Summary of Economic Activity

Reports from District contacts suggest economic activity has increased modestly, but losses sustained during the pandemic have yet to be fully recouped. Activity was also highly variable across sectors. Employment increased modestly while wage growth was mixed. Auto dealers reported strong sales, and restaurants reported some improvement. Tourism and hospitality contacts reported that higher COVID-19 cases over the past month have reduced demand. The outlook among contacts remains pessimistic but has improved slightly since our previous report. While some contacts reported strong demand for their products and services, about half of contacts expect sales to return to pre-crisis levels in less than 12 months and one-third of contacts expect it will take more than 12 months.

Employment and Wages

The labor market has improved modestly since the previous report. Contacts across many industries reported hiring or rehiring workers, though they frequently reported difficulty doing so, citing potential workers’ continuing health concerns and childcare obligations. A manufacturing contact reported that it was challenging to hire enough workers to staff half the plant’s usual number of shifts. An employment agency stated that it was “not uncommon” for those it matched to jobs to quit within 48 hours. Service, hospitality, and healthcare firms continued to report more mixed employment trends, as did smaller firms. Some larger firms also reported laying off furloughed workers in the face of slower recovery.

Wage growth has been mixed, with wages at small firms remaining especially stagnant. On net, 15% of contacts reported that wages were up since this time last year—less than half the number who usually report such increases. Some firms reported increasing pay to attract scarce workers: One peach farmer reported that a 10% pay increase for his packaging workers still left him so short-staffed he had to leave some of his crop unharvested.

Prices

Prices have increased slightly since the previous report. A significant share of contacts reported higher input costs; however, many contacts continued to report lower prices charged to consumers. Contacts noted increased prices for lumber and other building materials. The increase in food costs is causing restaurants to increase menu prices. Healthcare contacts noted that the costs of personal protective equipment remain elevated. In contrast, certain goods experienced price declines since the previous report. Contacts noted that prices for gasoline, chemicals, crops, and livestock have declined.

Consumer Spending

Consumer spending activity has been mixed since our previous report. Seasonally adjusted credit and debit card spending in early August increased or stayed the same compared with average spending in July. General retailers and restaurants reported mixed business activity over the past six weeks. Some retailers reported comparable or increased current-quarter sales compared with last year, and restaurants indicated that business has increased since they have been able to open up fractional seating capacity; however, some retailers and restaurants expressed concerns about their ability to stay open. Most auto dealers reported strong sales, some indicating year-over-year increases in current-quarter sales. Dealers cited that sales continue to be bolstered by low interest rates, but their outlook for the
coming months is mixed due to an uncertain economic outlook. Hospitality contacts reported that business activity, which remains significantly below typical levels, has declined since early July as reported COVID-19 cases have increased. Restaurants that cater to business travel continue to struggle.

Manufacturing
Manufacturing activity has moderately increased since our previous report. Multiple steel manufacturing contacts reported that they are now working at full capacity. Plastics manufacturers in southern Indiana reported a surge in production. Contacts in Louisville reported that the automotive production continues to lag, but that most automotive plants are in the process of resuming operations due to the resolution of supply chain problems. Survey-based indices indicate that production, new orders, and capacity utilization are on average still slightly lower than they were a year ago. On average, contacts expect production, new orders, and capacity utilization next quarter to be nearly back to their levels from one year ago.

Nonfinancial Services
Activity in the nonfinancial service sector has improved slightly since the previous report. Airport passenger traffic has nearly doubled month over month, although levels are still down roughly 80% relative to this time last year. Cargo traffic has remained stable, increasing moderately month-to-month and year-over-year. A logistics firm was able to raise wages and expand its workforce. Hospital contacts noted that in-patient and ambulatory volumes have reached 90% of pre-crisis levels. However, hospitals indicate that they continue to deal with large numbers of COVID-19 patients. As a result, research remains sidelined and wholly devoted to COVID-19. Moreover, fellowship and residency programs are temporarily on hold. Hospital contacts noted that furloughed staff have begun to return in phases and hiring for physicians and nurses continues. Dentists and optometrists have reported increased activity, as patients who delayed care are now seeking treatment.

Real Estate and Construction
Residential real estate activity increased slightly since the previous report. Total home sales have improved slightly since early July. Home sales in most of the largest District MSAs are up through early August relative to the same period last year. Contacts cited high demand for housing and low interest rates as drivers of sales. However, a contact in St. Louis noted a recent downturn in demand after record-breaking sales in the later months of the second quarter.

Contacts reported a continued shortage of housing on the market and homes selling quickly once listed.

Residential construction increased modestly. Contacts noted higher demand for new homes, with a contact in Louisville noting that the shortage of housing inventory contributed to demand for new home construction. However, builders reported higher costs and shortages of input materials.

Commercial real estate activity has been mixed since the previous report. Contacts reported a lack of demand for retail and office real estate due to the pandemic. Contacts noted that existing tenants in retail spaces have been struggling due to consumer concerns over safety. Some contacts observed higher demand for industrial real estate.

Commercial construction activity has been unchanged. Construction activity has generally been sustained for projects that were ongoing prior to the pandemic. Contacts reported little to no speculative building for office or retail space and that uncertainty surrounding the pandemic has disrupted their ability to obtain and plan for future projects.

Banking and Finance
Banking conditions have slightly worsened since the previous report. Overall business loan demand slowed after the surge of emergency lending through July. Consumer loan demand has increased, particularly for credit cards. Low interest rates continue to spur stronger-than-expected mortgage lending, refinancing, and new construction loans. Banks reported high levels of deposits and increasing loan loss reserves. Overall delinquencies have declined primarily in consumer products such as credit cards, mortgages, and auto loans. However, bankers continue to express some concern for loans in the leisure and entertainment industry.

Agriculture and Natural Resources
Agriculture conditions have improved slightly from the previous reporting period. Relative to early July, the percentage of District corn, rice, and soybeans rated fair or better has increased slightly while the percentage of cotton decreased slightly. Contacts indicated that, while crop conditions look promising, low crop prices will reduce profitability and there is still concern over trade disputes with China and the effects on commodity pricing.

Natural resource extraction conditions continued to fall moderately from June to July, with seasonally adjusted coal production decreasing 7%. Production is down 31% 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**

A banking contact noted success in remote work: Their internal survey indicated about half of their employees support working from home post-pandemic. A national credit card company reported that Arkansas delinquency rates are consistent with national delinquency rates, which have decreased.

Real estate contacts in northwest Arkansas reported that existing homes are selling at 98% of their list price, a record high, and home sales in late July are up strongly from one year ago. Contacts expect the real estate market to remain strong over coming months.

Multi-family construction contacts reported activity is robust and expanding. Commercial construction is being sustained by projects started prior to the pandemic; some projects planned prior to the pandemic will break ground, but contacts are concerned over the lack of new plans.

Auto dealerships reported drop offs in their sales due to low inventory, and prices for used cars have gone up as a result. One dealer said he has only 5 new trucks when he usually has up to 90. Maintenance services are also being limited by low inventory of parts. Contacts said transportation of completed cars from plants to dealerships is the main issue.

Food-grade commercial trucks are still in high demand, and supply isn’t expected to increase until the end of September. Contacts reported crop yields were looking positive, but the effects of Hurricane Laura are concerning farmers.

On a positive note, health care systems are seeing increases in elective procedures and one contact reported all furloughed workers have been recalled. A restaurant contact reported a 20% to 30% increase in their same-store sales.

The overall outlook among contacts has improved but remains pessimistic. On net, 37% of contacts expect regional economic conditions during the remainder of 2020 to be worse than in 2019.

**Louisville Zone**

Banks and credit unions reported strong increases in residential loans, surpassing their ability to keep up without delays. A banking contact reported that second-quarter earnings were up and driven by PPP money and mortgage fees. Although delinquencies have declined, one contact is concerned about an increase once deferrals end. Deposit rates have declined, and loan loss reserves are being built up.

Automotive contacts reported that new and used car sales remain strong, with prices up due to limited inventory in both premium feature cars and used cars. RV sales are also up. Contacts reported inventory is low due to production being limited by the difficulty in securing workers.

An automotive plant is still operating with a third shift and overtime, and other car manufacturers are returning to pre-pandemic levels to accommodate the car demand. Workplace safety and childcare are cited as “most immediate” concerns preventing a full return.

Residential real estate remains up: Contacts said there are more buyers than sellers, and many buyers have decided to build instead. A building contact says they have more than 30 homes under contract in Indiana. Inventory year over year is down almost 40%.

A construction contact reported that “compared to this time 2019 we are 35% to 45% off” and that they’ve been surviving on existing projects. There have been no new
major office development in the past three months. COVID-19 has not seemed to impact staffing. Construction contacts are frustrated with delays in materials, especially lumber mills that can take 6-8 weeks to fill orders that previously took 7-10 days.

Contacts in the beverage industry are constrained by aluminum shortages: More people are drinking at home, which has increased the demand for cans rather than the bottles restaurants usually stock. A fast food chain reported that lunch-time sales were down, but that there has been an increase in higher-priced dinner sales.

The overall outlook among contacts remains pessimistic. On net, 51% of contacts expect regional economic conditions during the remainder of 2020 to be worse than in 2019.

**Memphis Zone**

Banking contacts reported high levels of deposits and low business loan demand due to the reluctance to take on more debt. One contact noted most borrowers with deferred loans are making payments again. There is heightened activity in refinancing due to low interest rates, which is causing delays: A 30-day loan is taking up to 45 days to process.

Hospitals are operating at full capacity with COVID-19 patients and patients taking delayed elective procedures. Clinic surgeons in West Tennessee requested privileges at a larger hospital due to limited operating rooms at their own. Like other industries, hospitals are struggling with staffing workers, particularly nurses.

A boat retailer noted demand is much higher than supply and predicts there will be many repossessions in 2022, given the overextension he is seeing in buyers. Both new and used car sales are up. Some dealerships are having their best sales in years, but supply-chain disruptions are causing difficulties in securing inventory.

Despite the need for workers in many industries, unemployment is the top reason for needing rent assistance, according to real estate contacts. An employment agency reports that workers are placed in jobs only to quit 48 hours later. Staffing firms report they are concerned about the legitimacy of claims by furloughed workers that exposure to COVID-19 prevents them being placed in new jobs.

Residential investment remains strong. Contractors are completing pre-pandemic projects, but are concerned about the lack of new project bids.

The overall outlook among contacts has improved and is slightly pessimistic. On net, 12% of contacts expect regional economic conditions during the remainder of 2020 to be worse than in 2019.

**St. Louis Zone**

One banking contact reported high liquidity and inflows of cash. St. Louis automobile contacts reported that the supply of vehicles is low due to lack of production from manufacturers.

Healthcare contacts reported concerns about hospitals’ abilities to provide care during the flu season in addition to the COVID-19 patients. Contacts emphasized the lack of staffing and high PPE costs.

Residential real estate contacts reported low inventory, specifically for homes less than $250,000. Contacts reported there are multiple offers on many homes; however, one contact believes demand has gone down significantly from the previous quarter. Contacts that specialize in relocation reported struggling, as corporate clients minimize the movement of their employees.

Reports from construction contacts were mixed, based on specialty. One residential construction contact noted that their sales are outpacing last year’s by 20%. However, commercial construction contacts reported activity is stalled: There are no speculative office building projects and only “some” warehouse projects.

The overall outlook among contacts has improved but is modestly pessimistic. On net, 29% 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 August 3 and August 14. The previous survey was conducted between May 4 and May 11. 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.

Note: Interactive versions of these charts can be found at: https://research.stlouisfed.org/publications/regional/beige-book.
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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