Summary of Economic Activity

Contacts reported that economic conditions have moderately improved since our previous report, although growth was robust in some sectors. Many contacts described a situation in which growth in demand for their products or services is outpacing their growth in capacity. Contacts cited product and material shortages and low staffing levels as key constraints. Many supply chain issues also stemmed from labor shortages at suppliers’ facilities. Contacts remained optimistic and expect these constraints to subside beginning in the fall. On net, 48 percent of contacts expect economic conditions during the remainder of 2021 to be better or somewhat better than the same period one year ago.

Employment and Wages

Employment has increased modestly since our previous report. Contacts across industries reported hiring to meet higher demand. Many, however, noted shortages for both skilled and unskilled labor. One St. Louis job fair, held by a dozen restaurants to fill more than a hundred positions, drew barely a dozen applicants. Contacts attributed this scarcity to increasing demand for labor in other sectors, unemployment benefits, and workers’ healthcare and childcare concerns; one manufacturer, so affected by childcare difficulties, planned to use federal aid funds to address the issue. Many firms reported difficulty maintaining employee morale and engagement. A high-end restaurant owner reported only a single employee who never came in late or missed a shift in a month after offering a $1000 bonus for doing so. Some firms turned to automation; one manufacturer reported doing so after seeing a 70% turnover rate in new hires.

Wages have increased moderately. Employers specifically reported increasing starting wages and sign-up bonuses to attract new hires, though small firm wages remained more stagnant. One restaurant owner reported that raising his starting wage has drawn interest from prospective workers—when he can find any to talk to.

Prices

Prices have increased moderately overall since our previous report, but prices in some sectors such as automobile retailing and construction have increased sharply due to transitory supply chain constraints and a spike in consumer demand. Contacts across industries reported increased delivery costs and long lead times for input materials. Several auto dealers reported strong increases in new and used vehicle prices, depending on the age and mileage of the vehicle. These contacts attribute the price increases to high demand and a reduced supply due to input shortages; however, these prices are expected to stabilize before the end of the year. A manufacturing contact reported increased input costs for fuel, acrylic, wood, and metals. Steel prices have increased moderately since our previous report and robustly year over year. Lumber prices have declined since our previous report but remain elevated relative to one year ago. A contact from a regional refinery reported that oil prices have stabilized at a higher level than expected. Several contacts in the construction industry reported increased material supply prices. Contacts in the retail and commercial real estate industries reported lower sales prices.

Consumer Spending

Consumer spending activity has increased strongly since our previous report. General retailers reported increased sales over the past six weeks and an overall improved outlook, citing federal aid to households, vaccinations, and pent-up demand. Auto dealers reported that sales over the past six weeks were about the same or slightly
higher than the previous 6 weeks, although the outlook for sales for the coming quarter was mixed. Dealerships described the impact of stimulus checks as “massive” and “ongoing.” Hotel occupancy is up, but the number of rooms available is down due to labor shortages. A contact noted that parents who have not spent much on experiences for their children are ready to start spending now that social distancing restrictions have been relaxed.

Manufacturing
Manufacturing activity has strongly increased since our previous report. Survey-based indices suggest that production, capacity utilization, and new orders have strongly increased. Some firms are experiencing large order backlogs as supply chain issues and labor shortages have constrained production. Several contacts in the region noted that Winter Storm Uri caused disruptions in the supply of plastics coming from the Gulf Coast. Contacts also reported that they are struggling to find and maintain employees due to competition with other industries, especially as COVID-19 restrictions are lifted. On average, firms reported they expect strong increases in production, capacity utilization, and new orders in the third quarter, but remain pessimistic about supply chain disruptions in the next few quarters.

Nonfinancial Services
Activity in the nonfinancial services sector has increased slightly since our previous report. About two-thirds of contacts indicated that sales met or exceeded expectations during the second quarter. Airport passenger traffic has increased by 10% since our previous report, but only to around two-thirds of May 2019 levels. One logistics contact mentioned that low inventories have increased demand for their services. The recent pipeline cyberattack disrupted trucking shipments to the northeast. A crack in the Interstate 40 bridge connecting Memphis to Arkansas disrupted auto and barge traffic in May. Several healthcare contacts reported lingering issues from COVID-19, such as higher input costs and tighter hospital budgets. An IT service contact reported a slowdown in new projects due to difficulties connecting with new clients.

Real Estate and Construction
Residential real estate activity remains unchanged since our previous report. Inventory levels remain extremely low and the median number of days a house is on the market continues to fall. Contacts reported that low interest rates and pent-up demand from the pandemic are continuing to drive demand for homes. Home building has slowed due to supply chain issues. In addition, suppliers have extended lead times on appliances and some finished building products. Builders are also waiting to list houses until they are complete, to adjust for materials’ price volatility. Several contacts reported that these changes in costs are causing clients to reconsider or cancel projects.

Commercial real estate activity remains mixed across different sectors. Industrial real estate activity remains unchanged, with high demand from e-commerce distribution facilities. Demand for office and retail spaces remains low, but contacts speculate that the return of some office workers as well as increased retail spending will lead to improvement. Contacts reported that supply shortages and price volatility may lead to delays or cancellations of projects. However, industrial construction projects are expected to continue despite these issues.

Banking and Finance
Banking conditions have improved slightly since our previous report. Many bankers highlighted high asset quality, ample liquidity, and record earnings in the first quarter of 2021. Most contacts anticipate mortgage business and PPP loan income to increase their earnings. Compressed net interest margins continue to be a concern. Contacts reported a modest increase in overall loan demand. Commercial and industrial (C&I) loan demand rose slightly, while consumer loan demand, particularly for auto loans, increased moderately. To offset higher used car prices, many lenders have decided to stretch out terms on auto loans to make financing more affordable. Delinquency rates remained low, although some lenders started to see a slight uptick in C&I delinquencies in recent months.

Agriculture and Natural Resources
Agriculture contacts remain optimistic about current conditions overall. Most agriculture contacts surveyed reported that their sales thus far have met expectations. Supply chain issues are raising many producers’ costs, although higher commodity prices have helped generate higher incomes, maintaining profit margins. One contact indicated that government support has been strong in the sector. The percentage of row crops planted has increased since the previous reporting period and is up slightly from this time in 2020. Progress of acres planted is up slightly to moderately this year for every crop of the District states; only Indiana is behind their 2020 progress to this point. This optimism extends to the outlook as well, as contacts reported that their outlook for the rest of 2021 has improved somewhat.
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 moderately improved since our previous report. An auto repair firm reported strong pent-up demand, with customers scheduling repairs in anticipation of their first upcoming trips in some time. The increase in new and used vehicle prices and lack of vehicle inventory has also increased demand for repairs.

A contact noted a supply shortage for poultry cut to restaurant specifications, due to (i) increased poultry demand for fast food establishments’ new chicken sandwich offerings and (ii) retail cutbacks in 2020.

An IT services contact reported that while the firm’s 2020 revenue growth was on par with the previous year, unwillingness to meet in person had prevented him from recruiting new clients.

A central Arkansas hotel group reported that conditions are improving, but revenues through the summer are expected to be down 10% from the summer of 2019. The contact noted that, while leisure travel has increased, business travel has not yet rebounded; if it does not rebound, revenues will likely end the year 20% lower than in 2019.

The overall outlook among contacts remains optimistic and continues to improve. On net, 41% of contacts expect regional economic conditions during the remainder of 2021 to be better than in 2020.

Louisville Zone
Economic conditions in the Louisville zone have modestly improved since our previous report. Housing contacts noted a continued lack of inventory and significant increases in lumber prices.

A canvas manufacturer reported that demand for tents, outdoor seating, and screening areas has surged in the past year. Pent-up wedding and hospitality demand is expected to further boost growth in the coming months.

A south central Kentucky contact cited labor shortages as a significant factor restraining growth. The increased competition for labor has led to new interest in upskilling existing employees.

The overall outlook among contacts has continued to improve since November. On net, 33% 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 modestly improved since our previous report.

A Memphis area contact noted that petrochemical facilities are operating at reduced capacity due to damage from a February winter storm, which will affect feedstock supply chains over the coming months.

Contacts noted transport bottlenecks continue to be an issue. A combination of labor shortages and increased diesel prices has led to an increase in freight costs. The closure of the I-40 bridge over the Mississippi River has impacted both leisure and freight transport.

The overall outlook among contacts has improved sharply since February, when it was slightly pessimistic. On net, 41% of contacts expect regional economic conditions during the remainder of 2021 to be better than in 2020.
St. Louis Zone
Economic conditions in the St. Louis zone have improved at a robust pace since the previous report. A retail contact expects tourism numbers to strengthen in the summer as attractions return to full capacity. Contacts noted that staffing shortages continued to be an obstacle, with low-wage positions the hardest to fill.

A manufacturing contact noted that scrap metal prices have risen to record highs, which has created a months-long backlog.

The overall outlook among contacts continues to become more optimistic. On net, 63% of contacts expect regional economic conditions during the remainder of 2021 to be better than in 2020.
Supplemental Data and Survey Results

Anecdotal information in this report was provided by our panel of business contacts, who were surveyed between May 3 and May 14. The previous survey was conducted between February 2 and February 12. The following are selected results from those surveys.

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

![Graph showing net percentage change for 8th District.]

How do you expect each of the following measures to change at your firm relative to the same time last year?

<table>
<thead>
<tr>
<th>Measure</th>
<th>Previous Survey</th>
<th>Current Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prices Charged to Customers</td>
<td>10%</td>
<td>28%</td>
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<tr>
<td>Sales (Dollars)</td>
<td>-12%</td>
<td>34%</td>
</tr>
<tr>
<td>Inventory</td>
<td>-13%</td>
<td>-4%</td>
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<tr>
<td>Nonlabor Costs</td>
<td>20%</td>
<td>41%</td>
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<tr>
<td>Capital Expenditures</td>
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<td>14%</td>
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<tr>
<td>Labor Costs</td>
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<td>41%</td>
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<tr>
<td>Wages</td>
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<td>46%</td>
</tr>
<tr>
<td>Hours per Employee</td>
<td>0%</td>
<td>22%</td>
</tr>
<tr>
<td>Employment</td>
<td>-10%</td>
<td>11%</td>
</tr>
</tbody>
</table>

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.

Have sales at this point in the current quarter met expectations?

![Bar chart showing percent of responses.]

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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