



Summary of Economic Activity

Economic conditions have improved at a modest pace since our previous report. Ongoing price increases have contributed to a mixed outlook, though demand remained stable. Labor shortages continue to place upward pressure on wages, though there are indications that these pressures have eased slightly for some firms in recent weeks. Prices for energy and intermediate goods rose, but these increases were passed through to consumers at a lower rate than in previous months. Retailers and restaurants saw increased consumer sensitivity to price increases. Homebuying activity slowed across most of the District due to rising interest rates, and rents rose. Supply chain bottlenecks remained a key issue across industries, with shortages and delays affecting availability of key inputs.

Labor Markets

Employment has increased modestly since our previous report. Contacts across the District reported that workers remained scarce. One staffing firm, which typically filled 30 or more jobs per day pre-pandemic, reported struggling to fill 2-3 per day now. Firms continued to expand outreach and bonuses to fill their positions, with mixed success. One transportation contact estimated they were now spending 3-4 times more than in recent years to attract new drivers, and many contacts reported having to settle for less-dependable workers. Despite this, contacts in several industries reported recent signs of the labor market easing.

Wages across the District have grown strongly since our previous report, especially for hard-to-fill positions. One contact reported rural nurse wages had increased 30-40%, and one public school district doubled its summer school teacher pay to \$50 per hour. Some short-staffed service firms reported offering overtime to workers but receiving few to no takers.

Prices

While most prices have increased moderately since our previous report, prices for raw materials, such as steel, have declined. Most contacts cited rising energy costs, especially fuel prices, as their primary input cost increase. Contacts in the services and retail industries

reported increased prices charged to consumers, but at lower rates than input cost increases. A contact in the retail industry reported large increases in shipping and storage prices. A catfish farming industry contact cited rising grain and fuel costs as the main factors for increasing prices. A contact in the childcare industry reported higher costs for sanitization materials and increased fees charged to clients.

Consumer Spending

District general retailers, auto dealers, and hospitality contacts reported generally higher business activity and a mixed outlook. May real sales tax collections increased in Kentucky, Missouri, and West Tennessee relative to April and decreased in Arkansas. One retailer in Little Rock noted that there has been no slowdown in business activity, but while the supply chain has started to improve it is nowhere close to normal. A St. Louis auto dealer reported that while vehicle inventory is improving, they expect higher gas prices and waning consumer confidence to impact business activity. Restaurants in Louisville noted that when they increased prices to help with rising costs, they saw a decrease in customers and had to lower prices to keep business activity up. Hospitality contacts reported generally higher business activity compared with May, but a mixed outlook for the upcoming months due to high gas prices and inflation.

Manufacturing

Manufacturing activity has increased slightly since our previous report. Firms saw slight upticks in new orders and production but reported difficulty ramping up output to match demand due to continued supply chain issues. These bottlenecks stem from lockdowns in China and persisting scarcity in intermediate inputs. This trend of intermediate input shortages has been observed across various industries, including cement in concrete, cotton in textiles, and wet strength resin in packaging. One major manufacturer in Northwest Mississippi noted that supply chain issues are as bad now as they were at the outset of the pandemic, saying “the wheels have fallen off.”

Nonfinancial Services

Activity in the nonfinancial services sector has increased since our previous report. However, rising input costs and labor shortages have hampered firms’ ability to meet rising demand. Transport firms in particular have struggled in this regard. While Tennessee and Northwestern Arkansas saw increases in both freight and passenger traffic in May, passenger spending continues to lag relative to quarterly expectations. A regional airport in Kentucky has struggled to attract another air service after an airline discontinued service to the area due to cost increases.

Real Estate and Construction

The residential real estate market has slowed slightly since our previous report due to rising mortgage rates. Total homes sold and pending sales have fallen since our previous report. Inventory has continued to remain scarce, and house prices are at elevated levels relative to income, especially for first-time homebuyers. Multiple contacts reported fewer bids per listing since our previous report, a signal that demand is beginning to cool. Most contacts are expecting real estate demand to slow further in the coming months.

The rental market continues to be extremely competitive. Rents in all District MSAs saw strong growth in recent months. Many discouraged would-be home buyers seem to be turning to rentals to avoid high mortgage rates and home prices. One contact reported some rental markets seeing prospective renters coming in above asking rents.

Banking and Finance

Overall activity in the banking sector has increased moderately since our previous report. Total loans have grown, with consumer loans seeing the largest increase. However, banking contacts in Memphis forecast loan growth to slow down due to recent interest rate increases. Commercial and industrial loans have increased

slightly but remain below June 2021 levels. Memphis contacts reported that higher 30-year mortgage rates have not decreased demand for real estate loans, but rather have decreased the price of a home the customers can afford. Total deposits have decreased slightly, consistent with a Memphis contact’s account of the lack of pressure to raise deposit rates. At least one bank in Memphis has started offering “special” rates ranging from 1.25% to 1.75%, and this contact expects this trend to ripple across banks following the recent interest rate increase.

Agriculture and Natural Resources

District agriculture conditions declined moderately relative to the previous reporting period and the previous year. In June, the percentages of corn, cotton, rice, and soybeans rated fair or better decreased slightly to moderately across the District. Most crop conditions declined moderately over this period relative to last year, except for rice, which increased modestly.

Natural resource extraction conditions declined modestly from April to May, with seasonally adjusted coal production decreasing over 4%. May production was essentially unchanged compared with a year ago, improving by less than a quarter of a 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 shown moderate improvement since our previous report.

A steel equipment manufacturer hired 60 new employees in Southern Arkansas and a 140-job automation and robotics production facility recently opened in Fayetteville.

Demand for housing has remained strong in Northwest Arkansas, with sellers continuing to receive offers above asking price.

A marina reported that boat rentals are down 20% from 2020 highs, but increased retail and service revenues have kept overall revenues on par with the previous two years.

Louisville Zone

Economic conditions in the Louisville zone have shown modest improvement since our previous report.

The commercial real estate market has remained strong, with multiple large retail developments purchased by firms based outside the region in recent months.

While labor shortages have eased slightly over the past month, demand for workers remains high among transport and food service firms. One transport firm reported using billboards and referral bonuses to recruit workers.

Memphis Zone

Economic conditions in the Memphis zone have shown modest improvement since our previous report.

A rural hospital in Northwest Mississippi is considering cutting unprofitable services due to low patient volumes, rising costs, and nurse and technician shortages.

Food service firms reported shortages of key supplies, including cups, individually wrapped utensils, and butcher paper. Consumer demand has remained strong in recent weeks.

An agriculture contact reported that retailers have recently begun pushing back against cotton price increases due to softening demand.

St. Louis Zone

Economic conditions in the St. Louis zone have shown modest improvement since our previous report.

An auto dealer noted that while inventory has improved, continued volatility in service parts availability combined with the rise in gas prices has created uncertainty about the medium-term outlook.

A steel producer announced plans to end steelmaking operations at a St. Louis area mill and transform the site into a pig iron production facility.

Local hospital systems reported ongoing supply chain and staffing issues, but noted that patient volumes and financial pressures have eased in recent months. ■

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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