



Summary of Economic Activity

Economic conditions have continued to improve at a moderate pace since our previous report. Contacts continue to report that labor and material shortages are restraining their ability to meet customer demand. Overall cost pressures remain elevated, but firms reported varying degrees of pass-through to customers. Reports on consumer spending continue to be strong, although inventory shortages are restraining auto sales. Reports on the real estate sector were unchanged, and sales remained high despite strong price growth and low inventories. Banks reported slight improvements in loan demand and stable credit quality. District agriculture conditions declined modestly but remain favorable when compared with previous years.

Employment and Wages

Employment has increased modestly since our previous report. Despite the increase in headcounts, contacts across the District continued to face worker shortages and high turnover rates for recent hires. Firms reported increasing benefits, introducing greater flexibility, and lowering job requirements in order to attract workers. Business contacts have so far reported mixed trends in the wake of several states cutting or planning to cut federal unemployment aid; some reported seeing a clear increase in applicants, while others reported no change.

Wages have grown moderately; however, wage growth has been strong for low-wage positions as a consequence of the tight labor market. One Kentucky restaurant reported offering a starting wage of \$16 per hour and receiving no applicants. An amusement park increased seasonal wages by \$2 per hour and a 10% bonus if employees worked from July through Labor Day. Many other contacts emphasized raising wages for both new and existing employees while turnover remains high.

Prices

Prices have increased moderately since our previous report. The pass-through rate of cost increases varies by industry. A contact from a regional grocery store chain

reported passing slight nonlabor cost savings to consumers, while refraining from passing the moderate incremental labor costs to consumers. A contact from the home-furniture industry reported that only a small portion of cost increases are being passed to consumers. A contact in the restaurant industry reported varying levels of cost increases depending on the size of the establishment. The cost pressures are due to increased demand for inputs and a lagging supply chain. Restaurants with more purchasing power have been able to keep prices steady, but smaller and newer venues are experiencing robust cost increases—which are being passed to consumers. A contact reported that costs for some food items, gloves, paper products, and to-go drink trays remain elevated. Contacts from the travel and hospitality industry reported higher costs due to robust increases in food, beverage, and labor costs. The contacts attributed the ability to pass price increases to consumers to strengthening demand for travel and hospitality services. One contact from a jewelry store reported passing all the moderate cost pressures resulting from both higher wages and higher prices for precious metals and diamonds to customers. Prices for raw materials have been down moderately overall since the previous report, with the exceptions of steel, shredded scrap, and coal.

Consumer Spending

District general retailers, auto dealers, and hospitality contacts continue to report strong consumer spending activity. Consumer sentiment on the current economic situation rose significantly in West Tennessee. General retailers continue to report strong business activity and a positive outlook. District auto dealers reported no change in sales, but continued high demand and decreasing inventory levels for both new and used vehicles. A restaurant contact reported that business activity has been higher during the past month and expects demand to hold steady for the next few months. A hotel industry contact reported that leisure travel has been stronger than expected and has made up for the lack of business travel. A St. Louis catering company reported that company sales for May and June were very close to 2019 sales.

Manufacturing

Manufacturing activity has moderately increased since our previous report. Firms in both Arkansas and Missouri reported upticks in new orders and production, although the rate of growth has slightly declined. Supply-chain-related cost pressures and product shortages remain high, and manufacturers in the area expect these difficulties to continue for several months. Contacts reported that they are still struggling to find and retain employees, with one manufacturer noting that they have begun recruiting prospective high school graduates.

Nonfinancial Services

Activity in the nonfinancial services sector has increased slightly since our previous report. Airport passenger traffic continues to increase strongly, although it remains below levels from the same period in 2019. Airport cargo traffic has decreased slightly since the previous report. A childcare contact reported that enrollment inquiries have increased as employers continue to transition back to working in-person. Large logistics firms continue to make significant investments and expand hiring in the Memphis and Louisville areas. An education contact reported that it has been difficult to secure large quantities of school supplies such as laptops and paper for the upcoming school year. A remediation services contact reported increased demand for their services driven by requirements to remediate coal ash.

Real Estate and Construction

Residential real estate activity remains unchanged since our previous report. Total home sales across the largest District metro areas remain high in spite of increasing home prices. Despite slowing in recent months, contacts remain optimistic that sales levels will hold at current

levels throughout the remainder of the year. In St. Louis, the median price for a home increased by 20.5% and the median price for a condo increased 17.5% compared with a year earlier. Meanwhile, apartment rental prices across the largest District metro areas have risen moderately since our previous report and sharply since this time last year. The median number of days a house is on the market has decreased since our previous report, reaching as low as 10 days in Louisville. A contact reported that new construction will be needed to increase inventory in the market and the falling lumber prices should help to boost construction. Housing permits are also up in the St. Louis metro area.

Commercial real estate activity continues to vary across different sectors. Industrial real estate activity has increased strongly since our previous report, with leasing activity increasing across all the largest District MSAs. In Memphis, the industrial vacancy rate has fallen sharply since our previous report. Meanwhile, office and retail rental activity has improved slightly, with more square footage being occupied since our previous report.

Banking and Finance

Banking conditions in the District have improved slightly since our previous report. District banks reported an increase in overall loan demand since last quarter. One contact indicated this quarter was one of the best quarters in terms of loan volumes. Credit quality remained unchanged and generally good. Deposit levels continued to expand, but the growth rate has slowed significantly. Banks remained flush with liquidity, and a contact reported trying to find ways to deploy the excess capital. Looking ahead, banking contacts expressed concern that material supply shortages would affect the demand for construction loans.

Agriculture and Natural Resources

District agriculture conditions declined modestly relative to the previous reporting period but remain steady relative to the same period last year. Between the end of May and end of June, the percentages of corn, cotton, rice, and soybeans rated fair or better decreased modestly across the District.

Natural resource extraction conditions improved modestly from April to May, with seasonally adjusted coal production increasing 7%. May production was up strongly compared with a year ago, increasing 34%.

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 improved moderately since our previous report.

A community college contact is optimistic that 2021 enrollment will meet or exceed 2019 numbers due to increased desire to upskill.

A commodity trading and distribution company reported record profits thus far in 2021, boosted by good weather conditions worldwide. The company's trucking division has seen demand far exceed the number of drivers they have available.

A financial services contact notes that business capital expenditures in the region are muted due to long lead times for projects and high equipment and construction cost.

A southern Arkansas restaurant contact reported that catering demand is returning at a slower rate than sit-down restaurant demand, in part due to the loss of business from local manufacturing plants.

Louisville Zone

Economic conditions in the Louisville zone have improved at a robust pace since our previous report. Multiple contacts reported labor shortages, both of which have affected ability to meet rising demand.

Multiple contacts reported difficulty in finding high-skilled labor. One construction contact reported that they were able to find entry-level workers, but they didn't have enough skilled workers to train them. To meet demand, the firm is turning to out-of-town temp firms.

Several car manufacturing plants have been taking downtime or cutting hours because of supply chain issues. Semi-conductors remain a critical shortage, but shortages among freight and port workers continue to produce bottlenecks as well.

A contact reported that increased prices for ride-sharing services have affected labor supply by making commutes increasingly difficult for people at the edge of transport networks.

Memphis Zone

Economic conditions in the Memphis zone have improved at a moderate pace since our previous report.

A petrochemicals contact noted that high freight costs and continued difficulties in securing transport have hampered their ability to respond to emergency customer needs. In response, the contact is holding more inventory at customer sites.

Tissue product manufacturers reported excess supply of at-home products, but potential shortages of commercial-grade products due to stronger demand as the economy reopens.

Contacts in southern Arkansas and northern Mississippi contact reported that the heavy rainfall that hit the region in early June led to significant crop losses.

Multiple contacts reported accounting for longer lead times because of supply chain disruptions, with one retail contact expressing concerns over having enough product in time for the holiday season.

St. Louis Zone

Economic conditions in the St. Louis zone have improved at a robust pace since our previous report. Contacts report widespread hiring activity with ongoing challenges hiring workers. A childcare contact reported that inquiries and enrollment of new families were up sharply; however, staffing issues may limit capacity. A regional grocer reported activity continues to exceed expectations. A home furnishing company reported continued strong demand and low inventories.

Hospitality contacts noted a significant uptick in tourism activity as attractions have returned to full capacity. Some contacts have expressed concern that the increase in COVID-19 cases in Missouri will reduce activity during the remainder of the summer.

A manufacturing contact noted that cost pressures continue to be an issue, but there have been signs of stability. Mid-size manufacturing firms are most concerned about compression of profit margins and the need to pass price increases onto customers.

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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