Burgundy Book

A report on economic conditions in the St. Louis zone

Third Quarter 2015

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.

Employment Growth Slows in Most Areas, but Business Contacts Remain Upbeat

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

An August survey of St. Louis-area business contacts revealed that a little less than two-thirds expect that local economic conditions in 2015 will be better than in 2014. This sentiment was a noticeable improvement from three months earlier.

Growth of nonfarm employment slowed in four of the five MSAs in the second quarter compared with the previous quarter. Employment growth in the St. Louis MSA inched up from 0.9 percent to 1 percent.

The St. Louis zone's unemployment rate remained unchanged at 5.7 percent in the second quarter. Business contacts reported that labor market conditions should either remain stable in the fourth quarter or improve relative to a year earlier. The outlook for transportation services employment appears especially bright.

In the second quarter, growth of home sales, house prices, and building permits in the St. Louis MSA market was outpacing the nation and other areas of the zone. Likewise, the St. Louis commercial and industrial office market registered further improvements in the second quarter, though a fair amount of industrial activity was speculative.

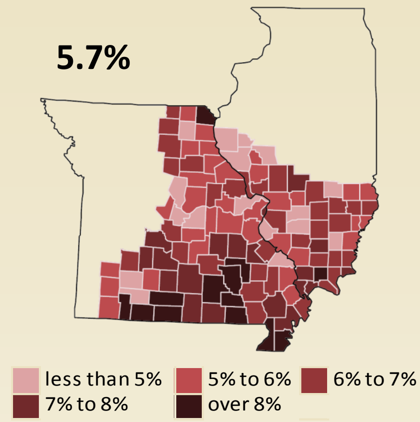
Mortgage loan delinquency rates in the St. Louis zone fell significantly in the second quarter of 2015, falling to their lowest level since 2007.

Loan demand continues to strengthen modestly according to a majority of bankers. In general, Missouri banks registered better asset quality in the second quarter, but southern Illinois banks had higher net interest margins and were more profitable.

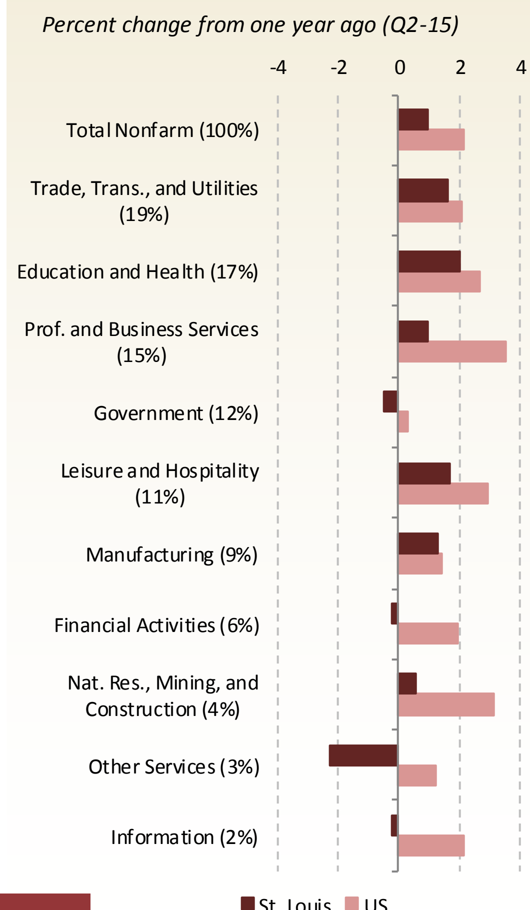
With the exception of sorghum, Missouri and Illinois crop production is expected to be substantially smaller than last year's production. In many areas, excess spring moisture damaged corn and soybean crops.

Data Snapshot

County unemployment rates (SA, Q2-15)



Nonfarm payroll employment by industry



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

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 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/outlooksurvey/

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

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

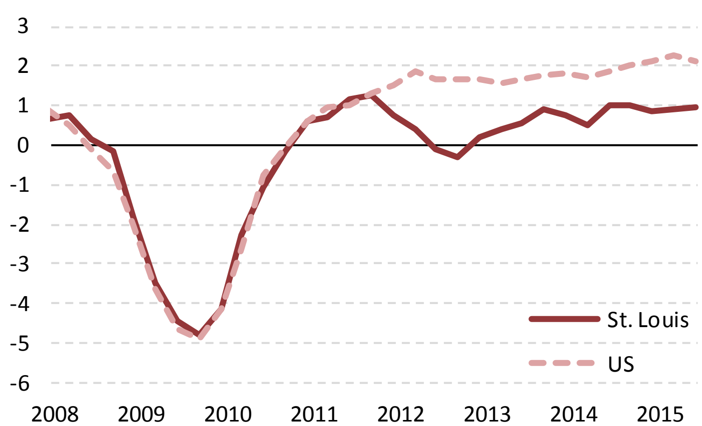
Employment Conditions Weak Across St. Louis Zone

By Maria A. Arias, *Senior Research Associate*

> *"There is increased demand for IT talent across pretty much all industries. Labor supply for IT consultants is probably at the lowest supply and greatest demand that I have seen since our inception 25 years ago. Pay rates, specifically for programmers/developers is up significantly."*
>
> — St. Louis area staffing contact

Employment growth remains slow in St. Louis

Nonfarm payroll employment growth, Percent change from year ago



Source: BLS.

- Labor market conditions weakened during the second quarter. The unemployment rate increased slightly in all MSAs, but remains lower than it was a year ago.
- Employment growth across the St. Louis zone was slower in the second quarter than during the previous quarter, remaining lower than the national average in all MSAs and showing a slight decline in both Jefferson City and Cape Girardeau (see table and figure).
- Area business contacts reported labor market conditions are improving, albeit slowly. About 40 percent of contacts reported labor costs, wages, and employment are about the same as they were a year ago; just over half reported they are higher or slightly higher, and less than 5 percent reported they were lower.
- The fourth quarter outlook looks similar, with about 60 percent expecting employment to remain about the same and almost 40 percent expecting employment to be higher than the same time last year. Additionally, two-thirds of hiring managers reported they were looking for employees.
- Despite higher expected labor costs and wages, about 60 percent of contacts reported prices are likely to remain about the same toward the end of the year, compared with the same time last year; about 10 percent expect prices to be slightly lower or lower, with the remaining expecting a slight increase.

	St. Louis	Springfield	Jefferson City	Columbia	Cape Girardeau	US
Unemployment rate (Q2-15) (%)	5.7	5.1	4.9	4.1	5.4	5.4
Nonfarm employment (Q2-15)	1.0	1.0 ▼	-0.4	1.9	-0.5 ▼	2.1
Goods-producing sector	1.1	0.3 ▼	1.5	5.7	1.1 ▲	2.1
Private service-providing sector	1.2	1.3 ▼	1.3	1.7 ▼	1.3 ▼	2.6
Government sector	-0.5 ▲	0.1	-3.5	1.4 ▲	-10.8 ▼	0.3

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.

Transportation Employment Continues To Accelerate in St. Louis

By Daniel Eubanks, *Senior Research Associate*

"The steel industry is not expected to return to healthy levels before 2017. This is driven by Chinese exports, low iron ore prices, and weaker than expected infrastructure spending."

– St. Louis area manufacturing consultant

"The strong dollar is hurting many of our manufacturing members with foreign sales."

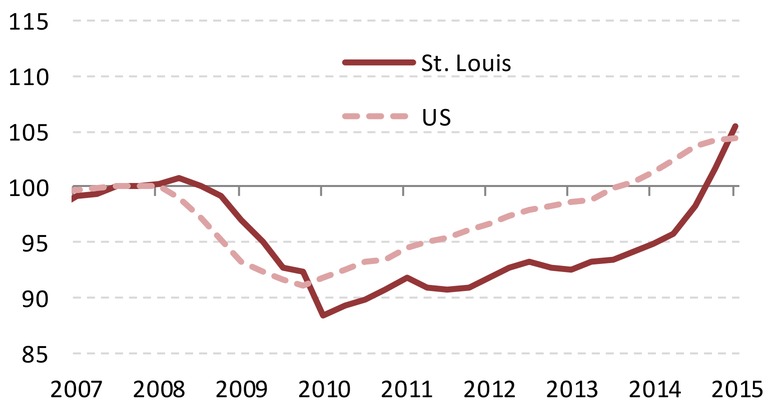
– St. Louis area business group

"Some material prices are falling due to oil and natural gas, although the material manufacturers are trying to maintain pricing levels."

– St. Louis area manufacturer

St. Louis transportation employment speeds past pre-recession level

Transportation employment, SA (Index 2007 Q4 = 100)



Source: BLS

- Transportation employment growth in the St. Louis MSA sharply accelerated to its fastest pace in over two decades. Employment in the sector is now growing at nearly four times the national average rate and is now higher relative to its pre-recession level than the U.S. overall (see figure).
- Manufacturing employment growth in St. Louis slowed in the second quarter following above-average growth in the first quarter. Employment growth in both the durable and nondurable goods sectors slowed, but the slowdown in nondurables was especially sharp. Despite the slowdown, manufacturing employment in St. Louis is still growing at a similar pace to the overall U.S. rate.
- Manufacturing employment in Illinois declined for a second consecutive quarter, with declines in both the durable and nondurable goods sectors.
- Manufacturing exports from Missouri were little changed on net in the second quarter. Growth of exports in transportation equipment was offset by declines in exports of food products.
- Manufacturing exports from Illinois declined in the second quarter at the same pace as the overall decline in U.S. manufacturing exports, driven by sharp decreases in exports of petroleum and coal products and machinery.

	St. Louis	Missouri	Illinois	US
Transportation employment (Q2-15)	11.2 ▲	4.3	2.3	3.0
Manufacturing employment (Q2-15)	1.3 ▼	2.0	-1.1	1.4
Durable goods	1.8	3.7	-1.4	1.9
Nondurable goods	0.6 ▼	-0.4	-0.6 ▼	0.7
Manufacturing exports (Q2-15)	--	1.0	-4.6	-4.6

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.

Industrial Real Estate Market Tightens; Increase in Speculative Construction

By Usa Kerdnunvong, *Research Associate*

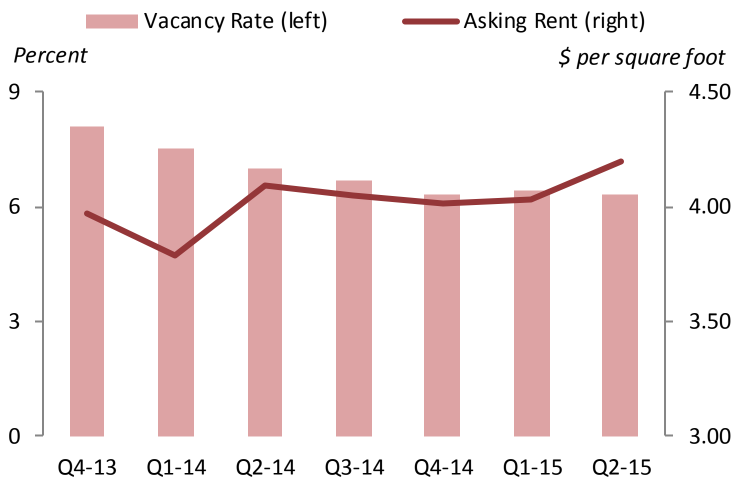
"There is an explosive amount of industrial square footage under construction in the Metro East. More construction is speculative development caused by higher rental rates."

— St. Louis area realtor

"We can see speculative development activity in office buildings, retail centers, and the industrial sector."

— St. Louis area business contact

Industrial market: vacancy rates decrease and rents stable



Source: DTZ.

- The industrial real estate market shows signs of further strengthening, with continuously lower vacancy rates and stable asking rents (see figure). Almost 2 million square feet of industrial space is under construction, and over 2 million square feet of new construction has been announced.

- The office real estate market improved. Class A vacancy rates are close to being in the single digits in prime submarkets. Class A tenants pushed into class B space are negotiating improvements in class B properties. Contacts note no construction for class A office space currently, but expect construction by year end.

- The St. Louis residential housing market continues to show growth. Year-to-date home sales increased at a faster pace than the nation (see table). Contacts expect a slightly higher demand next quarter.

- Residential construction activity has expanded at a steady pace. Almost 90 percent of contacts reported an increase in activity this quarter, and over half expect continued growth in the next quarter.

Non-residential market (St. Louis, Q2-15)	Apartment	Office	Retail	Industrial
Vacancy rate (%)	4.0	17.2	12.8	6.3
Asking rent *Percent change from one year ago*	2.2 ▼	1.1	0.8	2.7

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

Residential market (Q2-15)	St. Louis	Springfield	Jefferson City	Columbia	US
CoreLogic Home Price Index	3.3	2.3	3.7	8.0	5.7
Single-family building permits	11.1	-25.4	--	-7.5	9.7
New and existing home sales	13.6	--	--	--	9.1

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.

Zone Mortgage Delinquency Rate Falls, Auto Debt Continues To Grow

By Joseph McGillicuddy, *Research Associate*

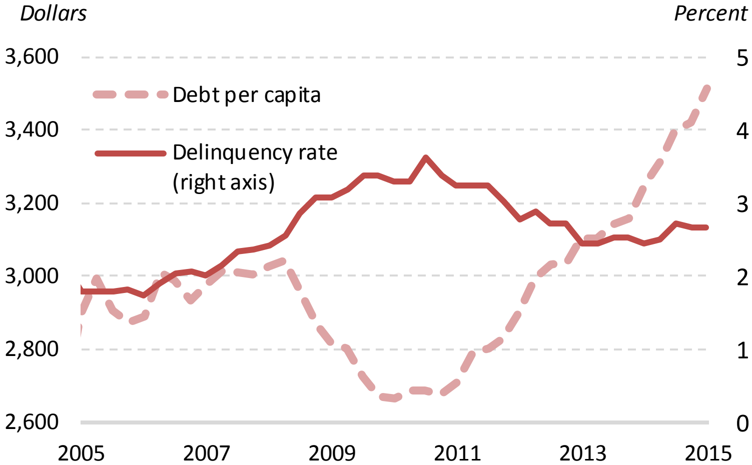
"Fuel-efficient vehicles and electric vehicles are not as relevant with fuel prices low."

— St. Louis area auto dealer

"[There was] less traffic in our industry. [The] restaurant market share is stagnant in St. Louis."

— St. Louis area fast food contact

Auto debt continues rise as delinquency rate stays constant



Source: FRBNY Consumer Credit Panel and Equifax.

- Personal income growth accelerated to 3.6 percent in Missouri during the first quarter of 2015, surpassing the national rate of 3.5 percent. Personal income growth in Illinois remained fairly constant at 2.7 percent (see table).
- Consumers continued to increase auto debt at a relatively high rate in the second quarter of 2015. Multiple local auto dealers reported a shift in demand toward more new and high-end vehicles. They attribute this change to low interest rates and low fuel prices.
- Auto debt balances have increased steadily since 2011 and show no signs of slowing. Households have recently maintained the same ability to pay off their auto debt, as the zone's auto delinquency rate has remained fairly constant since 2013 (see figure).
- Following the trend in recent years, mortgage debt balances and the zone's mortgage delinquency rate declined in the second quarter of 2015.
- Credit card debt growth continued to accelerate, while the zone's credit card delinquency rate has remained largely unchanged since the previous quarter. Both remain below the national rate.

	St. Louis Zone	Missouri	Illinois	US
Per capita personal income (Q1-15)	--	3.6	2.7	3.5
Per capita debt balances (Q2-15)				
Mortgage	-1.6	-1.4	-3.0	-1.3
Credit card	2.7	1.8	1.6	2.8
Auto loan	8.1	9.2	9.8	9.0
90+ day delinquency rates (Q2-15) (%)				
Mortgage	1.4 ▼	1.3	2.6 ▼	2.2
Credit card	6.8	7.5	6.7	8.1
Auto loan	2.7	3.1	2.6	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.

Banking Conditions Steady in St. Louis Zone

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

"Businesses are spending some money although it is not significant enough to keep strong loan demand."

—Southwest Missouri banker

"Consumer demand is negatively affected by the lack of wage growth, but positively affected by lower debt obligations."

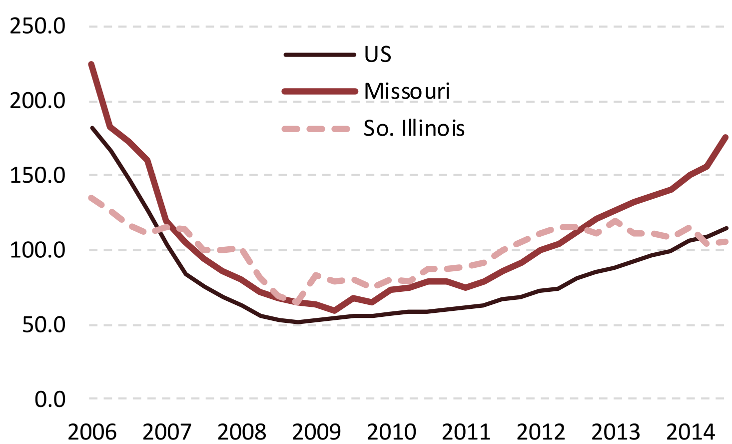
—Southwest Missouri banker

"In general, things continue to improve for commercial and industrial clients but at a slow pace. Our clients remain conservative and debt adverse, which is making loan growth difficult."

—St. Louis banker

Area banks well reserved against potential losses

Loan loss reserve coverage ratio, percent



Source: FRED.

- Of eleven bankers surveyed, five reported higher loan demand in the third quarter relative to the same period last year. The same number reported loan demand was unchanged. About two-thirds of respondents expect demand to be slightly higher in the fourth quarter compared with the same time last year, and the rest expect it will be unchanged.
- Demand for residential mortgage loans is improving. Half of survey respondents reported demand was slightly higher in the third quarter than it was at the same time last year; the rest report it was unchanged or slightly lower. Bankers are more optimistic about the fourth quarter: More than two-thirds of those surveyed predict mortgage demand will be somewhat higher than last year.
- Profitability was mixed across the zone in the second quarter. Return on average assets (ROA) was up 5 basis points at Missouri banks in the second quarter, but dropped 2 basis points at southern Illinois banks. ROA at both sets of banks remains below the national average.
- The ratio of nonperforming loans to total loans (NPTL) declined in the second quarter at both Missouri and southern Illinois banks. At Missouri banks, the NPTL ratio remains far below that of 8th District and U.S. peers.
- More than half of bankers surveyed reported delinquency rates were either lower or slightly lower in the third quarter relative to last year. The other respondents said they were mostly the same. Bankers predict delinquency rates will be mostly unchanged in the fourth quarter.

Banking performance (Q2-15)	Missouri	Illinois	So. Illinois	8th District	US Peer Banks
Return on average assets	0.98	0.84	1.06	0.99	1.09
Net interest margin	3.34	2.55	3.58	3.73	3.76
Nonperforming loans / total loans	0.80	1.35	1.19	1.16	1.19
Loan loss reserve coverage ratio	175.00 ▲	93.33	105.88	115.52	115.13

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

Wet Weather Leaves Lasting Damage to Field Crops Across Zone

By Lowell R. Ricketts, *Senior Research Associate*

"This year is the worst year of my life as far as soybean planting goes. Rain, rain, and more rain. Thousands and thousands of acres not being planted."

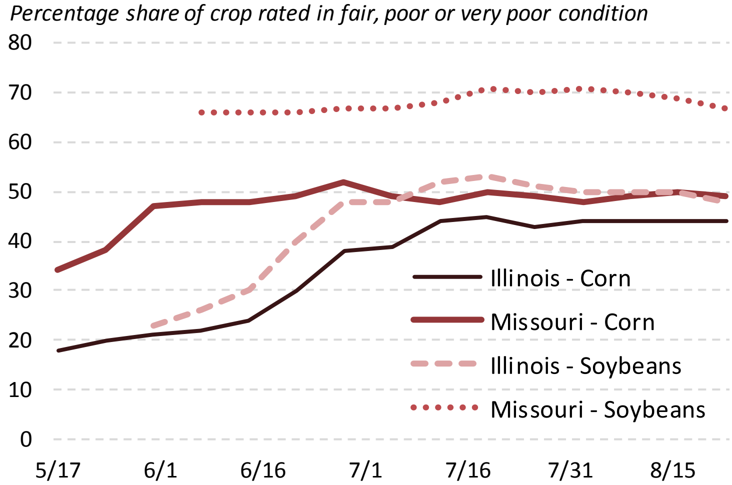
— Central Missouri farmer

"Corn is one of the most what-could-have-been stories in Illinois this year. Most of the crop that rated as fair, poor, or very poor is rated that way for one reason only: standing water and root damage in the fields."

— Central Illinois agronomist

Large portion of corn and soybean crops are damaged

Percentage share of crop rated in fair, poor or very poor condition



Source: NSDA/NASS.

- Current production estimates suggest that this year's harvest will have greatly reduced production levels across all major crops except for sorghum (see left table). Missouri in particular is expected to have over a quarter less of last year's corn and soybean production. Cotton production in the state will potentially see over a 40 percent decline.
- Much of the production decline is due to unusually wet weather across the zone that delayed plantings and flooded fields. Conditions deteriorated rapidly around mid-June and have remained stable through July and the first half of August (see figure).
- Twenty-six agricultural bankers surveyed within the St. Louis zone shared a negative outlook for several industry trends (see right table). On net, agricultural bankers expect farm income, capital spending, the rate of loan repayments, and farmland values to be lower in the third quarter compared with a year earlier.
- Coal production declined significantly for both Illinois and the nation as a whole. Meanwhile, production in Missouri dropped by a quarter relative to the same time last year. Declines in production were mirrored by declines in employment in the mining and logging industries.

	Illinois	Missouri	US
Natural resources (Q2-15)			
Mining and logging employment	-4.0 ▼	-1.6	-4.4 ▼
Coal production	-5.1 ▼	-24.5	-14.3 ▼
Estimated Production (2015)			
Corn	-14.7	-27.2	-3.7
Cotton	--	-43.9	-19.8 ▼
Rice	--	-3.8	-7.2 ▼
Sorghum	110.6	91.0	32.4
Soybean	-2.5	-27.8	-1.3

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 Q3-15 vs. Q3-14

	Lower	Higher	Net
Farmland values	48	4	-44
Loan demand	18	27	9
Available funds	5	5	0
Loan repayments	32	0	-32
Farm income	73	0	-73
Capital spending	65	4	-61

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, employment contributions by sector, average hourly earnings of private sector employees.

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.

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 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.

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

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)

Production estimates as of August 2015, crop conditions.