



# Burgundy Book

A report on economic conditions in the Little Rock zone

Third Quarter 2016

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.

## Labor Markets Sizzle, Helping to Boost Optimism

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

Relative to three months earlier, optimism about the economic outlook for 2016 improved appreciably according to an August survey of business contacts.

The zone's unemployment rate averaged 3.8 percent in the second quarter, its lowest rate on record. The Fayetteville MSA unemployment rate remained the lowest in the zone at 2.8 percent, followed by the Little Rock MSA rate at 3.4 percent. The other two MSAs, Fort Smith (4.7 percent) and Texarkana (4.3 percent), also registered rates below the national average (4.9 percent).

Payroll employment growth remained positive across the zone in the second quarter. The majority of MSAs registered stronger growth in the services-producing sector than in the goods-producing sector. The survey of business contacts suggests that nominal wages are increasing.

Housing activity remained strong across most areas of the zone in the second quarter. With the exception of the Hot Springs MSA, single-family building permits were up by double digits growth rates on a year-to-date basis. House price gains, however, were in the low single-digit range on average.

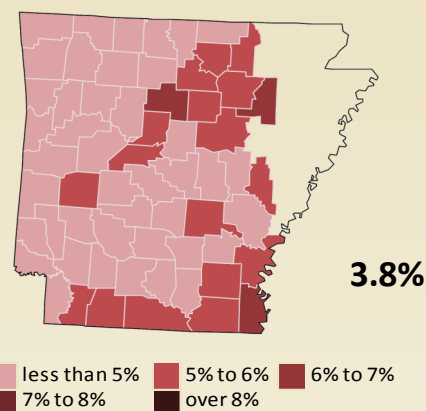
Per capita automotive debt balances in the zone were up by nearly 9.5 percent in the second quarter from a year earlier, far outpacing the national average (7.7 percent). Automotive loan delinquency rates were slightly above the national rate.

Although overall loans in the third quarter were little changed from a year earlier, a majority of bankers expect loan demand to pick up in the fourth quarter.

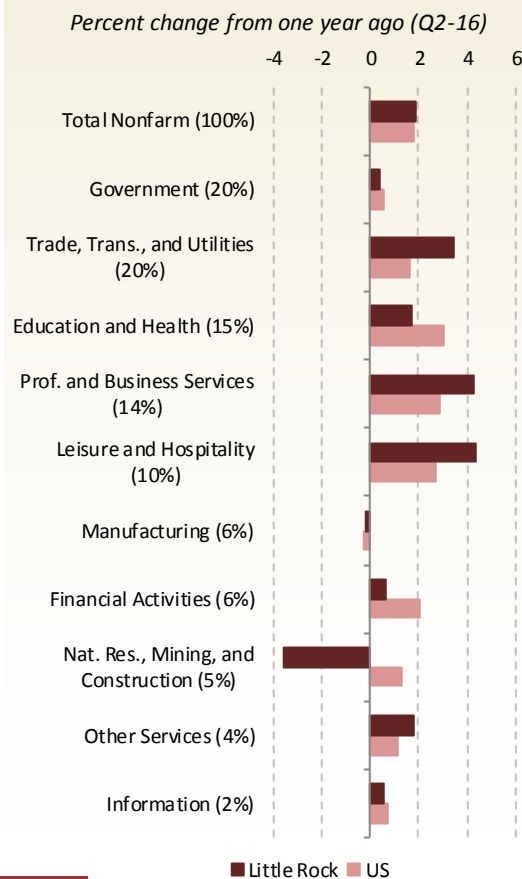
Favorable weather conditions and a projected increase in harvested acreage is expected to lead to bumper corn, cotton, and rice crops this year.

### Data Snapshot

#### County unemployment rates (SA, Q2-16)



#### Nonfarm payroll employment by industry



## 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 Little Rock zone** are based on data availability and are calculated as weighted averages of either the 62 counties in the zone or the six MSAs. As of 2012, approximately 74 percent of the zone’s labor force was located in an MSA. Specifically: 29 percent in Little Rock, 20 percent in Fayetteville, 11 percent in Fort Smith, 6 percent in Texarkana, 4 percent in Pine Bluff, and 4 percent in Hot Springs; 26 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 August 9 and August 23.

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](mailto:beigebook@stls.frb.org).

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

## Little Rock Zone Unemployment Rates Declining Faster than National Rate

By Paul Morris, *Research Associate*

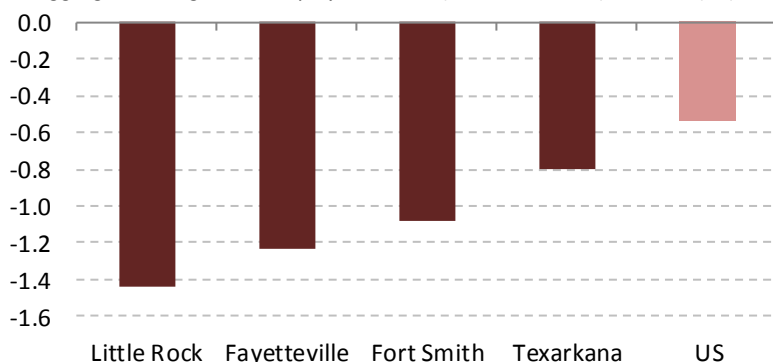
*“There is concern about the availability of labor for expansions.”*

—Little Rock area manufacturing contact

- Overall labor market conditions in the Little Rock zone were somewhat mixed. Employment growth was faster than the national rate in Fayetteville and Little Rock and slower than the national rate in Texarkana and Fort Smith.
- The private service-providing sector continued to drive employment growth throughout the zone in the second quarter, as the majority of job gains came from this sector in Little Rock, Fayetteville, and Texarkana. Strong growth in government payrolls boosted growth in Fort Smith.
- The unemployment rates throughout the zone remained well below the national rate. Moreover, recent declines have exceeded the decline in the national average in all four of the MSAs (see figure). The largest change occurred in Little Rock, where the unemployment rate fell 1.4 percentage points from one year ago.
- Demand for labor in Arkansas continued to increase. There were fewer than two unemployed persons for every advertised vacancy statewide in the second quarter.
- A survey of business contacts suggests that wages in the zone are increasing: Almost two-thirds of respondents reported that wages were higher or slightly higher in the third quarter compared with the same period last year.

### Regional unemployment rates decline faster than national unemployment rate

Aggregate change in unemployment rate (Q2-15 to Q2-16), Percent (SA)



Source: BLS.

	Little Rock	Fayetteville	Fort Smith	Texarkana	US
Unemployment rate (Q2-16) (%)	3.4	2.8	4.7	4.3	4.9
Nonfarm employment (Q2-16)	1.9	4.0 ▼	0.2	1.2 ▼	1.8
Goods-producing sector	-1.7 ▼	-0.2	-1.3	2.2	0.3
Private service-providing sector	2.9	5.1 ▼	0.0	1.6 ▼	2.3
Government sector	0.4	3.2	2.9	-0.7	0.6

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

## Manufacturing Conditions Are Mixed in the Little Rock Zone

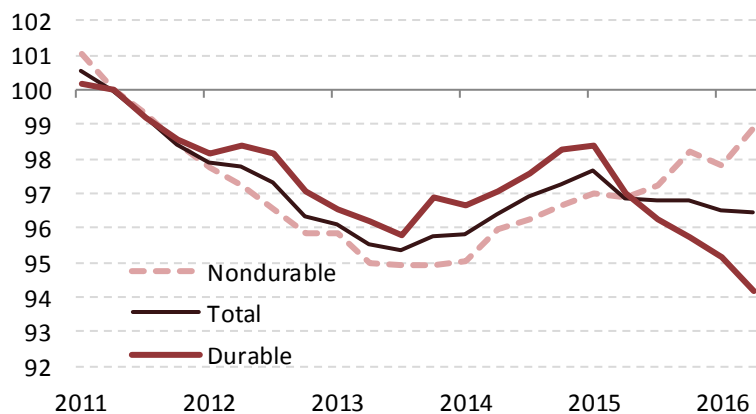
By Daniel Eubanks, Senior Research Associate

*“Truck drivers continue to be in high demand. Some companies struggle to hire new drivers after the retirement of experienced drivers.”*

— Southwest Arkansas contact

### Manufacturing subsectors diverge in Arkansas

Index, 2011 Q2 = 100



Source: BLS

- Manufacturing employment declined slightly across the Little Rock zone in the second quarter, mirroring the nationwide decline in manufacturing employment. Despite the overall decline in manufacturing employment in Arkansas, employment in the nondurable goods sector increased significantly. The sector, which includes food products, wood products, and paper products, grew by 2.1 percent, the fastest growth rate since before the recession.
- Manufacturing exports from Arkansas decreased, driven by declines in exports of a broad range of durable goods, including computer and electronic products, machinery, electrical equipment, and primary metal products.
- In the Little Rock MSA, manufacturing employment declined by 0.2 percent from one year ago after increasing by 0.5 percent in the first quarter. In Arkansas overall, manufacturing employment decreased for the fourth consecutive quarter.
- Employment growth in the transportation sector slowed across the Little Rock zone. In Arkansas, growth slowed sharply from 3.3 percent last quarter to 0.2 percent. In the Little Rock MSA, growth slowed from 2.8 to 2.1 percent. In the U.S. overall, transportation employment growth slowed to 1.2 percent, its lowest rate since 2010.
- Despite the slow job growth, transportation contacts continue to report strong demand for truck drivers (see quote).

	Little Rock	Fayetteville	Arkansas	US
Transportation employment (Q2-16)	2.1	1.9	0.2 ▼	1.2
Manufacturing employment (Q2-16)	-0.2	-3.1	-0.4	-0.3
Durable goods	--	--	-3.0	-1.0
Nondurable goods	--	--	2.1 ▲	0.9
Manufacturing exports (Q2-16)	--	--	-12.2	-6.0

Note: Values are percent change from one year ago. Arrows indicate a significant ( $\pm 1$  standard deviation) change from the previous quarter; see appendix for notes and sources.

## Home Sales Growth Continues To Strengthen; Commercial Market Remains Stable

By Joseph McGillicuddy, Senior Research Associate

*“Commercial properties have enjoyed brisk sales and will slow somewhat into the fourth quarter.”*

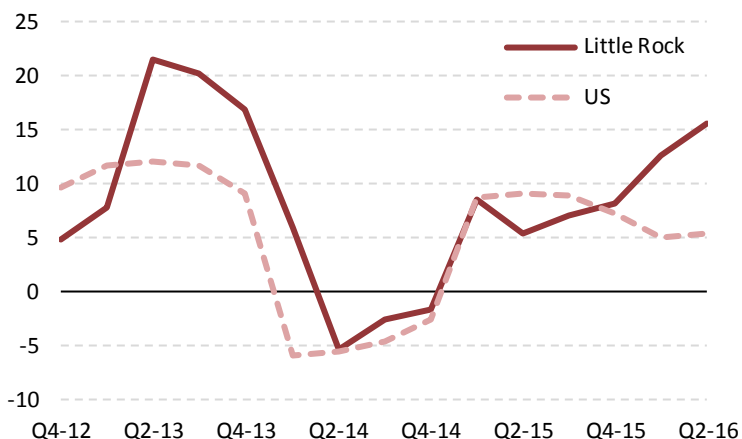
—Little Rock real estate contact

*“Real estate agents have a positive attitude about future sales.”*

—Southwest Arkansas business contact

### Little Rock home sales increasing faster than nation's

Percent change from one year ago, year to date



Source: National Association of Realtors and The Janet Jones Company.

- Growth in home sales continued to accelerate in Little Rock, climbing more than 15 percent over sales in the second quarter of 2015. The MSA’s growth rate has risen over the past four quarters and has well exceeded the national rate over the past two quarters (see figure).
- Changes in house prices varied by MSA. Only Texarkana experienced growth above the U.S. average, but Fayetteville’s house prices continued to see a steady increase of nearly 5 percent year-over-year. Pine Bluff house prices have declined in each of the past three quarters.
- Construction activity was strong. Building permits in all MSAs except Hot Springs increased at a rate faster than the nation’s.
- Little Rock’s office and retail vacancy rates saw little change relative to the first quarter, while the apartment vacancy rate declined for a third consecutive quarter.
- Rental rates increased modestly for all property types, but their rates of growth continued to lag behind those of the nation.

Non-residential market (Little Rock, Q2-16)	Apartment	Office	Retail	Industrial
Vacancy rate (%)	6.9	12.2	10.9	--
Asking rent	2.5	1.4	0.9	--
<i>Percent change from one year ago</i>				

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

Residential market (Q2-16)	Little Rock	Fayetteville	Fort Smith	Hot Springs	Pine Bluff	Texarkana	US
CoreLogic Home Price Index	1.0	4.6	0.6	2.4 ▼	-4.4	5.8	5.4
Single-family building permits	13.3	15.7	36.7 ▲	-13.0	20.0	73.3	10.1
New and existing home sales	15.7	--	--	--	--	--	5.3

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.

## Zone's Credit Card Delinquency Rate Surpasses the Nation's

By Rodrigo Guerrero, *Research Associate*

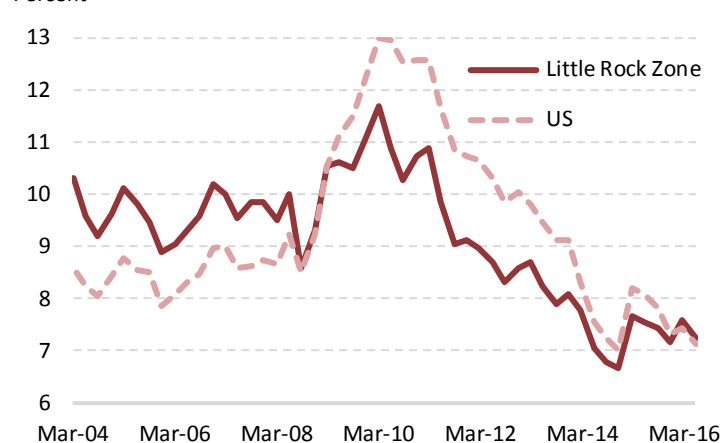
*"Sales are forecasted to slow down towards the end of the summer."*

—Southwest Arkansas auto dealer

*"The April slowdown in Arkansas taxable sales appears to have persistence."*

—Arkansas business contact

### Zone's credit card delinquency rate surpasses the nation's



Source: FRBNY Consumer Credit Panel and Equifax.

- Growth of credit card debt balances per capita in the zone continued to accelerate during the second quarter to nearly triple the national growth rate. Meanwhile, the zone's credit card delinquency rate has exceeded the nation's for the second consecutive quarter. In the years preceding the recession, the zone's rate trended above the national rate (see figure).
- Reports from auto dealers indicated that sales halfway through the third quarter fell short of expectations (see quote). Nevertheless, auto debt growth remained high in the zone, with real auto loan balances increasing at a faster rate than the U.S. average. Multiple dealers reported a shift in demand toward used vehicles.
- Households within the zone slightly increased their mortgage debt balances. The mortgage delinquency rate in the zone and in the U.S. as a whole continued to drop in the second quarter.
- Real income per capita growth in Arkansas accelerated to 3.2 percent year-over-year in the first quarter of 2016, surpassing the national rate of 2.6 percent.

	Little Rock Zone	Arkansas	Little Rock MSA	US
Per capita personal income (Q1-16)	--	3.2	--	2.6
Per capita debt balances (Q2-16)				
Mortgage	0.3	0.1	-0.3 ▲	0.7
Credit card	4.6	4.2	3.7	1.6
Auto loan	9.4	9.2	8.1	7.7
90+ day delinquency rates (Q2-16) (%)				
Mortgage	1.2	1.2	1.3	1.5
Credit card	7.2	7.3	6.6	7.1
Auto loan	3.3	3.3	4.1 ▲	3.2

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

## Asset Quality and Mortgage Lending Strengthen Arkansas Banking Markets

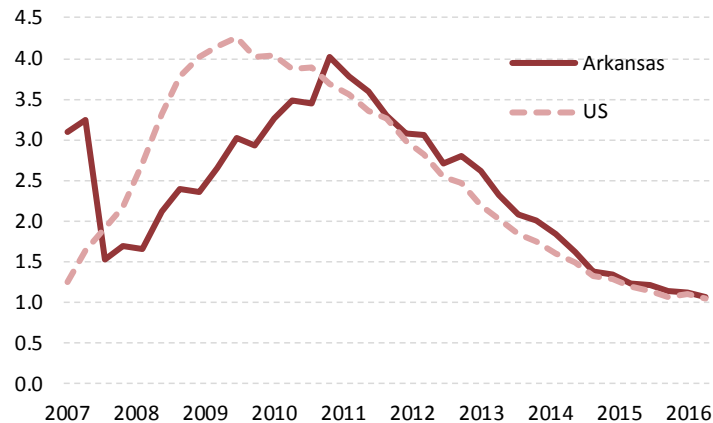
By Michelle Neely, *Economist*, and Evan Karson, *Research Associate*

*“Continued low interest rates have prompted another wave in home refinancing, which we expected would wane.”*

— Little Rock banker

### Asset quality returns to pre-crisis levels

*Nonperforming loan ratio at commercial banks, percent*



Source: FRED.

- Survey respondents reported that overall loan demand in the Little Rock zone was unchanged in the third quarter relative to year-ago levels. However, the majority of surveyed bankers expect that loan demand in the fourth quarter will be moderately stronger than it was in 2015:Q4.
- According to surveyed bankers, demand for mortgages and credit cards increased moderately in the third quarter compared with year-ago levels. Nearly all survey respondents expect that mortgage demand will continue to be strong in the Little Rock zone through the remainder of 2016.
- Return on average assets (ROA) for banks in Arkansas fell by 2 basis points in the second quarter, but remains 8 basis points above its year-ago level of 1.2 percent. The slight drop in ROA can be traced to a corresponding decline in the average net interest margin.
- The ratio of nonperforming loans to total loans (NPTL) at Arkansas banks decreased by 5 basis points in the second quarter. At 1.06 percent, the average NPTL at Arkansas banks is at its lowest level since 2006:Q3 (see figure).
- Delinquencies fell across all loan categories during the third quarter relative to the same time last year, according to survey respondents. Half of surveyed bankers expect commercial and industrial loan delinquencies in the Little Rock zone to be lower in the fourth quarter this year relative to 2015:Q4.

### Banking performance (Q2-16)

	Arkansas	8th District	US Peer Banks
Return on average assets	1.28	1.10	1.07
Net interest margin	4.08	3.69	3.79
Nonperforming loans / total loans	1.06	0.97	1.05
Loan loss reserve coverage ratio	113.21	121.65	121.90

Note: All values are percentage points. Arrows indicate a significant ( $\pm 1$  standard deviation) change from the previous quarter. See appendix for notes and sources.

## Crop Production Estimates Mixed; Role in U.S. Rice Production Still Large

By Jonas C. Crews, *Research Associate*

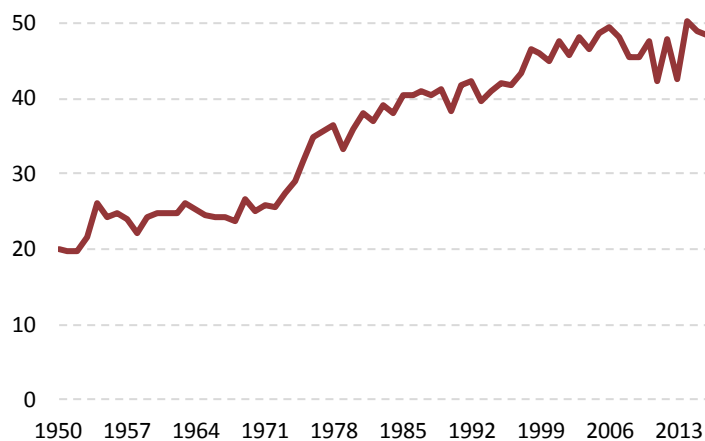
*“Timely rains have reduced the need for irrigation through June.”*

—Arkansas contact

*“Deferred land maintenance is a concern. This deference could have negative effects in the future.”*

—Arkansas contact

**Arkansas' proportion of U.S. rice production extremely high**  
Percent of U.S. Production



Source: USDA-NASS.

- Consistent rain and increased acreage are expected to result in large production increases for corn, cotton, and rice. Further, the ability to substitute rain for irrigation lowers costs during a time when cost reductions are paramount (see first quote). Sorghum and soybeans are both expected to experience production declines, with sorghum production projected to be less than 10 percent of last year’s (see table). As noted in previous releases, this is the result of a sorghum price drop and pest issues.
- While it has declined over the past two years, the proportion of the U.S. rice crop produced in Arkansas has settled to between 42 and 52 percent during the past two decades after rising from an already large 20 percent in 1950 (see figure). This is made more impressive by the fact that, based on land area, Arkansas is one of the smaller rice-producing states.
- While many contacts have discussed the creative ways farmers have reduced costs in the low-crop-price climate, some are concerned about farmers’ decisions to reduce land maintenance as a cost cutting measure. Specifically, the concern is that this attempt to lower costs in the near-term will have a lasting effect on land quality and yields.

	Arkansas	US
<b>Natural resources (Q2-16)</b>		
Mining and logging employment	-18.9	-16.0
Coal production	-35.4	-27.2
<b>Estimated production (2016)</b>		
Corn	72.5	11.4
Cotton	69.9 ▲	23.2 ▲
Rice	25.2 ▲	27.0 ▲
Sorghum	-92.4 ▼	-20.5
Soybean	-5.6	3.3

Note: Values are percent change from one year ago. Arrows indicate a significant ( $\pm 1$  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 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 Little Rock and Fayetteville 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.

*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.

## 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 estimates.