Summary of Economic Activity

Economic conditions have remained unchanged since our previous report. Employers reported continued tight labor markets and easing wage pressures. Consumer demand softened slightly. Firms reported continuing increases in consumer sensitivity to sales prices and weaker demand for high-end goods or those that require financing. Banking contacts reported solid credit quality but decreasing loan demand and a continued steady rise in delinquency rates. Home sales dropped slightly, but contacts reported healthy demand and low inventory. Residential construction was mixed, but industrial and commercial construction saw growth.

Labor Markets

Employment has remained unchanged since our previous report. Labor markets remained tight, and industries reported mixed abilities to attract and retain talent. Contacts in tourism and food service continued to report struggles filling lower-level job vacancies. A manufacturing contact in Louisville reported having fewer applicants while requiring higher employment levels because of rising demand. However, in Little Rock, a banking contact noted success in retaining more top talent by fast tracking them to better positions.

Wages grew moderately since our previous report. On net, most contacts reported increasing wages over the previous quarter. Manufacturing contacts in Memphis reported wage inflation easing, and a hotel industry contact in Louisville noted employees’ requests for wage increases have declined.

Prices

Many businesses are aiming to maintain prices despite increasing input costs. The main reason for this is softening demand and increased price sensitivity from consumers. A respondent from a niche import business reported that despite an increase in freight costs, they could not fully raise prices because of falling sales. Another contact in the restaurant industry reported that although credit card transaction costs increased, they have not raised prices in order to stay competitive. More broadly, a regional survey reported that two-thirds of consumers delayed or did not buy a purchase because of higher prices. Some industry contacts reported steady overall demand, with consumers making substitutions for cheaper items. Others, such as a tourism contact from Northwest Arkansas, saw no immediate effect on demand after increasing prices.

Consumer Spending

District general retailers, auto dealers, and hospitality contacts reported mixed business activity and a slightly negative outlook. July real sales tax collections increased in Kentucky, Missouri, and Western Tennessee relative to the previous month and decreased in Arkansas. Retailers in St. Louis noted consumers have been watching their spending and switching to lower-quality and less-expensive goods. A Louisville auto dealer reported both new and used high-end vehicles are seeing a slowdown in demand due to affordability issues. This has been most prominent with full-sized pickup trucks and used vehicles over $25,000. District restaurant contacts noted mixed business activity over the past few months, with inflationary pressures still impacting consumer spending at all restaurants. Little Rock hospitality contacts noted a rebound in corporate travel. They also
reported that the strong demand for tourism is mainly driven by high-income visitors and a drop in low- and middle-income visitors.

**Manufacturing**

Manufacturing activity growth has decreased slightly since our previous report. Firms in both Arkansas and Missouri have reported slight decreases in new orders and production, but moderate increases in inventories. Lingering supply-chain issues and elevated prices on raw inputs continue to be an ongoing issue for manufacturers, though they have continued to improve in recent months. Firms are struggling to entice new workers, in part because of the increased availability of remote work in other industries. On average, firms reported they expect slight decreases in production, capacity utilization, and new orders in the coming quarter.

**Nonfinancial Services**

Reports of activity in the nonfinancial services sector since our previous report were mixed. Freight traffic increased slightly month-over-month but was slightly depressed from last year, while passenger traffic has been increasing slightly both month-over-month and year-over-year. A Little Rock transportation contact reported high demand for air travel. A contact in the Memphis transportation industry reported issues with shipping and rising concerns about an upcoming recession due to growing warehouse inventories. Overall, sales and sales expectations for services contacts were generally about the same or slightly lower across all regions. An education provider reported low school enrollment. A St. Louis childcare provider reported that sales met expectations, but higher costs contributed to a worsening outlook. A St. Louis healthcare provider is planning to expand facilities with a new medical office building.

**Real Estate and Construction**

Residential rental rates in the four main District MSAs have remained unchanged since our previous report. Arkansas and St. Louis contacts both reported high demand for rental units, with multiple applications submitted in the first week on the market. Total existing homes sold month-over-month dropped by 11% and 9% in Little Rock and Memphis MSAs, respectively, during July. Residential inventory in Little Rock, Louisville, and Memphis remained relatively constant since our previous report. Demand continues to be consistent since our previous report.

Industrial and commercial construction have remained strong since our previous report. One Louisville contact reported turning down multiple projects because of labor shortages. Another contact reported that rising interest rates are stalling commercial real estate sales because building values have declined at a rapid rate. Little Rock contacts saw residential construction increase since the previous report—in part a response to the tornado in March. Meanwhile, contacts in western Tennessee reported a slowing pace of residential construction.

**Banking and Finance**

Banking conditions in the District have remained stable since our previous report. Overall and credit card loan demand decreased slightly from the previous quarter, while commercial, industrial, and mortgage loan demand all decreased moderately. Contacts across the District reported tightening liquidity and profit margins due to the ongoing pressure to raise deposit rates. Delinquency rates continued to climb to pre-pandemic levels and are being closely monitored by banking contacts. One contact pointed to rising cost of living as a potential driver of the increase in consumer delinquencies. Overall, however, banks continue to report solid credit standards and quality, with little past-due loans, collections, foreclosures, or charge-offs.

**Agriculture and Natural Resources**

District agricultural conditions have been mixed since our previous report. Despite record-breaking heat and heat-dome-induced thunderstorms across the District, the percent of cotton and rice rated fair or better stayed stable throughout the reporting period, with cotton returning to 2021 rating levels after a moderate dip in 2022. Corn and soybean ratings both decreased more significantly during the summer months, sustaining their fall below 2020-2021 levels the previous year. District contacts described feeling the effects of extreme weather and increased interest rates in the form of higher input costs. On net, contacts indicated a slight decline in dollar value sales and an increase in inventories.