Summary of Economic Activity

Reports from contacts indicate that economic conditions have been generally unchanged since our previous report. Firms continue to report mixed changes in employment levels. Firms report difficulties attracting candidates for positions despite increasing wages. Inflation pressures have increased, as contacts report moderate increases in prices; however, most contacts believe it will be difficult to pass on further price increases. Overall, contacts’ outlooks continued to improve and are generally optimistic. Most cited a high degree of uncertainty about the pace of recovery, which related primarily to the pace and efficacy of vaccinations.

Employment and Wages

Employment trends have been mixed since the previous report. On net, 12% of respondents reported employment levels lower than a year ago. Contacts noted stagnant or declining employment, especially among small businesses and leisure and hospitality firms, with continuing closures in a slower-than-expected recovery. Transportation and manufacturing firms reported their desire to expand their workforce has been stymied by a scarcity of workers. Many contacts ascribed this scarcity to unemployment benefits and other government aid: A grocery store contact expects some warehouse workers will quit when they receive another stimulus check, looking to return to work at a later time. Some reported turning to automation, with one contact emphasizing that robots were doing jobs for which they couldn’t find workers. COVID-19 exposure has also depressed existing workers’ hours: One manufacturer reported more than 10% of his workforce was quarantined on any given day.

Wages grew slightly. On net, 23% of respondents reported wages higher than a year ago. Many contacts emphasized the need to raise wages while workers remained scarce; some, however, reported more stagnant wages, especially in the worst-hit sectors. One restaurant owner reported recently giving his workers much-delayed raises, fearing they would otherwise be lured away by other businesses as the recovery continues.

Prices

Prices charged to consumers have increased moderately since our previous report. However, contacts believe they have less ability to further increase prices. A regional grocer reported lowering some prices due to competitive pressures and making up profits on higher volumes. A restaurant contact reported an inability to increase prices amid already slow business. A supplier for a contact in the graphic design industry unexpectedly increased the prices for paper and packaging products. Multiple contacts noted the price of silver has increased. A contact in the jewelry industry reported this increase will lead to higher prices to consumers but is allowing customers to switch to brass. A manufacturing contact noted the increase in silver prices has increased the costs of producing its antimicrobial products. Contacts also noted that ocean freight costs have more than doubled, which a warehouse contact believes will lead to higher prices for consumers. A retail industry contact is passing increased shipping costs to consumers. Contacts also reported higher steel and soft-lumber prices since our previous report. A warehouse contact expects the elevated price of steel to increase the cost of maintenance and replacement for the company’s forklift fleet.

Consumer Spending

Reports from general retailers, auto dealers, and hospitality contacts indicated that consumer spending has
been mixed since our previous report. General retailers reported sales met or fell short of expectations over the past six weeks, but they have an improved outlook for the coming quarter due to vaccines and stimulus payments. A local furniture store reported that sales increase the same weekend that customers receive stimulus checks. Auto dealers reported that sales over the past six weeks generally fell short of expectations. The outlook for auto sales for the coming quarter was mixed, with contacts citing stimulus, low inventories, and interest rates as determining factors. Restaurants continue to struggle. A local restaurant owner expects conditions to hold steady until at least the third quarter. Hospitality contacts reported low business activity but remain optimistic that when vaccines are widely distributed the industry will recover quickly.

Manufacturing
Manufacturing activity has modestly increased since our previous report, though the change from firm to firm varied considerably. Contacts reported that production and capacity utilization remained unchanged, while new orders have modestly increased. However, some firms reported strong upticks in production and new orders. Several firms in the region reported labor force shortages have inhibited production. Beyond that, auto manufacturers in the region reported the semiconductor shortage has led to temporary production shutdowns. On average, firms reported they expect moderate increases in production, capacity utilization, and new orders in the second quarter. One salt products manufacturer in the region reported the expected closure of a mine poses future supply chain challenges.

Nonfinancial Services
Activity in the nonfinancial services sector has decreased slightly since our previous report. Passenger traffic at regional airports remains depressed, down 60% from one year ago. Half of all nonfinancial services contacts reported sales below expectations this quarter, reflecting clients who are cautious to spend due to uncertainty about the near-term economic recovery, as well as pandemic-related difficulties meeting new clients. Revenues at several small regional colleges have fallen due to declines in enrollment. Logistics contacts reported first-quarter sales were stronger than expected despite the post-holiday slowdown. Most contacts expect sales next quarter to be at least as good as this quarter given vaccinations are becoming more widespread.

Real Estate and Construction
Residential real estate activity has slipped since our previous report. Pending home sales in St. Louis, Memphis, and Louisville have fallen slightly while pending sales in Little Rock have dropped sharply since early January. Contacts reported that home inventory remains low and expect it to remain so. A contact in Arkansas reported local rents are rising at an unreasonable rate.

Residential construction activity has risen this quarter, with many expecting further increases. A contact in St. Louis reported residential construction projects are severely backlogged due to labor and material shortages. Contacts also reported problems and price increases stemming from high lumber and steel prices. Also, shipping delays and production issues have increased lead times on most building supplies and appliances.

Commercial real estate activity has been mixed since our previous report, as office and retail demand are lower this quarter. A contact in Louisville reported the increase in telework has decreased demand for office space, and, going forward, contacts are uncertain if and how telework will continue to impact demand. Meanwhile, demand for industrial properties is up due to e-commerce and micro-fulfillment facilities. Commercial construction is similarly mixed, as multi-family projects, warehouses, and logistics facilities are the main projects currently being built. Some developers also reported switching hotel projects for apartment buildings.

Banking and Finance
Banking conditions have been unchanged since our previous report. Banking contacts continued to report a slight decrease in overall loan demand. Consumer loan demand declined modestly, particularly for credit cards, while commercial and industrial (C&I) loan demand rose slightly. Low loan demand, combined with consistently high deposit levels, further increased reserves held at District banks. A contact reported trying to deploy excess funds through bond purchases but faced challenges as bonds were harder to obtain due to high demand. Overall delinquencies decreased primarily in auto and C&I loans. All bankers contacted expect this year to be a relatively slow year but hope activity will pick up toward the end of 2021.

Agriculture and Natural Resources
Agriculture conditions have improved moderately relative to the previous reporting period. The number of acres of winter wheat planted this season throughout the District increased sharply relative to the previous year, although acres planted declined slightly in Kentucky. Despite pessimism in early 2020, farmers expressed optimism after a strong finish in 2020, with prices and sales up well above what was expected.
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. A contact in southern Arkansas described the regional economy as settling into a post-2020 rhythm with signs of stabilization. Improvements in agriculture conditions from higher row crop prices and additional rounds of fiscal stimulus were cited by many contacts.

Communities surrounding universities noted that virtual learning and fewer students on campus has not only hurt demand for their goods and services but also reduced a much-needed source of labor.

An accounting firm reported that new business opportunities have been coming from online retailers and existing client inquiries about remote workers have increased. Both developments pose many tax challenges for firms.

A regional grocer reported ongoing difficulties in hiring and retaining workers, which historically had not been an issue for the firm due to what they view as generous wages and benefits. The grocer has moved to outsourcing some work and promoting online shopping due to ongoing labor shortages.

A home renovation and repair firm reported ending 2020 up slightly from one year ago. The firm reported a slow start to 2021 but sees a strong pipeline of projects for the reminder of the year.

The overall outlook among contacts has turned optimistic since November. On net, 33% of contacts expect regional economic conditions during the remainder of 2021 to be better than 2020.

Louisville Zone
Economic conditions in the Louisville zone have changed little since our previous report. Many contacts continued to report difficulties finding labor, citing pandemic concerns and expanded government benefits.

Contacts reported that construction activity in the Louisville area continues in most locations. However, many restaurant and hospitality projects have been postponed or redesigned.

Firms reported that the top priority at the end of the pandemic will be rebuilding their workforce; they hope workers reenter the labor force and new more-flexible work structures are implemented.

The overall outlook among contacts remains slightly optimistic since November. On net, 15% of contacts expect regional economic conditions during the remainder of 2021 to be better than in 2020.

Memphis Zone
Economic conditions in the Memphis zone have changed little since our previous report. Logistics firms continue to report extremely strong activity and expect business to remain strong at least though April. Overall, contacts reported a shift to domestic suppliers due to international shipping disruptions.

A telecommunications contact reported difficulties with hiring and employee retention for hourly positions. The firm had been developing a training program prior to the pandemic and sees a need to restart this program as soon as possible.

A commercial construction industry contact noted that their projected growth in revenue from new projects didn’t materialize and the firm has switched focus to government and school contracts for future growth.
A moving and storage contact reported that after a significant decline in revenues in the spring of 2020, business has slowly improved. The firm reported a slight uptick in executive housing and relocation activity and expects moving and storage business to accelerate during the remainder of 2021.

The overall outlook among contacts remains mixed. On net, 5% of contacts expect regional economic conditions during the remainder of 2021 to be worse than 2020.

**St. Louis Zone**

Economic conditions in the St. Louis zone have changed little since the previous report. Labor market conditions remain mixed, although many firms reported increasing wages for lower-paid and hourly positions in order to attract workers.

Retail contacts reported that inventory levels are lower than desired. Manufacturing contacts have scaled back production due to temporary shutdowns and social distancing requirements.

The transportation sector continued to report supply chain bottlenecks, particularly imported goods. Contacts noted that a lower number of passenger flights has also reduced capacity on international shipments carried on these planes.

A restaurant contact reported that the supply chain for food products remains stable but they continue to have difficulties obtaining paper products and gloves.

The overall outlook among contacts has turned optimistic since November. On net, 36% of contacts expect regional economic conditions during the remainder of 2021 to be better than 2020.
Supplemental Data and Survey Results

Anecdotal information in this report was provided by our panel of business contacts, who were surveyed between February 2 and February 12. The previous survey was conducted between November 9 and November 20. The following are selected results from those surveys.

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

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

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/.

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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