Summary of Economic Activity

Economic conditions have declined since mid-April, but at a moderately slower pace. While a very small fraction of firms had closed permanently, around half of firms remain closed temporarily. Among the firms that are closed, about one-third expect to reopen in the next 3 weeks, one-quarter in the next 3 to 5 weeks, one-quarter in the next 5 to 10 weeks, and the remainder in more than 10 weeks. Firms that are reopening are often doing so for training and preparation purposes; less than one-fifth expect demand for their products or services to pick up in the next 5 weeks. Contacts’ general outlook for regional economic growth during the remainder of 2020 is pessimistic, as about two-thirds of contacts expect growth to be slower than the same period in 2019.

Employment and Wages

Labor markets have continued to decline sharply over the reporting period, although the pace of decline has slowed considerably, with some contacts attributing employment stability to PPP funding. A payroll contact reported that new layoffs were driven predominantly by small firms, though many large employers have also furloughed workers since March—notably, several healthcare systems. Contacts reported that reopening firms were limited by labor shortages, which they ascribed to increased unemployment benefits, personal health concerns, and childcare responsibilities leading potential workers to stay home.

Wages and other benefits were lower than in our previous report; a payroll company reported a “second wave” of wage cuts, and reports across industries have mentioned cuts to benefits, including employer 401k matching. Some companies, especially those in competitive fields, have promised to repay lost wages at the end of the crisis; and others have increased wages to maintain morale and lure back hesitant workers.

Prices

Price pressures have decreased modestly since the previous report. On net, 16% of contacts reported that prices charged to consumers were lower in the second quarter relative to the same time last year. Nonlabor costs to businesses were generally unchanged, but some sectors did report significant increases: Wholesale, healthcare, and construction industries reported large net increases in nonlabor input costs. The healthcare industry in particular remains concerned about heightened prices for personal protective equipment because demand for these products has increased as other firms begin to reopen.

Consumer Spending

Consumer spending activity has been mixed but remains at historic lows. There have been slight upticks in activity for auto dealers and hotels in recent weeks. A furniture retailer expects to reopen in the coming weeks and expects that demand will pick up in the next month. A jeweler does not expect demand to pick up for another two months or longer and may not reopen. Hospitality contacts continue to report low or no activity throughout April. Tourism venues expect to remain closed for the next two months or longer.

Auto dealers reported mixed activity over the past month. Some contacts cited stay-at-home orders and lack of inventory as reasons for low sales, while others reported that current-quarter sales are about the same as they were this time last year, noting that stimulus money and financing deals have helped bolster sales.
Some dealers reported that demand has already picked up since the shutdown, while others anticipate it will take two months or longer to see an upward trend in demand.

Manufacturing

Reports from manufacturing contacts were mixed. However, levels of production remain very low. A steel manufacturer reported a 30% reduction in production, and a machine products manufacturer reported a 50% reduction in production. Both these contacts cited reduced demand as their biggest impediment. A printing company reported sharp increases in production from 15% to 80% of normal levels. Furthermore, several auto plants in the region have reopened or plan to reopen within a couple of weeks, but are working at 25% to 50% of normal production levels with supply chain disruptions.

Nonfinancial Services

Activity in the nonfinancial services sector has worsened moderately since the previous report. On net, about one-third of contacts expect that it will take more than 10 weeks for demand for services to begin to improve. Contacts in the healthcare sector reported severe drops in non-COVID-19 patient visits, by as much as 50% since March. Elective surgeries have been postponed by hospitals. Contacts reported furloughing between 5% and 33% of their workforce. Contacts in primary care note the use of telehealth to replace some, but not all, patient visits.

In the transportation industry, passenger activity in airports is significantly lower but has ticked up slightly in recent weeks. Contacts noted a 95% drop year over year in passenger traffic. Airports have been able to remain open by making use of their cash reserves and relief funding from the CARES Act, by postponing capital expenditures, and with increases in cargo traffic. Contacts in logistics and freight noted mixed activity. Contacts linked to foodstuffs and online shopping noted increased activity, while contacts linked to retail trade and other sectors noted a drop in activity since the previous report.

Real Estate and Construction

Residential real estate activity sharply declined in April as measured by existing home sales, new listings, and pending sales. Contacts reported drops in home sales between 8% and 50% in April relative to one year ago, despite sales conditions being generally unaffected by COVID-19 in March. Some brokers indicated that they have already experienced an uptick to near-normal sales. Home showings have rebounded from their lows in late March and early April. Inventory levels have decreased about 20% from the same time last year.

A majority of contacts reported lower new residential construction demand compared with the previous year. A contact in Memphis reported few new projects in the pipeline. Contacts in Louisville and St. Louis reported that homebuilding remained stable in April because of the continuation of in-progress projects.

Commercial real estate activity has moderately decreased since March. All contacts surveyed reported lower demand for retail space relative to the previous year. Contacts reported little change in the demand for industrial space and a moderate decrease in demand for office space. Some contacts expressed that despite sharp drops in the retail side of their business, continued industrial demand has been a bright spot for their firms. Contacts reported only a slight decline in rent collections. Contacts reported clients have suspended or delayed commercial construction projects. Contacts also reported difficulties with the construction process due to supply chain issues and increased safety costs.

Banking and Finance

Banking conditions in the District have declined slightly after a surge in demand for emergency loans in April. Contacts reported the pipeline for PPP loans is now manageable. Demand for most consumer loans declined moderately, with the exception of credit cards loans, which modestly increased. Banks indicated a sharp increase in delinquencies, primarily in mortgages, credit cards, and auto loans; but they expect fewer delinquencies in the third quarter. Louisville area bankers reported increasing loan loss reserves.

Agriculture and Natural Resources

District agriculture conditions have been mixed since April. Contacts reported that transportation and warehousing costs have increased and supply chain issues are affecting many producers. Smaller meat processing plants experiencing higher demand due to closures of larger plants are constrained by regulatory requirements. Contacts reported significant variation in revenue as some industries such as rice producers have seen increased demand and prices for their goods. Meanwhile, cotton and other row crop producers reported lessened demand and continued low commodity prices, making profitability a challenge. Planting has increased since the previous reporting period and is up modestly from this time in 2019. However, this is largely due to improvements in states that experienced historic flooding in 2019.
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 but activity remains at a very low level.

Seasonally adjusted April real sales tax collections in Arkansas declined moderately in comparison with March collections as well as last year’s collections. A grocery chain reported a continued uptick in sales: The firm reported that supply chain issues for key items like cleaning products, bottled water, beef, and bread are improving. However, operating hours remain shorter to ensure a clean shopping environment.

A contact in northwest Arkansas reported the real estate market is starting to feel the impact of the pandemic, with steep declines in sales and new listings and further impacts anticipated. Prices, however, remain stable.

Reports from business owners indicate that next steps for easing back into normal operations are still staggered and varied. Some owners expressed concerns over a false sense of security in reopening, given how much uncertainty there is about future conditions.

The overall outlook among contacts is pessimistic. On net, 67% of contacts expect regional economic conditions during the remainder of 2020 to be worse than in 2019.

Louisville Zone

Economic conditions in the Louisville zone remain depressed, but changes in activity were mixed. Many businesses reported a gradual reopening, waiting to call back employees until they see how fast the demand recovers. Most firms reported that capital expenditure plans have been put on hold.

A contact in southern Indiana noted that even as most automobile sales floors have been closed or materially restricted, retail auto sales declined by only around 20%, and service volumes declined by 60%.

Contacts expect a contraction in major infrastructure construction, as businesses have placed projects on hold. Highway construction and maintenance projects in Indiana have been accelerated during the past two months to take advantage of the light traffic.

Residential brokers reported a return to near-normal sales volume toward the end of May in both Indiana and northern Kentucky. Contacts in Louisville reported that homebuilding remained stable in April because of the continuation of in-progress projects. Regional builders and real estate agents generally believe their slowdown will occur after June.

The overall outlook among contacts is pessimistic. On net, 57% of contacts expect regional economic conditions during the remainder of 2020 to be worse than in 2019.

Memphis Zone

Economic conditions in the Memphis zone remain depressed but activity has begun to pick up slightly in recent weeks.

In West Tennessee, seasonally adjusted April real sales tax collections declined moderately in comparison with March collections as well as last year’s collections. A Memphis area contact reports that restauranteurs are struggling to survive on takeout and delivery services, recovering only 15% to 40% of their usual revenue. A furniture store in northern Mississippi reported sales were down 75% in late April but that recent sales were stronger than in this period last year.
A contact in northern Mississippi reported that home sales were on pace with this time last year. A contact in Memphis reported few new nonresidential construction projects in the pipeline, as investors are not looking at new deals. Contacts in Memphis reported collecting 10% to 20% of retail rent, and a contact in Memphis worried that future retail bankruptcies would lower occupancy rates.

According to contacts in northern Mississippi, manufacturing operations that were forced to close or reduce hours are just now getting back to 60% to 70% of production capacity; contacts expect it will take another 2 to 4 weeks (barring additional interruptions) to achieve normal production levels.

The overall outlook among contacts is pessimistic. On net, 35% of contacts expect regional economic conditions during the remainder of 2020 to be worse than in 2019.

St. Louis Zone
Economic conditions in the St. Louis zone have changed little since the previous report and remain depressed. A St. Louis-based staffing contact noted that some companies are planning to phase-in hiring starting in June or July; but others might not until September or later.

Brokers in St. Louis indicated that they have already experienced an uptick to near-normal sales during early May. A contact in Jefferson City reported sales were 20% lower in April compared with one year ago, but have turned around in the first few weeks of May. Contacts in St. Louis reported that homebuilding remained stable in April because of the continuation of in-progress projects.

Contacts reported declines in demand for commercial construction and that clients have often suspended or delayed commercial projects. A contact in St. Louis reported that around 30% of their projects had been delayed or suspended entirely. A different contact in St. Louis reported that they lost all of their retail business within a few days, with most of their projects put on hold indefinitely.

In Missouri, seasonally adjusted April real sales tax collections increased slightly in comparison with March collections and decreased slightly in comparison with last year’s. St. Louis-area hotels reported extremely low occupancy rates, but they have risen slightly; contacts expect it could take until 2021 to return to pre-crisis levels.

The overall outlook among contacts is pessimistic. On net, 63% of contacts expect regional economic conditions during the remainder of 2020 to be worse than in 2019. ■
Supplemental Data and Survey Results

Anecdotal information in this report was provided by our panel of business contacts, who were surveyed between May 4 and May 11. The previous survey was conducted between February 3 and February 17. The following are selected results from those surveys.

How do you expect local economic conditions to change during the remainder of this year?

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?

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/.

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**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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