Summary of Economic Activity

Economic conditions have been unchanged since our previous report. Firms continue to report that difficulties finding employees is the main constraint on growth. Wages continue to increase moderately, with relatively stronger growth for low-wage and entry-level positions. Overall inflation pressures continue to weaken, consistent with firms' prior expectations. Most firms see some ability to raise prices over the next few months. Overall, the outlook among contacts remained slightly optimistic, but notably weaker than the same time last year. On net, a slightly greater share of contacts expect conditions during the remainder of 2019 to be better or somewhat better than the same period in 2018.

Employment and Wages

Employment has grown slightly since our previous reporting period. On net, 10 percent of contacts reported that employment was higher or slightly higher than a year ago. Reports of labor market tightness persisted across several industries, including, but not limited to, transportation, construction, and healthcare. Furthermore, multiple manufacturing contacts reported that the shortage of qualified workers has worsened, and a contact in St. Louis reported that many employees left the firm before completing their first week in their new job. However, several contacts in Louisville reported employment gains in skilled trades, in part due to successes in recruiting recent high-school graduates.

Wages have increased moderately since our previous report. On net, 36 percent of contacts reported that wages were higher or slightly higher than a year ago. Firms reported that increased competition for workers continued to put upward pressure on wages. In St. Louis, contacts reported that larger firms were offering higher pay to attract workers, particularly for entry-level positions, but that small businesses were struggling to raise wages at the same rate.

Prices

Prices have increased slightly since our previous report, although overall inflation pressures have continued to soften. On net, 34 percent of contacts reported higher input prices, and 16 percent reported higher prices charged to consumers. However, the share of contacts reporting higher labor and non-labor costs declined for the second consecutive quarter. Similarly, the share reporting higher prices charged to consumers declined for the third consecutive quarter.

The softening inflation pressures seemed to be expected: Among those respondents responsible for setting prices, most noted that their price changes over the past three to six months met expectations. On net, the ability of business contacts to increase consumer prices was unchanged over the past three to six months: 57 percent felt that they would have some ability to increase prices over the next three months.

Consumer Spending

Reports from general retailers, auto dealers, and hoteliers indicate consumer activity has slightly increased since our previous report. April real sales tax collections increased in Kentucky and Missouri but decreased in Arkansas relative to a year ago. Auto dealer contacts generally reported flat sales; however, multiple dealers have seen new vehicle sales decline, citing higher lending rates. March Arkansas tourism sales tax revenue was flat year over year.
Manufacturing
Manufacturing activity has been mixed since our previous report. Several firms across a variety of industries reported new capital expenditure and facility expansion plans, while several manufacturers announced plans to close. Contacts in the corrugated packaging industry reported slow growth attributed to the current trade dispute with China. In a recent survey, contacts reported weakening manufacturing conditions: On net, a slight majority of contacts reported that production and capacity utilization were lower in the second quarter relative to one year ago, while new orders remained at the same level. This follows a trend from our previous reports of weaker activity but is the first reported decline. However, contacts are slightly optimistic about the next quarter, with net majorities expecting growth increases in production, orders, and capacity utilization. Other survey-based manufacturing indexes indicate that activity in Arkansas and Missouri continued to expand from March to April. New orders and production also increased in both states.

Nonfinancial Services
Activity in the nonfinancial services sector has improved slightly since our previous report. On net, 19 percent of survey respondents reported higher sales since the same time last year, and 28 percent expect this growth to continue into the third quarter. However, over half of contacts noted that sales midway through the second quarter have fallen short of expectations. Transportation contacts generally reported a pessimistic outlook, noting the adverse effects that weather has had on business. Traffic volume across major waterways, highways, and airports has been generally unchanged since our previous report. However, flooding of the Mississippi River has negatively affected barge traffic. Airport passenger volumes were higher in both St. Louis and northwest Arkansas relative to a year ago.

Real Estate and Construction
Residential real estate sales have declined modestly since our previous report. Seasonally adjusted home sales decreased modestly across the four largest MSAs in the District. On net, around 7 percent of survey respondents reported a decrease in demand for single-family homes relative to a year ago, and most noted that second-quarter sales have fallen short of expectations. Contacts continued to report inventory shortages, although inventories have increased slightly.

Commercial construction activity declined slightly. There was a slight decline in April permit activity across most of the District’s MSAs. On net, respondents reported no change in activity relative to the same time last year but expect a slight increase in the next quarter.

Commercial real estate activity was mixed. Survey respondents reported a slight decrease in year-over-year demand for retail property space and a slight increase in demand for industrial and distribution property space. They expect these trends to continue into the next quarter. Contacts in Little Rock noted that demand for multifamily properties remains strong.

Banking and Finance
Banking conditions in the District have weakened slightly since our previous report. Demand for mortgages slightly increased relative to one year ago, while commercial and industrial loans remained constant, and demand for auto loans slightly decreased. Bankers expect a slight increase in overall loan demand in the third quarter. Credit standards were generally unchanged compared with year-ago levels but continued to tighten for commercial and industrial loans. Overall delinquencies rose on a year-over-year basis but are expected to remain unchanged in the third quarter.

Agriculture and Natural Resources
Agriculture conditions declined moderately from our previous report and have significantly worsened relative to the same time last year. The number of acres planted experienced significant declines compared with previous years, which contacts have attributed to significant flooding along the Mississippi River. As of mid-May, the percentages of planned acreage planted for corn and soybeans were around 50 percent lower than this time last year and about 30 percent lower for rice and cotton. Contacts have continued to report concerns over depressed crop prices and the effects of renewed trade tensions with China.

Natural resource extraction conditions have improved modestly since our previous report. Seasonally adjusted coal production increased 15 percent from March to April. However, April production was down 18 percent from a year ago.

Federal Reserve Bank of St. Louis
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 are little changed since our previous report. Manufacturing activity showed moderate gains, although there were some signs of slowing. Reports on consumer spending were mixed, but negative on net: auto dealers reported flat sales, Arkansas tourism sales tax revenue increased slightly, while overall sales tax revenue decreased modestly.

Labor market conditions continued to improve as firms reported slight increases in employment and modest increases in wages. Contacts in the healthcare sector continued to report widespread worker shortages.

Residential real estate markets are mixed. Seasonally adjusted home sales declined modestly between March and April, while construction activity, measured by building permits, increased modestly.

Louisville Zone

Economic conditions in the Louisville zone are little changed since our previous report and notably weaker than one year ago. Labor market conditions improved as firms reported slight increases in employment and moderate increases in wages.

Area auto dealers reported that sales were down. A tourism contact reported a seasonal uptick but slightly lower than expected.

Real estate conditions weakened slightly, as seasonally adjusted home sales declined moderately in April. Residential construction activity was little changed.

The overall outlook among contacts remained slightly optimistic. On net, 6 percent of contacts expect regional economic conditions during the remainder of 2019 to improve relative to the same period in 2018.

Memphis Zone

Economic conditions in the Memphis zone are little changed since our previous report. Consumer spending reports were flat, and auto dealers and general retailers noted slight to no growth at this point in the quarter.

Real estate conditions remain weakened: Seasonally adjusted home sales declined in April and inventories dipped slightly. Similarly, single family building permits declined moderately.

Labor markets continued to improve as firms reported slight increases in employment and moderate wage gains.

The overall outlook among contacts remained slightly pessimistic. On net, 6 percent of contacts expect regional economic conditions during the remainder of 2019 to worsen relative to the same period in 2018.

St. Louis Zone

Economic conditions in the St. Louis zone have slightly improved since our previous report. Labor market conditions have improved. Contacts noted slight increases in overall employment and moderate increases in wages.

The overall outlook among contacts remains slightly optimistic. On net, 6 percent of contacts expect regional economic conditions during the remainder of 2019 to improve relative to 2018.
Real estate conditions remain soft: Seasonally adjusted home sales dipped slightly in April, while inventories continued to increase.

Reports on consumer spending improved. Missouri seasonally adjusted taxable sales increased slightly in April. Area auto dealers reported slightly higher sales on net. Area hospitality contacts report stronger than expected sales, citing strong interest in St. Louis Blues hockey.

The overall outlook among contacts improved from three months ago and is slightly optimistic. On net, 6 percent of contacts expect regional economic conditions during the remainder of 2019 to improve relative to the same period in 2018.
Supplemental Data and Survey Results

Anecdotal information in this report was provided by our panel of business contacts, who were surveyed between May 3 and May 17. The previous survey was conducted between February 4 and February 15. 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?

<table>
<thead>
<tr>
<th>Measures</th>
<th>Previous Survey</th>
<th>Current Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prices Charged to Customers</td>
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<td>16%</td>
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<tr>
<td>Sales (Dollars)</td>
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<td>8%</td>
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<tr>
<td>Inventory</td>
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<tr>
<td>Nonlabor Costs</td>
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<td>29%</td>
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<tr>
<td>Capital Expenditures</td>
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<td>16%</td>
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<tr>
<td>Labor Costs</td>
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<td>34%</td>
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<tr>
<td>Wages</td>
<td>40%</td>
<td>36%</td>
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<tr>
<td>Hours per Employee</td>
<td>10%</td>
<td>13%</td>
</tr>
<tr>
<td>Employment</td>
<td>11%</td>
<td>10%</td>
</tr>
</tbody>
</table>

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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