



Summary of Economic Activity

Economic conditions have improved at a modest pace since our previous report. District labor market conditions continue to improve, although employment growth has leveled in recent months as contacts report difficulties filling open positions. Price pressures remain modest, although fewer contacts reported increasing prices charged to customers in recent months. In general, business contacts surveyed in mid-August continued to hold an optimistic outlook for growth during the remainder of 2017. On net, 53 percent of contacts expect District economic conditions in 2017 to be better or somewhat better than last year. This outlook was generally unchanged since contacts were surveyed in mid-May.

Employment and Wages

Employment has increased modestly since the previous report. Of the business contacts surveyed in mid-August, on net, 29 percent reported that third-quarter employment was higher or slightly higher than a year ago. Contacts in a variety of industries continued to report difficulties finding skilled or qualified employees. Construction contacts across the District reported shortages of both skilled and unskilled workers. In addition, manufacturing contacts in Louisville noted that difficulties in finding qualified labor have led to longer lead times and an inability to fill additional orders.

Contacts reported moderate wage growth since the previous report, as tightness in the labor market has resulted in upward pressure on wages. On net, 61 percent of contacts reported wages were higher or slightly higher than a year ago, and a similar share reported increases in labor costs.

Prices

Price pressures have increased modestly since our previous report. Business contacts surveyed reported that prices charged to consumers and non-labor input costs increased modestly. On net, 22 percent of contacts reported that prices were higher than a year ago and 35 percent reported that non-labor input costs were higher than a year ago. Although prices continue to move upward, growth has slowed during the third quarter.

Reports on construction costs were mixed. Contacts in St. Louis and Louisville noted rising construction costs; however, several Little Rock contacts reported declines in construction costs. In particular, multiple contacts in the wood products sector in Arkansas reported that excess supply continues to drive down input prices.

Commodity price pressures have been mixed. Since the previous report, coal prices in Illinois, Indiana, and Kentucky have been flat. In the agricultural sector, corn prices increased modestly, while sorghum prices are unchanged. In Little Rock, cash prices of rice increased moderately. A Little Rock contact reported that soybean and wheat prices also increased. Prices of cottonseed in Memphis fell slightly, and soybean and wheat prices in St. Louis decreased moderately.

Consumer Spending

Reports from general retailers, auto dealers, and hoteliers portray a mixed picture of consumer spending activity. Although July real sales tax collections increased in Arkansas relative to a year ago, they declined in Kentucky, Missouri and Tennessee. Multiple auto dealers across the District reported a decrease in sales, which have failed to meet their expectations during 2017. St. Louis dealers indicated a shift in demand toward low-end vehicles.

Hospitality contacts in Missouri reported that business activity has increased since our previous report, whereas hoteliers in Kentucky and Arkansas indicated a decline in hotel occupancy rates.

Manufacturing

Manufacturing activity has increased modestly since our previous report, although the pace of growth slowed across the District. On net, about one-third of contacts reported that production, new orders, and capacity utilization increased in the third quarter relative to one year ago. The results are down from our previous survey, when more than half of contacts reported improvements in these areas. More contacts reported increases in capital expenditures than in the previous survey. Several companies reported new capital expenditure and facility expansion plans, including firms that manufacture food products, transportation equipment, and metal products. Contacts are less optimistic about the next quarter than in our previous report, with fewer than half expecting improvements, down from two-thirds last quarter. Some contacts expressed concerns about political uncertainty and a slowdown in the auto industry.

Nonfinancial Services

Reports of plans in the service sector have been positive since the previous report. More than two-thirds of transportation and service contacts reported that sales met or exceeded expectations in the current quarter. More than half of contacts reported higher dollar sales in the current quarter than this time last year, and slightly less than half expect sales to be higher in the next quarter than they were last year. Firms that provide transportation and information technology services reported plans to expand facilities and hire employees, particularly in the St. Louis region. Reports from healthcare firms remain mixed, but are more positive than earlier this year.

Real Estate and Construction

Residential real estate sales activity has been mixed since the previous report. Seasonally adjusted home sales for July ticked up slightly from the previous month in the District's four major MSAs. Year-to-date sales were generally in line with those from a year ago. Local real estate contacts continued to report that significant shortages in inventory have hindered sales, and, on net, nearly 40 percent of survey respondents indicated that sales fell short of expectations halfway through the third quarter. One industry contact noted that mortgage rates have been lower than expected, providing a positive impact on business.

Residential construction activity has been flat since the previous report. July permit activity dropped slightly relative to the previous month. However, most contacts reported an increase in residential construction compared with a year ago. Expectations are slightly less optimistic for the fourth quarter.

Commercial real estate activity has improved modestly since the previous report. Contacts reported relatively strong demand for most property types, particularly office and industrial. However, contacts indicated a decrease in multifamily demand relative to a year ago.

Commercial construction activity remained strong. Multiple contacts reported an optimistic outlook for the rest of 2017. Planning and development of new hotels continued throughout the District, particularly in Louisville and Memphis. Multifamily construction activity also remained robust.

Banking and Finance

Banking conditions in the Eight District have improved at a modest pace since the previous report. Loan demand rose at a moderate rate with continued signs of slight tapering. District contacts reported that commercial and industrial loan demand grew moderately relative to year-ago levels, while year-over-year auto loan demand experienced an unexpected and sharp decline. Delinquencies rose modestly across all loan categories and are expected to continue rise next quarter. Contacts reported that competition from other banks and credit unions has increased moderately, while competition from non-bank financial service providers has remained generally unchanged.

Agriculture and Natural Resources

District agricultural conditions were mixed in this reporting period. The conditions of the District's cotton and rice crops have improved since our previous report and are better than the same time last year. Although rice conditions have improved, early-season flooding pushed acreage down 25 percent from last year. The lost acreage will hurt rice farmers this year, but some of these farmers are optimistic that a recent trade agreement with China will boost profits. Meanwhile, corn and soybean conditions declined from the previous period.

Natural resource extraction conditions declined slightly from June to July, with seasonally adjusted coal production declining 3 percent. However, July production was 10 percent above a year earlier. ■

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 improved slightly since our previous report. Contacts in the hospitality industry reported an uptick in tourism activity in recent months, with a notable spike due to the solar eclipse. Reports from the manufacturing sector indicate continued growth, although at a slower pace than in previous months.

Labor markets continue to improve at a modest pace: On net, 34 percent of contacts surveyed in mid-August reported third-quarter employment was higher or slightly higher than a year ago. Contacts reported moderate wage growth: On net, 64 percent reported wages were slightly higher or higher than one year ago. These results were very similar to both our current-quarter District-wide survey and previous results for the zone.

Real estate conditions improved modestly, as seasonally adjusted home sales in the St. Louis MSA increased about 4 percent in July; however, many contacts reported that sales fell short of expectations. Residential construction activity slowed, as single-family building permits declined about 6 percent in July; however, contacts surveyed in mid-August reported that construction activity was generally higher than one year ago.

The outlook of business contacts in the St. Louis zone has remained generally optimistic. On net, 60 percent of contacts expect local economic conditions during the remainder of 2017 to be better or somewhat better than last year.

Little Rock Zone

Conditions in the Little Rock zone were mixed. Contacts reported moderate wage growth and little to no change in employment. Regional auto dealers reported slowing sales, and Arkansas vehicle sales tax collections were down 3 percent in July relative to one year ago.

Residential construction has picked up in July, as seasonally adjusted single-family building permits increased by over 20 percent. Similarly, contacts reported growth in non-residential construction; however, they expect a slowdown in the near future due to extra inventory and fewer known projects in the pipeline in central Arkansas.

Despite mixed conditions, contacts generally hold an optimistic outlook for the remainder of 2017, although the outlook continues to steadily weaken. On net, 45 percent of contacts expect local economic conditions to be better or somewhat better during the remainder of 2017. This is down from the record high of 81 percent in our February survey and 53 percent in our May survey.

Louisville Zone

Economic conditions in the Louisville zone continue to expand at a modest pace. Contacts continue to note a slowdown in consumer spending: Specifically, local auto dealers reported slow sales of new cars and trucks, and hospitality contacts continue to report low hotel occupancy rates.

Labor markets continue to improve at a modest pace: On net, 38 percent of contacts surveyed in mid-August reported third-quarter employment was higher or slightly higher than a year ago. Contacts reported moderate wage growth: On net, 59 percent reported wages were slightly higher or higher than one year ago.

Residential real estate and construction activity improved modestly. Seasonally adjusted single-family home sales in the Louisville MSA increased about 2 percent in July, while pending sales were up 5 percent. Single-family building permits increased 8 percent over the same period.

The outlook among business contacts ticked up relative to our May survey. On net, 58 percent of contacts expect conditions during the remainder of 2017 to be better or somewhat better than one year ago.

Memphis Zone

Economic conditions in the Memphis zone have improved slightly since our previous report. Reports on consumer spending were more upbeat than in other parts of the District. An auto dealer in Memphis reported strong sales of upper-end used vehicles. Restaurant owners in the Memphis area reported an increase in sales since our previous report. In addition, they expressed an optimistic outlook for the remainder of 2017.

Labor market conditions improved, although at a slower pace than previous reports. On net, 18 percent of contacts reported that third-quarter employment was higher or somewhat higher than a year ago. This is down from a reading of 32 percent when contacts were surveyed in mid-May. Contacts continued to report moderate wage growth. On net, 53 percent reported higher wages, the same share as our previous survey.

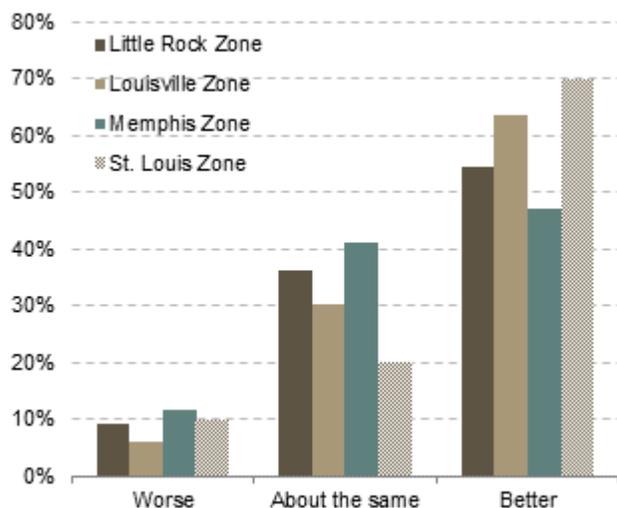
Residential real estate and construction activity improved slightly. Seasonally adjusted single-family home sales in the Memphis MSA increased about 1 percent in July, while pending sales were down about 3 percent. Single-family building permits in the region increased 6 percent over the same period.

Optimism among business contacts in the Memphis zone dipped slightly in August. On net, 35 percent of contacts surveyed in mid-August expect local economic conditions during the remainder of 2017 to be better or somewhat better than last year. This is down from 48 percent in mid-May, but up from 4 percent in August 2016. ■

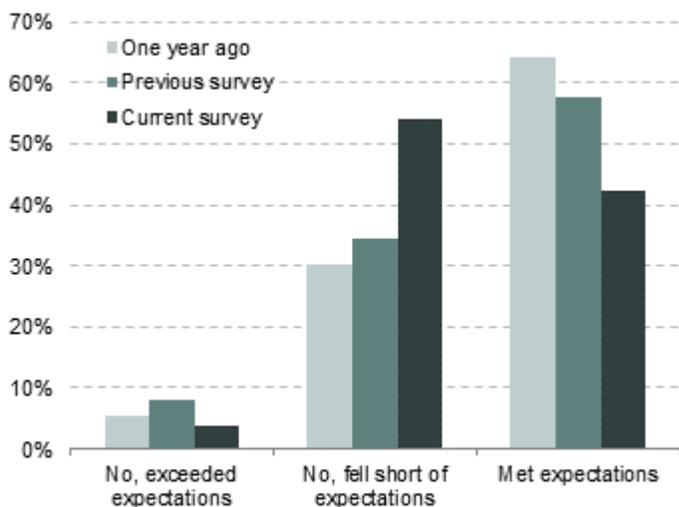
Supplemental Data and Survey Results

Anecdotal information in this report was provided by our panel of business contacts, who were surveyed between August 8 and August 22. The previous survey was conducted between May 2 and May 16. The following are selected results from those surveys.

Question: How do you expect local economic conditions to change in 2017 relative to 2016?



Question: Have sales at this point in the second quarter met expectations?



How do you expect each of the following measures to change at your firm relative to the same time last year?

	Previous Survey	Current Survey
Prices Charged to Customers	35%	23%
Sales (Dollars)	28%	35%
Inventory	-4%	13%
Non-Labor Costs	51%	37%
Capital Expenditures	18%	24%
Labor Costs	60%	54%
Wages	61%	61%
Hours per Employee	23%	20%
Employment	31%	29%

Note: Values are reported as the net percentage of respondents reporting increases: The percent of contacts responding “increase” or “slightly increase” minus those responding “decrease” or “slightly decrease.” Values greater than zero indicate a net increase from one year ago, while values less than zero indicate a net decrease from one year ago.

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 inquiries

mediainquiries@stls.frb.org