Summary of Economic Activity

Reports from District contacts indicate that economic conditions have been generally unchanged since our previous report. Firms reported mixed changes in employment levels. Overall, wage pressures have increased slightly, with contacts citing tight labor market conditions. Reports on consumer spending were mixed, while reports on holiday sales focused on the accelerated shift to online shopping. Activity in the manufacturing sector continued its robust growth, but activity remains below year-ago levels. District banking contacts reported slowing growth in loan volumes but anticipate stronger demand in coming months from new PPP loans.

Employment and Wages

Reports on hiring have been mixed since the previous report. Firms across many industries, especially manufacturing and transportation, continued hiring in what remains a tight labor market. Businesses increasingly reported seeking workers nationwide due to the labor shortages and, when applicable, allowing workers to work remotely. Many other firms reported that employment levels have remained stagnant or declined, especially small businesses and firms in the leisure and hospitality sector. A survey of manufacturers indicates that, despite continued hiring, manufacturing employment in many areas remains below the same period last year.

Wages have grown modestly since the previous report, owing to the tight labor market in several industries and annual increases in minimum wages in some District states. One transportation firm advertised entry-level positions at more than twice the minimum wage, with benefits. Small-firm wages have remained more stagnant.

Prices

Consumer prices have increased moderately since the previous report. Contacts reported that the prices of lumber and concrete have increased since the previous report. These increases, paired with shipping delays for supplies have increased the costs of construction projects, leading homeowners to scale back renovation and building projects. Parcel companies have increased shipping prices due to unprecedented demand from online shopping overall and holiday demand specifically. Gasoline prices have increased since the previous report but remain lower than one year ago. One contact in outdoor retailing noted that tent prices have increased due to material cost increases. A wholesale car retailer noted that a recent wave of repossessions will lead to higher used car inventories and lower prices. A contact from a brewery reported that the elevated price of aluminum is eating away at profit margins: Canned beer has made up a larger portion of sales than on-premise pints since COVID-19 social distancing regulations have reduced demand at bars and restaurant.

Consumer Spending

Reports from District general retailers, auto dealers, and hospitality contacts indicate that consumer spending activity has been mixed since the previous report. Consumer sentiment in West Tennessee regarding both current economic conditions and future expectations has worsened since September. As of mid-December, most Tennessee consumers indicated they expected to spend less this holiday season than last year’s. General retailers reported mixed business activity, with some retailers
reporting sales comparable to or higher than this time last year. District auto dealers continue to report strong sales despite inventory shortages and hold an optimistic outlook for the coming months. Tourism and hospitality contacts reported lower business activity relative to late November, attributing the decline to increased COVID-19 cases and travel restrictions; contacts indicated a pessimistic outlook for the first half of 2021.

Manufacturing
Manufacturing activity has continued to increase at a robust pace since the previous report, although the rate of growth has leveled off. Firms in both Arkansas and Missouri reported a strong uptick in new orders and production. However, several contacts reported that production is still below pre-COVID levels and that inventory remains tight as manufacturers are unable to keep up with the demand. One contact in central Arkansas noted that some manufacturing plants were shutting down or slowing production due to COVID infections among employees.

Nonfinancial Services
Activity in the nonfinancial services sector has remained unchanged since the previous report. Passenger traffic at airports has risen slightly since the previous report due to holiday travel, although it remains a fraction of the prior years’ levels. Several parcel services have continued to hire both seasonal and permanent employees. A logistics contact indicated that business in 2021 would likely be better than 2020, although potential regulations on heavy industry and low oil and gas pipeline investment could impact the demand for transported commodities. Hospitals continue to deal with large numbers of COVID cases and ICU beds are near capacity.

Real Estate and Construction
Residential real estate activity has been unchanged since the previous report. Seasonally adjusted existing home sales in St. Louis, Little Rock, and Louisville have increased since mid-November while sales in Memphis have fallen slightly. Inventory remains low, and a contact in Missouri reported expectations of similarly low levels of inventory for the foreseeable future. Compared with this time last year, home prices are up sharply across the District, with numerous buyers making offers above listing price. One St. Louis area realtor noted that this may be the worst time to buy a house in their decades-long career. Most of the largest District MSAs saw a slight decrease in their apartment rental rates, while Memphis saw a slight uptick since the previous report. However, rental prices remain elevated compared with this time last year and with the national average.

Commercial real estate activity has been mixed since the previous report. An Arkansas commercial real estate broker expects continued high demand for industrial space and decreasing demand for retail and office space into next year. Many construction firms in Memphis anticipate a robust 2021, with projects that were previously on hold starting back up again. Contacts in Arkansas and Louisville expect industrial properties for distribution, warehousing, and manufacturing will continue to be in high demand.

Banking and Finance
Banking conditions in the District have weakened slightly since the previous report. Banking contacts continued to report a modest decrease in overall loan demand. Outstanding loan volumes have declined moderately since the previous report but remained strongly above year-ago levels. Growth in residential real estate and consumer loans was down compared with the previous period and fell below year-ago levels. On the other hand, commercial real estate loan volumes increased slightly. Deposit levels at District banks remained elevated. St. Louis bankers were cautiously optimistic about the second round of PPP lending, hoping the additional funds would be helpful to some of the most distressed businesses, especially those in the entertainment industry. However, some bankers still voiced concern about the uncertain PPP guidelines that might discourage participation.

Agriculture and Natural Resources
District agriculture conditions have remained relatively unchanged since the previous report. The percentage of winter wheat in the District rated fair or better slightly increased from the end of October to the beginning of December. Wheat conditions are modestly worse than the same period one year ago.

Natural resource extraction conditions improved modestly from October to November, with seasonally adjusted coal production increasing 2%. November production was still down strongly compared with a year ago, falling nearly 21%.
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 each District’s sources. Reports are published eight times per year.

What is the purpose of the Beige Book?
The Beige Book is intended to characterize the change in economic conditions since the last report. Outreach for the Beige Book is one of many ways the Federal Reserve System engages with businesses and other organizations about economic developments in their communities. Because this information is collected from a wide range of contacts through a variety of formal and informal methods, the Beige Book can complement other forms of regional information gathering. The Beige Book is not a commentary on the views of Federal Reserve officials.

How is the information collected?
Each Federal Reserve Bank gathers information on current economic conditions in its District through reports from Bank and Branch directors, plus interviews and online questionnaires completed by businesses, community organizations, economists, market experts, and other sources. Contacts are not selected at random; rather, Banks strive to curate a diverse set of sources that can provide accurate and objective information about a broad range of economic activities. The Beige Book serves as a regular summary of this information for the public.

How is the information used?
The information from contacts supplements the data and analysis used by Federal Reserve economists and staff to assess economic conditions in the Federal Reserve Districts. 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. 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 does not have the type of information I’m looking for. What other information is available?
The Federal Reserve System conducts a wide array of recurring surveys of businesses, households, and community organizations. A list of statistical releases compiled by the Federal Reserve Board is available here, links to each of the Federal Reserve Banks are available here, and a summary of the System’s community outreach is available here. In addition, Fed Listens events have been held around the country to hear about how monetary policy affects peoples’ daily lives and livelihoods. The System also relies on a variety of advisory councils—whose members are drawn from a wide array of businesses, non-profit organizations, and community groups—to hear diverse perspectives on the economy in carrying out its responsibilities.

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 beige-book@stls.frb.org.

For more information, contact the St. Louis office:
Charles Gascon
charles.s.gascon@stls.frb.org

Media inquiries
mediainquiries@stls.frb.org