



Burgundy Book

A report on economic conditions in the St. Louis zone

Second 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.

Low Unemployment and a Strong Housing Market Bolster the St. Louis Zone

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

Optimism improved markedly among St. Louis zone business contacts according to a May survey, as the percentage expecting an improving outlook for 2016 increased and the percentage expecting a worsening outlook decreased.

The St. Louis zone's unemployment rate measured 5 percent in the first quarter, unchanged from the previous quarter. However, in three of the zone's MSAs—Columbia, Jefferson City, and Springfield—the unemployment rate was below 4 percent.

Nonfarm payroll employment growth in the first quarter varied across the zone MSAs, with some registering growth above the national rate (1.9 percent) and others below the national rate. However, goods-producing employment growth accelerated significantly in Cape Girardeau, Columbia, and Jefferson City.

The residential housing market continued to strengthen in the St. Louis zone, as year-to-date home sales in the St. Louis MSA exceeded the nation's growth for the sixth consecutive quarter. Building permits were up sharply from a year earlier in Columbia and Springfield. The majority of real estate contacts remain optimistic about their local housing market.

Similar to other areas of the Eighth District, growth of per capita auto loan debt balances in the first quarter in the St. Louis zone exceed the nation's increase. Conversely, auto loan delinquency rates were lower than the national average.

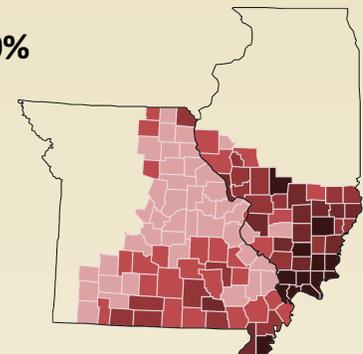
Commercial bank profitability improved slightly at Missouri banks but weakened slightly at southern Illinois banks in the first quarter.

The spring prospective planting survey indicated that farmers in the zone planned to devote more acres to corn and fewer acres to sorghum this crop year.

Data Snapshot

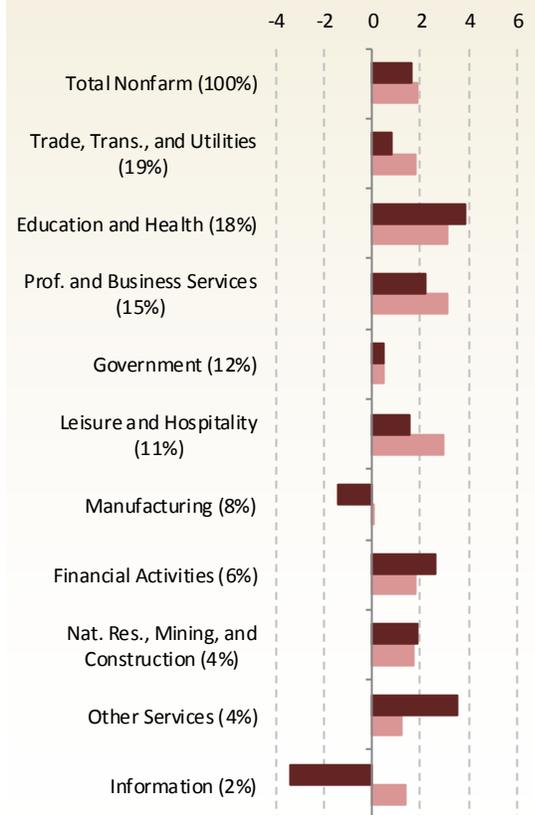
County unemployment rates (SA, Q1-16)

5.0%



Nonfarm payroll employment by industry

Percent change from one year ago (Q1-16)



■ St. Louis ■ US

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 May 3 to 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/outlooksurvey/>

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

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

Zone Unemployment Rates Lower Than the Nation's

By Paul Morris, Research Associate

“It has been a little more difficult to locate and hire sufficiently trained or experienced personnel for new or replacement positions.”

—St. Louis area technology manufacturing contact

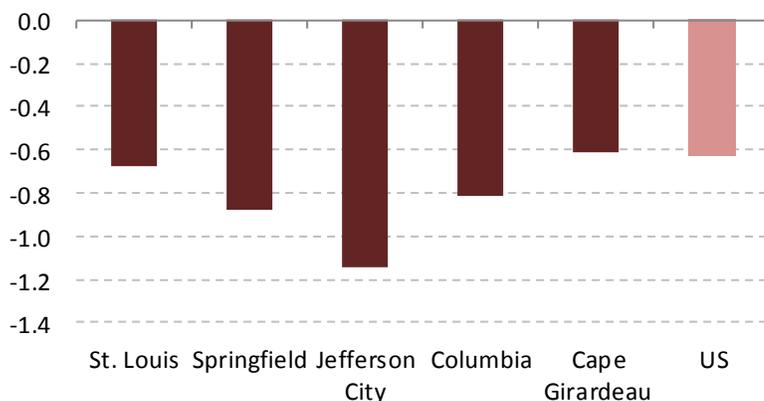
“We are seeing wage pressure for skilled and experienced positions but not much for lower paid and entry-level employees.”

—St. Louis area banking contact

- Unemployment rates across the zone were lower than the national average for the first quarter. In addition, the decline in the unemployment rate over the past year exceeded the national average in four of the five MSAs. Cape Girardeau was the exception, but its decline was close to that of the U.S. (see figure).
- Employment growth across the zone remained moderate during the first quarter, with growth exceeding the national average in only Springfield and Columbia. However, Jefferson City saw a significant increase from the previous quarter.
- Overall, about two-thirds of business contacts report that employment and hours worked are about the same compared with the second quarter last year. Only 53 percent expect employment to stay the same next quarter, with over 40 percent expecting employment to increase in the third quarter relative to the same quarter last year.
- Over half of business contacts report that wages are slightly higher during the second quarter relative to the same period last year. A similar number expect a year-over-year increase for wages in the third quarter.
- Anecdotal evidence suggests that there has been some difficulty filling job vacancies, as about a third of contacts report that they currently do not have enough qualified candidates from which to choose.

Regional unemployment rates decline faster than national unemployment rate

Aggregate decline in unemployment rate (Q1-15 to Q1-16), Percent (SA)



Source: BLS.

| | St. Louis | Springfield | Jefferson City | Columbia | Cape Girardeau | US |
|----------------------------------|-----------|-------------|----------------|----------|----------------|-----|
| Unemployment rate (Q1-16) (%) | 4.6 | 3.7 | 3.4 | 3.0 | 4.3 | 4.9 |
| Nonfarm employment (Q1-16) | 1.8 | 2.6 | 1.3 ▲ | 3.6 | 0.9 | 1.9 |
| Goods-producing sector | -0.3 ▼ | -2.2 | 5.4 ▲ | 7.0 ▲ | 3.8 ▲ | 0.7 |
| Private service-providing sector | 2.1 | 3.5 ▲ | 2.0 | 5.1 | 1.1 | 2.5 |
| Government sector | 0.5 | 1.6 | -1.0 | 0.0 | -2.6 | 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.

Manufacturing Employment Declines Across the St. Louis Zone

By Daniel Eubanks, Senior Research Associate

“Fluctuation in the value of the Canadian dollar has caused us to substantially raise prices, and sales volume has suffered. Now that the trend is reversing, we expect to see additional Canadian sales.”

– St. Louis area manufacturer

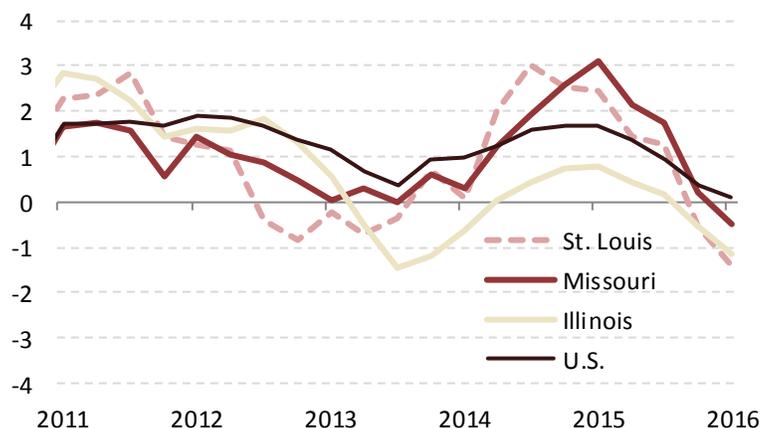
“Manufacturing members are still saying that foreign exchange rates and slow growth worldwide are hurting business here.”

– St. Louis area chamber of commerce representative

- Manufacturing employment declined across the St. Louis zone in the first quarter. In Missouri, both the nondurable and durable goods sectors contracted, while in Illinois and the St. Louis MSA, slight growth in nondurable goods was offset by steeper declines in durable goods.
- Transportation sector employment growth slowed across the St. Louis zone, mirroring the slowdown in the transportation sector nationwide. In the St. Louis MSA, transportation employment slowed by 1.9 percentage points to 1.1 percent, while in Missouri and Illinois it slowed by 1.4 and 2.1 percentage points, respectively.
- In Illinois, manufacturing exports declined for the sixth consecutive quarter. Reduced exports of machinery, transportation equipment, and computer and electronic products drove the decline. Manufacturing exports from Missouri also decreased slightly in the first quarter, largely due to a decline in exports of chemical products.
- Contacts in the railroad industry report that tonnage is down significantly as shipments of coal, crude oil, fracking sand, and related products have decreased.
- Manufacturing contacts report that declining activity in the energy sector has reduced sales (see quote). Other manufacturers point to the strong dollar and global economic conditions as factors hurting their business.

Manufacturing employment declines across St. Louis zone

Percent change from one year ago



Source: BLS

| | St. Louis | Missouri | Illinois | US |
|-----------------------------------|-----------|----------|----------|-------|
| Transportation employment (Q1-16) | 1.1 ▼ | 0.9 | 0.4 ▼ | 1.4 ▼ |
| Manufacturing employment (Q1-16) | -1.4 | -0.5 | -1.1 | 0.1 |
| Durable goods | -2.9 | -0.7 | -2.5 | -0.5 |
| Nondurable goods | 1.0 | -0.1 | 1.0 | 1.1 |
| Manufacturing exports (Q1-16) | -- | -2.3 | -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.

St. Louis Zone Residential Market Continues To Strengthen

By Usa Kerdnunvong, Senior Research Associate

"[Home] sales have been stronger than expected."

—St. Louis real estate contact

"We are starting to see people looking at building spec projects, which was not the case a year ago."

—St. Louis real estate contact

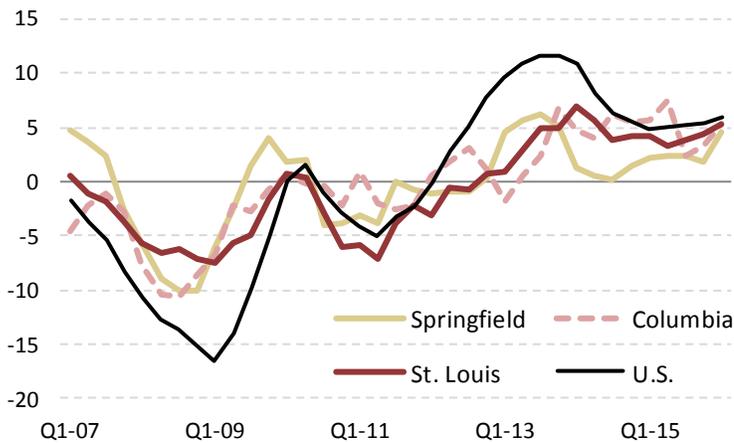
"There is a significant number of new [commercial real estate] projects currently in the pipeline."

—St. Louis real estate contact

- The St. Louis residential market strengthened further in the first quarter of 2016. After steadily appreciating more slowly than the national rate in the past few years, the house price increases in major MSAs are catching up with the nation (see figure).
- Year-to-date home sales in St. Louis outpaced the nation for the sixth consecutive quarter (see table), despite lower inventory than the same period last year. The majority of real estate contacts reported slightly higher demand this quarter compared with the same period last year, and about half expect this increased demand along with low inventory to continue into the next quarter.
- Driven by this high demand and low inventory environment, residential construction activity grew at a fast pace this quarter. Three-fourths of real estate contacts reported higher activity compared with the same period last year and expect this trend to continue into the third quarter.
- Commercial real estate market activity improved in the first quarter. Vacancy rates stabilized, and over half of real estate contacts reported slightly higher demand across all sectors. Several contacts also noted an increase in industrial and apartment speculative building.

House price growth in major MSAs catch up with nation

CoreLogic House Price Index (HPI), percent change from a year ago



Source: CoreLogic.

| Non-residential market (St. Louis, Q1-16) | Apartment | Office | Retail | Industrial |
|---|-----------|--------|--------|------------|
| Vacancy rate (%) | 4.2 | 16.7 | 11.9 | 6.9 |
| Asking rent | 2.3 ▼ | 1.3 | 0.3 ▼ | 1.2 |
| <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) | St. Louis | Springfield | Jefferson City | Columbia | US |
|--------------------------------|-----------|-------------|----------------|----------|------|
| CoreLogic Home Price Index | 5.3 | 4.6 ▲ | 5.4 | 5.3 | 6.0 |
| Single-family building permits | 12.9 | 30.5 | -- | 29.5 | 14.1 |
| New and existing home sales | 10.0 | -- | -- | -- | 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 Debt Flattens as Delinquency Rate Falls; Auto Debt Continues To Rise

By Joseph McGillicuddy, Senior Research Associate

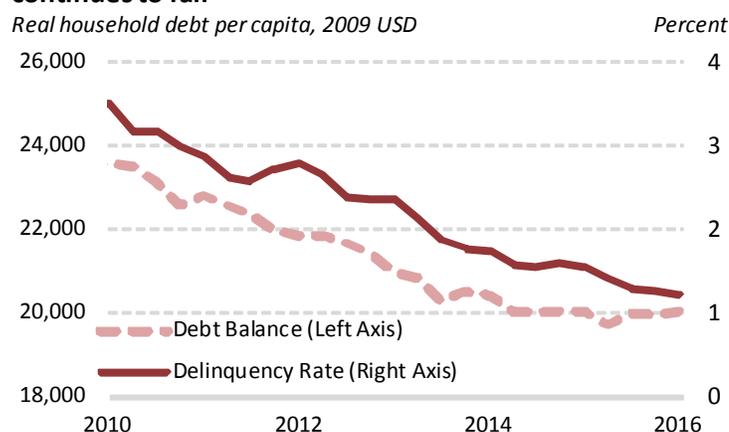
“Low fuel prices, low interest rates, and easily available credit from finance companies are positively impacting my business.”

—St. Louis area auto dealer

“We’ve seen lower foot traffic for new vehicles.”

—St. Louis area auto dealer

Zone mortgage debt levels off as delinquency rate continues to fall



Source: FRBNY Consumer Credit Panel and Equifax.

- Zone households continued to leave their mortgage debt balances nearly unchanged in the first quarter. Real mortgage debt per capita has been essentially constant since mid-2014. Regardless, the zone’s mortgage delinquency rate has continued to decline over this period (see figure).
- Auto debt balances within the zone further expanded at a relatively high rate, growing faster than the national average. The zone’s auto delinquency rate ticked up slightly. More than half of local auto dealer contacts reported that sales halfway through the second quarter were higher than at the same time last year.
- Zone credit card debt per capita continued to increase at a modest rate, while the credit card delinquency rate remained almost unchanged from the previous quarter.
- Real per capita personal income growth slowed slightly during the fourth quarter of 2015 in both Missouri and Illinois. Missouri’s growth rate remained weaker than that of the nation while Illinois’ continued to be stronger.

| | St. Louis Zone | Missouri | Illinois | US |
|---------------------------------------|----------------|----------|----------|-----|
| Per capita personal income (Q4-15) | -- | 2.2 | 3.9 | 2.7 |
| Per capita debt balances (Q1-16) | | | | |
| Mortgage | -0.1 | -0.3 | -1.0 | 0.0 |
| Credit card | 2.4 | 2.0 | 1.4 | 1.5 |
| Auto loan | 8.4 | 8.5 | 7.0 | 7.7 |
| 90+ day delinquency rates (Q1-16) (%) | | | | |
| Mortgage | 1.2 | 1.1 | 2.1 | 1.8 |
| Credit card | 6.5 | 7.1 | 6.2 | 7.4 |
| Auto loan | 2.8 | 3.2 | 2.8 | 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.

Banking Conditions Mixed in St. Louis Zone

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

“Consumer lending is just normal activity—replacing cars and financing personal expenditures.”

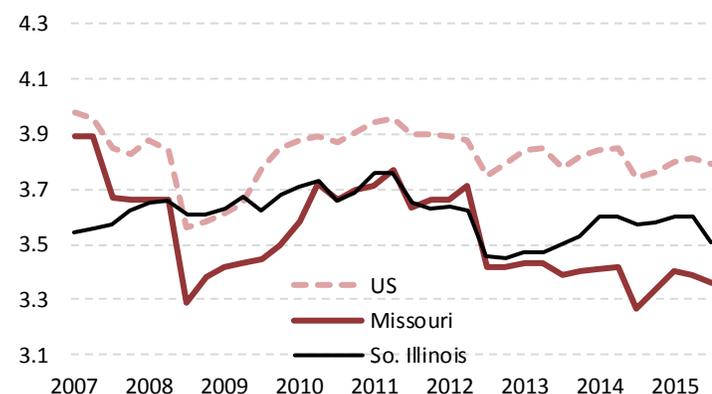
—St. Louis banker

“Business activity locally is pretty flat. We have not had any significant new businesses come into our Jefferson City market.”

—Central Missouri banker

Net interest margins trend down

Net interest margin at commercial banks, percent



Source: FRED.

- Survey respondents reported loan demand was unchanged to slightly higher in the second quarter compared with last year. Most respondents expect loan demand will be unchanged in the third quarter from year-ago levels, while the rest expect it will be somewhat higher.
- Mortgage lending remains strong in the St. Louis zone. While slightly more than half of respondents reported mortgage demand was unchanged from year-ago levels, a sizable minority reported demand was somewhat higher. Survey respondents expect mortgage demand to be unchanged to somewhat higher in the third quarter compared with the same time last year.
- Return on average assets (ROA) was up 4 basis points at Missouri banks and down 3 basis points at southern Illinois banks in the first quarter. ROA rose at Missouri banks despite another decrease in the average net interest margin (NIM). The average NIM decreased at southern Illinois banks in the first quarter as well.
- Delinquencies were unchanged to slightly lower in the second quarter compared with the same time last year. Respondents also expect delinquencies will be unchanged to slightly lower in the third quarter compared with year-ago levels. The creditworthiness of borrowers was unchanged to somewhat improved in the second quarter.

| Banking performance (Q1-16) | Missouri | Illinois | So. Illinois | 8th District | US Peer Banks |
|-----------------------------------|----------|----------|--------------|--------------|---------------|
| Return on average assets | 1.02 | 0.83 | 1.02 | 1.08 | 1.05 |
| Net interest margin | 3.36 | 2.66 | 3.51 | 3.70 | 3.79 |
| Nonperforming loans / total loans | 0.75 | 1.06 | 1.03 | 1.02 | 1.10 |
| Loan loss reserve coverage ratio | 176.00 | 102.83 | 119.42 | 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.

Price Increases May Influence Planting; Opinions on Row Crop Outlook Vary

By Jonas C. Crews, *Research Associate*

“This is the price correction that was expected to come eventually. Farms are going to have to innovate to survive.”

—Missouri agricultural goods producer

Crop prices ticking up, but still low

Central Illinois Cash Prices, \$/Bushel



Source: USDA/Haver Analytics.

- Per the USDA prospective plantings report, the zone’s corn acreage will increase from last year, while soybean acreage will remain roughly the same (see table). However, contacts note that rain and the downward pressure put on corn prices following the report release (discussed below) will likely result in a shift toward soybeans from corn.
- Crop prices have been increasing across the board, and soybeans have seen some of the largest increases. The soybean price increase has been attributed to currencies of foreign soybean producers regaining some ground on the U.S. dollar and to concerns over current and future supply. Meanwhile, any factors that could put upward pressure on corn prices have, so far, been largely negated by the greater-than-expected planned U.S. corn acreage reported by the USDA (see figure and table).
- Although prices remain at relatively low levels, some contacts cite the recent increases as reasons for optimism. However, others argue that prices will never fully recover in real terms (as opposed to nominal) and assert that a strong focus on innovation will be necessary to remain in the industry (see quote).
- Coal production and mining employment continue to fall, and coal extraction companies continue to experience losses as coal prices remain low (see table).

| | Illinois | Missouri | US |
|-------------------------------------|----------|----------|---------|
| Natural resources (Q1-16) | | | |
| Mining and logging employment | -6.4 | -4.7 | -16.1 |
| Coal production | -30.0 | -37.3 | -31.2 ▼ |
| Prospective plantings (2016) | | | |
| Corn | 3.4 | 9.1 | 4.9 |
| Cotton | -- | 54.3 ▲ | 0.1 |
| Rice | -- | -8.0 | 5.1 |
| Sorghum | -37.5 ▼ | -62.5 ▼ | -8.7 |
| Soybeans | 1.0 | -2.7 | -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, 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 nonperforming 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)

Prospective planting and cash prices.