Summary of Economic Activity

Economic conditions have declined slightly since our previous report. While there were anecdotal reports of easing in the labor market, firms continued to report difficulties recruiting and retaining employees and wage pressures persisted. In the services sector, firms reported softer demand but many were still unable to operate at desired volumes due to a lack of workers. Many firms reported difficulties passing on input price increases due to increased consumer pushback. Homebuying slowed in the real estate sector, and demand for rental properties rose. While supply chain issues eased slightly, new construction decreased as builders focused on working through backlogs. Overall banking conditions remained unchanged, though contacts expect non-residential loan growth to begin to level out soon.

Labor Markets

Employment has remained unchanged since our previous report. Contacts across the region continued to report difficulty filling positions and retaining workers. Some employers reported that increased flexibility and benefit policies implemented to improve retention are starting to bring about improved retention. However, there were still widespread reports of skilled tradespersons and technicians being poached by competitors. Contacts noted particular difficulty staffing weekend and late-night shifts. To improve recruiting and retention, some employers have focused on post-secondary institutions; one freight contact reported that the number of firms at a training center’s career fair had tripled as firms sought to sign-on students prior to graduation.

Wages across the District have grown moderately since our previous report. Healthcare contacts reported raising wages by 7-10% this year, but the rate of wage growth has begun to slow recently. A recent survey of Arkansas firms noted 90% of trucking fleets raised their pay an average of 11% over the past year.

Prices

Prices have continued to increase moderately since our previous report. Although input costs have increased across the board, contacts reported mixed results in their ability to pass through costs to consumers. A contact in the catfish industry, however, noted that they were hesitant to increase prices due to consumer pushback. Other sectors, like healthcare, food service, and nonprofits, were unable to pass on costs to consumers and instead cut services or reduced margins. A contact in the car industry reported no transfer of costs to consumers due to low demand for new cars. However, a contact in the hotel industry reported increased consumer prices of 15-20% due to increased labor costs and renegotiated contracts with suppliers.

Consumer Spending

District general retailers, auto dealers, and hospitality contacts reported mixed business activity and a mixed outlook. Retailers in the District noted that customers are changing shopping patterns due to high inflation; customers are becoming less brand loyal and are purchasing less on average. An auto dealer in Little Rock reported their sales are strong, especially in pre-owned cars; while they have a positive outlook for the upcoming months, they noted that customers are starting to have affordability issues because there is less inventory of lower-cost pre-owned cars. Hospitality contacts reported mixed business activity for this past month, with one St. Louis contact noting that inflation continues to hurt their customer base.
Manufacturing

Manufacturing activity has remained unchanged since our previous report. Firms have reported slight upticks in production but slight downticks in new orders. Production has remained stable despite the drop in new orders due to the large order backlog. Input costs have remained high, and manufacturers have lost some of their sales volume when raising sales prices. Firms also continued to struggle in maintaining adequate staffing. One agricultural equipment manufacturing company noted that they have been selling more equipment to individual households lately, as it appears household improvement projects are on the rise. Supply chain conditions have improved slightly since our previous report, but manufacturers expect shortages and delays to remain a significant constraint for the next 6 months.

Nonfinancial Services

Activity in the nonfinancial services sector has decreased slightly since our previous report. Transportation contacts reported that labor remains a critical issue, especially in transportation facility security and regional aviation. One Louisville-area contact reported canceling of passenger services due to shortages of low-skilled labor. As input costs and the cost of borrowing funds have increased, the affordability of transportation has decreased across the District, driving low-income consumers out of the market for vehicles and tickets. Across the District, rural medical facilities are cutting services, notably labor and delivery services, due to increased costs of labor, equipment, and pharmaceuticals. While demand for travel nurses has leveled off, healthcare contacts do not expect the nursing shortage to subside. One nursing school in Missouri experienced a 30-40% reduction in enrollment as well as a shortage of nursing educators.

Real Estate and Construction

The real estate market has slowed since our previous report. In commercial real estate, vacancies remain high for office and retail space. Small floorplan suburban office space is in high demand, but elsewhere demand for office space remains low. Since our previous report, residential and industrial real estate markets continued to have low inventory, inventory has increased, and pending home sales have decreased. Multiple contacts reported companies offering to sell entire subdivisions at discount prices due to concerns about future demand. Elevated prices and rising mortgage rates have driven some prospective home buyers to renting, which has led to further increases in rental rates since our previous report. Still, the speed at which residential and industrial rental rates are increasing has slowed since our previous report.

Residential and industrial construction has slowed as interest rates have increased and banks are less willing to lend. Commercial real estate construction remains extremely slow. Supply chain issues and lead times have lessened since our previous report. Some contacts are continuing to order supplies in advance to avoid future disruptions. One hotel construction contact recently ordered 100 toilets 15 months in advance of project completion and is storing them in a warehouse.

Banking and Finance

Banking conditions in the District are largely unchanged. Real estate lending activity remains low since interest rates have increased, but overall loan demand has increased slightly compared with a year ago. Memphis-area banking contacts expect overall loan growth to start slowing soon. Since last quarter, commercial and industrial loans have seen growth, while consumer loan growth is roughly the same. Credit quality remains strong, as past-due and problem loans remain at historic lows. Banks reported that upward pressure on deposit rates is increasing. One Memphis contact reported receiving a growing number of calls from deposit customers regarding rates, which have reached as high as 2%.

Agriculture and Natural Resources

District agriculture conditions have declined modestly since our previous report. Production and yield forecasts declined for corn, rice, and soybeans from August to September. Crop yields have remained stable for corn, fallen for rice and soybeans, and improved for cotton from August to September. However, crop yields have fallen consistently compared with 2021. District production and yields have been affected by extreme weather conditions such as drought, flood, strong winds, and hail.

Agriculture contacts remain concerned about rising input prices, global supply chain disruptions, and the extremely competitive nature of the current labor market. Fertilizer prices are up 30% in 2022 after increasing 80% in 2021. Supply chain issues have continued to be a challenge, with one grain processor reporting waits of 48-50 weeks for packaging materials. Contacts do not foresee these conditions changing for the next 6 months.
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 seen little change since our previous report.

Transport contacts noted that firms are trying to stockpile parts to deal with supply chain disruptions, but this has led to additional price volatility.

A freight contact noted that demand has softened over the last quarter, which has placed pressure on independent operators.

An agriculture contact reported shrinking profit margins due to rising input costs and little ability to pass price increases on.

Louisville Zone
Economic conditions in the Louisville zone have worsened slightly since our previous report.

Healthcare and professional services contacts reported increased interest in outsourcing to lower costs thanks to the strength of the dollar. Firms reported automating data entry whenever possible.

An agriculture contact noted that a lack of immigrant labor has contributed to a labor shortage in recent months. They noted both a lack of new arrivals and outflows of existing immigrant populations.

A transport contact reported that they previously used to search for workers only in three neighboring markets, but they now have to search nationwide to meet demand.

Memphis Zone
Economic conditions in the Memphis zone have worsened slightly since our previous report.

A transport contact noted that their large equipment orders aren’t expected to arrive for another two years, and predicted that their supply chain might not return to pre-pandemic levels for a decade.

An agriculture contact reported an increase in the number of skilled workers working as independent contractors, in order to control a flexible schedule and charge more for their services.

Healthcare contacts noted that the nature of insurance pricing prevented them from passing on price increases in the short-term.

St. Louis Zone
Economic conditions in the St. Louis zone have worsened slightly since our previous report.

Several contacts noted a slight increase in applicants for open positions. One rail contact reported being able to choose from “at least a couple” qualified applicants in recent weeks.

A healthcare contact noted that cash-based services for pharmaceuticals had become increasingly popular as consumers sought to lower costs.

A grain processor noted that demand is strong, but their ability to grow is constrained by the lead times it takes to train new employees.
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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