Burgundy Book

A report on economic conditions in the Little Rock zone

Fourth 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.

Business Optimism Continues To Rise

By Charles S. Gascon, *Regional Economist*

The outlook of business contacts in the Little Rock zone has considerably improved relative to one year ago. Sixty-five percent of contacts expect local economic conditions to be better or somewhat better in 2017 relative to 2016. This is a 17-percentage-point increase from one year ago, when contacts were asked about their outlook for 2016 relative to 2015.

Overall labor market conditions remained somewhat mixed. The zone's unemployment rate averaged 3.9 percent in the third quarter, up slightly from the record low in the second quarter. With the tight labor market, contacts throughout the zone reported difficulties hiring qualified workers. Payroll employment growth was modest across the zone, generally growing slower than the national rate. Most of the weakness remained in the goods-producing sectors, as state-wide employment in manufacturing is virtually unchanged from one year ago.

Housing activity remained strong across most areas of the zone. Single-family homes sales in Little Rock decelerated during the third quarter but continue to outpace the nation. The multifamily market continues to strengthen as apartment rents in Little Rock have been increasing by about 2 percent and the vacancy rate has dropped under 7 percent.

Most indicators point to improving household finances. Per capita incomes in Arkansas are up 1.8 percent from one year ago, and mortgage debt balances have declined 1 percent. However, the delinquency rate for automotive debt continues to increase, reaching 3.5 percent in the third quarter.

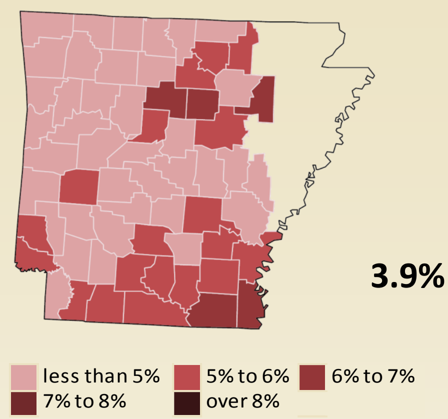
Bankers report the demand for loans was little changed from a year ago, with a slight decline in the demand for commercial industrial (C&I) loans being offset by an increase in consumer borrowing. However, bankers expect C&I loan growth to pick up slightly during the first part of 2017.

Row crop production was a bit weaker than expected, and contacts anticipate that low prices may halt the growth in agricultural land values.

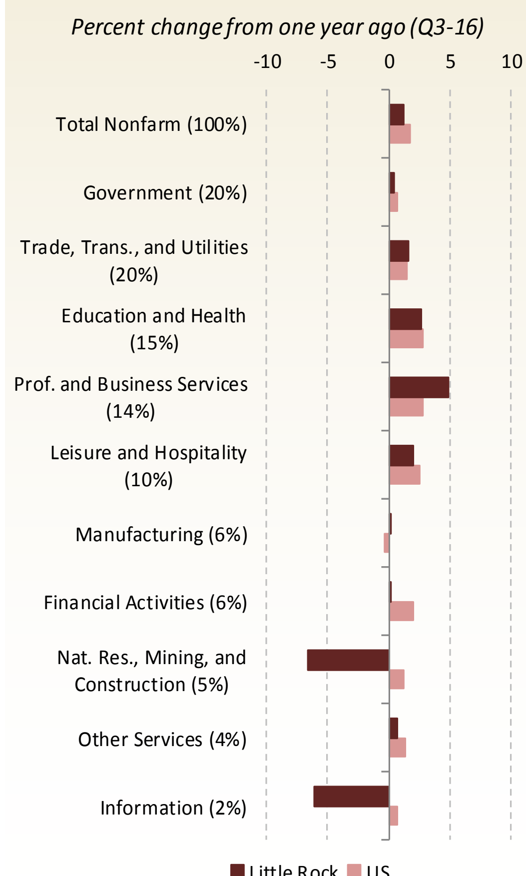
Note to readers: This will be the final Burgundy Book. Starting in 2017, zone-specific anecdotal information will be included in a supplement to the redesigned Beige Book. The Beige Book is released eight times per year, and the next release will be January 18. The regional economic data contained in the report is available in the St. Louis Fed's FRED database and may be accessed through the Eighth District Economy webpage: research.stlouisfed.org/regecon.

Data Snapshot

County unemployment rates (SA, Q3-16)



Nonfarm payroll employment by industry



This report is published by the Federal Reserve Bank of St. Louis

How to read this report

Unless otherwise noted, **city names** refer to the metropolitan statistical areas (MSAs), which are geographic areas that include cities and their surrounding suburbs, as defined by the Census Bureau.

Statistics for the 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.

For more information contact the St. Louis office:

Charles Gascon
charles.s.gascon@stls.frb.org

Media inquiries:
mediainquiries@stls.frb.org

Table of Contents

Join Our Panel of Business Contacts

The anecdotal information in this report was provided by our panel of business contacts, who were surveyed between November 8 and November 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.

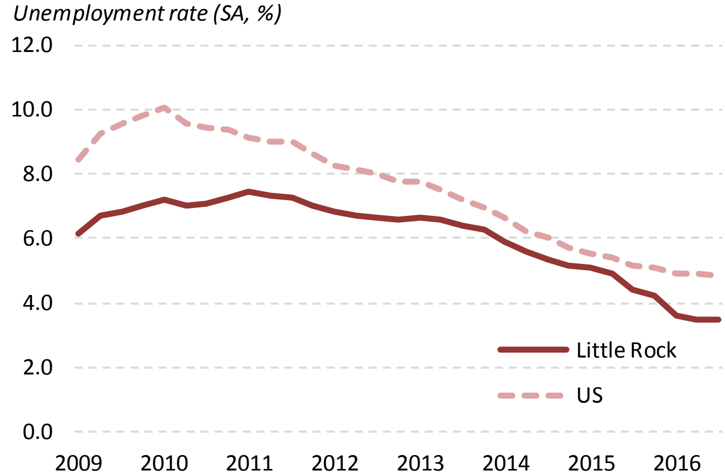
Little Rock Zone Labor Market Remains Tight with Low Unemployment Rates

By Paul Morris, *Research Associate*

> *"Manufacturers continue to report they are trying to hire additional employees but are unable to find enough qualified people to do so."*
>
> —Little Rock area business contact
>
> *"Hiring of skilled people for construction projects is challenging, particularly in rural areas of the state."*
>
> —Little Rock area business contact

Unemployment rate decreasing in Little Rock

Unemployment rate (SA, %)



Source: BLS.

- Overall labor market conditions in the Little Rock zone remained somewhat mixed. Employment growth was faster than the national rate in Fayetteville but slower than the national rate in Little Rock, Fort Smith, and Texarkana. Growth declined significantly relative to the second quarter in Little Rock, Fayetteville, and Texarkana.
- Growth in the goods-producing sector was negative and below the national rate in each of the MSAs. The majority of job gains came from the private service-providing sector in Little Rock and Fayetteville. The strongest performing subsectors were education and health services and professional and business services, with statewide growth of 4.0 percent and 3.4 percent respectively.
- The unemployment rates throughout the zone remained below the national rate in the third quarter, despite a significant increase relative to the second quarter in Texarkana. The Little Rock unemployment rate continued on its decreasing trend (see figure).
- Contacts throughout the zone continued to report difficulties in hiring qualified employees, particularly for skilled positions in manufacturing and construction. Despite anecdotal evidence of a tightening labor market, only 40 percent of contacts reported wages were higher or slightly higher in the fourth quarter relative to a year ago.

	Little Rock	Fayetteville	Fort Smith	Texarkana	US
Unemployment rate (Q3-16) (%)	3.5	2.8	4.8	4.8 ▲	4.9
Nonfarm employment (Q3-16)	1.2 ▼	3.0 ▼	0.6	-0.2 ▼	1.7
Goods-producing sector	-3.0	-1.3	-0.3	-0.8 ▼	0.2
Private service-providing sector	2.1 ▼	4.0 ▼	0.5	0.3 ▼	2.2
Government sector	0.4	3.2	2.5	-1.6	0.7

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.

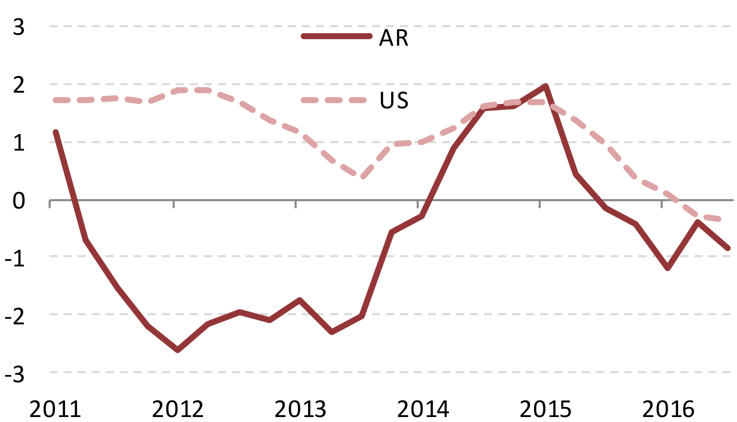
Manufacturing Employment Decreases in Arkansas

By Daniel Eubanks, *Senior Research Associate*

"European sales are half of what they were last year."
— Central Arkansas manufacturer

- Manufacturing employment continued to decrease in Arkansas in the third quarter (see figure). Manufacturing job losses in Arkansas were concentrated in the durable goods sector, where employment fell by 3.0 percent relative to the third quarter last year. Employment in the nondurable goods sector continues to grow, but at a sharply slower rate than in the previous quarter.
- Manufacturing has fared worse in Arkansas than in the rest of the nation over the past five years. Manufacturing employment in the state has decreased for five consecutive quarters and now stands 3.3 percent below its level five years ago. In contrast, total U.S. manufacturing employment is 4.5 percent above its level five years ago.
- Manufacturing exports from Arkansas decreased slightly. Exports of transportation equipment increased, but this increase was offset by decreases in exports of computer and electronic products and machinery. Contacts report that the global economy has had a negative impact on sales (see quote).
- Transportation sector employment in Arkansas decreased by 0.5 percent, although employment in the sector increased in the Little Rock and Fayetteville MSAs.

Manufacturing employment continues to decrease in AR
Percent change from one year ago



Source: BLS.

	Little Rock	Fayetteville	Arkansas	US
Transportation employment (Q3-16)	2.1	1.4	-0.5	0.9
Manufacturing employment (Q3-16)	0.2	-3.7	-0.9	-0.4
Durable goods	--	--	-3.0	-1.1
Nondurable goods	--	--	1.2 ▼	0.8
Manufacturing exports (Q3-16)	--	--	-3.7	-3.7

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.

Multifamily Market Strengthens; Home Sales Remain Strong

By Joseph McGillicuddy, *Senior Research Associate*

"Multifamily developers continue to look for new sites to build apartment complexes in the Little Rock area."

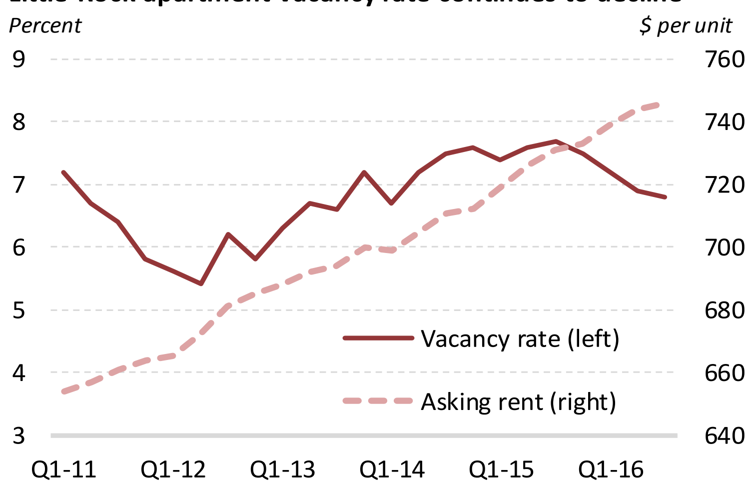
—Little Rock area business contact

"Home sales have been strong this year."

—Little Rock area real estate contact

- The Little Rock multifamily market continued to strengthen in the third quarter. Rents have been increasing around 2 percent per year over the past several years with no signs of abating. Furthermore, the vacancy rate has declined in each of the past four quarters (see figure).
- The Little Rock office vacancy rate dipped slightly in the third quarter. Meanwhile, growth in office asking rents accelerated to nearly 2 percent year-over-year, three times the average rate since 2008. The retail vacancy rate and asking rents have remained relatively flat since the previous quarter.
- Growth in home sales decelerated sharply in the third quarter for the Little Rock MSA, but continued to well outpace that of the nation.
- Residential construction activity remained strong. Building permits in all MSAs except Hot Springs continued to increase at a rate faster than the nation's.
- Growth in house prices lagged behind the national average in all MSAs. Only Fayetteville saw relatively strong growth in the third quarter, where prices have increased steadily since mid-2012. Prices contracted in both Hot Springs and Pine Bluff. In the latter, house prices have fallen back to the level they were at in 2009.

Little Rock apartment vacancy rate continues to decline



Source: Reis.

Non-residential market (Little Rock, Q3-16)	Apartment	Office	Retail	Industrial
Vacancy rate (%)	6.8	12.0	11.1	--
Asking rent *Percent change from one year ago*	2.1	1.8	0.0 ▼	--

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

Residential market (Q3-16)	Little Rock	Fayetteville	Fort Smith	Hot Springs	Pine Bluff	Texarkana	US
CoreLogic Home Price Index	1.1	5.2	0.3	-2.0 ▼	-5.5	1.3 ▲	5.8
Single-family building permits	10.7	16.6	28.9	-21.1	88.9	15.6	8.3
New and existing home sales	10.9 ▼	--	--	--	--	--	4.1

Note: Sales and permits data are year-to-date percent change. Prices are percent change from one year ago. Arrows indicate a signficant (±1 standard deviation) change from the previous quarter. See appendix for notes and sources.

Zone's Auto Delinquency Rate Continues To Rise, Surpassing the Nation's

By Rodrigo Guerrero, *Research Associate*

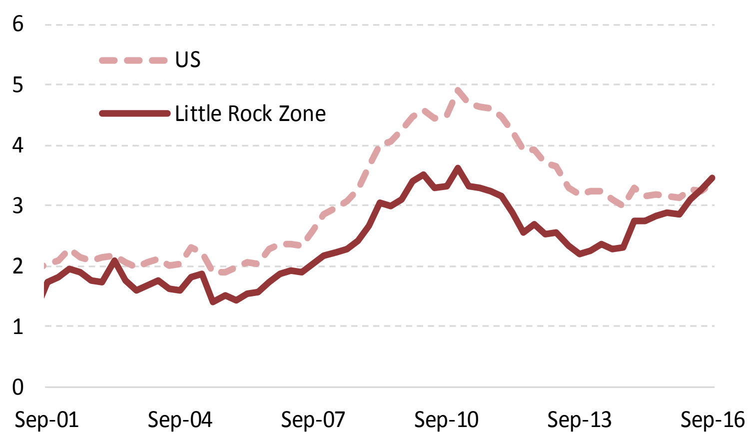
"Sales continue to be robust, associated with significant model year-end rebates and favorable financing terms. "

—Little Rock auto dealer

"Sales fell short of expectations due to a local market downturn in a changing, increasingly competitive environment."

—Conway, Arkansas, auto dealer

Zone's auto delinquency rate surpasses the nation's



Source: FRBNY Consumer Credit Panel and Equifax based on author's calculations.

- Credit card debt growth continued to accelerate during the third quarter, tripling the national growth rate. Meanwhile, credit card delinquency rates continued to exceed the national rate for the third consecutive quarter.
- The zone's auto debt growth rate decelerated by over 1 percentage point with respect to the previous quarter, yet it remained elevated and above the national rate. Auto delinquency rates continued to rise steadily and surpassed the national rate in the past two quarters (see figure).
- Mortgage delinquency rates continued to fall for the sixth consecutive quarter and remained slightly below the national rate. Households within the zone decreased their mortgage balances, but they did so at a slower pace than households in the U.S. as a whole.
- Arkansas's year-over-year growth in real per capita income decelerated to 1.8 percent. However, the state continued to experience faster growth than the nation.
- Arkansas's real taxable sales declined by 0.5% in the third quarter compared to a year earlier. Meanwhile, real retail and food services sales in the nation grew at 1.5% over the same period.

	Little Rock Zone	Arkansas	Little Rock MSA	US
Per capita personal income (Q2-16)	--	1.8	--	1.4
Per capita debt balances (Q3-16)				
Mortgage	-1.0	-1.0	-1.7	-1.5 ▼
Credit card	5.1	4.6	5.1	1.7
Auto loan	8.0	7.9	6.0	6.2
90+ day delinquency rates (Q3-16) (%)				
Mortgage	1.2	1.2	1.2	1.4
Credit card	7.1	7.2	6.7	7.0
Auto loan	3.5	3.5	4.3	3.4

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

Future releases of these data are available in *The Quarterly Debt Monitor*. See appendix for a link to the report.

Arkansas Banking Markets Bolstered by Increases in Consumer Lending

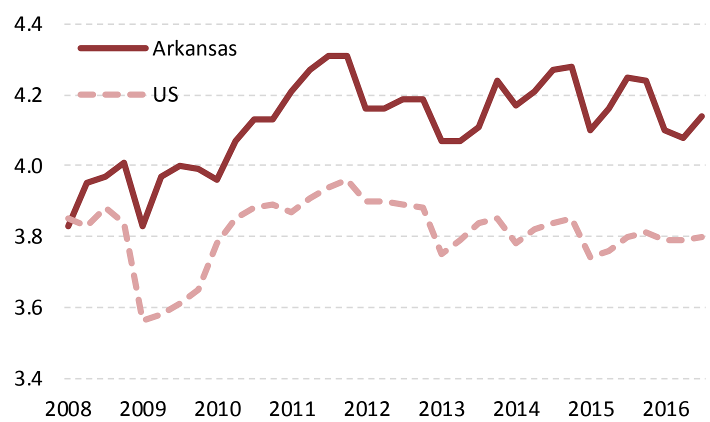
By Michelle Neely, *Economist*, and Evan Karson, *Research Associate*

"The agricultural economy is much weaker than it was a few years ago, which has negatively affected local buying and borrowing decisions."

— Pine Bluff banker

Margins at Arkansas banks maintain gap over peer banks

Net interest margin at commercial banks, percent



Source: FRED.

- Fourth-quarter loan demand remained unchanged in the Little Rock zone relative to last year, according to banking contacts. Survey respondents indicated that fourth-quarter commercial and industrial (C&I) loan demand was slightly below year-ago levels. However, a second straight quarter of year-over-year expansion in consumer borrowing bolstered overall loan demand. District banking contacts anticipate C&I loan demand to exhibit slight growth in the first quarter of 2017 relative to year-ago levels.
- Zone banking contacts also indicated that the creditworthiness of applicants for C&I loans dipped in the fourth quarter. However, credit standards for approving loans were unchanged across loan categories relative to last year and are not expected to shift in the upcoming quarter, according to survey respondents.
- Return on average assets (ROA) at Arkansas banks rose 8 basis points between the third quarter of 2015 and the third quarter of 2016. This increase occurred despite an 11-basis-point decline in the average net interest margin during the same period.
- Between the second and third quarters of 2016, the average loan loss reserve ratio (LLRTL) declined 9 basis points at Arkansas banks while the average nonperforming loan ratio was unchanged. This indicates that asset quality continues to be stable throughout the zone.

Banking performance (Q3-16)	Arkansas	8th District	US Peer Banks
Return on average assets	1.33	1.12	1.09
Net interest margin	4.14	3.70	3.80
Nonperforming loans / total loans	1.04	0.94	1.01
Loan loss reserve coverage ratio	106.73	121.28	123.76

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

Row Crop Production Respectable; Low Crop Prices May Halt Ag. Land Value Growth

By Jonas C. Crews, *Research Associate*

"One of the state's largest agricultural lenders now estimates 80-90% of their farmers will likely lose money on the 2016 crop year."

—Arkansas contact

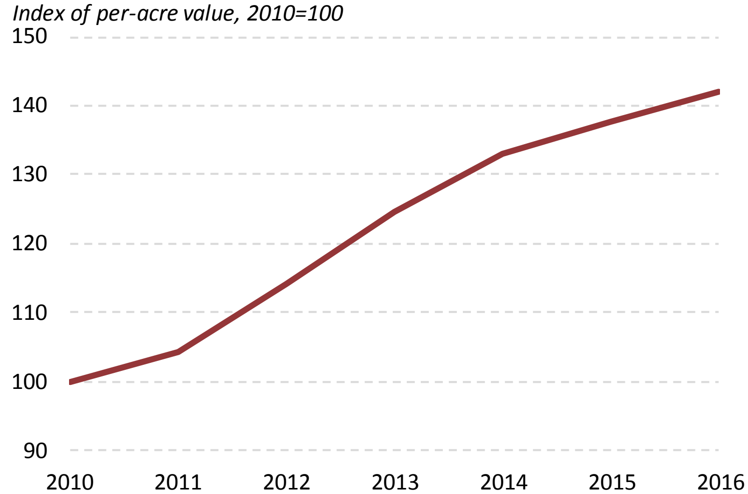
"If crop prices stay low, we will likely see land prices coming down."

—Arkansas farmer

- According to USDA estimates, corn, cotton, and rice production are much greater than in 2015. However, corn and cotton production growth are not as high as the expectations earlier this year. Soybean and sorghum production are both down from last year, with the soybean decline being due to small acreage and yield declines. The importance of the large sorghum decline is diminished by the fact that the crop had only a very small share of overall Arkansas row crop acreage last year.
- With strong national row crop production keeping crop prices low, many Arkansas farmers are expected to experience another tough year for farm income. However, the farmers with strong balance sheets are buying up land from farmers in poor financial positions, preventing land price growth from falling. However, contacts believe that if the low crop price environment persists, fewer strong balance sheets and more weak ones will result in growth in farmland values coming to a halt.
- Arkansas's declines in coal production and employment in mining and logging again outpaced the national decline, with the gap for coal production widening 3 percentage points from the gap last quarter.

Consistent ag. land price growth continues for Arkansas

Index of per-acre value, 2010=100



Source: USDA-NASS.

	Arkansas		US	
Natural resources (Q3-16)				
Mining and logging employment	-17.1		-14.9	
Coal production	-25.0		-13.8	▲
Estimated production (2016)				
Corn	64.6		11.9	
Cotton	76.2	▲	25.4	▲
Rice	15.3	▲	22.1	▲
Sorghum	-92.9	▼	-22.6	
Soybean	-3.6		11.0	

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.

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.

See *The Quarterly Debt Monitor* for future releases

https://www.stlouisfed.org/publications/quarterly-debt-monitor

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.

Arkansas taxable sales data are estimated by the Institute for Economic Advancement, University of Arkansas at Little Rock.

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 non-performing 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 land value estimates.