Summary of Economic Activity

Economic activity has declined sharply since February. Essentially all contacts reported some degree of slowdown in activity due to COVID-19. In the worst cases, firms are expecting zero revenue in April and possibly May. Many firms reported moderate to severe temporary layoffs, furloughs, or paid time off. A considerable share of contacts reported reducing employee pay, particularly the pay of salaried employees with higher-than-average wages at their firms. Planned capital spending has been cut back at most firms to preserve cash, as even those firms in high-demand sectors are expecting delayed payments on goods during the coming quarter. At this point, there were no reports of abrupt cancellations of ongoing construction projects. Residential real estate conditions have held steady through March, and District agriculture conditions improved modestly from the previous reporting period.

Employment and Wages

District firms reported moderate to severe temporary layoffs, furloughs, or paid time off. Hotels and hospitality contacts reported workforce reductions of around 90% of staff. Reported reductions at specialty retailers, auto dealers, and restaurants have ranged from 50% to 70%. Staffing contacts reported reductions in new job openings of between 20% and 80%. Firms with a high demand for their products or services have not reported layoffs but have experienced challenges maintaining current employment levels. A grocer mentioned significant absenteeism; a manufacturing contact noted about 10% of its workforce required changed or reduced hours due to school closures or other challenges. Firms also reported difficulties and/or delays in onboarding new employees, often relaxing or temporarily removing background checks and drug tests.

A considerable share of contacts reported reducing employee salaries, particularly for salaried employees with higher-than-average wages at their firms. One payroll firm reported that its most-affected clients have cut salaries on non-furloughed staff between 5% and 25%. However, broad-based pay cuts have been relatively rare, with firms prioritizing layoffs over broader wage reductions.

Prices

Significant changes in the demand for some products and services and the proliferation of new product offerings have complicated the measurement of consumer price inflation. Restaurants have moved from dine-in to take-out options with increasingly unique promotions. Contacts reported increasing the prices of necessity items, such as the price of eggs doubling. Prices for premium food products, by contrast, seem to be falling due to decreased demand. One grocer noted turning unsold premium steaks into ground beef (which was out of stock), but charging a higher price than is typical ground sirloin. Auto dealers report significantly lower used car prices and a greater tendency to sell new cars for less than their sticker price.

Consumer Spending

Consumer spending activity in early March was generally robust, followed by steep declines starting in the second half of the month after stay-at-home regulations were enacted. Areas in the District without these orders as well as rural areas reported a slower rate of decline. Restaurants and specialty retailers have generally lost at least half of their revenue. Reports from auto dealers were very weak; dealers generally expect March sales to be lower than one year ago, with sales close to zero in April.
Hospitality contacts reported cancellations of nearly all major events and conferences though June 1. Events scheduled for later in the year are currently still in place. Tourism venues reported strong business during the first weeks of March, but closures brought down overall business activity for March.

Manufacturing
Reports from manufacturing contacts indicate declines in overall production, but the rates of decline vary considerably by firm. A notable number of contacts (particularly those related to autos and other durable goods) have temporarily shut down, but manufacturers of food products, chemicals, and medical devices continue to operate with extremely high demand. However, these firms are generally reporting 5% to 10% reductions in production due to supply chain disruptions and adjustments to workers’ arrangements. For example, contacts report multi-day temporary shut downs for deep cleaning, increased time between shifts for additional cleaning, and staggering break times to reduce cafeteria occupancy.

Nonfinancial Services
Activity in the nonfinancial services sector has worsened since the previous report. Major hospitals in the District report significant declines in revenue as elective procedures are postponed due to the COVID-19 outbreak. The transportation industry has remained relatively stable since the previous report—the exception being passenger traffic, as airports report steep drops in enplaning. Courier services report increased demand, causing backlogs at fulfillment centers of up to one week. Contacts in this industry report difficulty keeping facilities adequately staffed.

Real Estate and Construction
Residential real estate conditions have held steady through March. Contacts report very strong sales during the first half of the month. A contact in the St. Louis area reported that their March sales were up 24% from one year ago. Due to delays, many March sales are expected to close in April. A drop in sales is expected to occur around late April or May. Various contacts expect this drop in sales to be somewhere between 8% and 25% relative to one year ago. One contact reported about 5% of their existing listings were pulled off the market during mid-March. Contacts reported decreases in property showings of around 75% of their normal average weekly showings from early March to the end of March.

Reports of residential construction activity showed little change, as projects were generally allowed to continue. There were reports of some, but not many, households backing out of pending construction contracts due to current uncertainty. Many contracts at this point, for both home sales and new construction, are including language related to COVID-19.

Banking and Finance
Reports from District banks indicate substantial and widespread increases in demand for banking services since February. Demand for cash and for other forms of liquid assets has increased. In early March, banks reported that some of their larger clients were responding to future uncertainty by drawing down on lines of credit and depositing the funds in their checking accounts. Demand for residential mortgages remained elevated during the early part of March, and banks reported strong refinancing activity. While the pipeline for these loans remains strong, new activity has slowed and many rates have not yet been locked.

During the first week of April, the attention of banks abruptly turned to the SBA/PPP loan program, with bankers feeling overwhelmed by the program and unclear on how to approve firm applications and administer the loans. Banks report operational difficulties as many staff are working remotely or in decentralized branches to protect worker health.

Agriculture and Natural Resources
District agriculture conditions improved modestly from the previous reporting period. The number of acres planted in the District for corn, cotton, rice, and soybeans increased 8% compared with last year. All states in the District increased their number of acres planted as planting season in 2019 was severely affected by poor weather. Corn, rice, and soybeans were planted in greater quantities compared with last year. Southern parts of the District have planted fewer acres of cotton and more of rice.

District contacts stated that the COVID-19 pandemic has had a relatively muted effect on the agricultural sector to date. Several contacts reported that farmers and agricultural suppliers do not have current plans to reduce output or employment at this time. Contacts cited continued trade disputes with China, weather, commodity prices, and deteriorating credit conditions as sources of uncertainty for the industry.
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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