Summary of Economic Activity

Economic conditions have improved at a moderate pace since our previous report. The pace of hiring rose modestly, and wage growth remained strong. Prices, particularly for raw materials and food, increased at a robust pace. Reports on consumer spending were mixed, with notable signs of improvement in the tourism sector and softening growth in retail sales. Reports from manufacturers remain positive, with continued strong growth in new orders despite labor shortages and supply-chain disruptions restraining production. Real estate contacts reported a surge in seasonal buying activity coincided with a rise in mortgage rates, creating an uncertain outlook. Banking contacts reported a slight increase in loan demand and expect competition among lenders to put downward pressure on rates.

Labor Markets

Employment has risen modestly since our previous report. Although some contacts reported early signs of improvement, labor shortages all along the supply chain continued to hinder firms’ expansion and output. One Indiana contact reported that an air pilot shortage was causing economic difficulties for their whole region. Companies, nonprofits, and local governments alike tried to connect employers to potential employees with career fairs and other programs.

Worker preference for telecommuting was so strong—and so at odds with employer preferences—that one local Chamber of Commerce offered separate employee and employer seminars on the topic to ease the tension. One major corporation incentivized workers’ return to the office with a new coffee shop, decorative improvements, more collaborative spaces, and an arcade-style area.

Wages have grown strongly. The tight labor market continues to drive up wages and related benefits across industries and skill levels. Workers increasingly cited inflation when demanding higher wages. One food service employee cited their relatively low pay as a primary driver in recent unionization efforts.

Prices

Prices have increased robustly since our previous report. Lumber prices are once again at record highs after declining in the second half of last year. Contacts reported a surge in steel prices since our previous report. Some construction suppliers have several planned price increases for the near future; increases range from 6% for roofing materials to 75% for glass fiber felt sheets. Some suppliers and trucking companies are adding fuel surcharges or delivery fees to orders, which most contacts are passing on to consumers. Agriculture contacts noted higher fuel and fertilizer costs, which will be passed on to consumers. A contact in the restaurant industry reported that chicken and butter prices have increased since the beginning of the year.

Consumer Spending

General retailers, auto dealers, and hospitality contacts reported mixed business activity and a mixed outlook. West Tennessee consumer sentiment about current and future conditions has worsened since December. Memphis general retailers experienced a slow first quarter, citing ongoing supply chain and product availability issues, and have a mixed outlook for the upcoming months. A St. Louis auto dealer reported that business activity was up in March compared with February; however, they noted that new vehicles are slow to leave
factories due to shortages in parts previously sourced from companies that went out of business during the pandemic. One restaurant in Louisville reported that, despite rising prices and energy costs, they believe their business activity won’t be greatly impacted because of a shift to more profitable takeout orders. Tourism has started to rebound throughout the District with hotel bookings showing notable improvements, although contacts noted that risks to further recovery include rising gas prices and future COVID surges.

**Manufacturing**

Manufacturing activity has strongly increased since our previous report. Firms in both Arkansas and Missouri reported moderate to strong upicks in new orders and production. Demand has continued to remain strong despite significant price increases, exceeding production capacity and creating order backlogs. Some firms are concerned demand may soon soften due to these continued price increases. Labor inputs and wages also remain high due to worker shortages. One contact in a railroad manufacturing noted that they “could double their sales if they had the workers.” Firms continue to invest in process automation to reduce their reliance on human labor.

**Nonfinancial Services**

Activity in the nonfinancial services sector has increased since our previous report. Airport passenger traffic increased in March, nearing 90% of pre-pandemic levels. Transportation sector contacts have implemented fuel surcharges to partially offset the rapid rise in fuel prices and continue to face a shortage of drivers; some are testing autonomous vehicles as a long-term solution. An Arkansas transportation contact reported revenues exceeding pre-pandemic levels due to increased demand, although a shortage of parts for needed repairs has been an issue. Hospitals continue to face shortages of nurses and lab supplies, although declining COVID-19 cases have improved morale. A community college in southwest Tennessee is experiencing an uptick in overall applications after three semesters of dropping enrollment.

**Real Estate and Construction**

The residential real estate market has remained strong since our previous report. Apartment rental rates have continued to increase strongly. Multiple contacts reported high competition, with rental properties getting as many as 50 contacts in the first day after posting. Despite climbing interest rates since our previous report, home buyers have remained undeterred. Demand has held strong; inventory has fallen and remains around 25-30% lower than this time last year in the District’s major MSAs. One contact believes that higher interest rates should help soften demand throughout the year but real estate will continue to be a seller’s market in the short-term because of low inventory.

Reports on commercial construction have been mixed. One contact previously believed that demand would have tapered off by now, but despite increases in input costs and supply chain problems demand continues to be strong. However, a Memphis area banker reported two instances where customers delayed or cancelled developments because of high input prices. A contact in Arkansas mentioned that the shortage of skilled labor coupled with shipping delays is hampering project completion. One example is the lead time for electrical switchgear, which has risen from 20 weeks pre-pandemic to 60 weeks.

**Banking and Finance**

Banking conditions have improved slightly since our previous report as banks reported an increase in overall lending activity. Commercial and industrial loans increased slightly, while consumer and real estate loans increased moderately. Deposit levels remained elevated, but deposit growth slowed. A Memphis banking contact reported an influx of customers asking to fix their adjustable-rate loans or extend their fixed-rate loans in light of the recent interest rate increase and uncertainty around future rates. At least one large lender continues to lend at low rates for long terms. Overall, banking contacts expect high liquidity throughout the system to keep downward pressure on interest rates.

**Agriculture and Natural Resources**

Agriculture conditions have improved slightly since our previous report. The number of acres planted across the District for corn, cotton, rice, and soybeans was little changed from last year. Tennessee saw the most growth of all District states, with a moderate increase of 10% in acres planted. Corn and rice were planted in lesser quantities compared with last year, while cotton and soybeans increased in acreage. Contacts have expressed concern about a continued rise in input costs and availability of inputs, particularly fertilizer.

Natural resource extraction conditions saw little change from February to March, with seasonally adjusted coal production decreasing by 0.5%. March production went down moderately compared with a year ago, decreasing over 8%. [Federal Reserve Bank of St. Louis]
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 moderate improvement since our previous report.

Tax revenue in one southern Arkansas city, a key indicator of business travel and discretionary spending, has returned to pre-pandemic levels.

Demand in the northwest Arkansas real estate market has remained strong even with the recent rise in interest rates. The slowing rate of new construction has continued to push prices upward, spurring some concern about the region’s affordability for entry-level homebuyers.

While some contacts have reported a slightly easier time finding workers, shortages remain a barrier to increased economic activity. One central Arkansas manufacturing firm reported hiring every applicant that comes in, regardless of skill level or other employment issues.

Louisville Zone
Economic conditions in the Louisville zone have shown moderate improvement since our previous report. Manufacturing activity was strong, but contacts expressed concern about continued supply chain uncertainty limiting activity.

Real estate demand has remained strong despite rising interest rates. Some homebuilding contacts reported slowing the pace of speculative construction projects because lower-risk pre-sold construction is in such high demand.

A local RV dealership reported that although they have adequate inventory, consumer interest has slowed considerably since fuel prices rose.

In response to supply chain bottlenecks elsewhere, local firms have sought to acquire more local warehouse and industrial space. This has led to significant price appreciation for farmland located near freight corridors.

Memphis Zone
Economic conditions in the Memphis zone have shown moderate improvement since our previous report. Contacts reported increased consumer demand for services, but softer growth in durable goods.

Some retail contacts reported hitting limits on the level of input price increases they could pass on to consumers. This reduced demand has helped alleviate some order backlogs, but international supply chains are still experiencing delays and price pressures.

Cotton and soybean acreage in northern Mississippi is expected to increase, replacing corn and rice. Production costs are up significantly due to shortages of needed inputs and labor.

A chemicals contact reported that several key materials remain in limited supply due to ongoing production shortages and global disruptions that have limited export capacity and raised the cost of transportation. In response, clients are substituting or altering industrial processes where possible.

St. Louis Zone
Economic conditions in the St. Louis zone have shown moderate improvement since our previous report. Contacts expressed concerns over a more uncertain outlook due to rising interest rates and continued price increases.

Several local firms noted that increased steel and oil prices linked to the conflict in Ukraine had negatively
impacted economic activity.

An auto dealer reported that used cars are still at a premium due to low inventories and predicted a return to pre-pandemic levels no sooner than Q3 2023.

A real estate contact reported some signs of softening demand among entry-level homes as prices continued to rise but noted that high-end demand remained exceptionally strong, rising interest rates notwithstanding.
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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