Summary of Economic Activity

Economic conditions have improved at a modest pace since our previous report. Firms reported modest increases in employment, despite continued difficulties finding workers. Wages continue to increase at a moderate pace, as do non-labor costs. Price pressures strengthened, as contacts generally see a greater ability to increase selling prices. Reports on consumer spending were generally mixed, with reports of bad weather reducing foot traffic and sales. Residential real estate contacts continue to report sluggish sales due to low inventories, while commercial real estate activity was slightly better. District banking contacts reported improving loan demand. Agricultural conditions also improved, thanks to high yields giving a boost to profits. Overall, the outlook among contacts has improved. On net, 54 percent of contacts expect conditions in 2018 to be better or somewhat better than in 2017.

Employment and Wages

Employment has increased modestly since the previous report. Of the contacts surveyed in early February, on net, 28 percent reported that first-quarter employment was higher or slightly higher than a year ago. Anecdotal evidence suggests that the labor market remained tight. Construction contacts continued to report shortages in qualified labor. Technology and manufacturing contacts in St. Louis and Memphis, respectively, also reported difficulties hiring suitable employees. Contacts in Louisville and Little Rock cited candidates’ inability to pass drug tests as an impediment to hiring.

Contacts reported moderate wage growth since the previous report. On net, about 70 percent of contacts reported wages were higher or slightly higher than a year ago, and a similar share reported increases in labor costs. A construction contact in Louisville cited the need for higher wages to attract and retain skilled labor, while a contact in Little Rock reported that unskilled positions remain unfilled because of low wages.

Prices

Price pressures have moderately strengthened since the previous report. Firms reported modest growth in prices charged to consumers: On net, 33 percent of contacts reported that prices were higher than a year ago. Price increases accelerated somewhat in the second half of 2017, as contacts reported that their ability to raise prices has improved over the past three to six months. One food product manufacturer reported increasing their selling prices for the first time in 5 years.

Non-labor input costs grew at a moderate pace. On net, 67 percent of contacts reported that costs were higher than a year ago. Steel prices increased moderately throughout the District, and contacts in Louisville and Little Rock reported upticks in trucking freight rates.

Commodity prices generally rose throughout the District. Wheat, sorghum, soybean meal, corn, and corn feed increased moderately, soybeans increased modestly, and coal prices increased slightly. Rice and corn meal prices were flat while cotton prices fell modestly.

Consumer Spending

Reports from general retailers, auto dealers, and hoteliers portray a mixed picture of consumer spending activity. January real sales tax collections increased in Arkansas, Kentucky, and Missouri relative to a year ago and slightly decreased in Tennessee. In addition, several general retailers in St. Louis and Louisville indicated that sales fell short of expectations, attributing the slowdown to poor weather. Conversely, hospitality contacts in St. Louis reported that sales exceeded expectations.
Multiple auto dealers across the District reported a modest decline in sales, which have failed to meet their expectations. St. Louis dealers indicated a shift in demand toward high-end vehicles.

**Manufacturing**

There has been little to no growth in manufacturing since our previous report. A slight majority of contacts reported that new orders and capacity utilization were lower in the first quarter relative to one year ago, while production remained at the same level. This marks the fourth consecutive quarter of a decline in the share of contacts reporting growth in new orders and capacity utilization. However, the outlook of contacts remains optimistic, with most contacts expecting increases in production, new orders, and capacity utilization in the next three months.

**Nonfinancial Services**

Activity in the service sector has expanded moderately since the previous report. Transportation industry contacts reported that the dollar-value of sales has been higher in the first quarter compared with the same period last year. Most contacts expect sales to remain higher in the second quarter. While dollar sales are up, they have largely met expectations: More than half of contacts reported sales met expectations with remaining contacts split between falling short and exceeding expectations.

**Real Estate and Construction**

Residential real estate activity has declined slightly since the previous report. Seasonally adjusted home sales declined in January across the District’s four major MSAs. Contacts continued to report that shortages in inventory are hindering sales. On net, about half of the respondents reported that first-quarter sales have fallen short of expectations. However, demand remains strong and a majority of contacts expect demand for single-family homes to increase over the next quarter.

Residential construction activity improved modestly. There was a modest uptick in December’s permit activity within the District compared with the previous month. Two-thirds of local contacts reported that construction activity increased compared with the previous year, and the same fraction expects continued growth over the next quarter.

Commercial real estate activity increased slightly. Demand for industrial and office properties increased relative to a year ago. However, contacts noted that demand for retail properties fell while retail inventory increased. Contacts expect these trends to continue into the second quarter of 2018.

Commercial construction activity improved modestly. Local contacts reported increased demand for construction of all commercial property types. Over 80 percent of contacts, on net, expressed an optimistic outlook for 2018, but many continued to report that a shortage of labor is limiting construction activity.

**Banking and Finance**

Lending conditions in the Eighth District have strengthened at a moderate rate since the previous report. Loan demand increased moderately in year-over-year terms and, according to District banking contacts, there were some signs that the pace of overall loan growth may be rising after slowing in 2017. Commercial and industrial loan demand increased moderately after exhibiting flat growth last quarter. Bankers reported demand for auto credit remained unchanged after decreasing the previous two quarters. Credit standards for auto loans increased slightly. Overall, delinquencies continued declining, falling in every loan category except mortgages, which increased modestly. District bankers expect delinquencies to continue decreasing next quarter across all loan types, including mortgages.

**Agriculture and Natural Resources**

District agriculture conditions have improved slightly since the previous reporting period. In spite of concerns about low temperatures in early January, the percent of District winter wheat rated fair or better ticked up about a percentage point from the end of December to the end of January. Contacts expressed optimism about near-term farm income as area farmers were able to turn strong yields into profits in 2017, although some expressed concern about the downside risks of NAFTA renegotiations.

Natural resource extraction conditions declined from December to January, with seasonally adjusted coal production falling 10 percent. January production was also 11 percent down from a 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 improved at a modest pace since our previous report. Employment increased at a modest pace, with 41 percent of contacts reporting employment was higher or slightly higher than one year ago. Wage growth accelerated, with 73 percent of contacts reporting higher or slightly higher wages.

Reports on consumer spending were upbeat. Missouri sales tax revenues were 13 percent higher in January compared with one year ago. And hospitality contacts reported that sales generally met or exceeded expectations. Conversely, area auto dealers reported slightly weaker sales.

Manufacturing activity slightly increased. Statewide indexes of Missouri manufacturing activity slipped in January but continue to signal expansion. Residential real estate activity remains constrained: Seasonally adjusted home sales declined 2 percent in January, and real estate contacts reported first-quarter sales have been flat relative to the same time last year. Seasonally adjusted single-family building permits increased 4 percent between December and January.

Despite weakness in some sectors, the outlook of business contacts in the St. Louis zone has improved since contacts were last surveyed in November. On net, 54 percent of contacts expect local economic conditions in 2018 to be better or somewhat better than 2017.

Memphis Zone
Economic conditions in the Memphis zone have continued to show slight improvements since our previous report. Reports on hiring indicate modest growth in employment. On net, 55 percent of contacts reported employment higher than one year ago. Growth in wages was steady, with almost all contacts reporting slightly higher wages relative to one year ago.

Reports on consumer spending indicate a slight contraction in recent months. Statewide sales-and-use tax revenue declined 1 percent in Tennessee. Memphis area auto dealers indicated that first-quarter sales were lower than one year ago.

Bankers in the Memphis area indicated that demand for new loans continued to grow at a moderate pace, with stronger demand for small business loans, particularly for building and construction companies.

Residential real estate conditions weakened slightly. Seasonally adjusted single-family home sales in the Memphis MSA declined by 4 percent in January, while inventories declined by 9 percent. Construction activity also declined. Seasonally adjusted building permits for single-family homes dropped 17 percent between December and January in the Memphis MSA.

Optimism among business contacts in the Memphis zone continues to slightly improve. On net, 45 percent of contacts surveyed expect local economic conditions in 2018 to be better or somewhat better than in 2017.
Little Rock Zone
Economic conditions have improved at a modest pace since our previous report. Contacts reported little change in employment, as fewer than 1 in 10 businesses reported increasing employment. Wage growth was modest, with just under half of contacts reporting higher wages relative to one year ago.

There were other signs of overall improvement. Bankers in the zone reported strong growth in commercial and industrial loans and mortgages. A contact in El Dorado, Arkansas, noted that economic activity is as high as he has seen it in recent memory. Interestingly, a tax-preparation contact reported an increase in the number of people paying off debt or repairing credit histories. Reports from farm equipment auctions suggest a modest improvement in the state of the farm economy, with overall sales unchanged from one year ago, but fewer forced sales and higher equipment prices.

Overall reports of consumer spending were mixed. January Arkansas sales-and-use tax revenue increased 3 percent from one year ago, suggesting overall slow growth in spending to start the year. Jewelry stores in southern Arkansas reported stronger February sales after a slow December and January. Little Rock auto dealers continued to report lower year-over-year sales, which started toward the end of last summer. Dealters reported higher selling prices on both new and used autos, although dealers also reported flat to lower margins, which they attributed to customers using online price comparisons and manufacturer discounts.

A commercial construction contact in central Arkansas reported that the pipeline for new projects continues to hold steady and is expected to be sustained at least through the first half of 2018. Similarly, an economic development contact reported the number of prospective projects almost doubled between 2016 and 2017.

Overall, the outlook among business contacts jumped relative to November. On net, 75 percent of contacts expect local economic conditions in 2018 to be better or somewhat better than in 2017. However, a similar surge in optimism occurred in February 2017, which subsided in the following quarters.

Louisville Zone
Economic conditions in the Louisville zone have expanded at a modest pace since our previous report. Lending conditions in the zone remain favorable. Many bankers indicated they had available funds and were looking for opportunities.

Business contacts reported little growth in employment. Contacts in the construction sector reported greater labor shortages than anticipated. Wages continue to grow at a moderate pace, with most contacts reporting slightly higher wages than one year ago.

Similar to other areas of the District, consumer spending reports were mixed. Kentucky sales-and-use tax revenue increased about 4 percent from one year ago, but many contacts indicated sales fell short of expectations. Reports from Louisville area auto dealers suggest a decline in auto sales relative to one year ago in the first quarter.

Area real estate contacts indicated the market remains constrained by low inventories. January home sales decreased 5 percent from the prior month, while pending sales declined 1 percent. Over the same period, inventories declined about 5 percent.

The outlook among business contacts was generally unchanged relative to our November survey. On net, 54 percent of contacts expect conditions in 2018 to be better or somewhat better than in 2017.
Supplemental Data and Survey Results

Anecdotal information in this report was provided by our panel of business contacts, who were surveyed between February 5 and February 19. The previous survey was conducted between October 24 and November 7. The following are selected results from those surveys.

Question: How do you expect local economic conditions to change in 2018 relative to 2017?

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

<table>
<thead>
<tr>
<th>Measure</th>
<th>Previous Survey</th>
<th>Current Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prices Charged to Customers</td>
<td>15%</td>
<td>34%</td>
</tr>
<tr>
<td>Sales (Dollars)</td>
<td>23%</td>
<td>26%</td>
</tr>
<tr>
<td>Inventory</td>
<td>-10%</td>
<td>4%</td>
</tr>
<tr>
<td>Non-Labor Costs</td>
<td>45%</td>
<td>52%</td>
</tr>
<tr>
<td>Capital Expenditures</td>
<td>19%</td>
<td>35%</td>
</tr>
<tr>
<td>Labor Costs</td>
<td>68%</td>
<td>69%</td>
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<tr>
<td>Wages</td>
<td>61%</td>
<td>73%</td>
</tr>
<tr>
<td>Hours per Employee</td>
<td>16%</td>
<td>20%</td>
</tr>
<tr>
<td>Employment</td>
<td>33%</td>
<td>28%</td>
</tr>
</tbody>
</table>

Notes: 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.

Time-series charts of the data in the table are available at: https://research.stlouisfed.org/publications/regional/beige-book

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

Note: Interactive versions of this chart can be found at: https://research.stlouisfed.org/publications/regional/beige-book
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.

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