Summary of Economic Activity

Reports from District contacts suggest economic activity has increased slightly but the pace of activity remains highly variable across sectors. Employment and wages increased slightly. Auto dealers continued to report strong sales despite inventory shortages. Restaurants reported some improvement but expect activity to decline due to cooler weather. District banking contacts reported that outstanding loan volumes decreased slightly compared with the previous survey period but remain well above year-ago levels. Home sales in most areas remain strong for this time of the year but have slowed in recent months.

Employment and Wages

Labor market conditions have improved slightly since the previous report, though the pace of job growth has slowed. Contacts across industries reported hiring or rehiring workers since July, especially in transportation, manufacturing, and healthcare. Firms seeking to hire workers reported a tight labor market, citing workers’ ongoing health concerns and family care responsibilities. One firm reported having to threaten furloughed employees’ healthcare benefits to pressure enough to return to work. Another firm estimated that 10% to 15% of its workforce was absent daily. Other firms reported business closures or emphasized stability more than growth. Employment trends for small firms were especially mixed. One Memphis contact reported several small business owners were seeking additional part-time jobs to cover their expenses, and aggregate data show little improvement in small business employment since July.

Wages have grown slightly. Contacts reported increasing wages in the face of labor shortages or returning to normal salaries and wages as business normalized. Wages for small businesses remained more stable, with one survey finding no significant changes since our previous report.

Prices

Prices have increased moderately since the previous report. Contacts across industries reported higher input costs due to adding sanitization products and personal protective equipment as inputs. Crop prices have increased moderately, except for rice, which has seen a slight decline. However, rice prices have increased moderately year-over-year. Many raw materials are up moderately, steel prices are up significantly, while chemical prices have declined. Contacts attribute elevated lumber prices to increased demand and a slowdown in production as a result of the COVID-19 pandemic. An agriculture contact attributed the slight growth in cotton prices since the previous report to the first phase of a trade agreement between the U.S. and China. Contacts also noted that the prices of used cars remain elevated.

Consumer Spending

Reports from District general retailers, auto dealers, and hospitality contacts indicate that consumer spending activity has been mixed since our previous report. Seasonally adjusted credit and debit card spending through the middle of September was mixed across the District. Consumers in West Tennessee have an improved outlook relative to June and expect to spend about the same this year as they did last year. General retailers reported mixed business activity. District auto dealers
continued to report strong sales but have experienced inventory shortages. Tourism and hotel contacts continued to report business activity well below typical levels; most contacts reported constant business activity from late summer through early fall but expect a decline through the remainder of the year as cooler weather reduces outdoor dining. Restaurants continued to see increased sales; however, some restaurants that have maintained business through outdoor seating are planning temporary closures in the colder months.

Manufacturing
Manufacturing activity has strongly increased since our previous report. Survey-based indexes suggest that manufacturing activity in Arkansas and Missouri strongly increased. In Arkansas, firms reported a strong uptick in new orders while production remained stable. In Missouri both new orders and production showed a strong uptick. Metal manufacturing contacts in the St. Louis area reported 5% to 10% increases in production. Contacts reported that production is still below pre-COVID-19 recession levels, but conditions are steadily improving. Fluctuations in demand were cited as impediments to further increases in production for these contacts. Contacts in the furniture, military vehicle, and energy and defense products all reported that ongoing projects would considerably expand operations and employment over the next few years.

Nonfinancial Services
Activity in the nonfinancial services sector has increased since the previous report. Airport passenger traffic is up significantly, although it remains down more than 60% relative to this time last year. Cargo traffic is down slightly since the previous report but remains up year-over-year due to e-commerce. Logistics activity is mixed, with several package delivery firms hiring workers as the pandemic and oncoming holiday season increase volumes. Other logistics contacts reported lower revenue year-over-year due to the pandemic and low oil production, which have negatively impacted businesses that use their services. Hospital contacts reported revenue and patient volumes are increasing while costs per patient have increased due to higher staffing costs and PPE expenditures. Other healthcare contacts indicated that telehealth will likely become a larger part of the healthcare industry even after the pandemic.

Real Estate and Construction
Residential real estate activity has decreased slightly since the previous report. While home sales have recovered from their lows in the spring, total sales in most of the largest District metro areas have been down slightly since mid-August. Home prices in the largest District metro areas have increased moderately since mid-August. Contacts continued to report a shortage of housing on the market, with homes selling quickly once listed. Some contacts expressed concern about a future increase in evictions when moratoria are lifted.

Commercial real estate activity has been mixed since the previous report. Contacts reported that demand for office space has varied, with some tenants choosing to keep their current spaces or expand, while others are choosing to move toward remote work on a more permanent basis. Contacts reported continued high demand for industrial space. A contact in Memphis noted that while a greater number of retail tenants have been able to pay rent compared with the spring, some are struggling to pay or have gone bankrupt.

Commercial construction activity was mixed. Contacts reported little speculative activity or construction for office space, while construction for industrial space remained strong. Contacts reported delays with supply chains for materials and a lack of skilled labor.

Banking and Finance
Banking conditions in the District have slightly weakened since the previous report. Overall loan demand continued to decline following the end of new PPP loans. Outstanding loan volumes decreased slightly compared with the previous survey period but were well above year-ago levels. Growth in real estate and consumer loans fell modestly while commercial and industrial loan volumes slightly increased. Liquidity conditions remained strong due to high levels of deposits, despite lower rates on interest-bearing accounts. Delinquency rates remained relatively low; however, several contacts expressed continuing concerns for loans in the entertainment and leisure and hospitality sectors. Competition for loans and low interest rates are expected to narrow net interest margins and profitability.

Agriculture and Natural Resources
Agriculture conditions have slightly improved. Overall, contacts reported that year-to-date revenue remains steady or slightly up. The agribusiness sector has remained steadier than most, but the effects have been diverse across the industry: Restaurant demand has been collapsing, but grocery spikes have been more than filling the shortfall. Most supply chain bottlenecks were early in the spring and have smoothed out in recent months. Overall, contacts expect business activity for the remainder of 2020 will remain steady or increase slightly.
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**
Real estate contacts in Arkansas reported that investors are withholding capital from investment to wait and see how financial markets perform in the next quarter, but are optimistic regarding the end of the year. Little Rock total home sales were up 12.1% from the previous year.

Auto contacts in Arkansas reported that new vehicle sales this year have been surprisingly robust despite the economic decline caused by the COVID-19 pandemic. One dealership contact shared that inventory for new and used cars is at an all-time low, resulting in a slowdown in sales due to lack of existing inventory.

Contacts in various retail businesses reported mixed levels of economic activity. An owner of restaurants in Arkansas reported a large annual increase in store sales due to increased delivery options. However, a contact reported that their brewery business has rebounded from the lows experienced in March, but is still down from last year.

Reports on consumer spending and economic conditions in the Little Rock region were mixed in September. Sales tax revenue in Arkansas increased 1.1% from August, however, seasonally adjusted credit and debit card spending declined over 3% from August. Regarding employment, the Bureau of Labor Statistics reported that the unemployment rate increased from July in Arkansas. Manufacturing in this region showed improvement, as survey-based indices suggest that activity increased sharply in September.

**Louisville Zone**
Employment in the Louisville zone has worsened since the previous report. The unemployment rate in the zone has increased. Moreover, the number of employees in the zone has slightly decreased. Contacts in auto sales and logistics noted that retention and labor shortages obstacles to returning to pre-COVID-19-level business.

Consumer spending in the Louisville zone increased moderately, between 1% and 5%. Auto sales contacts noted increased demand. However, inventories are too low to sustain current demand into the fourth quarter. Moreover, a shortage in technicians and parts has been limiting repairs throughout. Logistics contacts noted that e-commerce business continues to increase.

The retail sector in the zone moderately improved. Residential retail sales in the zone increased by 6% year-over-year, and home prices increased by 13.7%. Inventories were down, however, by 40% year-over-year. On the commercial side, there remained uncertainty. Some contacts noted an interest in decreasing use of office space in the future. For businesses in rural areas, one contact noted that collection on rents remained at pre-COVID-19 levels and that business is unlikely to fall due to limited internet infrastructure.

**Memphis Zone**
Economic conditions in the Memphis zone slightly improved. Contacts in the furniture, military vehicle, healthcare, and energy and defense industries reported ongoing projects to expand operations and employment in Mississippi over the next few years.

Agriculture contacts were optimistic about this fall’s harvest. The corn crop in West Tennessee is expected to be above average, and the weather forecast is favorable for the cotton crop. Prices for both corn and soybeans have risen over the past month.
Raw material prices were up on average since our previous report, largely driven by agriculture products such as cotton and sorghum. Contacts reported delays in construction projects resulting from lumber shortages and price increases.

From mid-August to mid-September, residential real estate sales and inventory decreased and prices increased, compared with the same period last year. A commercial real estate contact noted that the proportion of rent payments received was up significantly since April and May; however, tenants who are not paying rent are really struggling. Contacts expressed uncertainty about the future demand for office space.

On average, seasonally adjusted credit and debit card spending in the Memphis MSA stayed about the same from August to September. Restaurant contacts noted that business has been relatively strong, in some cases back to almost 80% of normal. However, sales at small retailers and hospitality venues remained depressed.

**St. Louis Zone**

Residential real estate contacts reported slightly higher sales in September relative to this time last year. Contacts continued to report inventory shortages. Commercial construction revenues were lower than expected for the year, but contacts noted an uptick since the previous report, with buyers tentatively re-entering the market, particularly in the industrial sector.

Employment in most industries continued to decline; however, contacts in healthcare and tourism reported slightly positive trends in hiring. A contact in manufacturing noted that the tight labor market was pushing wages up by $2 an hour. A healthcare contact reported restoring raises and 401(k) matching in the face of growing demand.

Consumer spending in most sectors was unchanged from the previous report; however, shops and restaurants in the Delmar Loop area have experienced a slight increase in business activity. Hotel contacts reported a slight decline from mid-July to August, and contacts reported that business activity was ticking up again.

Contacts in manufacturing reported healthy levels of activity, with metal manufacturing experiencing moderate increases in production.

Agriculture contacts reported steady revenues, as a decline in demand from restaurants has been mitigated by increased demand from grocery stores.
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, email us at beigebook@stls.frb.org.

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