FEDERAL RESERVE BANK of ST. LOUIS
CENTRAL TO AMERICA'S ECONOMY®

The Beige Book

Eighth District ■ October 2021

Summary of Economic Activity

Economic conditions have improved moderately since our previous report. Employers continue to report difficulty hiring enough workers to meet consumer demand, with some industries with a high degree of direct consumer contact forced to limit or cut back operating capacity due to staffing shortages. Significant wage pressures persist across most industries. Increases in raw material and transport costs contributed to moderate to strong cost pressures, most of which firms were able to pass along to consumers. The real estate sector remained strong; supply chain issues continued to limit construction but activity was higher than typical seasonal levels. The COVID-19 Omicron variant contributed to labor shortages and sparked some concern about the short-term outlook in the hospitality, transportation, and retail sectors.

Employment and Wages

Employment has increased modestly since our previous report. District contacts reported that widespread attempts to hire have been hampered by widespread worker shortages. Many firms, unable to find adequate staff, have been unable to grow or have had to actively cut back their operations. This was especially true for high-customer-contact industries, like dining and retail. St. Louis cut back its public transportation services despite holding job fairs, enticing retired operators back to work, and—in the words of the supervising CEO—"literally begging for employees." Firms across industries reported increasing flexibility and benefits to entice scarce workers. Some also used automated processes as a substitute for workers. Several firms delayed their return-to-office timelines in the face of the Omicron variant.

Wages continue to grow strongly, particularly for traditionally low-wage positions. One Little Rock restaurant reported paying its dishwashers $13 per hour and skilled kitchen staff $16 per hour or more, and an Arkansas manufacturer reported plans to soon increase its starting wage by more than 10 percent.

Prices

Prices have increased moderately since our previous report. Contacts in the hospitality industry reported increasing costs since our previous report and are passing along most of it to customers. A contact from a jewelry retail store reported higher input costs and noted plans to increase prices charged to consumers. Furniture retail industry contacts reported slightly increased cost pressures and prices charged to consumers. Some contacts plan to reduce profit margins rather than pass the full extent of cost increases on to their customers. An auto retail contact reported no change in costs and prices since our previous report. A contact reported slightly lower freight costs since our previous report but also that freight costs remain higher than before the COVID-19 pandemic. Raw materials prices have increased modestly overall since our previous report.

Consumer Spending

District general retailers, auto dealers, and hospitality contacts reported moderately higher business activity since our previous report. Consumer sentiment in West Tennessee regarding current conditions has worsened since September, but future expectations have improved. General retailers reported higher business activity and a mixed outlook for the next quarter, citing ongoing supply chain and pricing issues. Roughly 39 percent of consumers in Tennessee reported the majority of their holiday shopping was online this year, down from 53 percent of consumers last year. A St. Louis auto dealer reported that business activity is about the same as November; however, there is little clarity regarding future inventory. A restaurant in Arkansas noted that, since they no longer have restricted occupancy, they are anticipating increased sales; but they noted the increases in new COVID-19 cases remains a downside risk, especially given tight staffing. Hospitality contacts reported higher business activity month-over-month and year-over-year but a mixed short-term outlook due to the Omicron variant.

Manufacturing
Manufacturing activity has increased modestly since our previous report. Firms in both Arkansas and Missouri reported modest upticks in new orders and production, although the monthly rate of growth has slowed. Supply chain issues and labor shortages have increased input prices and continue to put pressure on firms' profit margins and service windows. With the passing of the Infrastructure Investment and Jobs Act, firms expect construction, and therefore demand for manufactured inputs, to increase in 2022. Firms also continue to explore automated substitutes for various aspects of the manufacturing process.

Nonfinancial Services
Activity in the nonfinancial services sector was unchanged since our previous report. Airport passenger traffic decreased slightly as rising COVID-19 cases among workers have resulted in large numbers of flight cancellations. Airport cargo traffic has increased slightly since our previous report, although it is down roughly 5 percent relative to this time last year. Memphis and St. Louis area hospitals are dealing with increases in COVID-19 patients with the Omicron variant. In addition to the human toll, the tornado event in the District on December 10 and 11 disrupted transportation through road closures and damage to infrastructure.

Real Estate and Construction
The residential real estate market has remained strong since our previous report. Home prices are still elevated. In Memphis, they are up 21 percent since this time last year. One contact noted that there has not been the typical drop in demand during the winter months. Inventory remains extremely low across the District, and one Memphis contact had 14 offers in the first 24 hours a house was on the market. However, the median number of days a house remains on the market has increased slightly since our previous report. While most expect the strong real estate market to continue into 2022, a contact expressed concern that any significant hikes in interest rates will impact demand from buyers.

Apartment rental rates were mixed but remain relatively stable since our previous report, with Little Rock and Memphis decreasing slightly and Louisville increasing slightly. All apartment rental rates in the largest District MSAs remain significantly higher than this time last year. Residential construction has remained strong since our previous report but continues to struggle with supply chain issues and increased costs. A Little Rock contact reported that, in spite of these problems, optimism remains high and new development continues.

Banking and Finance
Banking conditions have improved slightly since our previous report. District banks reported an increase in overall lending activity since the last period. Business loans, especially commercial, industrial, and commercial real estate loans, increased slightly while consumer and residential real estate loans increased moderately. Deposit levels remained high but growth moderated. A contact in Little Rock noted that the rate of forgiveness for PPP loans has risen through the previous quarter and predicted that the balance will be near zero by the middle of 2022. The outlook for 2022 among bankers is cautiously optimistic, as they expect loan growth across all divisions.

Agriculture and Natural Resources
District agriculture conditions remain relatively unchanged since our previous report. The percentage of winter wheat in the District rated fair or better modestly increased from the end of October to the beginning of December, rising from 91 percent to 95 percent. This is a moderate increase over this period last year. While contacts in the District are optimistic after a profitable year due to elevated commodity prices, they are also concerned about increased costs for fuel, fertilizers, and other inputs potentially affecting their crop production next year.

Natural resource extraction conditions improved slightly from October to November, with seasonally adjusted coal production increasing just over 1 percent. November production was up significantly compared with a year ago, increasing nearly 20 percent. ■

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. The Omicron COVID-19 variant has led to labor and material shortages across a number of sectors.

School bus drivers are in particularly high demand, with one northwest Arkansas city unable to fill 25 of its 123 driver positions. To meet demand, cities are raising wages and enlisting every licensed public employee they can find to drive double and triple shifts.

Raw material shortages persist across industries. A construction contact noted that, while steel availability has improved, lumber prices have begun to increase again and are expected to remain elevated through summer 2022. Electrical and lighting products remain delayed.

Skilled trade labor shortages have led to intense competition for workers. A Little Rock-area construction contact reported that competitors have visited job sites to recruit his high-skilled craftsmen. In response, his firm has raised wages and benefits, reduced travel, and offered bonuses to key employees.

Louisville Zone

Economic conditions in the Louisville zone have continued to improve at a moderate pace. Contacts in southern Indiana reported inquires for new developments remain strong and expect 2022 to be a good year. Banking contacts expect 2022 to be a good year, but profitability is expected to decline slightly with the ending of the PPP program, which generated fee income the prior two years.

The residential real estate market remains constrained by low inventories, particularly for entry-level home buyers. Contacts expressed uncertainty as to how potentially higher interest rates will affect the market.

Auto industry contacts reported continued backlog of new vehicle shipments, although conditions have not worsened. Contacts noted a lack of employees and significantly higher costs of retaining employees, especially mechanics.

A pizza shop reported that business is up 30% from a year ago, though the number of employees has remained unchanged. The company has begun to rely on third-party delivery services to help meet this increased demand.

Memphis Zone

Economic conditions in the Memphis zone have continued to improve at a moderate pace. Banking contacts reported strong performance, with continued high loan demand. Firms continue to struggle with labor shortages, which have been compounded recently by the Omicron COVID-19 variant.

While 2021 was a good year for the region's farmers, there is some concern about rising fertilizer prices moving forward. Because prices disproportionally affect corn production, farmers are planning to modify their crop mixes in 2022.

Some regional banks have switched to exclusively drive-through service because of labor shortages due to rising Omicron COVID-19 cases and exposures. One contact expects staff reductions to be a new strategy going forward, noting that in-person activity is down 40% compared with 5 years ago.

St. Louis Zone

Economic conditions in the St. Louis zone have continued to improve at a moderate pace.

A retail contact noted that holiday sales were up over the previous year but below expectations. Their outlook for Q1 2022 is slightly pessimistic due to anticipated reduced household spending. Due to elevated product costs, this retail contact doesn't expect pre-pandemic business activity to return until supply chain issues resolve.

Semiconductor shortages have continued to limit inventory at auto dealerships and raise the prices of used cars. One auto contact does not expect inventories to recover and regular business activity to resume for up to 18 months.

A St. Louis hotel contact noted that people seemed more comfortable staying at hotels than with family, which helped push holiday business higher than expected. However, the contact expressed concern about the Omicron variant's short-term impact on demand.

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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