



Burgundy Book

A report on economic conditions in the Memphis zone

Second Quarter 2016

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.

The Memphis Zone Registers Better Data and an Improving Outlook

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

Optimism about local economic conditions in 2016 rebounded sharply from three months earlier according to a May survey of Memphis-zone business contacts.

The Memphis zone's unemployment rate fell to 5.6 percent in the first quarter, down more than 1 percentage point from its average in the fourth quarter of 2015. The first-quarter rate is the lowest since 2001. Business contacts expect continued improvement in local labor markets.

Compared with three months earlier, nonfarm payroll employment growth accelerated in the zone's MSAs in the first quarter. Employment growth in the Jackson (2.2 percent) and Jonesboro (4.2 percent) MSAs exceeded the nation's growth in the first quarter, while Memphis's growth (1.8 percent) was close to the nation's rate (1.9 percent). Transportation employment growth was especially brisk in Mississippi and Tennessee.

Commercial real estate activity in the Memphis MSA remained strong, as the industrial vacancy rate fell to its lowest level on record. New and existing home sales in the Memphis MSA have outpaced the U.S. rate thus far in 2016.

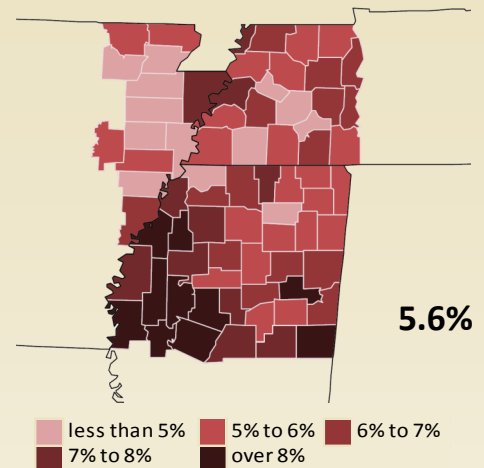
Growth of per capita auto loan and credit card debt balances continued to outpace the nation's rate in the first quarter. Growth of auto debt was especially brisk in Mississippi and Tennessee. However, mortgage debt balances fell in Arkansas for the second straight quarter.

Commercial bankers reported that loan demand increased in the second quarter from a year earlier, and a majority expect loan demand to continue strengthening in the third quarter.

Mississippi and Tennessee farmers devoted more acres to cotton and fewer acres to soybeans this crop year.

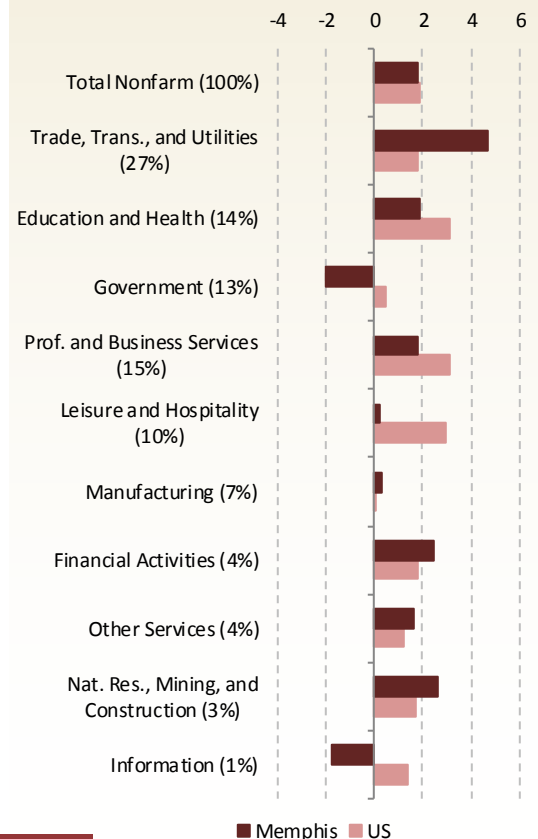
Data Snapshot

County unemployment rates (SA, Q1-16)



Nonfarm payroll employment by industry

Percent change from one year ago (Q1-16)



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 May 3 and May 17.

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.

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

Private Sector Fueling Employment Growth Across the Memphis Zone

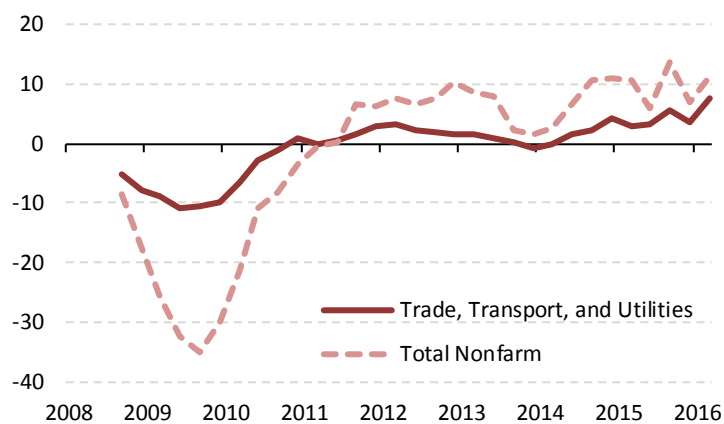
By Maria A. Arias, Senior Research Associate

“Although the unemployment rate is the lowest it has been since the recession, employment opportunities for Memphis youth are scarce.”

—Memphis area contact

Trade, trans. and utilities driving job growth in Memphis

Nonfarm employment, change from year ago (thousands)



Source: BLS.

- Overall labor market conditions were positive across the Memphis zone during the first quarter. Stronger private sector job growth drove overall growth to be higher than at the end of 2015 in all MSAs (see table).
- In Memphis, the trade, transportation, and utilities sector drove growth in the private service-providing sector, contributing 70 percent of the year-over-year job growth (see figure). Most of the private sector growth, however, was offset by declines in the public sector.
- Jackson saw significantly stronger employment growth in the goods-producing sector, pushing overall growth above the national average. And Jonesboro continued to grow at twice the national rate, with growth driven by the manufacturing and leisure and hospitality sectors.
- The unemployment rates across the zone were significantly lower than in the previous quarter. From a year ago, declines in the jobless rate ranged from 1.8 percentage points in Memphis to 1.6 percent in Jackson, compared with a 0.6 percent decline nationwide.
- Business contacts in the zone expect labor market conditions to continue to improve: Most contacts surveyed expect hours worked to remain about the same or be slightly higher than last year; more than two-thirds expect employment to remain about the same; and more than two-thirds expect wages to also be slightly higher or higher.

| | Memphis | Jackson | Jonesboro, AR | US |
|----------------------------------|---------|---------|---------------|-----|
| Unemployment rate (Q1-16) (%) | 5.0 ▼ | 4.7 ▼ | 3.5 ▼ | 4.9 |
| Nonfarm employment (Q1-16) | 1.8 | 2.2 | 4.2 | 1.9 |
| Goods-producing sector | 1.0 | 4.1 ▲ | 2.7 | 0.7 |
| Private service-providing sector | 2.6 ▲ | 1.6 | 5.1 | 2.5 |
| Government sector | -2.0 | 2.2 | 1.9 | 0.5 |

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 Growth Accelerates in Memphis Despite US Slowdown

By Daniel Eubanks, Senior Research Associate

“Due to the Chinese currency being valued lower, there is a push from vendors in China to be paid as quickly as possible.”

– Jonesboro area manufacturer

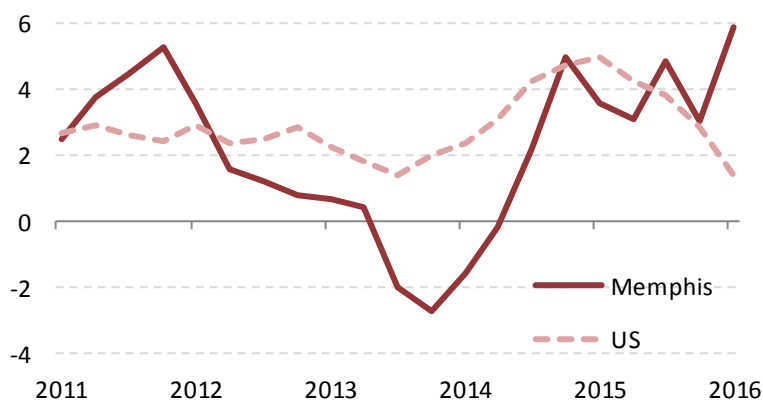
“Trends and observations from the upholstered furniture industry seem to have in common that sales for their product seems soft.”

– Northern Mississippi contact

- Transportation sector employment growth accelerated in the Memphis MSA and in Mississippi, despite a slowdown in transportation employment growth nationwide. Transportation employment grew 2.8 percentage points faster in Memphis and 1.8 percentage points faster in Mississippi than in the previous quarter. Transportation employment growth slowed in Tennessee, but remains above the national rate.
- The manufacturing sector grew at a healthy pace in both Tennessee and Mississippi, with increases in both the durable and nondurable goods sectors. In Memphis, growth in the durable goods sector was offset by declines in the nondurable goods sector.
- Manufacturing exports from Tennessee and Mississippi increased slightly even as exports from the U.S. overall declined. In Tennessee, export growth was led by computer and electronic products and appliances. In Mississippi, export growth was led by transportation equipment.
- Manufacturing contacts continue to report negative effects from low energy prices and disruptions caused by global economic developments (see quotes).

Transportation sector employment in Memphis bucks national trend

Percent change from one year ago



Source: BLS.

| | Memphis | Tennessee | Mississippi | US |
|-----------------------------------|---------|-----------|-------------|-------|
| Transportation employment (Q1-16) | 5.8 ▲ | 3.9 | 4.6 ▲ | 1.4 ▼ |
| Manufacturing employment (Q1-16) | 0.3 | 3.3 | 2.4 | 0.1 |
| Durable goods | 1.5 | 3.3 | 1.7 | -0.5 |
| Nondurable goods | -1.1 | 3.2 | 3.8 | 1.1 |
| Manufacturing exports (Q1-16) | -- | 1.4 | 4.5 | -5.7 |

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.

Home Sales Strengthen; Commercial Real Estate Activity Remains Strong

By Joseph McGillicuddy, Senior Research Associate

“First-time homebuyers appear to be coming into the market again.”

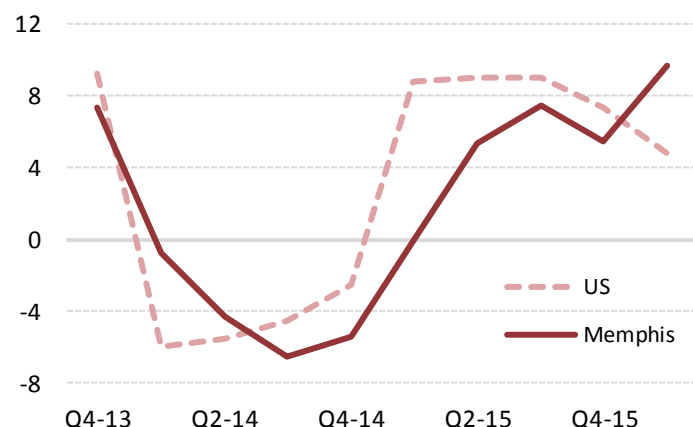
—Memphis real estate contact

“The industrial market continues to be strong.”

—Memphis real estate contact

Memphis home sales increasing faster than nation's

Percent change from one year ago, year-to-date



Source: National Association of Realtors and Memphis Area Association of Realtors.

- The residential real estate market further improved throughout the zone during the first quarter of 2016. House prices continued to increase across the major MSAs, with growth accelerating in both Jackson and Jonesboro. However, this growth remained well below the U.S. rate of 6.0 percent.
- Year-to-date home sales continued to increase in the Memphis MSA. The year-over-year change accelerated to 9.6 percent, the first time it has exceeded the nation rate since mid-2014 (see figure).
- Residential construction activity strengthened moderately. Year-to-date single-family building permits increased in all three major MSAs, but only Jackson’s growth rate exceeded that of the nation. Local real estate contacts noted that housing inventory remains low.
- The Memphis commercial real estate market strengthened. The industrial vacancy rate continued to decline, dropping to a historical low of 8.8 percent. The multifamily market remained strong, as the already-low vacancy rate fell to 8.5 percent and asking rents continued to increase year over year. Office and industrial construction remain on pace with last year’s numbers.

| Non-residential market (Memphis, Q1-16) | Apartment | Office | Retail | Industrial |
|---|-----------|--------|--------|------------|
| Vacancy rate (%) | 8.5 | 23.1 | 11.6 ▲ | 8.8 |
| Asking rent | 2.0 | 1.2 | 0.3 | -4.5 |
| <i>Percent change from one year ago</i> | | | | |

Note: Apartment, office, and retail values are from Reis.com. Industrial values are estimates from Cushman & Wakefield.

| Residential market (Q1-16) | Memphis | Jackson | Jonesboro | US |
|--------------------------------|---------|---------|-----------|------|
| CoreLogic Home Price Index | 2.5 | 3.0 ▲ | 2.2 | 6.0 |
| Single-family building permits | 10.5 | 43.1 ▲ | 5.3 | 14.1 |
| New and existing home sales | 9.6 | -- | -- | 4.8 |

Note: Sales and permits data are year-to-date percent change. Prices 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 Delinquency Rate Flattens at Pre-Recession Level

By Rodrigo Guerrero, *Research Associate*

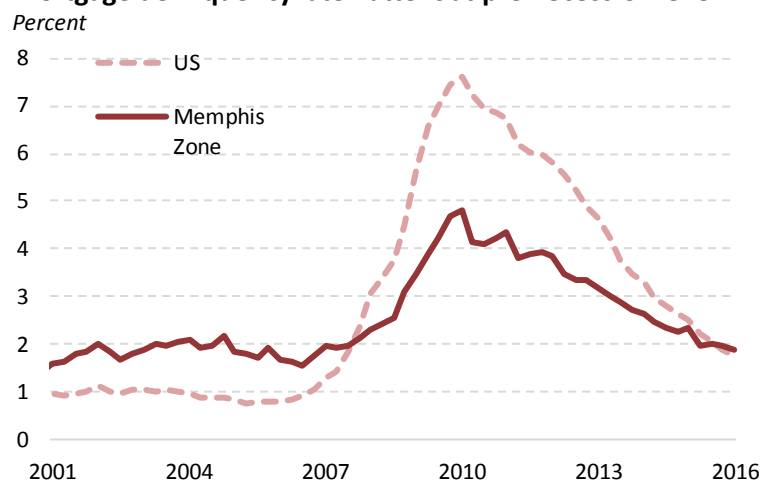
“The Jonesboro market continues to see a strong overall economy as consumer spending is strong with retail and restaurant businesses being pleased with current sales.”

—East Arkansas contact

“Several used car dealers reported record sales in April.”

—Memphis contact

Mortgage delinquency rate flattens at pre-recession level



Source: FRBNY Consumer Credit Panel and Equifax.

- Zone households continued to unwind their mortgage debt during the first quarter of 2016. Meanwhile, over the past two quarters, the zone’s mortgage delinquency rate has exceeded the nation’s for the first time since the beginning of the recession. The zone’s rate has leveled off at its pre-recession level over the past few quarters while the U.S. rate, still above its pre-recession low, continued to steadily decline (see figure).
- Reports from auto dealers indicated that sales halfway through the second quarter met expectations after a relatively weak first quarter. Moreover, multiple used car dealers reported record sales in April (see quote). Auto debt growth remained high in the zone with real auto loan balances increasing at a faster rate than the U.S. average.
- Credit card debt balances in the zone continued to increase at a considerably faster rate than the U.S. average. The credit card delinquency rate remained largely unchanged from the previous quarter, staying slightly higher than the nation’s.
- Real income per capita decelerated across Arkansas, Mississippi, Tennessee, and the U.S. as a whole in the fourth quarter of 2015. Only Tennessee’s growth exceeded the nation’s.

| | Memphis Zone | Arkansas | Mississippi | Tennessee | US |
|---------------------------------------|--------------|----------|-------------|-----------|-----|
| Per capita personal income (Q4-15) | -- | 2.5 | 2.4 | 3.7 | 2.7 |
| Per capita debt balances (Q1-16) | | | | | |
| Mortgage | -1.3 | -0.9 | 0.0 | 0.2 | 0.0 |
| Credit card | 4.0 | 3.1 | 5.1 | 2.4 | 1.5 |
| Auto loan | 9.4 | 9.5 | 10.2 | 10.1 | 7.7 |
| 90+ day delinquency rates (Q1-16) (%) | | | | | |
| Mortgage | 1.9 | 1.3 | 2.1 | 1.3 | 1.8 |
| Credit card | 7.5 | 7.7 | 6.6 | 6.8 | 7.4 |
| Auto loan | 4.2 | 3.1 | 4.9 | 3.3 | 3.3 |

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.

Loan Demand Somewhat Higher in the Memphis Zone

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

“Even though interest rates remain low, consumers are rate shopping.”

—Memphis banker

“Low loan-to-deposit ratios for the smaller community banks in the rural markets continue to strain earnings as interest rates remain at historically low levels.”

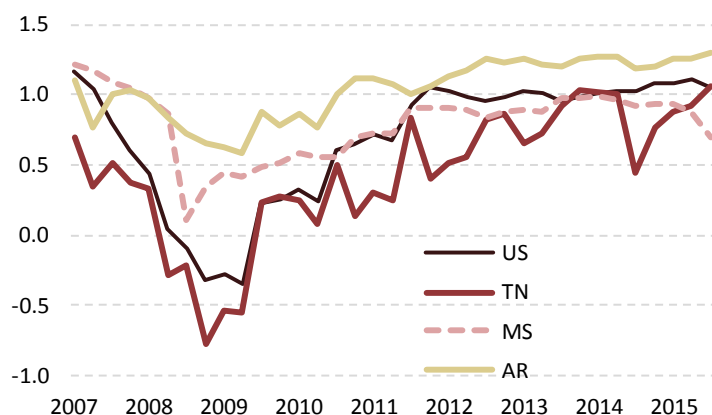
—Northeast Arkansas banker

“Companies are tempering capital expenditures and their corresponding loans.”

—Memphis banker

Profit ratios diverge in Memphis zone

Return on average assets at commercial banks, percent



Source: FRED.

- Most bankers surveyed reported loan demand was higher in the second quarter than it was the same time last year. The majority of respondents expect loan demand to be higher in the third quarter compared with last year, but a few expect it will be unchanged.
- Business loan demand was unchanged or slightly higher in the second quarter compared with the same time last year. Most respondents expect business loan demand to be slightly higher in the third quarter than it was one year ago.
- Return on average assets (ROA) declined 19 basis points at Mississippi banks, but increased 5 basis points at Arkansas banks and 14 basis points at Tennessee banks. The decline in ROA at Mississippi banks was driven by an increase in loan loss provisions and a decline in the average net interest margin at the state’s largest bank.
- Delinquencies were unchanged to slightly lower in the second quarter compared with one year ago. Survey respondents expect delinquencies will also be unchanged to slightly lower in the third quarter compared with year-ago levels. The creditworthiness of borrowers was unchanged to slightly better in the second quarter compared with the same time last year.

| Banking performance (Q1-16) | Tennessee | Mississippi | Arkansas | 8th District | US Peer Banks |
|-----------------------------------|-----------|-------------|----------|--------------|---------------|
| Return on average assets | 1.06 ▲ | 0.69 ▼ | 1.30 | 1.08 | 1.05 |
| Net interest margin | 3.63 | 3.62 | 4.10 | 3.70 | 3.79 |
| Nonperforming loans / total loans | 1.07 | 1.27 ▲ | 1.11 | 1.02 | 1.10 |
| Loan loss reserve coverage ratio | 111.21 | 93.70 | 109.91 | 120.59 | 118.18 |

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

Cotton Bounces Back; Farmers Becoming More Optimistic

By Jonas C. Crews, *Research Associate*

“The decline in cotton hurt our unemployment rate because cotton is comparatively labor intensive.”

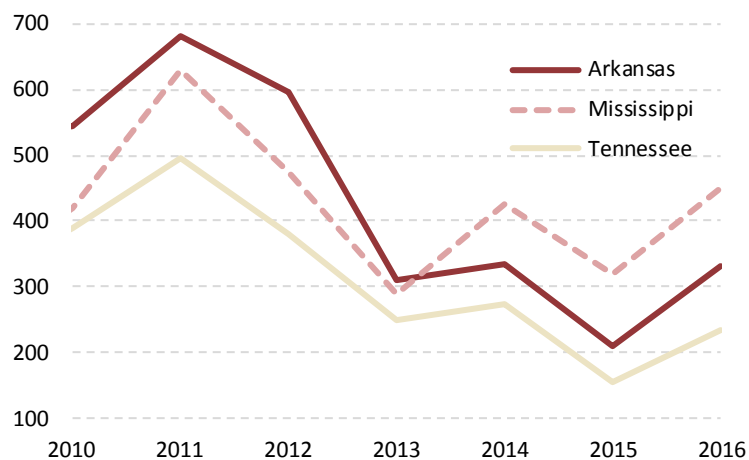
—Northern Mississippi farmer

“Farmers are resilient, and they just have to keep cutting costs and being creative.”

—Northern Mississippi farmer

Cotton acres increasing after multi-year decline

Thousands of acres



Source: USDA-NASS.

- With relative crop profitability changing from last year, farmers are moving toward cotton, corn, and rice and away from sorghum and soybeans (see table). However, some believe that the downward pressure put on corn prices by higher-than-expected nationwide planned corn acreage and recent rain may result in corn increases not as large as originally planned. Contacts attribute the decline in sorghum to both a recent price decline and unforeseen pest issues during the previous planting season.
- After multiple years of acreage declines for cotton, excluding 2014, relative profitability and plant quality improvements are resulting in a move in the opposite direction (see figure). Contacts see this trend reversal as an important one because of the dependence of rural job markets on cotton production (see quote).
- While crop prices have rebounded somewhat, they are still much lower than what is needed to ensure widespread profits. Yet, some contacts are optimistic that the hardiness and ingenuity of the crop farming cohort will ensure that most operations will survive the current low-price environment (see quote).
- With coal prices remaining low, coal production is down across the U.S., and Tennessee and Mississippi are following suit. Meanwhile, Arkansas, although a small coal-producing state, is experiencing increased coal production (see table).

| | Arkansas | Mississippi | Tennessee | US |
|-------------------------------------|----------|-------------|-----------|---------|
| Natural resources (Q1-16) | | | | |
| Mining and logging employment | -17.6 | -13.7 ▲ | -- | -16.1 |
| Coal production | 4.5 | -33.5 | -15.3 | -31.2 ▼ |
| Prospective plantings (2016) | | | | |
| Corn | 49.1 | 40.4 | 0.0 | 4.9 |
| Cotton | 43.5 ▲ | 28.6 ▲ | 38.2 ▲ | 0.1 |
| Rice | 9.7 | 4.3 | -- | 5.1 |
| Sorghum | -44.0 ▼ | -44.4 | -- | -8.7 |
| Soybeans | -11.6 | -13.0 | -8.3 ▼ | -2.8 |

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.

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: 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)

Planting and prospective planting estimates.