Summary of Economic Activity

Reports from contacts indicate that economic conditions have slightly improved since our previous report. Firms reported employment levels were unchanged. Overall, wage pressures have increased moderately, with contacts citing minimum wage increases as a contributing factor. Reports on consumer spending were generally positive, although reports on holiday sales were mixed. Activity in the manufacturing sector continued to decline, although there are signs of stabilization. District banking contacts reported positive growth in loan volumes. Agriculture conditions remain unchanged, although overall conditions remain weak in this sector.

Employment and Wages

Employment has remained largely unchanged since the previous reporting period. Contacts across the District frequently emphasized the tight labor market. Firms continue to raise benefits, lower hiring standards, automate positions, and increase existing employees’ responsibilities due to chronic worker shortages. However, many firms are hesitant to invest in training new employees, fearing that they would expend resources developing workers and lose them to better-paying jobs. Small and rural business contacts report having an especially difficult time recruiting workers. Survey-based indicators also continue to show employment declines in Missouri and Arkansas manufacturing. However, overall employment remains strong, with St. Louis contacts emphasizing that employers continue to expand their workforce whenever possible.

Wages have increased moderately since the previous report. Contacts continued to link this to the tight labor market, raising wages to both attract new workers and limit turnover. Firms’ reported ability to raise wages remains positively related to their size, with smaller firms struggling to increase wages. Arkansas, Illinois, and Missouri minimum wage increases have also come into effect with the new year. Uncertainty over how this will impact market wages of various positions has led some Missouri contacts to delay hiring for at least a month. An Arkansas contact reported multiple retailers are hiring fewer workers to counteract the increase in labor costs.

Prices

Prices have increased slightly since the previous report. Business contacts noted that fuel and energy costs have been declining, and coal prices in particular have shown modest declines since the previous report. Auto industry contacts noted slight increases in the prices of used vehicles, but also the availability of more low-interest financing options with low down payments.

Construction contacts reported that prior price increases from tariffs on building materials, such as steel and aluminum, have now been passed on to consumers. Steel prices have increased by 12 percent since the previous report, but are down 26 percent year over year. Contacts in the retail and restaurant industries said that prices were unchanged, but that increasing food prices are putting cost pressures on businesses.

Consumer Spending

Reports from general retailers, auto dealers, and hospitality contacts indicate consumer activity has improved slightly since the previous report. November real sales tax collections increased in Missouri, West Tennessee, Arkansas, and Kentucky relative to a year ago. Consum-
Consumer sentiment in West Tennessee regarding both current economic conditions and economic conditions over the next six months has improved since September. Little Rock area general retailers reported slight increases in business activity during the second half of 2019. St. Louis area general retailers had mixed accounts of sales over the holiday season, noting a strong shift toward online shopping. Little Rock area auto dealers reported steady sales over the previous quarter, and they continued to observe particularly strong demand in the used car market. St. Louis region hospitality contacts generally reported that business activity met expectations over the holiday season, and they remain cautiously optimistic about the months ahead, encouraged by several major events taking place in the region during the first quarter of 2020.

Manufacturing
Overall manufacturing activity has declined slightly since our previous report. Survey-based indexes suggest that Arkansas manufacturing activity remained stable. New orders remained stable, while production decreased slightly from last month. Manufacturing activity in Missouri declined relative to one month ago. New orders and production decreased slightly. Contacts in the steel and landscape equipment industries reported plans to increase capital investment in 2020. One large U.S. manufacturing company announced plans to open a manufacturing/distribution facility in the region.

Nonfinancial Services
Activity in the services sector has slightly improved since the previous report. The transportation industry has experienced increased activity since the previous report. Major logistics firms plan new distribution centers; however, one firm has announced layoffs. Traffic on waterways and highways is largely unchanged. Contacts noted falling river barge prices resulting from excess supply of river barges due to declining exports of soybeans. However, in airports, passenger traffic increased by 3 percent year-to-year.

Real Estate and Construction
Residential real estate activity has decreased slightly since the previous report. Seasonally adjusted home sales decreased modestly from October to November in Little Rock, decreased slightly in St. Louis and Memphis, and were unchanged in Louisville. Inventory levels in the region remained depressed.

Residential construction activity increased slightly. There was a slight uptick in November permit activity across District MSAs relative to the previous month. Contacts in St. Louis reported that, while year-to-date permit levels are down slightly in the area compared with this time last year, builders remain confident that housing demand will remain robust due to low mortgage rates.

Commercial construction activity has increased modestly since the previous report. The number of commercial construction projects increased moderately from October to November across most of the states in the District. A contact in Little Rock noted that they had never seen a construction boom as strong and as long-lasting as the current one.

Banking and Finance
Banking conditions in the District have improved modestly since the previous report. According to reports from bankers, outstanding loan volumes grew by 4 percent in the fourth quarter relative to one year ago, which was a departure from a recent slowing in the rate of loan growth. Commercial and industrial lending growth remained stable, growing by 2 percent year-over-year. Commercial real estate lending maintained a positive and slightly slower growth rate compared with the previous quarter. Residential real estate lending also increased slowly, which is in contrast to the prior quarter, when lending growth declined slightly.

Agriculture and Natural Resources
District agriculture conditions remain unchanged from the previous reporting period. The percentage of winter wheat in the District rated fair or better remained approximately unchanged at 93 percent from the end of October to the end of November. This is roughly the same level of winter wheat rated fair or better at the end of 2018. Contacts reported that continued low crop prices and trade disputes have harmed the industry. Several reports indicated the federal assistance to farmers via the market facilitation program has helped farmers remain in business.

Natural resource extraction conditions improved modestly from October to November, with seasonally adjusted coal production increasing 1.8 percent. November production declined 7 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 slightly improved since our previous report. Labor market conditions were mixed: Small businesses reported lower employment levels, and most firms reported moderate wage pressures.

Reports on consumer spending were positive. Arkansas real retail sales tax revenue increased 2.3 percent from one year ago. Reports from Little Rock area retailers and auto dealers indicate consumer spending was slightly higher during the final months of the year.

Real estate conditions were mixed during this slow period of the year. Building permits were up strongly from one month ago, while home sales were considerably slower than the same time one month ago.

Louisville Zone

Economic conditions in the Louisville zone have slightly improved since our previous report. Kentucky real sales tax revenue was 2 percent higher than one year ago.

Real estate conditions improved, with steady increases in both seasonally adjusted home sales and slight growth in single-family building permits. Reports of new commercial construction projects were significantly higher than the same period last year.

Memphis Zone

Economic conditions in the Memphis zone have slightly improved since our previous report. Labor market conditions remain tight but favorable, with firms reporting slight increases in employment and moderate wage growth.

Residential real estate conditions weakened slightly. Single-family building permits were little changed and home sales were slightly lower than the same period last month.

St. Louis Zone

Economic conditions in the St. Louis zone have slightly improved since the previous report. Staffing and recruiting contacts indicate that area employers are looking to expand their workforce, although shortages of workers continue to restrain growth.

Reports on consumer spending were favorable. St. Louis area retailers reported strong online holiday sales. Area hospitality contacts reported steady traffic, with a boost from new hotels and attractions.

Real estate conditions weakened slightly in the St. Louis metro area. Seasonally adjusted single-family building permits were generally unchanged from one month ago. Seasonally adjusted home sales were about 5 percent lower than one month ago.
Federal Reserve Bank of St. Louis

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/montarypolicy/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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