Summary of Economic Activity

Economic conditions have remained unchanged since our previous report. Contacts continued to report difficulty hiring workers, but generally had a slightly easier time finding and retaining workers. Wages and other input costs increased modestly, which led to margin compression, as firms were unable to pass on these cost increases as sales prices. Consumer spending was mixed: Some firms noted they had lowered expectations due to weaker overall economic conditions while others were limited by their ability to meet strong demand due to labor shortages and supply chain issues. The residential real estate sector was largely unchanged, but commercial real estate contacts reported softer sales and concerns over looming vacancy and debt issues. Banking contacts noted loan demand softened and delinquencies continued to tick up. Overall, the outlook was slightly weaker due to concerns about future demand and broader concerns about weakening macroeconomic conditions in the second half of the year.

Labor Markets

Employment has improved slightly since our previous report. Unemployment rates remained low, and hiring and retaining workers has remained a challenge in several industries. However, more contacts have been reporting an ability to hire and retain workers to meet demand over the past few reports. A healthcare contact in Louisville reported that the labor market has improved to where only lower paid jobs are left to fill, and a St. Louis startup reported that they have been able to hire new talent more quickly than was the case a year ago.

Wages have grown slightly since our previous report. A majority of contacts reported an overall net increase in wage costs. Agriculture contacts in Memphis reported wages were still rising, and financial services contacts in St. Louis had an increase in wages for employees and in overall labor costs.

Prices

Prices have increased modestly since our previous report. Half of District survey respondents reported higher or slightly higher prices since the first quarter, 31% reported similar prices, and 19% reported lower or slightly lower prices. These responses appear to be driven by increasing input costs, with over three-fourths of respondents reporting higher or slightly higher nonlabor costs and a similar share reporting higher or slightly higher labor costs. Just under half of survey respondents projected that third quarter prices will be higher than in the previous year. Respondents reported that consumers continued to become more price sensitive, which prevented businesses from fully passing on increasing costs to consumers. A contact in the automobile industry reported that wage pressures, higher interest rates, and increased inventories industry-wide have decreased profit margins. A contact in the retail industry reported softening demand due to higher prices, causing them to lower prices and decrease their margins.

Consumer Spending

General retailers, auto dealers, and hospitality contacts reported mixed business activity and a slightly weaker outlook. April real sales tax collections increased in Kentucky, Missouri, and Arkansas relative to March and decreased in West Tennessee. Retailers in Memphis noted that business activity met their expectations; however, they had lower expectations for future business activity due to rising interest rates and broader economic uncertainty due to the looming decision on the debt ceiling. A St. Louis auto dealer reported that business activity was relatively unchanged from the previous month and noted that they have lowered expectations for upcoming sales because they do not have enough prod-
uct to meet demand. Restaurants in Little Rock that were impacted by the tornado at the end of March were preparing to start reopening. According to contacts, economic activity linked to the Kentucky Derby rose more than 10% from the previous year, and contacts estimated that the event surpassed pre-pandemic numbers.

Manufacturing
Overall, manufacturing activity has slightly increased since our previous report. Firms have reported moderate increases in new orders, while production has moderately increased for firms in Missouri and modestly decreased for firms in Arkansas. Relative to last year, average work hours have risen and wages have increased by over 5%. Contacts reported that retaining workers also remains an ongoing issue. On net, firms expect slight increases in productivity, capacity utilization, and new orders, but a minority are concerned about weakening demand going forward.

Nonfinancial Services
Activity in the nonfinancial services sector has remained stable since our previous report. Air traffic remained stable, and a transportation contact in the St. Louis region reported that their clients’ desires to replenish shrinking inventories have led to higher demand for transportation and logistics services. Transport contacts reported delaying capital investment projects due to increased labor and input costs. Healthcare contacts reported that conditions worsened due to increased input costs and lower-than-expected sales.

Investment in workforce education and development by both nonprofit and for-profit firms increased across the District. In the St. Louis region, an energy firm invested in summer programs for high school students to provide them with training in the hope they would return as full-time employees in the future. In the Little Rock region, universities received grants from local businesses to invest in manufacturing, engineering, automation, design process, and technology programs, and a nonprofit-run education and community center began offering classes, transportation, and childcare for adults to earn high school diplomas and receive career services.

Real Estate and Construction
The residential real estate market has remained unchanged since our previous report. Rental rates for residential real estate increased slightly. The number of new listings in residential real estate has dropped sharply in Louisville since our previous report, while new listings in the Memphis and Little Rock regions have remained unchanged. Seasonally adjusted home sales have remained unchanged since our previous report.

Residential real estate contacts reported that sales met expectations in recent months.

Commercial real estate has slowed slightly since our previous report. One commercial real estate contact reported concern over “shadow vacancies” — offices that are still leased due to longer-term leases, but not actually used due to remote work. The contact expressed concern that the majority of the leases on these office spaces will not be renewed. Construction contacts were most worried about shortages of labor, followed by a slowdown in demand for new projects. A majority of construction and commercial real estate contacts reported sales falling short of expectations.

Banking and Finance
Banking conditions in the District have remained unchanged since our previous report. Contacts surveyed reported that overall loan demand across all loan types softened in recent months. Contacts expect loan demand to further weaken in the upcoming quarter and noted recent increases in consumer credit use, particularly for everyday purchases, due to higher prices. Meanwhile, high interest rates have held down demand for business credit. Contacts reported that clients have been taking distributions from their portfolios to pay off loans and avoid new borrowing. Credit standards were largely unchanged from the previous quarter, but delinquency rates saw a slight uptick, a continuation of an ongoing slow rise over the past several quarters.

Agriculture and Natural Resources
Overall conditions have remained unchanged, but the outlook has weakened slightly since our previous report. Most agriculture contacts surveyed reported that their costs, including labor, have increased, which has contributed to the slightly worsening outlook. The percentage of row crops planted has increased as expected since the previous reporting period and is up slightly from this time in 2022. The progress of acres planted is mixed across the District: Some states, such as Missouri and Illinois, have improved strongly over last year, and the other District states have fared slightly to materially worse.