Summary of Economic Activity

Economic conditions have shown modest improvement since our previous report. Employers reported difficulties adding workers to meet rising consumer demand, with significant wage increases increasingly common across industries. Supply chain constraints have contributed to moderate price increases, especially on raw materials. Retailers and nonfinancial services contacts reported increased activity, and banks reported an increase in loan demand. Manufacturing contacts reported production upticks and increased optimism about the coming quarter. While contacts are optimistic about continued strong demand in the short term, the rate of growth is expected to slow over the next 12 months.

Employment and Wages

Employment has increased modestly since the previous report. Firms continued to recruit workers aggressively as the recovery continued and the holiday season approaches; two-thirds of contacts planned to increase the size of their workforce within the year. Worker shortages, however, remained endemic; half of contacts reported a decline in job applications since Labor Day, and a third did not expect to recover to pre-pandemic employment levels within a year. One large transportation firm held a job fair where recruiters frequently outnumbered job seekers; a Kentucky bank lamented that its only option was to hire individuals with the potential to perform key roles after a year or more of training.

Wages have grown strongly; on net, two-thirds of contacts reported wages had grown since a year ago—a new high. Three-quarters of hiring firms reported raising wages for most jobs to entice new hires; very few reported no such raises. One Arkansas pizzeria advertised $15-20 an hour for delivery drivers; a large transportation firm, unable to fill its night shift, raised wages from $13 to $21 an hour.

Prices

Prices have increased moderately since our previous report. Contacts in the construction industry reported increased costs for input materials; one construction contact reported that prices have increased six times over the course of 2021. A contact in the residential real estate industry stated the cost of materials for new construction has raised new home prices out of the typical range for entry- and mid-level buyers. Contacts in the agricultural industry noted a “dramatic” increase in the cost of fertilizer due to international supply chain constraints. There have been moderate to robust increases in prices for raw materials such as coal and cotton string since the last report. Meat prices have increased in recent months because of high demand and higher input costs for materials, labor, and logistics.

Consumer Spending

District general retailers, auto dealers, and hospitality contacts reported higher business activity since our previous report. October saw that real sales tax collections decreased in Arkansas, Missouri, and West Tennessee relative to September and increased in Kentucky. General retailers reported higher sales and a somewhat better outlook despite supply chain issues and labor shortages. Sales exceeded expectations for auto dealers, but they had a mixed outlook for the coming quarter. A Little Rock dealer expects the chip shortage to persist into 2022 based on their manufacturer and trade publications. A restaurant in St. Louis reported that people have been more willing to dine indoors at restaurants and that they have been relying less on outdoor seating during colder months. Hospitality contacts reported increased activity in October and that business travel is starting to rebound.

Manufacturing

Manufacturing activity has modestly increased since our last report. Survey-based indices suggest that production and capacity utilization have moderately increased, while new orders have slightly decreased. Firms in Arkansas and Missouri reported moderate upticks in production and slight declines in new orders. Automobile manufacturers, including two major manufacturing facilities in Louisville, continued to produce below capacity because of microchip supply shortages. Manufacturers in South Central Kentucky not reliant on these scarce inputs have seen their production exceed pre-pandemic levels. Firms have also been developing their own manufacturing of components for electric vehicles rather than relying on global supply chains. On average, firms expect strong increases in production, capacity utilization, and new orders in the coming quarter.

Nonfinancial Services

Activity in the nonfinancial services sector has increased moderately since the previous report. More than 80% of nonfinancial services contacts reported that quarterly sales have met or exceeded expectations thus far. Airport passenger traffic has been steady since the previous report, remaining near 80% of pre-pandemic levels. A childcare contact in the St. Louis area mentioned that business has been negatively affected by several large employers not returning to in-person work. Several fitness center contacts noted that concerns about the Delta variant and corresponding government restrictions have hurt business. A logistics contact mentioned that the chip shortage and its impact on the automotive supply chain have hurt business. Several large parcel services have increased hiring in anticipation of the holiday season.

Real Estate and Construction

The residential real estate market has weakened slightly since our previous report. Total home sales have decreased across the largest District MSAs, but home prices remain elevated and inventory remains low. Residential construction activity remains high, though contacts reported that the continued high cost of construction, long lead times on key building materials, and supply chain issues are still affecting the speed of new construction. Meanwhile, apartment rental rates across the District continued to rise slightly this month.

The commercial real estate market has remained mixed since our previous report. Industrial real estate remains strong across the largest District MSAs. In St. Louis, asking rents for industrial space have increased 25% since this time last year, while industrial vacancy rates are at an all-time low. Contacts stated that grocery stores and mixed-use properties involving hotels, restaurants, and entertainment venues remain popular. A contact reported that interest in retail is increasing as returns on industrial and multifamily development shrink.

Banking and Finance

Banking conditions have improved slightly since our previous report. District banks reported an increase in overall loan demand since the last survey period. Credit card lending increased moderately, while demand for commercial loans decreased slightly. A contact noted a slowdown in mortgage lending activity but cited the lack of inventory as a primary reason. Liquidity remained elevated and banks continued to report difficulties in finding investments to deploy excess funds. However, financial performance has remained strong as many banks are still recognizing income earned through the PPP loan program. Delinquency rates increased slightly, especially for auto and real estate loans, but remained relatively low. Creditworthiness modestly declined, and banks reported slightly tightening their credit standards.

Agriculture and Natural Resources

District agriculture conditions have remained stable compared to the previous reporting period. Production forecasts for corn and soybeans have declined slightly, while forecasts for cotton remained unchanged and rice increased. On a year-over-year basis, however, production levels for corn and soybeans are expected to be moderately higher, while cotton and rice production is expected to moderately decline. While production has remained relatively steady, contacts in the District have expressed concern over rising input prices, specifically nitrogen and other fertilizers, and labor shortages, which they fear may cause production shortfalls next year.

District coal production improved modestly in October, with seasonally adjusted production increasing about 3 percent over the previous reporting period. Production has improved strongly over the previous year, increasing 20 percent over this time last year. ■

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 continued to improve at a moderate pace. A construction contact noted that vaccine mandates have led to staffing issues.

A tourism contact reported continued strong visitor numbers, attributing it to local tourists' desire for sites within driving distance.

Auto contacts reported continued inventory issues but good performance thanks to high demand and strong maintenance and repair sales.

The overall outlook among contacts turned pessimistic. On net, 11% of contacts expect regional economic conditions during 2022 to be worse than 2021. This outlook is slightly better than one year ago when 19% of contacts expected conditions to be worse in 2021.

Louisville Zone

Economic conditions in the Louisville zone continue to improve at a moderate pace.

A Louisville-area car dealership contact reported that continued low inventories have contributed to pent-up consumer demand, with consumers more willing to make quick purchase decisions as a result.

Real estate contacts noted strong demand for speculative industrial projects, with firms seeking additional warehouse space in order to combat supply chain issues and higher transportation costs.

A manufacturing firm reported cascading effects from ongoing supply shortages; as customers are unable to get related parts from other suppliers, demand for the firm's goods has fallen.

The overall outlook among contacts turned pessimistic. On net, 14% of contacts expect regional economic conditions during 2022 to be worse than 2021. This outlook is also weaker than one year ago when 3% of contacts expected conditions to improve in 2021.

Memphis Zone

Economic conditions in the Memphis zone have continued to improve at a moderate pace since our previous report. A staffing contact reported that the adaptation of vaccine mandates has led to worker exits, with smaller firms reaping the benefits as they are restricted from the federal mandate.

An air transportation contact noted that while travel volumes have increased, average spending per visitor has lagged behind.

A real estate contact reported a continued migration from indoor malls to outdoor shopping centers due to COVID concerns.

Agriculture contacts reported price increases among needed inputs, which have led to liquidity issues. A local grain elevator filed for bankruptcy, which a contact reported could cost local growers upwards of $45 million in lost income.

The overall outlook among contacts remains optimistic. On net, 12% of contacts expect regional economic conditions during 2022 to be better than 2021. This outlook is also stronger than one year ago when 5% of contacts expected conditions to improve in 2021.

St. Louis Zone

Economic conditions in the St. Louis zone have improved at a moderate pace since our previous report. A St. Louis auto dealership contact reported that continued low inventories have greatly increased their firm's profitability.

Construction contacts reported staffing issues, with high-skilled tradesmen especially sought after. A firm reported looking into offshoring and remote work options.

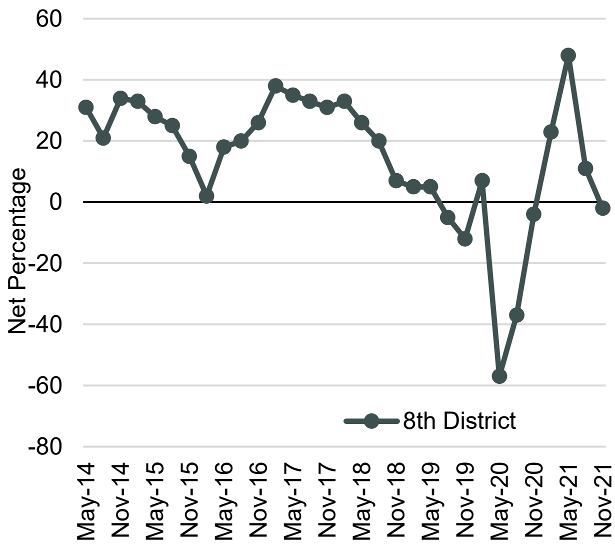
A St. Louis staffing contact reported continued high demand and strong wage pressures for technical and professional workers. The number of qualified candidates who require sponsorship or lack U.S. citizenship remains a barrier to filling these positions.

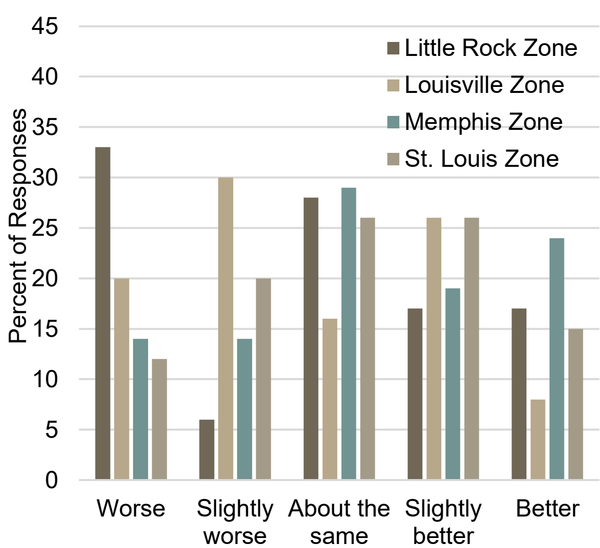
The overall outlook among contacts remains slightly optimistic. On net, 6% of contacts expect regional economic conditions during 2022 to be better than 2021. This outlook is also stronger than one year ago when 10% of contacts expected conditions to deteriorate in 2021. ■

Supplemental Data and Survey Results

Anecdotal information in this report was provided by our panel of business contacts, who were surveyed between August 2 and August 13. The previous survey was conducted between May 3 and May 14. The following are selected results from those surveys.

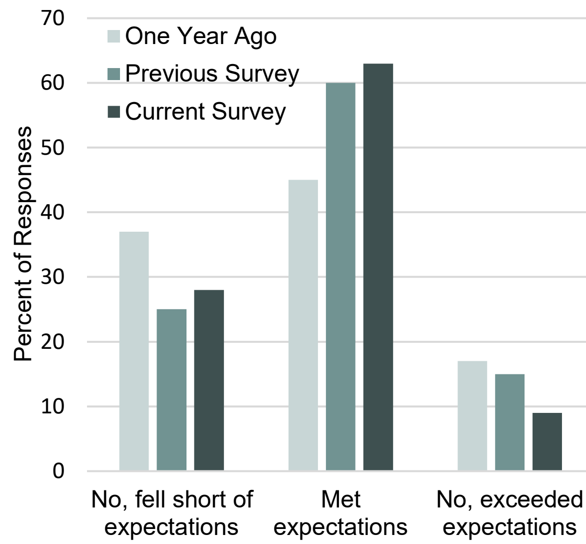
How do you expect local economic conditions to change during the remainder of this year?





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?

	Previous Survey	Current Survey
Prices Charged to Customers	39%	43%
Sales (Dollars)	36%	41%
Inventory	-5%	8%
Nonlabor Costs	49%	54%
Capital Expenditures	26%	29%
Labor Costs	59%	61%
Wages	60%	64%
Hours per Employee	31%	27%
Employment	13%	16%

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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