



Summary of Economic Activity

Economic conditions have been unchanged since our previous report. Labor market conditions remained tight as firms continued to note difficulties finding qualified workers. Wages increased at a moderate pace, and survey respondents reported a slight increase in prices charged to consumers. Reports on consumer spending were mixed. Manufacturing activity continued to improve at a moderate pace. Residential real estate contacts were relatively pessimistic compared with previous reports. District bankers reported a slight decrease in loan demand. Agricultural conditions declined slightly, and contacts expressed concerns over rising input costs and low commodity prices. Overall, the outlook among contacts continued to weaken for the fourth consecutive quarter but remains slightly optimistic. On net, a slightly greater share of contacts expect conditions in 2019 to be better or somewhat better than in 2018.

Employment and Wages

Employment has grown slightly since the previous reporting period. On net, 11 percent of contacts reported that employment was higher than a year ago. Worker shortages continued to restrict hiring. Contacts reported a tight labor market for skilled jobs in construction, healthcare, and manufacturing. One contact in the tech industry noted a shortage of technical workers, citing difficulties finding and retaining migrant workers and temporary employees. Contacts also reported difficulties finding unskilled workers with reliable means of transportation to work. Louisville contacts in higher education noted that enrollments are down as the employee-friendly labor market has led potential students to enter the workforce instead of pursuing a college degree.

Wages have increased moderately since the previous report. On net, 40 percent of contacts reported that wages were higher or slightly higher than a year ago, and 39 percent reported that labor costs increased. Contacts in construction and healthcare indicated that the tight labor market led to pay raises. One construction firm reported raising base salaries for the first time in over a decade. Small business wages throughout the District grew modestly.

Prices

Prices have increased slightly since the previous report. On net, 20 percent of contacts held that consumer prices increased relative to last year, which is a moderately smaller share than three months prior. Nonlabor costs have increased modestly. On net, 30 percent of business contacts reported that nonlabor costs increased from a year ago. Agriculture prices generally decreased across the District. The prices of corn, cotton, and soybeans have all shown slight to modest declines since the previous report. Coal and steel prices likewise decreased modestly, although coal prices remained elevated compared with one year ago.

Consumer Spending

Reports from general retailers, auto dealers, and hoteliers indicate mixed consumer activity since the previous report. January real sales tax collections increased in Kentucky, decreased in Missouri, and were flat in Arkansas and Tennessee relative to a year ago. Retailers in West Tennessee reported mixed activity, and contacts in Missouri indicated that poor weather negatively impacted sales. Surveyed auto dealers were split between sales meeting and falling short of expectations. Multiple dealers expressed concerns over higher interest rates, and there were reports of a shift in demand toward low-end vehicles. Arkansas tourism sales tax revenue was flat year over year.

Manufacturing

Manufacturing activity has increased moderately since our previous report. Contacts reported that production, new orders, and capacity utilization increased in the first quarter relative to one year ago, and they expect this growth to continue into the second quarter. Survey-based indexes also indicated that Arkansas and Missouri manufacturing activity continued to expand from December to January. Several firms announced plans to expand facilities and hire new employees, including manufacturers in the automotive and furniture industries. However, a Memphis medicine manufacturer announced plans to lay off workers by mid-March.

Nonfinancial Services

Activity in the services sector has modestly improved since the previous report. Local contacts indicated that sales midway through the first quarter met or exceeded expectations. On net, 20 percent of contacts reported higher dollar sales than a year ago, and 35 percent predicted continuing improvement over the next quarter. Posted vacancies for nonfinancial service jobs increased across Louisville, Memphis, and St. Louis from December to January. Major transportation firms in the District announced plans to expand full-time and part-time hiring.

Real Estate and Construction

Residential real estate activity has declined slightly since the previous report. On net, 10 percent of respondents reported a decrease in demand for single-family homes compared with a year ago, and about two-thirds of contacts noted that first-quarter sales have fallen short of expectations. Contacts continued to report inventory shortages.

Residential construction activity was flat. Contacts reported no change in construction activity relative to the same time last year. About 10 percent of contacts, on net, expect activity to increase in the second quarter.

Commercial real estate activity was mixed. Survey respondents reported an increase in demand for industrial space year over year but no change in the demand for office buildings and a decrease in demand for retail properties. These contacts expect demand for office and industrial space to increase in the next quarter and the demand for retail properties to continue to decline.

Commercial construction activity improved slightly. Contacts reported increased demand for construction of office and retail property types. One respondent noted that labor shortages are slowing down project construction schedules. Memphis area contacts reported that some companies are choosing to renovate existing facilities rather than build new ones.

Banking and Finance

Banking conditions in the District have weakened slightly since the previous report. Demand for commercial and industrial loans decreased relative to a year ago, while demand for mortgages was flat. Bankers expect no change to overall loan demand in the second quarter. Credit standards were generally flat compared with year-ago levels but continued to tighten for commercial and industrial loans. Delinquencies fell on a year-over-year basis but are expected to remain unchanged in the second quarter.

Agriculture and Natural Resources

District agriculture conditions declined slightly from the previous reporting period. The number of acres of winter wheat planted this season decreased slightly from last year's total. Local agriculture contacts continued to express pessimism about the industry in the near term as low commodity prices and rising input costs strain farm incomes.

Natural resource extraction conditions declined modestly from December to January, with seasonally adjusted coal production falling 6 percent. January production increased nearly 5 percent 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.



Little Rock Zone

Economic conditions in the Little Rock zone have continued to show slight improvement since our previous report. Manufacturing activity showed moderate gains, with particularly strong growth in durable goods production. Conversely, banking contacts reported declines in overall loan demand. Real estate conditions remained soft, as inventories increased slightly.

Labor market conditions continued to improve as firms reported slight increases in employment and moderate increases in wages. Contacts in the transportation and logistics sector continued to report difficulties hiring.

Reports on consumer spending were mixed. Arkansas real taxable sales declined slightly in January, while tourism tax revenue increased slightly. Auto dealers reported slight increases in first quarter sales.

The overall outlook among contacts is slightly optimistic. On net, 13 percent of contacts expect regional economic conditions in 2019 to improve relative to 2018. This is considerably lower than one year ago when, on net, 54 percent of contacts expected conditions to improve. Nevertheless, it is an improvement from three months ago when contacts' outlook was slightly pessimistic.

Louisville Zone

Economic conditions in the Louisville zone have slightly improved since our previous report. Reports from area bankers indicate slight declines in overall demand for new loans. Real estate conditions improved slightly, as seasonally adjusted home sales increased in January and inventories declined slightly.

Labor market conditions improved as firms reported slight increases in employment and moderate increases in wages. Contacts in the healthcare sector noted that difficulties in hiring have led to stronger wage pressures.

Consumer spending reports were mixed. Kentucky seasonally adjusted real taxable sales increased moderately in January. Conversely, area auto dealers reported a recent slowdown in sales, noting concern over higher auto loan rates.

The overall outlook among contacts is slightly optimistic. On net, 12 percent of contacts expect regional economic conditions in 2019 to improve relative to 2018. This is considerably lower than one year ago when, on net, 35 percent of contacts expected conditions to improve. Nevertheless, the outlook improved from three months ago when, on net, 9 percent of contacts expected conditions to improve in 2019.

Memphis Zone

Economic conditions in the Memphis zone are little changed since our previous report. Consumer spending reports were slightly weak, and auto dealers and general retailers noted slight declines in first-quarter sales. Banking contacts reported a slight decrease in overall loan demand. Real estate conditions remain soft, as inventories increased in January; yet seasonally adjusted home sales increased.

Labor markets improved as firms reported modest increases in employment and wages. Contacts noted that shortages of unskilled workers restrained hiring. Manufacturing contacts also noted a particularly tight labor market.

The overall outlook among contacts is slightly pessimistic. On net, 6 percent of contacts expect regional economic conditions in 2019 to worsen relative to 2018. This is considerably lower than one year ago when, on net,

27 percent of contacts expected conditions to improve. Nevertheless, the outlook improved from three months ago when, on net, 10 percent of contacts expected conditions to worsen in 2019.

St. Louis Zone

Economic conditions in the St. Louis zone are little changed since our previous report. Real estate conditions remain soft: Even as seasonally adjust home sales increased in January, inventories continued to increase.

Reports on consumer spending were mixed. Missouri seasonally adjusted taxable sales declined modestly in January. Area auto dealers reported slightly higher sales on net, although one dealer noted lower sales. A St. Louis hotelier reported higher first quarter sales in line with expectations.

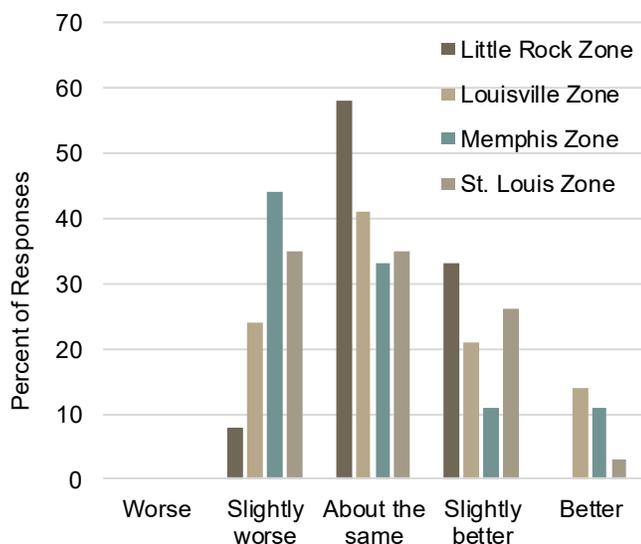
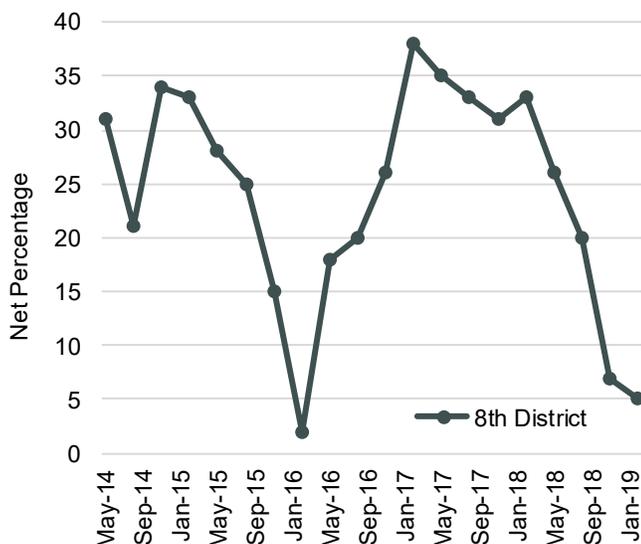
Labor market conditions have improved. Contacts noted slight increases in overall employment and moderate increases in wages. Contacts in construction and technology sectors reported a particularly tight labor market.

The overall outlook among contacts is slightly pessimistic. On net, 1 percent of contacts expect regional economic conditions in 2019 to worsen relative to 2018. This represents a considerable deterioration in outlook over the past 12 months. One year ago, 26 percent of contacts, on net, expected conditions to improve, and just three months ago that share was 14 percent. ■

Supplemental Data and Survey Results

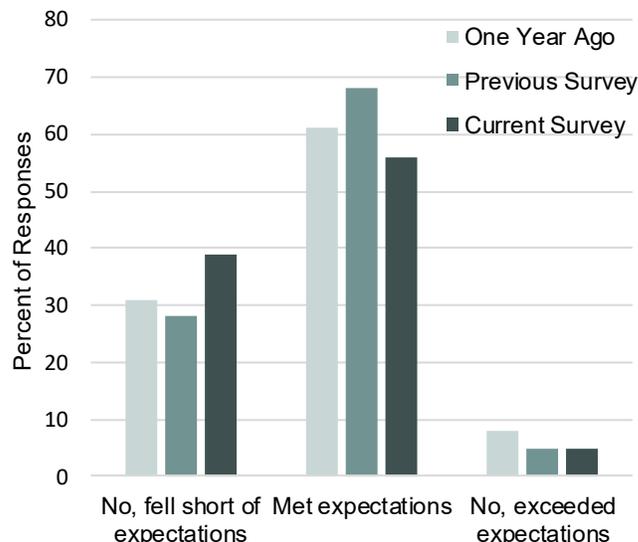
Anecdotal information in this report was provided by our panel of business contacts, who were surveyed between February 4 and February 15. The previous survey was conducted between November 7 and November 16. The following are selected results from those surveys.

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	27%	20%
Sales (Dollars)	24%	9%
Inventory	0%	-2%
Nonlabor Costs	33%	30%
Capital Expenditures	21%	19%
Labor Costs	41%	39%
Wages	47%	40%
Hours per Employee	18%	10%
Employment	18%	11%

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/.

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 14.8 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:

bit.ly/stlecon

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

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