



Summary of Economic Activity

Reports from contacts suggest economic conditions have slightly improved since our previous report. Employers reported little hiring and moderate wage pressures due to difficulties finding qualified candidates. Retailers indicated that consumer spending has modestly improved since our previous report. Manufacturing contacts continued to report modest growth. Real estate contacts indicated that, while demand remained strong, residential activity continued to decline amid supply constraints. Banking contacts indicated generally strong growth in loan demand from both businesses and households. Reports from the District's agriculture sector suggest modest improvement after flooding last period, but that generally conditions remain weak amid low prices.

Employment and Wages

Anecdotal evidence suggests employment is little changed since the previous report. Many contacts reported a desire to hire, but they have been unable to find suitable employees. Manufacturing contacts in Louisville and Memphis reported difficulties finding experienced or qualified employees, with some citing candidates' inability to pass drug tests or to consistently report to work. Hospitality contacts in Louisville noted that both entry-level and experienced workers have been challenging to find, and skilled positions in technical fields such as information technology and engineering remain difficult to fill.

Contacts reported moderate growth in wages since the previous report, as tightness in the labor market has resulted in upward pressure on wages. In addition, several contacts reported enhancing benefits in an effort to attract employees. However, some employers noted factors holding back wage increases. A science and technology contact reported that rising costs of benefits have limited increases in wages, and a hospitality contact in Louisville noted that wages remain unchanged because any increases would result in higher prices charged to customers.

Prices

Price pressures in the District remained moderate. Low commodity prices continue to put pressure on the agriculture sector. Since the previous report, cash prices of wheat and sorghum have increased moderately and prices of rice have increased slightly; there was no change in the price of coal, and prices of soybeans, corn, and cotton decreased modestly. A contact in Little Rock reported farm equipment prices are down.

Across the District, home prices continued to increase moderately. Contacts reported increased price pressures on new homes from rising construction costs due to the shortage in labor supply. Price changes of construction materials were mixed. Contacts in the Little Rock area reported solid wood prices decreased modestly due to increased supply, whereas a contact in the Memphis furniture industry reported higher wood and foam prices were putting upward pressure on the price of their finished goods.

Consumer Spending

Reports from general retailers, auto dealers, and hoteliers indicate consumer spending has grown modestly since our previous report. May sales tax collections in Arkansas, Kentucky, Missouri, and Tennessee were

higher than one year ago. Multiple auto dealers reported an increase in sales, albeit at a slower pace relative to a year ago. Furthermore, dealers in north Mississippi reported a shift in demand toward used vehicles. Hospitality contacts in Missouri indicated that business activity has increased since our previous report, while hotel occupancy rates continue to decline in downtown Louisville.

Manufacturing

Manufacturing activity has increased modestly since our previous report. Manufacturing activity was stronger than one month earlier in both Missouri and Arkansas, although the pace of growth slowed sharply in Missouri and slowed slightly in Arkansas. In addition, contacts in the furniture manufacturing industry reported a decrease in orders. Several companies reported new capital expenditure and facility expansion plans in the District, including firms that manufacture fabricated metal products, paper products, and plastic and rubber products. A contact in the aluminum industry reported record high capital expenditures.

Nonfinancial Services

Reports of plans in the service sector have been positive, on balance, since the previous report. Firms that provide transportation, warehousing, utilities, and information technology services reported plans to expand facilities and hire employees. In the St. Louis area, reports from the education sector were negative, as two major universities announced layoffs due to budget cuts and declining enrollment. News from the healthcare industry is mixed. Some providers are cutting costs, leading to closures in healthcare-related businesses; however, other providers continue to expand operations in urban areas.

Real Estate and Construction

Residential real estate activity has declined modestly since the previous report. Seasonally adjusted home sales for May decreased slightly from the previous month in most of the District's four major MSAs. Local real estate contacts continued to report that significant shortages in inventory have hindered sales while demand remains strong. Most contacts indicated that changes in interest rates have had little to no impact on the market.

May permit activity in District MSAs declined slightly relative to the previous month. A Memphis contact indicated that little new construction is occurring, while a Little Rock contact noted that homebuilding in the region

is approaching levels consistent with fundamentals.

Commercial real estate activity has remained flat since the previous report. Demand for industrial properties continued to be robust, and a Louisville contact reported that there is essentially no warehouse space available in the area. Multifamily demand remained stable, but some contacts reported an increase in demand for senior living facilities. Contacts reported that rising interest rates have had very little impact on commercial real estate markets.

Commercial construction activity continued to be strong. Several Memphis contractors indicated that they are optimistic about their future prospective projects. Industrial construction activity remained robust, particularly in Louisville. Contacts across the District expressed concerns over the number of new hotels under construction.

Banking and Finance

Lending activity in the Eighth District has expanded at a robust pace since the previous report and markedly outpaced the nation. Commercial real estate loan volumes grew at a strong pace, rising by 14 percent on a year-over-year basis. District bankers reported that consumer loans—which comprise credit card, auto, medical, and student loans—experienced robust growth and have risen by 28 percent relative to year-ago levels. Commercial and industrial lending exhibited moderate growth over the period, though slightly softer than in recent quarters. District bank deposits expanded at a moderate pace and have been growing at roughly three times the national rate over the past three years.

Agriculture and Natural Resources

Agricultural conditions improved modestly by the end of June as row-crop farms recovered from flooding. Contacts reported a few Arkansas fields had still not dried up enough to replant and many fields would be replanted with soybeans because other crops' planting windows had passed. As of June, the percentages of District corn and soybeans rated fair or better were below their 2016 values, but corn improved slightly from a month prior. The percentage of rice rated fair or better was above the year- and month-ago values, while the cotton percentage was slightly better than a year prior and slightly worse than a month prior.

Natural resource extraction conditions declined slightly from April to May, with seasonally adjusted coal production decreasing 3 percent. However, production was still 7 percent higher than one year ago. ■

Highlights by Zone

The Beige Book report provides an overview of economic conditions in the Eighth District based on information received from business contacts. Because aggregating zone data to the District level sometimes masks variations in conditions within the District, the summaries below are by zone: The headquarters office is in St. Louis and the branch offices are in Little Rock, Louisville, and Memphis.



St. Louis Zone

Economic conditions in the St. Louis zone have slightly improved since our previous report. Contacts reported no change in employment, generally due to difficulties finding qualified workers. Construction contacts noted that prices have moved up modestly as a limited supply of workers is pushing up labor costs.

Reports on consumer spending were generally positive: A regional director of tourism noted that activity has been higher over the past few months, and bookings indicate a positive outlook for the next few months. Manufacturing conditions continue to improve; however, statewide manufacturing indexes for Missouri suggest growth may be slowing.

Real estate conditions continued to be constrained by a limited supply of homes for sale. Single-family home sales in the St. Louis MSA have declined slightly since our previous report. Construction activity remains constrained as well, as seasonally adjusted single-family building permits declined about 6 percent in May.

Little Rock Zone

Economic conditions in the Little Rock zone have modestly improved since our previous report. Conditions in the zone's metro areas continued to perform well; however, reports from non-metro portions of the zone were less upbeat, primarily due to continued weakness in the agriculture sector that has been exacerbated by flooding. Agriculture contacts report that farm equipment prices are down and many farmers are refinancing their land over longer durations to ease cash flow problems.

Contacts generally reported tightening labor markets with little change in employment and moderate growth in wages. Manufacturing conditions continued to improve as well.

Residential construction activity increased moderately, and seasonally adjusted single-family building permits increased by about 12 percent in May. At the same time, inventories remain low, restricting single-family home sales, which fell about 3 percent in May.

Louisville Zone

Economic conditions in the Louisville zone have slightly improved since our previous report. Contacts report the pace of hiring has slowed despite growth in job openings as workers are in short supply. Hiring managers in the Louisville area report that the tight labor market is driving some wage escalation; however, the pace of wage growth remains moderate as employers contend with higher costs for employee benefits.

Contacts report some weakness in consumer spending. Louisville area auto dealers are experiencing flat to modest declines in sales relative to one year ago. Hospitality contacts report that business is generally favorable, but the downtown market is seeing declines due to the convention center renovations.

Consistent with other regions of the District, residential home sales growth has been flat due to inventory constraints. Moreover, construction activity remains weak, as seasonally adjusted single-family building permits declined by about 6 percent in May.

Memphis Zone

Economic conditions in the Memphis zone have modestly improved since our previous report. Employment was little changed. While businesses have open positions, hiring managers report difficulties hiring and retaining qualified workers. Wage pressures have increased moderately on average, although some employers have reported limited successes in attracting and retaining workers by increasing starting pay.

Reports from general retailers in the Memphis area suggest slight growth in consumer spending, although the outlook among these contacts has somewhat weakened since our previous report. A new car dealer in the region reported that auto sales have modestly improved in recent months after a weak April.

Residential real estate conditions remained hampered by low inventories: Memphis's seasonally adjusted home sales declined by about 6 percent in May. However, there are some signs of improving inventories, and single-family building permits increased by about 13 percent during the same period. ■

Disclaimer

This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

Frequently Asked Questions

What is The Beige Book?

The Beige Book is a Federal Reserve System publication about current economic conditions across the 12 Federal Reserve Districts. It characterizes regional economic conditions and prospects based on a variety of mostly qualitative information, gathered directly from District sources.

The qualitative nature of the Beige Book creates an opportunity to characterize dynamics and identify emerging trends in the economy that may not be readily apparent in the available economic data. Because this information is collected from a wide range of business and community contacts through a variety of formal and informal methods, the Beige Book can complement other forms of regional information gathering.

How is the information collected?

Each Federal Reserve Bank gathers anecdotal information on current economic conditions in its District through reports from Bank and Branch directors, plus phone and in-person interviews with and online questionnaires completed by businesses, community contacts, economists, market experts, and other sources.

How is the information used?

The anecdotal information collected in the Beige Book supplements the data and analysis used by Federal Reserve economists and staff to assess economic conditions in the Federal Reserve Districts. This information enables comparison of economic conditions in different parts of the country, which can be helpful for assessing the outlook for the national economy. The Beige Book also serves as a regular summary of the Federal Reserve System's efforts to listen to businesses and community organizations.

Where can I find other Federal Reserve District Reports?

All current and past versions of the Beige Book are available on the Federal Reserve Board of Governors website: www.federalreserve.gov/monetarypolicy/beigebook/.

What is the Eighth Federal Reserve District?

The Federal Reserve Bank of St. Louis is the headquarters for the Eighth Federal Reserve District, also known as District 8H. With Branches in Little Rock, Louisville, and Memphis, the District serves approximately 14.6 million people in the four zones that span all of Arkansas and parts of the six states of Missouri, Mississippi, Tennessee, Kentucky, Indiana, and Illinois.

The Federal Reserve Bank of St. Louis is one of 12 regional Reserve Banks in the United States that, together with the Board of Governors in Washington, D.C., make up the Federal Reserve System—the nation's central bank. The St. Louis Fed and the other regional Reserve Banks help formulate monetary policy, supervise and regulate banks and bank holding companies, and provide financial services to depository institutions and the federal government.

Join Our Panel of Business Contacts

The anecdotal information in this report was provided by our panel of business contacts. If you're interested in becoming a member of our panel, follow this link to complete a trial survey:

www.research.stlouisfed.org/outlooksurvey/.

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

For more information, contact the St. Louis office:

Charles Gascon

charles.s.gascon@stls.frb.org

Media inquires

mediainquires@stls.frb.org