



Summary of Economic Activity

Reports from District contacts indicate that overall economic conditions have been mixed but generally unchanged since our previous report. Labor market conditions continued to show improvement with modest employment gains and steady wage gains. Overall inflation pressures increased slightly, although there were some signs of softening. Reports from manufacturing contacts indicate a modest rebound in activity after consecutive reports of slowing growth. Reports on consumer spending, real estate, and construction were all mixed. District banking contacts reported slightly weaker loan demand. Overall, the outlook among contacts improved after steadily weakening for seven consecutive quarters. On net, contacts expect conditions in 2020 to be better or somewhat better than in 2019. Contacts were uncertain about the impact of coronavirus on their business; no contacts reported a significant impact, but some have experienced travel and shipment delays.

Employment and Wages

Employment has increased modestly since the previous report. On net, 18 percent of survey respondents reported that employment was higher than a year ago. Firms spanning several industries—including healthcare, information technology, and manufacturing—reported difficulty hiring workers due to the tight labor market. Employers reported lowering their hiring expectations and coordinating with educational programs to increase their applicant pools. One nursing program in Arkansas recently doubled its student enrollment but characterized the expansion as a “drop in the bucket” compared with employer demand. Smaller employers particularly continued to struggle to hire, with survey-based measures showing more mixed employment trends among small firms.

Wages have increased moderately since the previous report, though small-firm wage growth has been more muted. On net, 39 percent of survey respondents indicated that wages were higher than a year ago, with multiple contacts ascribing this to the scarcity of workers; contacts reported improving benefits and increasing variable compensation for similar reasons.

Prices

Prices have increased slightly since the previous report. On net, just 6 percent of business contacts reported that prices charged to consumers were higher in the current quarter relative to the same time last year. Two-thirds of contacts reported that their price changes over the past three months met expectations. The remaining contacts who had to deviate from their pricing plans were equally split between increasing prices less than planned or cutting prices more than planned. In addition to the slight price growth, business contacts noted that the cost of obtaining funds was lower in the current interest rate environment. On net, 22 percent of contacts reported increasing nonlabor costs. This is below average for the past two years. Several contacts in the manufacturing sector noted tariffs as a source of increased cost. Coal prices are down slightly since the previous report and modestly since last year.

Consumer Spending

Reports from general retailers, auto dealers, and hospitality contacts indicate consumer spending activity has increased slightly since our previous report. January real sales tax collections increased in Kentucky, Arkansas, and West Tennessee and decreased in Missouri relative to a year ago. District general retailers reported that sales were flat or slightly higher compared with the same

time last year. District auto dealers also reported flat or slightly stronger sales in comparison with the same time last year. The overall outlook among general retailers was optimistic for the coming quarter, and the outlook among auto dealers was generally pessimistic. Dealers cited higher new vehicle prices and credit constraints as potential deterrents to consumer confidence. Hospitality contacts indicated mixed tourism activity over the past two months.

Manufacturing

Manufacturing activity has rebounded after a period of weakening growth, which started last summer. In a recent survey, contacts reported a modest improvement in manufacturing conditions. On net, production, new orders, and capacity utilization improved relative to one year ago. Most contacts were optimistic about the next quarter, with net majorities expecting growth in production, new orders, and capacity utilization. Other survey-based indexes indicate that Arkansas and Missouri manufacturing activity expanded moderately from December to January. New orders and production grew at a moderate rate in both states.

Nonfinancial Services

Activity in the services sector has slightly improved since the previous report. On net, 51 percent of contacts reported similar or greater dollar sales over the past quarter. Also, 68 percent of respondents expect similar or improved sales in the next quarter. In the transportation industry, major logistics firms are conducting job fairs to fill a wide array of positions for existing and planned distribution centers. Overall labor conditions are improving, as professional service job vacancies have risen year-to-year District-wide. In particular, contacts in IT services expect stronger revenue growth due to improving labor supply. In healthcare, expansion and consolidation of hospitals in the District point to favorable conditions, but shortages in personnel continues to be an issue.

Real Estate and Construction

Residential real estate activity has been mixed since the previous report. Seasonally adjusted home sales decreased slightly in January across the four largest MSAs in the District. However, most real estate contacts reported an increase in demand for single-family homes relative to a year ago. Contacts indicated that expectations for first-quarter sales had been met. Inventory levels in the region increased slightly relative to the previous month but remained well below levels from a year ago.

Residential construction activity increased slightly. December permit activity across District MSAs have re-

mained unchanged since the previous month. Survey respondents reported slightly higher construction activity relative to the same time last year and expect continued growth in the next quarter.

Commercial real estate activity has increased slightly since the previous report. Contacts reported a slight increase in the demand for office and industrial space and a slight decrease in demand for retail space relative to one year ago. Contacts noted slightly higher demand for multifamily properties. A contact in Louisville stated that the increase in remote workers was hurting office building demand.

Commercial construction activity was mixed. Contacts reported slightly higher demand for office and industrial property construction and slightly lower demand for retail property construction. On net, 30 percent of respondents reported that quarterly sales fell short of expectations. A contact in St. Louis noted a positive effect of low interest rates on construction demand and consumer confidence.

Banking and Finance

Banking conditions in the District have weakened slightly since the previous report. Demand for mortgages, commercial and industry loans, and auto loans all decreased slightly relative to one year ago. Bankers expect no change to overall loan demand in the second quarter of 2020. Credit standards were little changed compared with year-ago levels but are expected to tighten slightly in the next quarter. Delinquencies increased on a year-over-year basis and are expected to remain unchanged in the second quarter.

Agriculture and Natural Resources

District agriculture conditions have declined slightly from the previous reporting period. The number of acres of winter wheat planted this season declined slightly from acreage planted in 2019. Farmers continue to emphasize the importance of Market Facilitation Program payments for supporting the industry. Contacts raised questions and expressed concerns regarding trade with China, including when the trade agreement provisions will apply and what impact coronavirus will have on commodity prices and agricultural purchases.

Natural resource extraction conditions declined modestly from December to January, with seasonally adjusted coal production falling 4 percent. January production decreased nearly 16 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 remain tight as firms continue to express difficulties attracting new workers. Agriculture industry contacts noted that the coronavirus has negatively impacted agricultural commodity prices.

Consumer spending increased modestly: Arkansas real sales tax revenue was up about 6 percent from one year ago in January. A regional auto dealer expressed cautious optimism for 2020, but noted concerns about entry-level vehicle affordability while also noting that margin compression remains a concern.

Residential real estate conditions were mixed. Single-family building permits decreased in January. Home sales increased slightly. However, industry contacts expressed a generally optimistic outlook for the upcoming spring busy season.

The overall outlook among contacts remains slightly optimistic. On net, 8 percent of contacts expect regional economic conditions during the remainder of 2020 to be better than 2019.

Louisville Zone

Economic conditions in the Louisville zone have changed little since our previous report. Manufacturing contacts reported increases in production in new orders.

Labor market conditions remain tight. One contact expressed the need to increase wages to retain existing workers. There was also an increase in the number of job vacancies reported by firms.

Reports on consumer spending were somewhat mixed. Overall, Kentucky monthly real sales tax revenue increased about 8 percent in January compared with one year ago. Anecdotes from Louisville area retailers indicate that first-quarter sales have fallen short of expectations.

Real estate conditions were mixed. On the residential side, seasonally adjusted single-family permits decreased sharply and home sales were flat. On the non-residential side, contacts are reporting steady sales and leasing activity, particularly multifamily units. Contacts also noted an overall slowing in the demand for office space. Some contacts expect a general slowdown in regional construction activity in 2020.

The overall outlook among contacts has turned slightly optimistic since November. On net, 4 percent of contacts expect regional economic conditions during the remainder of 2020 to be better than in 2019.

Memphis Zone

Economic conditions in the Memphis zone have slightly improved since our previous report. Area banking contacts noted headwinds on loan growth for 2020, citing greater economic uncertainty and election uncertainty restraining business investment.

Reports on consumer spending were generally positive. West Tennessee real taxable sales revenue was 5 percent higher in January compared with one year ago. Memphis retailers noted this is typically a slow part of the year, but first-quarter sales were meeting expectations.

Manufacturing activity has modestly improved. Contacts reported higher production and new orders and several firms announced expansions. Manufacturing contacts in the engineering, steel, and medical device industries reported supply chain disruptions due to the coronavirus outbreak in China.

Reports indicate agriculture conditions remain weak. A banking contact noted that while all row-crop farmers paid their 2019 loans, some have extended terms with seed and chemical companies into the following year, asking to pay these 2019 obligations with their 2020 crop.

The overall outlook among contacts remains slightly optimistic. On net, 3 percent of contacts expect regional economic conditions during the remainder of 2020 to be better than 2019.

St. Louis Zone

Economic conditions in the St. Louis zone have changed little since the previous report. Area manufacturing contacts reported moderate improvements in activity, while service-sector contacts noted activity has slowed a bit, particularly during the past 6 months.

Overall labor market conditions remain tight, although contacts express a desire to increase employment. Area firms noted higher labor costs, primarily due to higher health insurance premiums and annual increases in the state minimum wages.

Reports on consumer spending were somewhat sluggish, which some contacts attributed to the normal seasonal slowdown. However, Missouri real sales tax revenue declined 13 percent in January compared with one year ago.

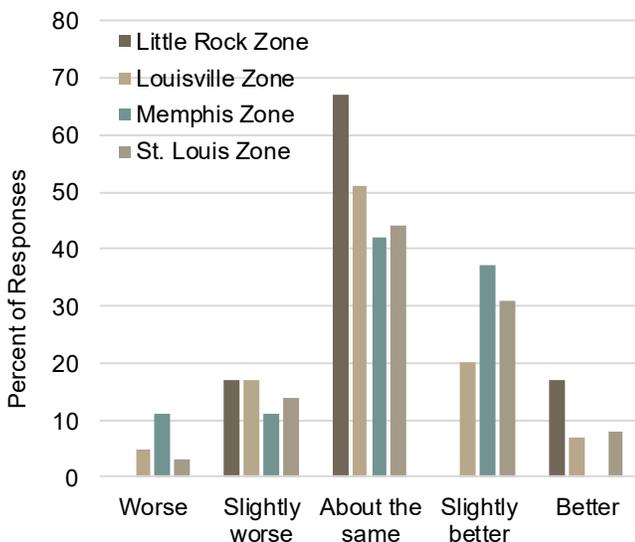
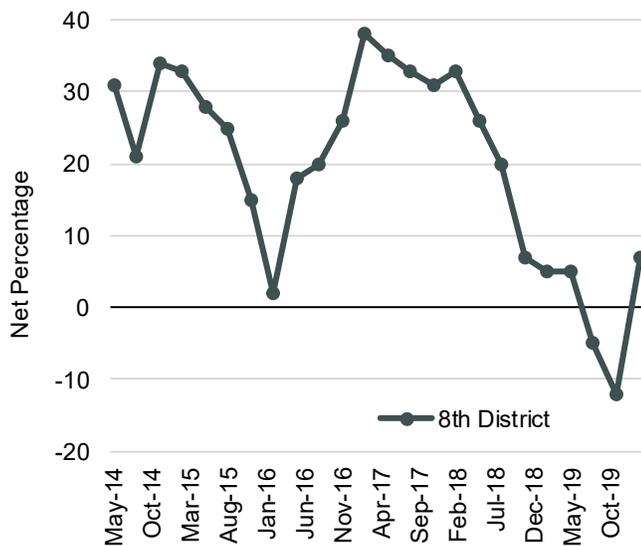
Residential real estate conditions have weakened. Seasonally adjusted single-family building permits are lower than one year ago and home sales have also declined. Real estate contacts noted that transactions are typically slow during the first quarter and remain optimistic about spring activity given low mortgage rates.

The overall outlook among contacts has turned modestly optimistic since November. On net, 14 percent of contacts expect regional economic conditions during the remainder of 2020 to be better than 2019. ■

Supplemental Data and Survey Results

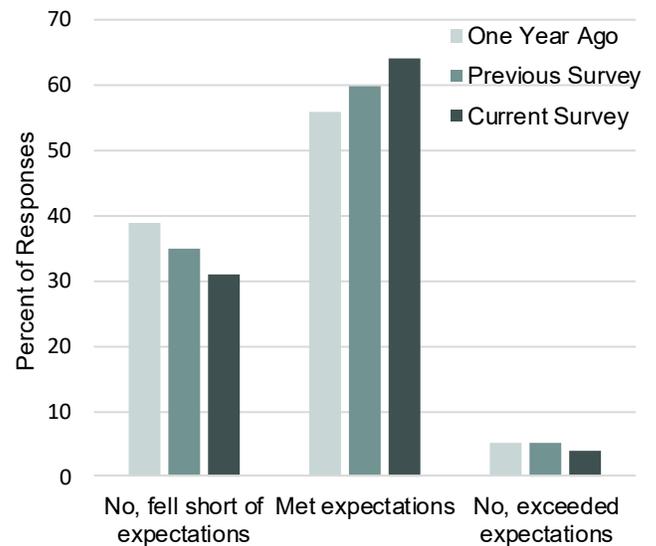
Anecdotal information in this report was provided by our panel of business contacts, who were surveyed between February 3 and February 17. The previous survey was conducted between October 28 and November 5. The following are selected results from those surveys.

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	6%	6%
Sales (Dollars)	11%	18%
Inventory	-24%	-12%
Nonlabor Costs	32%	22%
Capital Expenditures	13%	11%
Labor Costs	35%	39%
Wages	38%	39%
Hours per Employee	14%	8%
Employment	11%	18%

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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