Summary of Economic Activity

Economic conditions have remained unchanged since our previous report. Firms reported softening consumer demand, but labor shortages for high-skilled jobs remained a key issue. However, a rising share of firms reported being able to find and retain low-skilled workers. Upward pressure on wages remained strong in industries dealing with labor shortages, and contacts reported plans for continued wage increases in the upcoming year. Input prices for food and raw materials rose, but softening consumer demand led to reports of some durable goods prices leveling out. Homebuying activity continued to decline, and rental rates in major District MSAs decreased for the first time this year. Loan demand softened slightly and delinquencies, while low by historical standards, have continued to rise.

Labor Markets

Employment remains unchanged, although there were increased reports that labor tightness has been easing and will continue to do so. A St. Louis staffing contact noted that uncertainty over consumer demand has led some companies to cut seasonal workers. A contact in Memphis saw total applications for their restaurant rise in the last quarter, and another contact was able to increase employment by 15%. However, many companies are still reporting staffing shortages. An IT contact in St. Louis noted that a shortage of entry-level jobs has made it more difficult to backfill as experienced workers leave.

Wages have grown moderately since our previous report. Contacts reported pay increases were needed to retain employees. A union contact reported that members’ wages have increased about 4-5% over the last year. A staffing contact reported that they expect firms will limit entry-level wage increases in 2023, but other contacts reported that additional wage increases will be needed to retain high-skilled workers, especially those with nationwide job prospects.

Prices

Prices have increased moderately since our previous report. Approximately two-thirds of contacts reported modest to moderate increases in prices charged to consumers. Approximately 85% of contacts reported higher or slightly higher nonlabor costs. Multiple contacts stated that higher food costs were driving higher prices for consumers. A contact in the agriculture industry reported that high input costs have pushed prices higher. Some industries, however, have seen prices level out or even decrease. A contact in the used car industry reported a “downward trend” for used car prices. A contact in the catfish industry reported pushback on higher prices, which led the business to decrease prices.

Consumer Spending

District general retailers, auto dealers, and hospitality contacts reported mixed business activity and a mixed outlook. Retailers in Memphis reported that consumers have shifted to spending mainly on essentials in more affordable price ranges. Higher-income consumers are driving what growth exists in the retail sector. District auto dealers noted there has been mixed business activity for the past couple of months, with one dealership noting that consumers are starting to have a more cautious approach to buying cars.

Restaurants in Little Rock have reported that their customer volumes are up 50% from last year and that they are optimistic about the end of 2022 and the beginning of 2023. St. Louis hospitality contacts noted that business activity was up this past month compared with previous months, though the outlook remains uncertain.
Over all, manufacturing activity has slightly increased since our previous report. Survey-based indices suggest that production, capacity utilization, and new orders have all slightly increased. Supply chain congestion and transportation issues continue to limit the availability of some key inputs for production, but contacts reported improvement in this regard. New orders and general demand are beginning to cool, but firms have maintained production by working through their long backlog of orders. The labor market also appears to be loosening; one construction tools manufacturer in Fayetteville increased its staff by 40% and reported having no issues filling positions. On average, firms reported they expect slight increases in production, capacity utilization, and new orders in the coming quarter.

Activity in the nonfinancial services sector remains unchanged since our previous report. Transportation activity, most notably air traffic and freight, has slightly decreased. Demand for trucking services has decreased since our previous report, which has led to some declines in shipping rates. However, input costs have continued to rise, especially equipment, insurance, wages, and diesel fuel. The trucking industry’s driver shortage has been exacerbated by new regulations that require accredited training for drivers in Kentucky.

A shortage of registered nurses persists across the District. Rural healthcare services in Mississippi have continued to shrink and rely on investment from medical institutions in urban areas. In Northwest Arkansas, however, more primary care services are being offered due to the opening of health clinics in elementary schools and investment in benefits personalization firms.

The residential real estate market has slowed modestly since our previous report. Contacts reported demand has slowed due to 7% mortgage rates. Pending home sales have decreased and inventory is up. Louisville contacts reported closings are down about 30% in the past few months. The rental market has also seen a slowdown. Rental rates in October decreased across many parts of the District. All commercial real estate contacts reported sales falling short of expectations. High vacancies in the office rental market remain the same since our previous report. Construction contacts reported the pipeline of ongoing projects continued to be strong but demand for new projects has decreased since the previous report.

Banking activity in the District has decreased slightly since our previous report. Bankers indicated that overall loan demand has softened compared with last quarter. Due to the past year’s interest rate increases, mortgage loan demand continues to decline moderately. Commercial and industrial loan demand saw only a slight decrease. Delinquency and watch-list loans remain manageable, despite a continued uptick in delinquency rates since last quarter. Banking contacts in Louisville expect rising interest rates to pressure banks to start increasing their deposit rates. According to Little Rock banking contacts, both credit and debit card usage at major retailers experienced declines in the last quarter, notably due to increased EBT usage.

District agriculture conditions have remained unchanged compared with the previous reporting period. Production forecasts for corn and cotton have increased slightly, while forecasts for soybeans remained unchanged and rice declined. On a year-over-year basis, however, production levels for cotton and soybeans are expected to be slightly higher, while corn production is expected to slightly decline and rice production is expected to moderately decline. While production has remained relatively steady, contacts in the District remain concerned over rising input prices, specifically fertilizers and feed.

District coal production declined modestly in October, with seasonally adjusted production decreasing about 9% over the previous reporting period. Production has improved modestly over the previous year, increasing 5.4% over this time last year.