Summary of Economic Activity

Reports from contacts suggest economic conditions have improved slightly since our previous report. Contacts from multiple industries noted a heightened sense of economic uncertainty. Labor market conditions remained tight, although there were indications of declines in manufacturing employment. Contacts noted a strengthening of price pressures but remained mixed as to their ability to pass higher costs on to their customers. Consumer spending activity increased slightly. Outstanding loan volumes at District banks continued to expand, but growth slowed compared with three months ago. Row crop conditions remained poor; production levels are expected to be well below those of last year.

Employment and Wages

Employment conditions have been mixed since the previous report. The number of posted job vacancies for nonfinancial services occupations increased from July to August. Contacts continued to report labor market tightness and difficulty hiring and retaining qualified employees; one St. Louis area hospitality firm reported that some candidates were not even showing up for scheduled interviews. Several firms reported taking additional steps to compete for workers, such as increasing benefits, relaxing hiring standards, and increasing outreach. Other firms described creative attempts to adapt their business practices to a worker shortage, such as retraining existing employees to work other positions. Conversely, survey-based measures of employment showed declines in some sectors, particularly manufacturing. An Arkansas grocer reported that the state’s increase in the minimum wage has forced them to rethink the number of employees they can deploy per store.

Wages have grown moderately since the previous report, in part due to continued upward pressure from the tight labor market. Wage growth at smaller firms has been more modest. Several local contacts at such companies reported struggling to match wage increases offered by larger firms.

Prices

Price pressures have increased modestly since the previous report. Business contacts largely noted positive growth in nonlabor input costs. Construction contacts, in particular, reported moderate growth, with some of these price increases attributed to new tariffs. This trend comes despite recent declines in steel prices, which have fallen 8 percent since the previous report and 33 percent from one year ago. The ability of firms to pass higher input costs on to consumers was mixed. Contacts generally reported increasing prices charged to consumers, but some cited difficulties doing so due to price competition from online competitors and inflexible pricing agreements with large buyers.

Consumer Spending

Reports from general retailers, auto dealers, and hospitality contacts indicate that consumer spending activity has increased slightly since our previous report. August real sales tax collections increased in Missouri, Arkansas, Tennessee, and Kentucky relative to a year ago. Consumer sentiment in West Tennessee has increased since June, but future expectations about the economy six months from now have declined. Auto dealers in Arkansas reported stronger sales in the past few months compared with earlier in the year, especially for used vehicles. Hospitality contacts in the St. Louis region
remained optimistic about tourism growth in the coming months despite some uncertainty and downside risk.

**Manufacturing**

Overall manufacturing activity has declined slightly since our previous report. Survey-based indexes suggested that manufacturing activity decreased slightly in both Arkansas and Missouri from August to September. Production levels were down slightly in Missouri but relatively unchanged in Arkansas. New orders fell in both states. Several companies announced new capital expenditures and hiring plans, but others announced operation reductions or facility closures.

**Nonfinancial Services**

Activity in the transportation sector has improved modestly since the previous report. Barge activity along the Arkansas and Mississippi rivers continued to recover from the slowdowns caused by months of high water conditions earlier in the year. Passenger traffic at District airports remained above year-ago levels, while cargo traffic declined slightly. Contacts in Arkansas reported that commercial trucks and rail cars are in good supply. Logistics firms announced plans to expand operations and increase their workforce within the District.

**Real Estate and Construction**

Residential sales activity has been unchanged since the previous report. Seasonally adjusted home sales increased slightly in Little Rock but were unchanged in Louisville, Memphis, and St. Louis. Inventory levels in the District continued to be depressed.

Residential construction activity increased slightly. There was a slight uptick in August permit activity across District MSAs relative to the previous month. Contacts from Louisville and Little Rock reported that landlords have become less inclined to renovate older buildings because of rising labor and material costs.

Commercial construction activity was mixed. The number of commercial construction projects fell slightly from July to August across most of the states in the District. Multiple contacts reported increased uncertainty surrounding projects due to the ongoing trade dispute with China. A contact from Little Rock reported that rising costs have limited speculative construction. However, there were multiple reports of healthy demand for commercial construction and infrastructure development in the District, and local contacts continued to note labor shortages.

**Banking and Finance**

Banking conditions in the District have improved modestly since the previous report. Outstanding loan volumes at District banks grew by 3 percent in the third quarter relative to year-ago levels, a slight decrease from the second quarter of 2019. This slowdown continued the nearly steady downward trend in loan growth since the end of 2016. District growth remained slower than the national rate for the fourth consecutive quarter. Commercial and industrial lending maintained a positive growth rate, growing by 2 percent year over year, although growth has slowed significantly in this category over the past two quarters. Commercial real estate lending grew at the same rate as the prior quarter. However, residential real estate lending contracted slightly.

**Agriculture and Natural Resources**

District agriculture conditions have declined modestly compared with the previous report. Production and yield forecasts fell for corn and soybeans from August to September but improved for cotton. Expected rice production also declined over the same period, but expected yields ticked up. Relative to 2018, corn, rice, and soybean production levels are projected to decrease sharply, largely due to the unusually wet weather and flooding during the planting season. However, cotton production levels are expected to improve compared with last year. The outlook among contacts remained relatively pessimistic due to depressed commodity prices and trade uncertainty. Farmers in southern Indiana also expressed concern over the recent lack of rain.

Natural resource extraction conditions have declined slightly from July to August, with seasonally adjusted coal production decreasing about 1 percent. August coal production was nearly 2 percent higher than 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 improve slightly since our previous report. Arkansas real sales tax revenue increased moderately in August from a year ago. Reports indicate that barge traffic on both the Arkansas and Mississippi rivers has returned to normal after the significant flooding earlier in the year.

Manufacturing activity contracted slightly in the state of Arkansas. Contacts across multiple industries reported uncertainty stemming from the current trade situation. Many noted facing thin margins that are being squeezed by other forces as well, such as having to increase wages to compete for workers in a tight labor market.

Local contacts in food-related industries expressed an optimistic outlook, as they expect a strong holiday season. A Little Rock banker noted increased loan demand.

Louisville Zone
Economic conditions in the Louisville zone improved slightly since our previous report. Kentucky real sales tax revenue in August increased moderately from a year ago.

A local banker reported being satisfied with current loan demand but expressed uncertainty regarding future economic conditions. Multiple banking contacts expect that declining interest rates will initiate another round of refinancing.

Single-family home sales were little changed from July to August. Building permits increased slightly over the same time period. Contacts in construction reported healthy levels of activity and were cautiously optimistic about the future. They noted concerns over a thin labor market and rising costs, the latter being exacerbated by tariffs.

Recent dry weather in southern Indiana has further worsened crop conditions, which were already poor due to the heavy rains during the planting season.

Memphis Zone
Economic conditions in the Memphis zone have continued to improve slightly since our previous report. Labor market conditions remained tight. There were multiple reports of businesses increasing wages to attract workers.

West Tennessee real taxable sales increased moderately in August from the same time last year. Both new and used auto dealers reported that sales remained strong and that service departments continued to see healthy levels of activity.

Real estate conditions were unchanged since our previous report. Both single-family building permits and home sales were relatively flat from July to August. Local contacts reported healthy demand for commercial construction.

St. Louis Zone
Economic conditions in the St. Louis zone improved slightly since the previous report. Missouri real sales tax revenue increased moderately in August from the same time last year.

Hospitality contacts were optimistic that ongoing tourism infrastructure development in St. Louis will bring more visitors to the area in the coming months. However, some mentioned downside risks that could potentially
dampen tourism growth over the next year, such as economic uncertainty, rising construction costs, and competition from other major cities.

Multiple contacts described labor market conditions as tight and reported having to raise wages. Conversely, survey-based measures of employment indicate slight-to-modest losses at smaller businesses as well as in the manufacturing industry. Overall manufacturing activity in Missouri contracted slightly.

Residential real estate conditions remained stable. Single-family home sales and building permits were little changed from July to August, but St. Louis homebuilders reported increased activity in the first half of September. Other contacts noted optimism surrounding new commercial construction projects.
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, email us at beigebook@stls.frb.org.

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