Summary of Economic Activity

Economic conditions have remained unchanged since our previous report. Although employers reported better employee retention, they continued to have difficulties finding workers, especially skilled ones. Wage pressures lessened slightly. Consumer spending was largely steady, though contacts reported a shift away from discretionary goods and declining demand for big-ticket purchases that require financing. The residential real estate sector saw activity increase, but the commercial real estate sector reported worsening conditions at non-premium office and retail spaces. Banking contacts reported moderate declines in loan demand and compressed net interest margins. Agriculture conditions declined moderately, and contacts expressed concern about commodity prices falling while input costs remain high. The overall outlook remains pessimistic but has improved slightly.

Labor Markets

Employment has remained unchanged since our previous report. Employers continue to report tight labor markets. Unemployment rates remain low and hiring workers has remained a burden for several industries. Many contacts have reported using technology improvements to deal with labor shortages. A healthcare contact in Little Rock reported they have begun to examine how AI can help with paperwork to offset persistent labor shortages. A Louisville transportation contact noted that while companies are still competing for workers, there is less job switching than in previous months. A northwest Arkansas food service company reported receiving unsolicited resumes which hadn’t happened in “quite some time.”

Wages have grown slightly since our previous report. Most contacts across the region reported either slight or no wage increases. Retail contacts in Little Rock have reported increasing their minimum wages in the past month to help fill labor shortages. A workforce contact noted that wage growth is still strong in construction trades due to high demand and a shortage of skilled workers.

Prices

Prices have increased modestly since our previous report. Although respondents’ plans for future price increases varied, two comments were consistent. First, nearly all respondents reported higher labor costs. Second, many contacts reported an inability to fully pass on increased costs to consumers, which has compressed margins. A contact in the grocery industry reported that they would pass about 25-33% of higher costs to consumers. The same contact reported decreasing consumer demand and increasing consumer price sensitivity. A contact in the car industry plans to increase prices, but at a slower rate than before in order to maintain competition in the market. Other contacts reported little to no increase in non-labor cost pressures. A contact in the furniture industry reported that prices may decrease in the future after recouping previous losses from excess freight costs.

Consumer Spending

District general retailers, auto dealers, and hospitality contacts reported mixed business activity and a slightly negative outlook. Retailers in St. Louis noted that business activity was mixed over the past month, and they are expecting interest rates to be a primary factor affecting consumer demand over the next quarter. An Arkansas retailer noted that profit margins had fallen in recent
weeks due to consumers spending more on grocery essentials and less on higher-margin merchandise. A Little Rock auto dealer reported that business activity was down slightly as bank financing continues to tighten. An Arkansas contact reported that sales of high-end boats are steady and low-end boats are down slightly, but sales for middle-market boats have collapsed. Restaurants in Memphis expressed concern that crime might lead to faltering consumer demand. District hospitality contacts noted mixed business activity over the past month but expect to have a typical busy summer.

**Manufacturing**

Manufacturing activity has increased slightly since our previous report. Firms in Missouri and Arkansas have reported slight upticks in new orders and production. Congestion with supply chains and transportation continues to ease, while production schedules also remain steady. A new glass bottle manufacturing facility broke ground in Bowling Green, Kentucky, creating 140 new jobs and a capital investment of $240 million. Two furniture manufacturers in Lee County, Tennessee, added 130 new employees, with an increased payroll of $4.5 million. Firms remain optimistic that demand will remain consistent at least in the near term.

**Nonfinancial Services**

Conditions in the nonfinancial services sector have been largely unchanged since our previous report. Air traffic rose slightly across the District. Contacts reported that labor shortages have constrained public transit in St. Louis, leading workers to look for alternative transportation options. A Louisville contact reported continually improving conditions in the transportation sector. Little Rock contacts reported that rising healthcare costs and labor shortages have put a strain on the industry. The Little Rock bicycling industry has seen significant growth in recent quarters, generating more than $150 million in total economic impact from jobs to tourism to taxes. A St. Louis workforce contact reported an increase in informal childcare providers offering small-scale services.

**Real Estate and Construction**

Residential real estate has seen slightly increased activity since our previous report. Median sale prices for residential real estate in the Little Rock, Louisville, and Memphis MSAs rose slightly in May, while median sale prices remained unchanged in the St. Louis MSA. Inventory dropped slightly in the Little Rock, Louisville, and Memphis MSAs in the past month. In the Louisville and Memphis MSAs, pending sales have jumped by 20% since our previous report. In the four major District MSAs, rental rates for residential real estate have seen small increases since our previous report. A northwest Arkansas contact noted that home price growth has decelerated in recent weeks.

Memphis-area real estate and construction contacts reported spillover effects from a major EV manufacturing project. Public construction elsewhere in the District has remained busy since our previous report, while private projects are starting to press pause for the moment. A Louisville commercial construction contact reported having 12-18 months of existing projects to complete but that some are aging out or being put on hold due to increased costs. A Louisville commercial real estate contact reported a trend of tenants moving from class “B” office spaces to class “A” spaces at reduced rates and noted that this shows no signs of slowing down in the future.

**Banking and Finance**

Banking conditions in the District have remained stable since our previous report, even as lending activity continues to soften. Year-over-year loan volume declined moderately. Contacts reported that small business lending in particular has been slow, due to higher interest rates. Total deposits growth, on the other hand, has seen a strong increase since the past quarter. Rising deposit interest rates continue to create a very competitive market for deposits, which is compressing net interest margins. Customer concerns regarding deposit safety remain relatively low in the aftermath of the Silicon Valley Bank and Signature Bank failures. Although delinquency rates have continued to rise toward pre-pandemic levels, contacts maintain a positive near-term outlook on credit quality. A retailer reported that credit card usage has risen sharply over the past few months, bringing credit utilization to its highest levels since 2019.

**Agriculture and Natural Resources**

District agriculture conditions declined moderately relative to the previous reporting period. Between the end of May and end of June, the percentages of corn, cotton, rice, and soybeans rated fair or better saw slight to moderate decreases across the board. Compared with this time last year, overall crop conditions have declined moderately. Crop conditions both began lower and decreased more over the period when compared with this time last year. With the exception of cotton, which increased modestly, all other individual crop conditions were worse compared with last year. Contacts in the Little Rock region reported some anxiety about the expiring farm bill later this year. While commodity prices remain high generally, some have begun retreating while input and fuel costs remain high, leading to profitability concerns as we enter the second half of the year.