The Little Rock zone of the Federal Reserve comprises the majority of Arkansas, except northeast Arkansas. The total population is approximately 2.5 million people, including the 710,000 who live in the Little Rock MSA.

**Businesses Continue To Be Optimistic about Local Economic Conditions**

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

Similar to the May survey, an August survey of business contacts indicated that a little more than half expect that economic conditions in 2015 will be better than in 2014. Only 12 percent of contacts expect economic conditions to worsen in 2015.

Paced by strong gains in the goods-producing sector, nonfarm payroll employment in the Little Rock MSA rose 1.3 percent in the second quarter of 2015. Employment growth was appreciably stronger in the Fayetteville MSA, but little changed in the Fort Smith and Texarkana MSAs.

The zone’s unemployment rate averaged 5.5 percent in the second quarter of 2015, little changed from the previous quarter. Overall, business contacts are optimistic about local labor markets over the remainder of 2015 and many continue to report upward pressure on wages.

Housing activity improved in most areas, as home prices and building permits rose significantly in several MSAs in the second quarter. In the Little Rock MSA, commercial and industrial construction activity showed signs of growth and vacancy rates fell for all property types in the second quarter.

Per capita total debt balances fell in the Little Rock zone in the second quarter, as households continued to reduce mortgage debt while increasing student loan and credit card debt.

Banking performance improved in the second quarter compared with the first quarter, as profitability and net interest margins increased, and the nonperforming loan ratio decreased. Arkansas bankers reported that loan demand is picking up relative to a year earlier.

Arkansas crop conditions are in good shape, as yields for most major crops are expected to exceed their five-year average.

This report is published by the Federal Reserve Bank of St. Louis
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.
Goods-Producing Sector Drives Employment Growth in Little Rock

By Maria A. Arias, Senior Research Associate

“... but does not appear to have been that big of an impact thus far. I expect this to change as large retailers and fast food providers are increasing wages.”

—Little Rock area contact

- MSAs in the Little Rock zone experienced mixed labor market conditions during the second quarter. Employment growth accelerated slightly in Little Rock, but slowed in Fayetteville and Texarkana, while Fort Smith saw negative job growth from one year ago. Overall growth in Fayetteville, however, remained stronger than the national average.

- In particular, the goods-producing sector lost momentum across the zone, with growth slowing significantly in both Fayetteville and Fort Smith. Little Rock was the only exception, where the sector’s employment growth accelerated by 1.5 percentage points from the previous quarter and was more than double the national average (see table).

- In Little Rock, the goods-producing sector alone accounted for almost half of job growth during the second quarter, primarily in the natural resources and construction sector (see figure).

- Overall, business contacts have a positive outlook for the labor market for the remainder of the year. Half of contacts surveyed expect employment and hours worked to remain about the same and the remaining half expect them to be slightly higher, compared with the same time last year.

- More than three-quarters of contacts surveyed reported they expect wages and labor costs to continue increasing slightly, and 40 percent expect prices to be higher than they were at the end of last year.

### Goods-producing sector accounted for almost half of jobs gained in Little Rock during the second quarter

Payroll employment, change from year ago (thousands)

<table>
<thead>
<tr>
<th>Year</th>
<th>Little Rock</th>
<th>Fayetteville</th>
<th>Fort Smith</th>
<th>Texarkana</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>2009</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>2010</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>2011</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>2012</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>2013</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>2014</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>2015</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Source: BLS.

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 Growth Slows, Exports Drop

By Daniel Eubanks, Senior Research Associate

• Manufacturing exports from Arkansas sharply decreased in the second quarter. Decreases were concentrated in transportation equipment, fabricated metal products, and food products. Despite a brief recovery in late 2014, Arkansas manufacturing exports have trended downward since 2012. Exports are now 20 percent lower than the pre-recession peak in 2008 (see figure).

• Manufacturing employment growth continued to slow in Arkansas but remained positive. In contrast, manufacturing employment in Fayetteville contracted slightly in the second quarter after several quarters of slowing growth.

• Transportation employment growth slowed significantly in Arkansas following faster-than-average growth in the first quarter.

• Transportation providers continue to report difficulty in filling truck driver vacancies. Several contacts speculated that new regulations regarding driver hours will further exacerbate the shortage.

“Sales exceeded expectations because of pent up demand.”

– Central Arkansas manufacturer

Arkansas exports dip farther below pre-recession level

Real value of manufacturing exports, SA (Index 2008 Q3 = 100)

Source: WISER, Census Bureau

<table>
<thead>
<tr>
<th></th>
<th>Little Rock</th>
<th>Fayetteville</th>
<th>Arkansas</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation employment (Q2-15)</td>
<td>0.2</td>
<td>4.2</td>
<td>2.6 ▼</td>
<td>3.0</td>
</tr>
<tr>
<td>Manufacturing employment (Q2-15)</td>
<td>1.8</td>
<td>-0.2 ▼</td>
<td>0.4</td>
<td>1.4</td>
</tr>
<tr>
<td>Durable goods</td>
<td>--</td>
<td>--</td>
<td>0.3</td>
<td>1.9</td>
</tr>
<tr>
<td>Nondurable goods</td>
<td>--</td>
<td>--</td>
<td>0.5</td>
<td>0.7</td>
</tr>
<tr>
<td>Manufacturing exports (Q2-15)</td>
<td>--</td>
<td>--</td>
<td>-22.5 ▼</td>
<td>-4.6</td>
</tr>
</tbody>
</table>

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.
Rising Home Prices Slowed Home Sales in Little Rock

By Usa Kerdunvong, Research Associate

“Lack of inventory and rising prices have slowed [home] sales.”
—Little Rock area real estate contact

“We are starting to see property values where they belong, an increase in values of home sales, and increase in construction.”
—Little Rock real estate contact

- Prices increased in all MSAs compared with a year ago, with significant increases in four of the six MSAs. Year-to-date home sales increased from a year ago. Zone sales lag national sales for the first time since the first quarter of 2013 (see figure). Contacts from the zone have partially attributed the slowing of home sales to rising prices.

- Residential real estate construction activity continued to improve. Single-family building permits increased in most MSAs, a majority of which increased faster than the national rate (see table).

- Commercial and industrial real estate leasing activity improved in Little Rock. Metro area vacancy rates fell for all property types in the second quarter, except for industrial properties, which were already low. Asking rents increased for all property types.

- Commercial and industrial construction activity showed signs of growth during the second quarter. Business contacts reported an increase in overall activity. New healthcare facilities and manufacturing facilities have been announced or have started in construction.

Home sales slowing down, compared with nation
Percent change from one year ago, year to date

![Chart showing home sales slowing down compared with nation](chart.jpg)

Source: Census Bureau and National Association of Realtors.

Non-residential market (Little Rock, Q2-15)

<table>
<thead>
<tr>
<th></th>
<th>Apartment</th>
<th>Office</th>
<th>Retail</th>
<th>Industrial</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vacancy rate (%)</td>
<td>6.3</td>
<td>12.0</td>
<td>11.0</td>
<td>8.7</td>
</tr>
<tr>
<td>Asking rent</td>
<td>2.1</td>
<td>0.3</td>
<td>1.0</td>
<td>▲ 2.1</td>
</tr>
</tbody>
</table>

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

Residential market (Q2-15)

<table>
<thead>
<tr>
<th></th>
<th>Little Rock</th>
<th>Fayetteville</th>
<th>Fort Smith</th>
<th>Hot Springs</th>
<th>Pine Bluff</th>
<th>Texarkana</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>CoreLogic Home Price Index</td>
<td>2.3</td>
<td>7.0 ▲</td>
<td>4.3 ▲</td>
<td>9.1 ▲</td>
<td>4.7 ▲</td>
<td>10.3 ▼</td>
<td>5.7</td>
</tr>
<tr>
<td>Single-family building permits</td>
<td>24.4</td>
<td>36.1</td>
<td>0.7 ▼</td>
<td>43.8 ▲</td>
<td>11.1 ▼</td>
<td>-78.6 ▼</td>
<td>9.7</td>
</tr>
<tr>
<td>New and existing home sales</td>
<td>5.3</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>9.1</td>
</tr>
</tbody>
</table>

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 previous quarter. See appendix for notes and sources.
Households Continue To Reduce Mortgage Debt, Increase Auto and Student Loans

By Joseph McGillicuddy, Research Associate

“Entry-level jobs are plentiful, meaning lower purchasing power and medium- to upper-level jobs are rare. Therefore it makes buyers extremely cautious in buying vehicles.”
— Conway area auto dealer

Arkansas’s personal income grew by 4.7 percent year-over-year in the first quarter of 2015, slightly below the previous quarter’s growth rate but still well above the national rate (see table).

Auto and credit card debt in the second quarter of 2015 grew at a similar pace as in the previous quarter, and consumers continued to reduce their mortgage debt at a relatively modest pace.

The average household’s debt composition continues to move away from mortgages and credit card debt toward auto and student debt. As a percentage of total debt, auto and mortgage debt have returned to pre-recession levels. Credit card debt has leveled off at around 6.5 percent of total debt in recent years, while student debt has consistently increased since 2003 (see figure).

The pattern of delinquency rates in the zone was similar to the national pattern in the second quarter: The mortgage delinquency rate declined moderately compared with the previous quarter, while credit card and auto loan delinquency rates remained largely unchanged.

Retail contacts indicated that consumers continue to benefit from lower gas prices. Reports from local auto dealers were mixed.

<table>
<thead>
<tr>
<th>Zone households continue to adjust debt composition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share total debt per capita</td>
</tr>
<tr>
<td>20%</td>
</tr>
<tr>
<td>15%</td>
</tr>
<tr>
<td>10%</td>
</tr>
<tr>
<td>5%</td>
</tr>
</tbody>
</table>

Source: FRBNY Consumer Credit Panel and Equifax.

- Per capita personal income (Q1-15)
- Per capita debt balances (Q2-15)
- 90+ day delinquency rates (Q2-15) (%)

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 Gaining Momentum in Little Rock Zone

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

“Low rate specials are driving volume for consumer loans.”
—Little Rock banker

“Business borrowers are taking advantage of the longest term low rate available for all capital goods.”
—Little Rock banker

- Two of three bankers surveyed reported loan demand was slightly higher in the third quarter than it was during the same period last year, and they expect demand in the fourth quarter to be stronger than it was a year ago.

- Bankers reported relatively strong demand for mortgage loans compared with other loan categories. In the third quarter, all respondents reported that demand for residential mortgages was either higher or slightly higher than at the same time last year.

- Profitability remained high at Arkansas banks in the second quarter. Return on average assets (ROA) rose 2 basis points to 1.20 percent, and the average net interest margin was up 6 basis points in the quarter. Arkansas banks remain more profitable, on average, than their District and U.S. peers.

- Asset quality improved again in the second quarter. The ratio of nonperforming loans to total loans declined at Arkansas banks, and the loan loss reserve coverage ratio increased.

- Bankers surveyed reported the creditworthiness of borrowers was unchanged to slightly higher in the third quarter. Two-thirds of respondents said loan delinquencies were unchanged to slightly lower in the third quarter compared with the prior year. All respondents expect delinquencies to remain unchanged in the fourth quarter compared with the same time last year.

Arkansas banks outperform peers

Return on average assets at commercial banks, percent

[Graph showing the performance of Arkansas, US, and 8th District banks over the years 2006 to 2014.]

Source: FRED.

Banking performance (Q2-15)

<table>
<thead>
<tr>
<th></th>
<th>Arkansas</th>
<th>8th District</th>
<th>US Peer Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on average assets</td>
<td>1.20</td>
<td>0.99</td>
<td>1.09</td>
</tr>
<tr>
<td>Net interest margin</td>
<td>4.16</td>
<td>3.73</td>
<td>3.76</td>
</tr>
<tr>
<td>Nonperforming loans / total loans</td>
<td>1.22</td>
<td>1.16</td>
<td>1.19</td>
</tr>
<tr>
<td>Loan loss reserve coverage ratio</td>
<td>113.11</td>
<td>115.52</td>
<td>115.13</td>
</tr>
</tbody>
</table>

Note: All values are percentage points. Arrows indicate a significant (± 1 standard deviation) change from the previous quarter. See appendix for notes and sources.
Big Year for Sorghum: Exceptional Planting, Yields, and Production

By Lowell R. Ricketts, Senior Research Associate

“When I look at the cotton crop we have now, it looks as good as or better than last year; we’ll still have a fairly good yield potential.”

— Northwest Arkansas agronomist

According to the USDA’s August estimates, total production will decline for three of five major crops in Arkansas (see table). The production declines registered for these crops were driven by an acreage reduction this year relative to 2014. In contrast, yields were strong and—with the exception of rice—were at least 10 percent higher than the 5-year average yield (see figure). Although Arkansas rice production is expected to decline modestly in 2015, total production is still expected to exceed levels seen during the 2011-2013 harvests.

Over 90 percent more acres were planted with sorghum this year, and yields were over 15 percent higher than the 5-year average. Consequently, the Arkansas sorghum crop is expected to produce over 50 million bushels this year, its highest level since 1985.

The trends in Arkansas field crop production and the natural resources sector largely mirror those of the nation (see table). Mining and logging employment declined by a similar margin. Coal production—although not typically reported for Arkansas due to volatility—moved lower for both areas. Furthermore, cotton production fell by almost a quarter of last year’s production for both regions and rice production fell significantly by a roughly equal share. Arkansas produces about half the nation’s rice.

![Most yields projected to be highest in past 5 years](image)

<table>
<thead>
<tr>
<th>Crop</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>10</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>Cotton</td>
<td>5</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Rice</td>
<td>0</td>
<td>0</td>
<td>-5</td>
</tr>
<tr>
<td>Sorghum</td>
<td>20</td>
<td>15</td>
<td>25</td>
</tr>
<tr>
<td>Soybeans</td>
<td>10</td>
<td>5</td>
<td>0</td>
</tr>
</tbody>
</table>

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.
Appendix

Cover Page

Sources
Bureau of Labor Statistics
  Unemployment rate, nonfarm payroll employment.

Real Estate and Construction

Table Sources
CoreLogic
  Home price index, including distressed sales.
Census Bureau
  Year-to-date single-family building permits.
Janet Jones Company 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.

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
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).

Household Sector

Table Sources
Equifax based on authors’ calculations
  All figures are based on a 5 percent sample of individual credit reports. Balances are geographical averages of various debt categories. The mortgage category includes first mortgages and home equity installment loans, but home equity lines of credit are omitted. Auto loans include those financed by finance company or bank loans. Credit cards are revolving accounts at banks, bankcard companies, national credit card companies, credit unions, and savings and loan associations.
Haver Analytics
  Per capita income.

Notes
Delinquency rates are calculated as the percentage of payments past due by more than 90 days, weighted by the dollar value of the loan.
Banking and Finance

Table Sources

*Federal Financial Institutions Examination Council*

- Return on average assets: USL15ROA. Net interest margin: USL15NIM. Nonperforming loans: USL15NPTL. Loan loss reserve/Total loans: USL15LLRTL. Net loan losses/Average total loans: USL15LSTL.

Note: The data available in the table can be found in FRED.

Notes

- **Loan loss provisions** are expenses banks set aside as an allowance for bad loans.
- **Nonperforming loans** are those loans managers classify as 90 days or more past due or nonaccrual, which means they are more likely to default.
- **Loan loss coverage ratio** is loan loss reserves divided by nonperforming loans.
- **US peer banks** are those commercial banks with assets of less than $15 billion.

Due to the seasonal nature of bank return on average assets and net interest margin, the arrows in the table denote significant changes from one year ago.

Agriculture and Natural Resources

Sources

*Energy Information Administration (EIA)*

- Coal production. Note: Production trends identified in report may be inconsistent with previous reports due to data revisions.

*Bureau of Labor Statistics (BLS)*

- Mining and logging employment.

*United States Department of Agriculture (USDA)*

- Production and yield estimates as of August 2015.

Notes

The results of the Federal Reserve Bank of St. Louis *Agricultural Finance Monitor* are not reported due to a low response rate for the Little Rock zone.