disaster recovery of existing homes and rebuilding homes.
- The commercial real estate market continued to improve. Asking rents continued to increase, although at a slightly slower pace, in all sectors (see figure). Compared with the previous quarter, vacancy rates decreased for all sectors except for the industrial sector. The apartment market in Memphis remains strong. The vacancy rate dropped 140 basis points from the same period in 2014. Meanwhile, asking rents continued to increase (see figure).
- Commercial and industrial construction activity in the zone showed signs of growth. There are major renovations and new construction projects: retail centers in Germantown and industrial space around the Memphis International Airport.

Non-residential market (Memphis, Q2-15)	Apartment	Office	Retail	Industrial
Vacancy rate (%)	7.2	23.3	11.6	14.1
Asking rent <i>Percent change from one year ago</i>	2.0	0.9	1.2 ▼	1.1

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

Residential market (Q2-15)	Memphis	Jackson	Jonesboro	US
CoreLogic Home Price Index	3.2	-1.7	3.3 ▲	5.7
Single-family building permits	-3.5	3.3 ▲	-6.0	9.7
New and existing home sales	5.3 ▲	--	--	9.1

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

## Credit Card Debt Increases, Mortgage Delinquency Rates Continue To Drop

By Joseph McGillicuddy, *Research Associate*

*“Lower oil prices have translated to savings on energy costs for the consumer. In addition overall consumer sentiment seems marginally more optimistic.”*

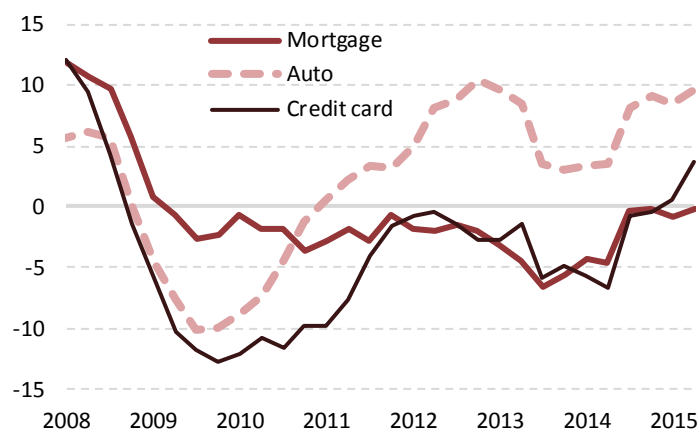
— Memphis area auto dealer

*“General optimism among borrowers and confidence in the stability of the economy. Low rates are continuing to feed demand.”*

— Memphis area banker

### Zone credit card debt growth accelerates

Percent change in debt balances from one year ago



Source: FRBNY Consumer Credit Panel and Equifax.

- First-quarter personal income growth continued to accelerate in Mississippi, remained flat in Tennessee, and declined slightly in Arkansas. Only Arkansas’s growth rate of 4.7 percent surpassed that of the nation (see table).
- Households within the zone continued to increase their auto debt balances at a relatively high rate during the second quarter of 2015. Mortgage debt was essentially unchanged. Zone credit card debt growth accelerated to 3.6 percent year-over-year, the first quarter since 2008 where year-over-year growth in credit card debt was greater than 1 percent (see figure).
- The mortgage delinquency rate within the zone decreased to 2.0 percent, remaining below the national rate, which also fell. Credit card and auto loan delinquency rates remained essentially unchanged compared with the previous quarter.
- Anecdotal information indicates consumer spending was mixed. Several local business contacts reported sales slightly above 2014 levels in the second quarter while others stated business was flat. Multiple local auto dealers indicated relatively strong sales at the end of the second quarter and into the third quarter, attributing this growth to low interest rates and low gas prices.

	Memphis Zone	Arkansas	Mississippi	Tennessee	US
Per capita personal income (Q1-15)	--	4.7	3.2	3.2	3.5
Per capita debt balances (Q2-15)					
Mortgage	-0.1	-1.8	0.4	0.0	-1.3
Credit card	3.6 ▲	1.4	4.5	4.3 ▲	2.8
Auto loan	9.5	8.8	11.1	8.8	9.0
90+ day delinquency rates (Q2-15) (%)					
Mortgage	2.0 ▼	1.7	2.1 ▼	1.5 ▼	2.2
Credit card	7.9	7.7	7.1	7.4	8.1
Auto loan	4.5	2.8	5.2	3.3	3.2

Note: Unless otherwise noted, values are percent change from one year ago. Arrows indicate a significant ( $\pm 1$  standard deviation) change from the previous quarter. See appendix for notes and sources.

## Loan Demand Strong in Memphis Zone

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

*“Capital expenditures at local businesses have increased somewhat and we expect them to continue to increase, especially for retail and equipment facilities.”*

—Jonesboro area banker

*“Mortgage loan pipelines remain strong due to favorable mortgage rates and steady mortgage purchases and refinancing.”*

—Memphis area banker

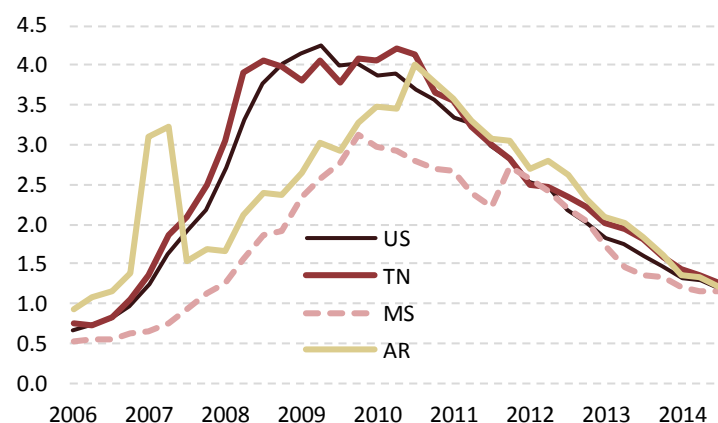
*“During the past three months, delinquency rates on existing loans are at about 5 percent or more. However, they do not turn into losses.”*

—Eastern Tennessee area banker

- All bankers surveyed reported loan demand was slightly higher in the third quarter compared with the same time last year. Loan demand is mostly expected to remain higher in the fourth quarter relative to last year, although one respondent expects it will be unchanged.
- Demand for business loans has increased. Almost all respondents reported business lending demand was stronger or slightly stronger in the third quarter compared with the same time last year. Half of respondents expect demand to continue to increase in the fourth quarter, while the rest expect it will be about the same.
- Bank profitability was up in the second quarter. Return on average assets (ROA) increased at banks across the zone. The increase in ROA was driven mostly by increases in average net interest margins, which also improved at Tennessee, Mississippi, and Arkansas banks.
- Asset quality continues to improve. The ratio of nonperforming loans to total loans (NPLTL) fell 12 basis points in Tennessee and 11 points in Arkansas in the second quarter; the ratio ticked up just 1 basis point at Mississippi banks. Still, the average NPLTL ratio in Mississippi is on par with the 8th District average and below the national average.
- Half of bankers surveyed reported that delinquency rates in the third quarter were unchanged from the prior year, while the other half reported they were somewhat lower.

### Asset quality strong in Memphis zone

Nonperforming loan ratio at commercial banks, percent



Source: FRED.

Banking performance (Q2-15)	Tennessee	Mississippi	Arkansas	8th District	US Peer Banks
Return on average assets	0.78	0.94	1.20	0.99	1.09
Net interest margin	3.62	3.67 ▼	4.16	3.73	3.76
Nonperforming loans / total loans	1.25	1.16	1.22	1.16	1.19
Loan loss reserve coverage ratio	105.60	101.72	113.11	115.52	115.13

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

## Concern About Crop Profitability Continues

By Jonas C. Crews, Research Analyst

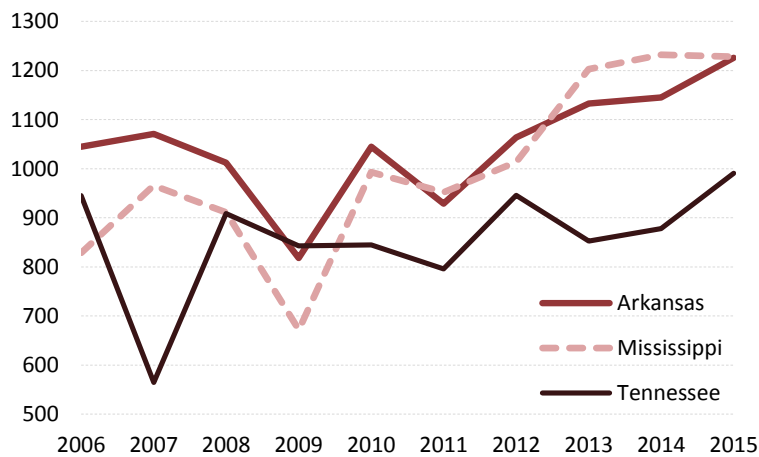
*“Farmers are now thinking, ‘Where is the greatest chance to not lose money?’ You can only cut costs so much.”*

— Northern Mississippi farmer

*“If we’re trying to get prices to go up on cotton, growing more of it is not the way to go.”*

— Eastern Arkansas farmer

**Cotton yields projected to be highest in a decade**  
lb./acre



Source: USDA/NASS.

- According to current USDA estimates, Arkansas sorghum production will more than triple last year’s output, while the state’s average soybean yield is projected to be higher than 2014’s record-breaking level. These unexpected projections have contributed to the 31 percent decline in the cash price of sorghum and the 14 percent decline in the cash price of soybeans from their July peaks. In Mississippi, rice production is expected to fall, although prospective planting numbers showed an increase over last year’s acreage.
- Cotton planting declined significantly this year. But high projected yields (see figure), if realized, will mitigate the production effects of the acreage reduction. Further, one industry official says the USDA projections are on the conservative side, as he expects higher yields than current government predictions. The official also explains that the downward price pressure of high yields, when coupled with the government’s “reduced support of cotton farmers,” will continue to make cotton less compelling to farmers deciding what crops to plant in the future.
- Continuing the trend from the first quarter, Tennessee coal production experienced another significant decline (see table). However, Tennessee was not alone, as every state in the 8th District saw a decline in production relative to the second quarter of last year.

	Arkansas	Mississippi	Tennessee	US
<b>Natural resources (Q2-15)</b>				
Mining and logging employment	-3.8	-5.1	--	-4.4 ▼
Coal production	--	-13.7	-20.3 ▼	-14.3 ▼
<b>Estimated Production (2015)</b>				
Corn	-7.5	6.6	-0.6	-3.7
Cotton	-23.8	-27.6 ▼	-35.2 ▼	-19.8 ▼
Rice	-6.6 ▼	-6.8 ▼	--	-7.2 ▼
Sorghum	214.9 ▲	7.4	--	32.4
Soybean	4.3	-2.2	10.6	-1.3

Note: Values are percent change from one year ago. Arrows indicate a significant ( $\pm 1$  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.

**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 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

### 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)*

Production and yield estimates as of August 2015.

#### *Wall Street Journal*

Commodity prices.

### 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 Memphis zone.