Summary of Economic Activity

Economic conditions have remained unchanged since our previous report. Employers reported robust wage increases and continued difficulties finding workers. Price increases were greater than expected across several industries, with supply chain issues and strong demand contributing to ongoing price pressures. Firms reported improved ability to pass on price increases and anticipate continued increases in the short term, although retailers reported signs of softening demand among lower income households. Winter weather, labor shortages, and Omicron COVID-19 disruptions led to decreased activity in the transportation and hospitality sectors. The real estate sector remained strong; although supply shortages continue to affect construction, demand for commercial and residential space is high throughout the District.

Employment and Wages

Employment has increased slightly since our previous report; on net, 5% of contacts reported increasing employment since last year. Firms continued to report a shortage of workers, with some contacts investing in labor saving automation, structural changes, or service reductions. Other contacts emphasized changes in their hiring practices; one industrial contractor, unable to find qualified labor, reached out to a local school district about an apprenticeship program.

Wages have grown robustly since our previous report. On net, 65% of contacts reported increasing wages. Small firms continue to struggle to match ever-growing market wages. Wage increases at firms with worker shortages were compounded by increased overtime; one manufacturer estimated a 5% to 20% increase in labor costs from overtime and hazard pay.

Prices

Prices have increased moderately since our previous report. A greater share of contacts than usual reported that price increases have been higher than expected. The majority of contacts noted the ability to increase prices charged to consumers in the near future. Several retail contacts indicated they were behind on raising prices to consumers. One retail contact reported that a shortage of in-store staff to physically change price tags has been an impediment to raising prices and that they had to enlist corporate employees to change price tags. Retailers also reported plans to utilize electronic price tags to reduce the labor needed to change prices. A furniture retail contact reported that a several-month lag on deliveries will result in elevated retail prices this year. An auto sales contact expects prices to fall as inventories build up.

Consumer Spending

District general retailers, auto dealers, and hospitality contacts reported mixed business activity since our previous report and a mixed outlook for the immediate future. District retailers have noted that their sales are high in part because of a steady demand for higher-priced items. An Arkansas retailer noted that their sales are still being influenced by supply chain issues, as they recently received a shipment that was due in April 2021. An auto dealer in Louisville reported their manufacturer was unable to supply anticipated new vehicle stock and as a result their used vehicle trade-ins suffered. Restaurants in downtown Memphis are still dealing with the effects of the pandemic as of late January since convention business and travel have yet to recover.

Manufacturing

Manufacturing activity has slightly increased since our previous report. Survey-based indices suggest that production, capacity utilization, and new orders have all slightly increased. Firms in Arkansas and Missouri re-
ported slight reductions in production and slight upticks in new orders. The Omicron COVID-19 variant applied pressure to manufacturing labor, both in terms of worker hiring and absenteeism. The easing of travel restrictions has increased the availability of raw materials from Europe, relieving some supply chain issues. Firms continue to invest in process automation to address the systemic workforce shortage, with one manufacturing company in Arkansas tripling their number of robotic welders. On average, firms reported they expect slight increases in production, capacity utilization, and new orders in the third quarter, and they remain optimistic about the level of production.

Nonfinancial Services
Activity in the nonfinancial services sector has decreased since our previous report. Airport passenger traffic decreased slightly month-over-month, though it remains well above levels at this point last year. Several contacts attributed below-expected sales at this point in the quarter to the Omicron COVID-19 variant. A healthcare contact reported that the combination of COVID-19 and winter weather led to a decline in patient volumes of over 30%. Despite this, hospitals continue to deal with significant labor shortages. A transportation contact mentioned that a lack of qualified labor—specifically, truck drivers—has hindered business. A technology contact reported that rising interest rates are leading to purchasing hesitancy among customers.

Real Estate and Construction
The residential real estate market has remained strong since our previous report. Home prices remain high relative to incomes and one contact believes many first-time buyers will be priced out this year. Inventory has remained extremely low, and contacts expect it to remain low through at least the next quarter. Apartment rental rates also remained high relative to incomes. One contact stated that the high demand for rentals has increased the rate per square foot substantially. The commercial real estate market has also remained strong, with very high demand for industrial real estate in particular. Demand for retail space has increased since our previous report. One contact believes institutional capital is currently shifting more toward retail spaces, due to continued high demand and diminishing returns in the industrial and residential sectors. Many contacts remain concerned about the uncertainty surrounding potential interest rate increases.

Demand in the construction market remains strong despite supply chain disruptions. Residential construction demand is slightly higher than in our previous report. Input costs, delivery times, project backlogs, and project completion times have all increased in the past month. Contacts reported that the most important factor impeding business growth during the next few months is the labor shortage.

Banking and Finance
Banking conditions have improved slightly since our previous report. District banks reported an increase in loan demand since the previous survey period. Commercial, industrial, and auto loans increased moderately, while demand for credit card lending decreased. Liquidity remained elevated due to pandemic-related government assistance, but bankers reported difficulties in finding investments to deploy excess funds. Overall delinquency rates decreased modestly, and a contact reported asset quality metrics to be historically strong.

Agriculture and Natural Resources
District agriculture conditions have improved modestly since our previous report. The number of acres of winter wheat planted in the District this season have increased 10% over the same period last year. This increase primarily came from Illinois, Kentucky, and Missouri, which saw their acreage rise an average of 20%. While contacts remain optimistic about 2022, there is continued concern about the increased costs of inputs such as fertilizer, pesticides, and machinery. Of particular concern is corn production, which uses significantly more fertilizer than other crops.

Natural resource extraction conditions increased modestly from November to December, with seasonally adjusted coal production rising 10.6%. December production decreased slightly, by 3.1% compared with the previous 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 shown little change since our previous report. Area chambers of commerce noted a significant rise in project inquiries, particularly for manufacturing and distribution facilities.

Retail and banking contacts reported a notable increase in in credit card usage and a decline and cash and debit card usage in recent months. With credit card share of spending now at or slightly above 2019 levels. Credit quality remains strong, but contacts did express concern about the rising use of installment payment programs may be masking some household debt obligations.

Agribusiness contacts reported that profitability will be more challenging in 2022 than 2021 event if crop prices remain high as fertilizer and fuel costs have increased substantially.

Farm equipment supply issues are also a concern entering the planting season, and dealers have limited inventories of supplies such as fuel filters or belts for tractors.

The overall outlook among contacts remained slightly pessimistic. On net, 10% of contacts reported they expect regional economic conditions during the remainder of 2022 to be worse than in 2021.

Louisville Zone
Economic conditions in the Louisville zone have shown little change since our previous report.

A banking contact noted that even with interest rates expected to rise, they continued to see stiff pricing competition on loan rates.

A commercial real estate contact reported that the outlook for office space has turned slightly worse as companies rethink their space needs in the wake of COVID.

The overall outlook among contacts remained slightly pessimistic. On net, 7% of contacts reported they expect regional economic conditions during the remainder of 2022 to be worse than in 2021.

Memphis Zone
Economic conditions in the Memphis zone have shown slight improvement since our previous report. Labor shortages continue to be a significant constraint for employers.

Transport cost pressures remain significant, with extended lead times and new concerns that rising fuel prices may lead to surcharges. Despite this, volumes remain strong.

A banking contact reported some upward pressure on interest rates on deposits, with competitors beginning to raise APYs.

An agriculture contact noted a significant shift from corn into cotton because of high fertilizer prices. Production costs continue to rise as high as 20% over the previous year in some cases.

The overall outlook among contacts remained optimistic. On net, 11% of contacts reported they expect regional economic conditions during the remainder of 2022 to be better than in 2021.

St. Louis Zone
Economic conditions in the St. Louis zone have shown little change since our previous report. Contacts continued to report disruptions due to supply chain uncertainty and noted that consumer spending had begun to weaken slightly in some regards.

Furniture contacts reported that while demand for high-
end goods remained strong, sales had recently slowed for value customers. Some contacts reported that materials shortages had improved slightly, but others noted that transport costs continued to increase and delays had worsened.

A retail contact noted that while staffing remains an issue, the rate of employee turnover has slowed in recent weeks.

Several durable goods retailers reported they expect negative growth throughout the remainder of the year as consumer spending on services rebounds.

A hospitality contact noted that convention activity has been strong in recent weeks and is quickly approaching 2019 levels.

The overall outlook among contacts turned slightly pessimistic. On net, 1% of contacts reported they expect regional economic conditions during 2022 to be worse than in 2021.
Supplemental Data and Survey Results

Anecdotal information in this report was provided by our panel of business contacts, who were surveyed between February 7 and February 21. The previous survey was conducted between November 2 and November 15. The following are selected results from those surveys.

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

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?

<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>43%</td>
<td>50%</td>
</tr>
<tr>
<td>Sales (Dollars)</td>
<td>41%</td>
<td>18%</td>
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<tr>
<td>Inventory</td>
<td>8%</td>
<td>-18%</td>
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<tr>
<td>Nonlabor Costs</td>
<td>54%</td>
<td>62%</td>
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<tr>
<td>Capital Expenditures</td>
<td>29%</td>
<td>24%</td>
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<tr>
<td>Labor Costs</td>
<td>61%</td>
<td>62%</td>
</tr>
<tr>
<td>Wages</td>
<td>64%</td>
<td>65%</td>
</tr>
<tr>
<td>Hours per Employee</td>
<td>27%</td>
<td>13%</td>
</tr>
<tr>
<td>Employment</td>
<td>16%</td>
<td>5%</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.

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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