Summary of Economic Activity

Economic conditions have improved at a modest pace since our previous report. The outlook for the remainder of the year weakened due to concerns about continued price increases and softening demand. Competition for workers continued to place upward pressure on wages. Prices for raw materials and fuel increased at a robust pace; firms passed on prices to consumers and adjusted behavior to try to mitigate the impact of price volatility. Consumer spending shifted from goods to services and became more sensitive to prices; retailers reported that credit card usage rose. Manufacturing firms reported that a backlog of orders should sustain production even as the rate of new orders declines due to higher prices. Residential real estate demand has cooled slightly due to rising mortgage rates, but inventory remains low due to supply constraints that have limited construction projects. Banking contacts reported that consumer lending demand has softened.

Labor Markets

Employment has increased modestly since our previous report. Labor shortages remain widespread, with firms noting difficulty hiring and retaining workers. Contacts in industries with predominantly in-person roles noted particular difficulty hiring. Some contacts remarked that remote work was allowing coastal firms to hire workers in the District for higher wages than local employers were willing to pay, causing an in-place “brain drain.” Firms expanded benefits, increased outreach, turned to automation, and considered offshoring to handle the scarcity; one healthcare contact reported that he had to start his hiring process two to three months earlier than usual to find sufficient workers.

Wages have continued to grow strongly. One transportation contact reported that wages had increased for both low-skilled, hourly workers and skilled employees by 20% or more in the past six months. Some healthcare contacts reported that raising wages was more difficult due to the industry’s contract and payment structure, but nevertheless reported that labor costs had increased substantially in the past year.

Prices

Prices have increased robustly since our previous report. Contacts in the construction industry reported high price volatility for plumbing materials, roofing materials, and asphalt. One such contact reported that prices for those items are, in some cases, increasing every 10 days. Contacts reported a decline in lumber prices. Contacts are hopeful the price of steel will decline in the near future. Contacts in the manufacturing industry have started announcing price increases to customers several months in advance. A Missouri manufacturer noted that industry attitudes toward price increases have shifted, with sales staff and customers “numb” to continued increases.

Consumer Spending

General retailers, auto dealers, and hospitality contacts reported slightly higher business activity and a mixed outlook. April real sales tax collections decreased in Missouri and Arkansas relative to March and increased in Kentucky and west Tennessee. St. Louis retailers noted that business activity has been consistent over the past month, but reported a negative outlook for the upcoming months, citing inflation and stronger demand for travel. One luxury car dealership in Northern Mississippi said that they are starting to sell fewer large cars and more small, fuel-efficient cars as demand shifts due to rising gas prices. Restaurants in Louisville saw a return
to normal business activity during the Kentucky Derby, which was greatly affected by the pandemic in previous years. Hospitality contacts noted higher business activity compared with last month and last year, citing pent-up demand for travel. They also had a mixed outlook for the upcoming months, citing higher prices.

Manufacturing
Manufacturing activity has increased moderately since our previous report. Survey-based indices suggest that production, capacity utilization, and new orders have all moderately increased, and firms expect slight increases in the coming quarter. The primary concerns within the manufacturing industry continue to be the availability of labor and inputs. Firms continue to explore automated processes, though substantial lead times on robotics mean they are not a short-term solution. There is cautious optimism about future sales due to high order backlogs from pent-up demand and high inventory from the limited availability of key inputs.

Nonfinancial Services
Activity in the nonfinancial services sector has increased since our previous report. Airport traffic increased in April, with seaport bottlenecks increasing demand for air freight in Missouri. While business travel is rebounding, rising ticket prices are expected to cause slower growth in leisure travel across Northwest Arkansas and Tennessee. Transportation has seen a push toward automation, but contacts report struggling to train workers to maintain and repair the required technology. The nurse shortage has increased wages across the District, but nursing school enrollments are still down in Eastern Missouri.

Real Estate and Construction
The industrial and warehouse market has remained strong since our previous report. Rents have increased faster than input costs due to high demand. Multiple contacts reported optimism that input costs would come down after Amazon announced slowing their expansion of distribution centers.

The residential real estate market has seen demand begin to cool now that mortgage rates are increasing. However, with inventory still low, it remains a seller’s market. One contact reported that many prospective homeowners are favoring new builds despite elevated input costs, because they can buy the house at asking price without competing against other buyers. According to multiple contacts in Louisville, first-time home buyers are dipping into their 401(k)s or drawing from their parents’ retirement savings to enable cash offers.

Construction activity remains strong despite continued supply chain issues and increased input costs. Contacts reported that banks are hesitant to agree on rates for any projects not beginning immediately, given the uncertain outlook. One contact complained that paint is the only input available at a normal price.

Banking and Finance
Banking conditions have weakened slightly since our previous report. Although commercial lending has remained relatively strong, consumer lending has softened. Borrowing rates and secondary-market rates have begun increasing. Several large retailers reported that credit card usage increased. Mortgage and other lending rates increased significantly. Liquidity and deposits remain very high within the banking system, causing little pressure on banks to increase deposit interest rates. The combination of rising lending rates and stagnant deposit rates has allowed many banks to increase margins slightly from what have been persistent all-time lows.

Agriculture and Natural Resources
Agriculture conditions have improved slightly since our previous report. Contacts reported thin margins despite increased commodity prices due to rising input and labor costs, but remain optimistic due to persistent high demand. Contacts noted that rising energy prices have created an unprecedented opportunity for alternative energy products and other new technologies in the sector. The percentage of row crops planted has increased since the previous reporting period, but is down from this time in 2021. Progress of acres planted is down this year for every crop and all states in the District, which reflects production issues due to staffing and supply chain concerns.
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 modest improvement since our previous report.

Passenger demand at Northwest Arkansas National Airport has yet to return to pre-pandemic levels, but is expected to do so by the end of 2022.

Prices continued to rise robustly in the Northwest Arkansas real estate market even as interest rates increased. Average time on market decreased and developers explored subdividing plots to better meet demand.

An Arkansas banking contact reported that the refi mortgage business has dried up. As a result, industry layoffs in the zone are possible in the future.

The overall outlook among contacts is pessimistic. On net, 48% of contacts 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 modest improvement since our previous report. Contacts noted that growth has slowed as firms focus on completing existing projects over launching new ones.

Banking contacts noted that liquidity remains high despite interest rates increasing. The sector expects earnings to decline from the previous year due to the lack of PPP fee income and lower mortgage volumes.

A local RV dealer noted that sales were down by 20% from the previous year, which has been attributed to higher fuel costs and interest rates.

A railroad contact noted that although volume and revenue are up compared with the previous year, the cost of maintaining and repairing rail infrastructure has increased significantly.

The overall outlook among contacts is pessimistic. On net, 53% of contacts 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 modest improvement since our previous report. Travel and food service contacts reported robust demand, which has kept revenue and margins strong in the face of rising input costs.

A trucking company reported that they have implemented fuel surcharges and are planning to increase load volumes in order to keep revenues stable.

A paper contact noted that while commercial tissue demand is rising, the industry expects home consumption to remain above pre-pandemic levels.

The overall outlook among contacts is pessimistic. On net, 32% of contacts expect regional economic conditions during the remainder of 2022 to be worse than in 2021.

St. Louis Zone
Economic conditions in the St. Louis zone have shown modest improvement since our previous report.
A real estate contact reported that the increase in mortgage rates cooled the market in early May, but the lack of supply means that space in the suburbs remains at a premium.

An airline contact noted that labor shortages have led to service cuts in smaller communities, which will impact connectivity and economic growth in those regions.

Lockdowns in China were cited as a reason for shortages of key healthcare inputs, with one contact not expecting relief until July.

The overall outlook among contacts is pessimistic. On net, 40% of contacts expect regional economic conditions during the remainder of 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 May 9 and May 27. The previous survey was conducted between February 7 and February 21. 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?

<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>50%</td>
<td>51%</td>
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<tr>
<td>Sales (Dollars)</td>
<td>18%</td>
<td>14%</td>
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<tr>
<td>Inventory</td>
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<td>-2%</td>
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<tr>
<td>Nonlabor Costs</td>
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<td>69%</td>
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<tr>
<td>Capital Expenditures</td>
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<tr>
<td>Labor Costs</td>
<td>62%</td>
<td>68%</td>
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<tr>
<td>Wages</td>
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<td>71%</td>
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<tr>
<td>Hours per Employee</td>
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<td>19%</td>
</tr>
<tr>
<td>Employment</td>
<td>5%</td>
<td>14%</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.
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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