



## Summary of Economic Activity

Economic conditions in the District have improved slightly since our previous report. Firms reported slight increases in employment despite continued difficulties finding workers. Wages and nonlabor costs increased at a moderate pace. Prices and price pressures grew modestly. Reports from consumer spending contacts were mixed. Manufacturers reported declines in production, capacity utilization, and new orders. Contacts in nonfinancial services indicated modest growth across their sectors. Residential real estate contacts reported sluggish sales resulting from low inventories and slightly lower demand, while construction activity increased modestly. District bankers reported slightly weaker demand and a decline in the creditworthiness of loan applicants. Agriculture conditions improved modestly. Overall, the outlook among contacts weakened somewhat but remains optimistic. On net, 27 percent of contacts expect conditions in 2018 to be better or somewhat better than in 2017.

### Employment and Wages

Employment has increased slightly since the previous report. Of the contacts surveyed, on net, 13 percent reported that second-quarter employment was higher or slightly higher than a year ago. Several firms across a variety of industries announced plans to expand and hire new employees, including manufacturers of chemical products, wood products, and primary metals. Contacts in Missouri and Arkansas also reported difficulties filling skilled technical and engineering positions. Some local employers have begun relaxing drug-testing standards and reducing restrictions on hiring convicted felons in order to alleviate labor shortages.

Contacts reported moderate wage growth since the previous report. On net, 51 percent of contacts reported wages were higher or slightly higher than a year ago, and 43 percent reported increases in labor costs. Several contacts noted that the tight labor market has exerted upward pressure on wages for both entry-level and skilled positions.

### Prices

Overall, prices charged to consumers increased at a modest pace. On net, 31 percent of contacts reported that prices were higher than a year ago. This is higher than three months ago, indicating an increase in growth from earlier this year.

Nonlabor input costs rose modestly, though at a slower pace than the previous survey three months ago. On net, 29 percent of contacts reported that costs were higher than a year ago. Multiple contacts noted that construction costs increased. In particular, a contact in Little Rock reported a strong increase in lumber prices, and several contacts in Louisville reported that the proposed steel and aluminum tariffs caused metals prices to rise. Automotive and corrugated products manufacturers also reported increases in raw materials prices.

Commodity price movements were mixed. Sorghum and soybean prices decreased modestly; coal, corn meal, cottonseed, rice, and soybean meal were flat; and corn, corn feed, cotton, and wheat prices increased modestly.

### Consumer Spending

Reports from general retailers, auto dealers, and hoteliers indicate mixed consumer spending activity. Real sales tax collections increased in Arkansas and Tennessee relative to a year ago, remained flat in Missouri, and declined in Kentucky. Reports on sales from general retailers were mixed. On net, 40 percent of auto dealers indicated that sales were below expectations in the second quarter. About the same net percentage noted a shift in demand toward used vehicles. Hospitality and tourism contacts in Missouri reported business activity that met or exceeded expectations and have a positive outlook for the next few months.

### **Manufacturing**

Overall manufacturing activity has declined slightly since our previous report. Most contacts reported that production, capacity utilization, and new orders were down in the second quarter relative to one year ago, with greater shares reporting declines in production and new orders than in our previous survey. The percentage of contacts reporting increases in new orders has fallen for over a year. However, contacts were more optimistic about the next quarter.

### **Nonfinancial Services**

Activity in the service sector has expanded modestly since the previous report. Transportation and service contacts generally reported that sales met expectations in the current quarter. On net, 23 percent of contacts reported higher dollar sales in the current quarter than this time last year, and 43 percent expect sales to be higher in the next quarter relative to the same time a year ago.

### **Real Estate and Construction**

Residential real estate activity has declined slightly since the previous report. Seasonally adjusted home sales dipped slightly in March across the four major MSAs in the District. On net, a third of contacts reported that sales halfway through the second quarter have fallen short of expectations. Contacts attributed this shortfall to a decline in inventory and a slight drop in demand relative to the same time last year. However, demand is expected to return to year-ago levels in the third quarter.

Residential construction activity has increased modestly since the previous report. There was a moderate uptick in March permit activity across most of the District's MSAs. On net, only 10 percent of contacts reported that residential construction increased in the second quarter compared with a year earlier, but around twice that number expect activity to increase in the coming quarter.

Commercial real estate activity improved slightly. Local contacts, on net, reported increased demand for industrial and office properties relative to a year ago. They also state that inventories for both property types have declined. These trends are expected to continue into the third quarter.

Commercial construction activity improved modestly. On net, contacts reported higher demand for construction of all property types and noted that inventories for industrial and retail property types have improved. The majority of contacts continued to have an optimistic outlook for the remainder of 2018.

### **Banking and Finance**

Banking market conditions in the District have weakened slightly since the previous report. Banking contacts reported that demand for mortgage and auto loans fell modestly in year-over-year terms while demand for business loans was flat. Bankers also reported that the creditworthiness of loan applicants declined relative to last year, particularly among applicants for auto loans and credit cards. Delinquencies fell across all loan categories but to varying degrees; mortgage and auto loan delinquencies dropped slightly, while delinquencies on business loans and credit cards decreased at a moderate rate.

### **Agriculture and Natural Resources**

District agriculture conditions improved modestly from the previous reporting period and robustly from the same time last year. After contacts reported concerns about weather being too wet and cold for a strong early planting season, mid-May planned acreages planted for corn, cotton, and soybeans were, respectively, 13, 12, and 24 percentage points above the same time last year. Rice planting progress was slightly behind 2017. Contacts indicated that the prospective Chinese tariffs on U.S. soybeans would be damaging to exporters but at this point seemed unlikely.

Natural resource extraction conditions were roughly unchanged from the previous report and year. Seasonally adjusted coal production fell 1 percent from March to April, and April production was also down 4 percent from the same month last year.

## 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. Area bankers reported weak demand for auto loans, commercial and industrial loans, and mortgages. Employment increased slightly as labor markets remain tight. Firms reported shortages of skilled talent and are looking for new ways to attract skilled workers to the region. Most contacts reported slightly higher wages, particularly in construction trades.

Reports on consumer spending indicate little change since our previous report. Missouri real sales tax revenue was flat in April compared with one year ago. Area auto dealers reported mixed sales. Reports on tourist activity were generally better than expected.

Residential real estate activity has declined modestly

since our previous report. Seasonally adjusted single-family building permits fell about 3 percent in March and home sales declined by a similar magnitude. Inventories declined by about 7 percent over the same period.

The overall outlook among contacts was generally optimistic and unchanged from three months ago, with most contacts expecting conditions to improve slightly during the remainder of 2018.

### Little Rock Zone

Overall economic conditions in the Little Rock zone have improved slightly since our previous report. Contacts in southern Arkansas noted that activity remains a bit stronger due to higher oil prices. Contacts in northwest Arkansas continued to report robust growth.

Arkansas real sales-and-use tax revenues increased about 8 percent from one year ago, suggesting an uptick in consumer spending. Area auto dealers reported flat year-to-date sales, noting that the outlook for new-car sales is somewhat lax and dependent on factory rebates; but the outlook for used-car sales has been improving. Growth in the sales of boats was positive, with higher retail prices being somewhat offset by longer terms on loans.

Reports from banking contacts indicated increased competition for deposits and that many banks are starting to increase deposit rates.

Residential real estate activity was mixed. There was moderate growth in March building permits, which were up 8 percent in Little Rock. But seasonally adjusted home sales dropped 7 percent and inventories declined about 2 percent during the same period. A contact in southern Arkansas noted that much of the existing inventory of homes is not attractive to workers in the area.

Agribusiness contacts noted that 2018 has started out as one of the most difficult years to plant and grow corn and rice in Arkansas. Despite these challenges, planting progress in mid-May was roughly on par with 2017.

The overall outlook among contacts weakened after a sharp uptick three months ago. On net, 28 percent of contacts expect conditions to improve during the remainder of 2018, with most contacts expecting a slight improvement.

### Louisville Zone

Economic conditions in the Louisville zone have improved slightly since our previous report. Bankers reported modest increases in overall lending and higher rates on deposits. Rail transportation business has picked up due to increased coal production nationally, although

western Kentucky coal production declined between March and April. Contacts across the metals industry reported modest growth: Metals recycling hit record volumes with strong margins, and demand remains strong for automotive aluminum.

Kentucky real sales-and-use tax revenues decreased about 2 percent from one year ago. A large regional auto dealer reported that April sales were down slightly, despite substantial manufacturer rebates on sedans.

Overall employment growth was slow. Tight labor markets in the region are pushing firms to find new ways to attract workers: One firm reported increasing wages for drivers by about 15 percent this year. A manufacturer took out billboard advertisement for the first time to recruit workers. New partnerships are being formed between education and business to bring workers into the manufacturing sector. In southwest Kentucky, employers are relaxing restrictions on felony convictions to hire the necessary staff.

Residential real estate activity remains constrained by low inventories. Seasonally adjusted home sales were down slightly in March, while inventories declined by 4 percent during the same period. Single-family building permits have increased, although higher lot prices and increased construction costs have led builders toward higher-priced homes.

The outlook among contacts was generally optimistic. The majority of contacts expect conditions to improve during the remainder of 2018. Many cited a strong pipeline for new projects in the coming months. However, the outlook is somewhat less optimistic than three months ago.

### **Memphis Zone**

Economic conditions in the Memphis zone have continued to improve slowly since our previous report. Economic developers reported increased activity from businesses looking to build new facilities. Some manufacturing contacts in the zone reported that higher steel prices have reduced their profit margins.

Reports of consumer spending were positive. April real sales-and-use tax revenue in Tennessee increased 2.5 percent from one year ago. Reports from retailers in northeast Arkansas were favorable, with year-to-date sales above 2017 levels. Hoteliers in northeast Arkansas reported the highest occupancy levels seen in recent years. Reports from auto dealers were similarly positive: One dealership in northern Mississippi reported strong sales in March after a very weak start to the year. Another dealer noted that a shortage of trucks and trailers has led to delays in shipments of new vehicles.

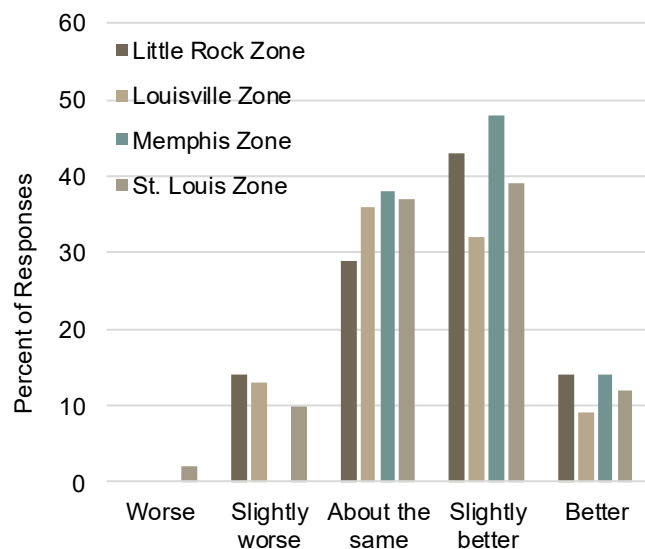
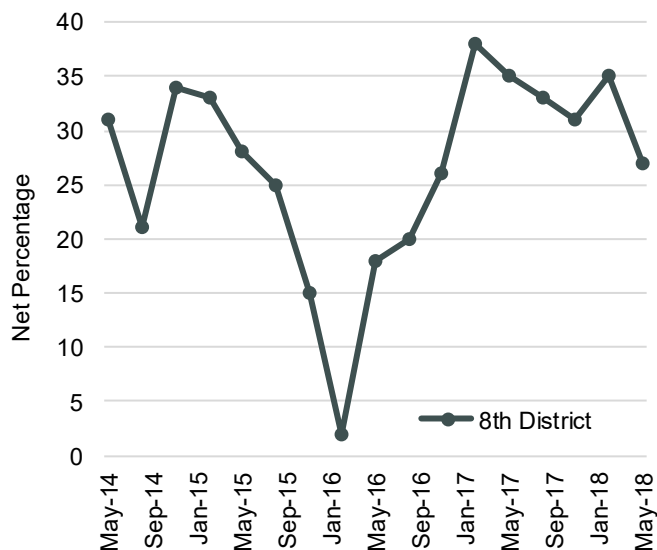
Residential real estate conditions have been mixed. Construction activity picked up in March with 8 percent growth in seasonally adjusted single-family building permits. However, some businesses that supply materials for home construction noted a slowdown in orders. Home sales have tapered off: March seasonally adjusted home sales declined 7 percent, and the inventory of homes for sale dropped 5 percent.

Agricultural conditions showed modest improvement. Drier weather helped farmers catch up on spring planting after a wet start to the season. As of mid-May, Tennessee planting progress for cotton was considerably ahead of the same time last year. ■

## Supplemental Data and Survey Results

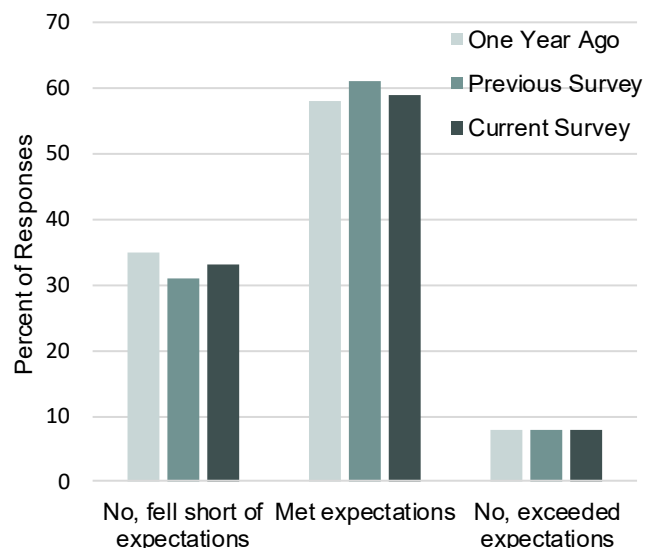
Anecdotal information in this report was provided by our panel of business contacts, who were surveyed between May 1 and May 14. The previous survey was conducted between February 5 and February 19. The following are selected results from those surveys.

### How do you expect local economic conditions to change during the remainder of this year?



Note: Interactive versions of these charts can be found at: <https://research.stlouisfed.org/publications/regional/beige-book>

### Have sales at this point in the current 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	23%	31%
Sales (Dollars)	33%	21%
Inventory	2%	-9%
Non-Labor Costs	25%	29%
Capital Expenditures	26%	26%
Labor Costs	47%	43%
Wages	46%	51%
Hours per Employee	13%	14%
Employment	30%	13%

Notes: Values are reported as the net percentage of respondents reporting increases. Responses are weighted as follows: *increase* (+1), *slightly increase* (+0.5), *decrease* (-1), and *slightly decrease* (-0.5). 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/](http://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/](http://www.research.stlouisfed.org/outlooksurvey/).

Or email us at [beigebook@stls.frb.org](mailto:beigebook@stls.frb.org).

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