Burgundy Book

A report on economic conditions in the St. Louis zone

First Quarter 2016

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.

Zone Metro Areas Continued To Register Low Unemployment Rates in the Fourth Quarter

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

According to a February survey of St. Louis-area business contacts, proportionately fewer respondents expect that local economic conditions will improve in 2016. However, those expecting improving conditions still outnumber those expecting worsening conditions.

Nonfarm payroll employment increased in the fourth quarter in the majority of the zone's MSAs. Growth was strongest in Columbia, but fell slightly in Jefferson City. On net, business contacts expect some modest upward pressure on wages over the first half of 2016. Revisions released by the U.S. Bureau of Labor Statistics in March 2016 showed that employment growth in the St. Louis MSA in 2015 was 0.5 percentage points stronger than initially reported.

The zone's unemployment rate fell by 0.2 percentage points to 5 percent in the fourth quarter, the lowest rate since 2007. The unemployment rate in each of the zone's five MSAs was below the national rate.

The residential housing market strengthened in the St. Louis and Columbia MSAs in the fourth quarter, but weakened in the Springfield MSA. Asking rents for commercial properties in the St. Louis MSA rose modestly in the fourth quarter.

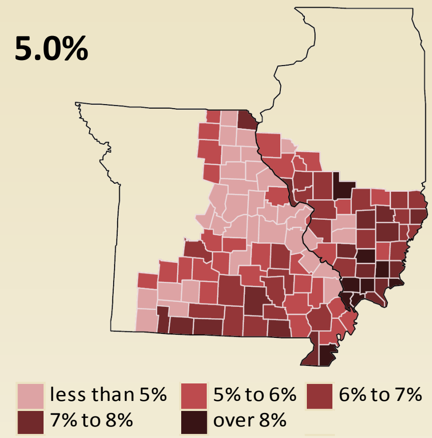
Zone per capita debt balances advanced at a modestly slower pace in the fourth quarter, while loan delinquency rates (mortgage, credit card, and auto) continued to trend lower.

Commercial bank profitability of Missouri and southern Illinois banks weakened slightly in the fourth quarter, but asset quality continued to improve.

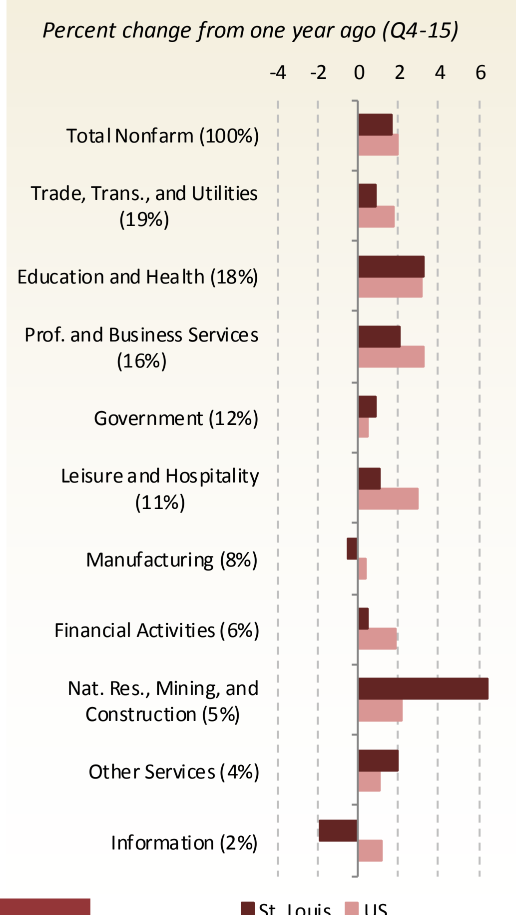
Heavy rainfall caused significant flooding in December, elevating concerns among farmers about the winter wheat crop.

Data Snapshot

County unemployment rates (SA, Q4-15)



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 February 2 and February 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.

Employment Growth Remains Modest, Labor Demand on the Rise

By Maria A. Arias, *Senior Research Associate*

"The tightening of the labor pool has happened a little faster than expected. We are increasing pay to prevent staff turn over. "

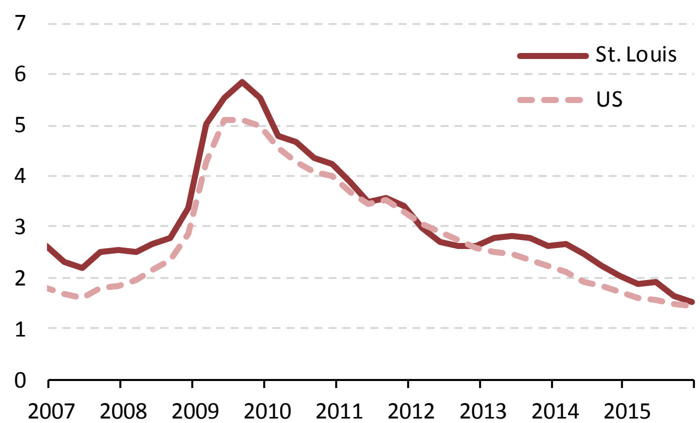
—St. Louis area construction contact

"Sales fell short of expectations because we lacked qualified sales people."

—St. Louis area technology industry contact

Demand for labor increasing in St. Louis

Number of unemployed per advertised vacancy



Source: The Conference Board.

- The St. Louis zone saw mixed labor market conditions at the end of 2015, with stronger employment growth in Springfield and Columbia, but weaker growth in St. Louis, no growth in Cape Girardeau, and further declines in Jefferson City.
- Despite weak employment growth, demand for labor in St. Louis continued to increase in 2015, as the ratio of unemployed persons to advertised vacancies declined steadily throughout the year (see figure).
- Anecdotal evidence suggests lack of skilled labor will continue to put upward pressure on wages in the first half of 2016. Just over half of about 50 contacts surveyed reported wages in the first quarter were higher or slightly higher than a year ago; the other half of contacts reported they were about the same. Three-quarters of contacts expect wages will be higher or slightly higher than a year ago during the second quarter; the remaining quarter of contacts expect wages to be about the same.
- Two-thirds of business contacts reported employment was about the same as a year ago during the first quarter, and about the same share expect employment to remain unchanged in the second quarter. About one-third expect a slight increase in the second quarter.

	St. Louis	Springfield	Jefferson City	Columbia	Cape Girardeau	US
Unemployment rate (Q4-15) (%)	4.9	4.1	3.9 ▼	3.3	4.6	5.1
Nonfarm employment (Q4-15)	1.7	2.0	-0.3	2.7	0.0	2.0
Goods-producing sector	1.9	-1.5 ▼	-1.1	0.9	-3.2 ▼	1.0
Private service-providing sector	1.6 ▼	2.6	1.1	4.5 ▲	1.2	2.5
Government sector	0.9	1.5	-2.2	-0.4	-2.6	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.

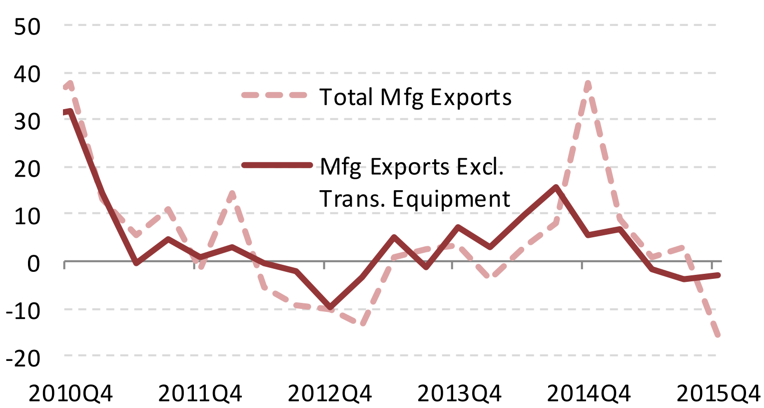
Manufacturing Growth Slows in Missouri, Declines in Illinois

By Daniel Eubanks, *Senior Research Associate*

> *"The Canadian dollar losing value has been an issue; several customers pay in Canadian dollars and we cannot raise prices fast enough."*
>
> — St. Louis area manufacturer
>
> *"[We've noticed] very low iron ore prices due to fierce competition and overcapacity."*
>
> – St. Louis area manufacturer

Year-over-year decline in manufacturing exports from MO caused by 2014:Q4 spike in transportation equipment

Percent change from one year ago



Source: WISER/Census

- Manufacturing employment growth in Missouri slowed from 1.8 percent year over year in the third quarter to 0.2 percent in the fourth quarter. Durable goods manufacturing employment growth slowed significantly but remained positive. Employment in both the durable and nondurable goods sectors grew 0.2 percent.
- In Illinois, manufacturing employment contracted after several quarters of slight growth.
- Manufacturing exports from Missouri in the fourth quarter declined by nearly 16 percent from one year ago. However, most of this decline is largely the result of a plunge in exports of transportation equipment in the fourth quarter of 2015. When exports of transportation equipment are excluded, manufacturing exports declined just 3 percent (see figure), which is less than the overall U.S. decline of 9 percent.
- Manufacturing contacts report that economic conditions abroad, particularly in Canada, have impacted business. Contacts in the primary metals industry reported weak demand and overproduction (see quote).
- Transportation sector employment growth slowed across the St. Louis zone, but remained slightly above the national average in the St. Louis MSA.

	St. Louis	Missouri	Illinois	US
Transportation employment (Q4-15)	3.0	2.3	2.5	2.8
Manufacturing employment (Q4-15)	-0.5 ▼	0.2 ▼	-0.5	0.4
Durable goods	-1.5 ▼	0.2 ▼	-1.8	-0.1
Nondurable goods	1.1	0.2	1.4	1.0
Manufacturing exports (Q4-15)	--	-15.7 ▼	-6.8	-9.0

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.

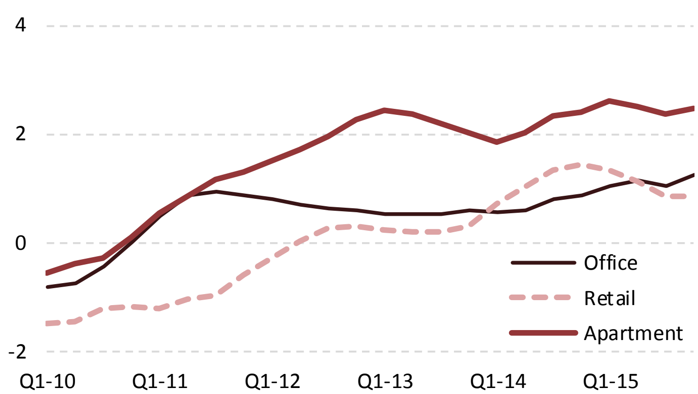
St. Louis Apartment Market Continued To Strengthen

By Usa Kerdnunvong, *Research Associate*

> *"We are selling land we own to apartment and senior living developments."*
>
> —St. Louis business contact
>
> *"Speculative projects now include multi-family housing, hotels, and retail with some build-to-suit buildings."*
>
> —St. Louis business contact

St. Louis apartment asking rent increases

Percent change from one year ago (four-quarter moving average)



Source: Reis.com.

- Commercial real estate market activity continued to strengthen, especially in the apartment sector. Vacancy rates for apartments are the lowest in over 15 years, and office and retail are the lowest in over 5 years. Moreover, four-quarter moving average year-over-year asking rent growth increased for the past few quarters in almost all sectors (see figure), with the apartment sector increasing at the fastest rate.

- Commercial real estate construction activity grew in the first quarter, led by the apartment sector. Contacts were positive for all sectors and reported that speculative construction projects were occurring primarily in the apartment sector.

- The St. Louis residential market continued its strong growth. Home prices are steadily appreciating, although more slowly than the national rate. Home sales continued to outpace the national rate for the fourth consecutive quarter. Contacts reported higher demand, along with a steady appreciation of housing prices and lower inventory in the first quarter of 2016.

- Residential construction activity grew at a modest pace. Over a third of survey contacts reported activity was unchanged in the first quarter of 2016 compared with the same time last year, and they expect activity to pick up in the second quarter.

Non-residential market (St. Louis, Q4-15)	**Apartment**	**Office**	**Retail**	**Industrial**
Vacancy rate (%)	4.2	16.7	11.8 ▼	6.5
Asking rent *Percent change from one year ago*	2.8	1.7	1.1 ▲	5.8

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

Residential market (Q4-15)	**St. Louis**	**Springfield**	**Jefferson City**	**Columbia**	**US**
CoreLogic Home Price Index	4.6	1.9	4.5	3.6	5.5
Single-family building permits	11.2	-22.5	--	16.3	9.5
New and existing home sales	10.1	--	--	--	7.4

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 the previous quarter. See appendix for notes and sources.

Zone Auto Debt Growth Remains High; Delinquency Rates Stay Low

By Joseph McGillicuddy, *Research Associate*

"[We are] up 29% year-over-year in new car sales and up 35% in used car sales."

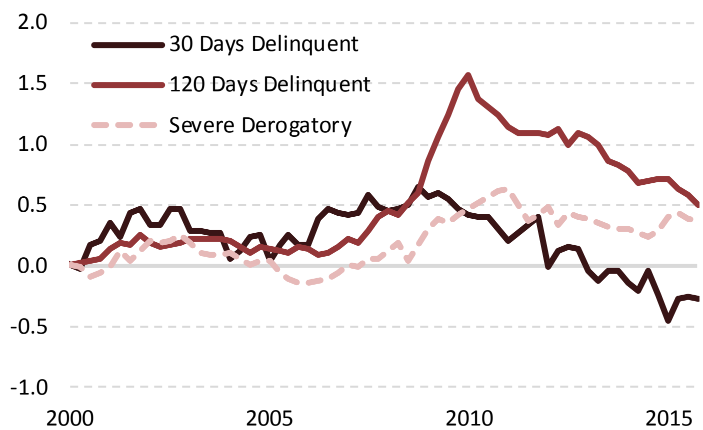
—St. Louis area auto dealer

"Low gas prices have increased SUV and truck sales."

—St. Louis area auto dealer

Zone delinquency rates continue to fall

Percentage points, cumulative change since Q1 2000



Source: FRBNY Consumer Credit Panel and Equifax.

- Zone auto debt growth dropped below the nation's in the fourth quarter but is still relatively high by historical standards. Reports from local auto dealers concerning the first quarter were mixed, although one dealer did note very strong sales relative to the previous year (see quote).
- Growth of credit card debt balances within the zone increased slightly. Mortgage debt growth was slightly positive for a second consecutive quarter.
- Mortgage, credit card, and auto delinquency rates for the zone remained nearly unchanged, staying below those of the U.S. Delinquency rates have fallen significantly over the past five years: The 30-day delinquency rate is at its lowest level since before 2000. The 120-day rate, while still above pre-recession levels, has declined steadily after its recent peak in 2010. However, the fraction of severe derogatory loans has remained fairly constant since climbing during and after the recession (see figure).
- Year-over-year income growth accelerated in both Missouri and Illinois during the third quarter. Illinois's rate surpassed the 3.9 percent growth rate of the nation, while Missouri's remained below it.

	St. Louis Zone	Missouri	Illinois	US
Per capita personal income (Q3-15)	--	3.3	4.1	3.9
Per capita debt balances (Q4-15)				
Mortgage	0.1	0.2	-1.3	-0.5
Credit card	2.7	2.2	1.8	2.7
Auto loan	9.1	9.4	8.6	9.5
90+ day delinquency rates (Q4-15) (%)				
Mortgage	1.3	1.1	2.3	1.9
Credit card	6.3	6.9	6.1	7.3 ▼
Auto loan	2.7	3.2	2.7	3.1

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

Mortgage Lending Up, Profitability Slightly Down in St. Louis Zone

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

"Overall, strong construction loan demand is increasing our exposure in that sector and will, in the near future, restrict our ability to fund additional loans in this category due to concentration limits."

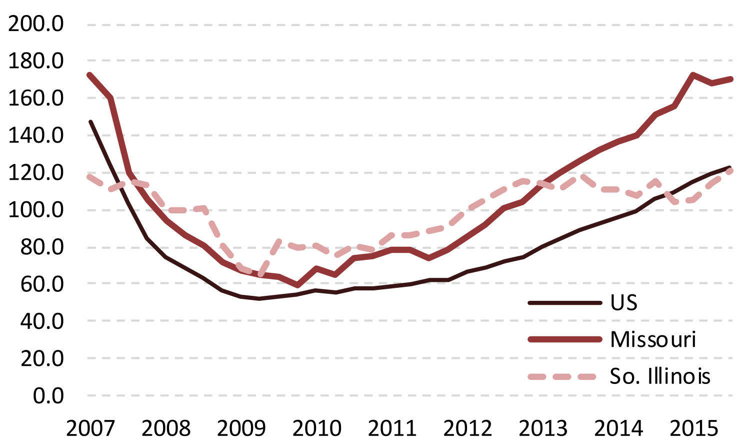
—St. Louis banker

"Businesses are pulling back a bit. They are a little more cautious to take on loans."

—St. Louis banker

Coverage ratios rebound from brief dip

Loan loss reserve coverage ratio, percent



Source: FRED.

- Half of bankers surveyed reported loan demand was unchanged in the first quarter compared with the same time last year; most of the rest say it was higher. Half of respondents expect loan demand to be unchanged in the second quarter compared with last year, while the rest expect it will be somewhat higher.
- Mortgage lending continues to be a bright spot for banks in the St. Louis zone. Half of bankers surveyed reported mortgage demand was higher in the first quarter compared with the same time last year; the rest reported it was about the same, except one respondent who reported demand was lower. Respondents note that mortgage loan demand is driven by new construction.
- Profitability declined slightly in the fourth quarter. Return on average assets (ROA) was down 2 basis points at Missouri banks and 4 basis points at southern Illinois banks. ROA at Missouri and southern Illinois banks is now below that of District and national peers.
- The average ratio of nonperforming loans to total loans declined at both Missouri and southern Illinois banks in the fourth quarter, and the ratios remain below those of District and national peers. The decline in nonperforming loans coupled with increases in loan loss reserves at area banks boosted average loan loss reserve coverage ratios.
- All bankers surveyed reported delinquencies were unchanged to somewhat lower in the first quarter compared with the same time last year. Bankers predict delinquencies will be unchanged to slightly higher in the second quarter.

Banking performance (Q4-15)	Missouri	Illinois	So. Illinois	8th District	US Peer Banks
Return on average assets	0.98	0.86	1.00	1.05	1.11
Net interest margin	3.39	2.54	3.60	3.78	3.81
Nonperforming loans / total loans	0.78	1.14	1.02	1.04	1.07
Loan loss reserve coverage ratio	170.51	95.61	120.59	120.19	122.43

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

Heavy Rain and Commodity Prices Are Concerning, but Red Meat Production Strong

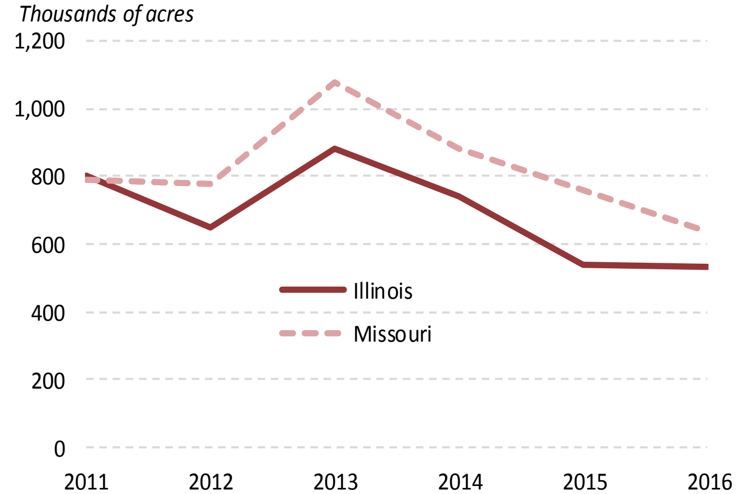
By Jonas C. Crews, *Research Analyst*

"The December floods could have a significant impact on the winter wheat crop."

—Southeast Missouri contact

Decline continues for winter wheat acres planted

Thousands of acres



Source: USDA-NASS.

- Heavy December rain caused significant field flooding, raising concerns about the winter wheat crop (see quote). Temperatures were relatively mild during the flooding, so the plants may not have been dormant and, therefore, may not have been able to handle submersion. However, the extent of the damage will not be known until the crop comes out of dormancy and can be analyzed.
- Farm income continues to be a concern among contacts, and some note that the further decline in acres planted for the 2016 winter wheat crop (see figure) could be signaling unease about margins and, therefore, imply acreage declines for spring crops. Meanwhile, others argue that farmers may simply be substituting spring crops for winter wheat.
- Although red meat prices began to fall during the year, balancing revenue with the earlier input cost decline, 2015 red meat production increased in both states in the zone, growing well above the national rate.
- Mining and logging employment and coal production continued their consistent declines in the last quarter of 2015, as alternative fuel prices remained low and continued to hinder demand.

	Illinois	Missouri	US
Natural resources (Q4-15)			
Mining and logging employment	-7.9	-1.6	-14.1 ▼
Coal production	-5.2	-32.0	-18.4 ▼
Red meat production (2015)	8.3	3.4	2.3 ▲
Share of national production	6.8	4.0	100
Winter wheat, area planted (2016)	-1.9	-15.8	-7.2

Note: Values (except for production shares) 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.

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

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)

Red meat production and winter wheat planting estimates.