Summary of Economic Activity

Economic conditions have remained unchanged since our previous report. Labor markets remained tight, and employers reported that while applications had increased there were continued difficulties finding candidates with desired skills. Prices increased modestly due to higher input costs, though the rate of increases slowed. Businesses reported softer consumer demand and difficulty passing on input costs. Seasonal declines in leisure travel and increases in business travel moved the market closer to pre-pandemic norms. Rental rates in the residential and commercial real estate sectors were unchanged. Banking contacts saw some signs of consumer finance stress increasing but reported that overall credit risk remained moderate. Many contacts expressed concern about the economic outlook due to ongoing strikes and prospects of a government shutdown, but few effects were immediately apparent.

Labor Markets

Employment has increased slightly since our previous report. Despite continued reports of easing, the labor market remains tight, albeit less so than before. Several industries reported a mismatch of labor—plenty of applicants, but few with the correct matching of skills. A banking contact in Louisville reported taking more risks with less-experienced candidates, and several agriculture contacts in the District reported that it has become harder to find qualified workers. In contrast, some contacts reported it was easier to find and hire workers. Central Tennessee manufacturing and shipping contacts reported that labor shortages were no longer their most pressing issue.

Wages have grown slightly since our previous report, with the overall pace of increases slowing. A financial services firm in Louisville has seen a reduction in wage-increase requests from previous years, while agribusiness contacts noted lower-wage workers were requesting wage increases due to higher cost of living. A transportation contact in Central Kentucky has had to offer higher wages and retirement benefits to attract drivers.

Prices

Prices have increased moderately since our previous report. Of the firms that reported higher prices, the main driver was input costs. A couple common cost increases stood out: rising food prices and rising fuel prices. Although other input costs are rising, multiple contacts noted that the rate of increase has slowed over the past few quarters. Firms’ ability to pass costs on to consumers varied, and contacts noted that customers are pushing back on increasing prices. One contact who operates a bookstore reported that costs are directly passed on to consumers since their products are essentially pre-priced. Another contact from the hospitality industry noted that while they attempt to pass on costs, the increases are about 15% less than the actual growth in costs. A manufacturer cut back on non-essential expenditures, such as sponsoring school events, to help profit margins. A few contacts noted a decrease in prices, most notably in the used car industry.

Consumer Spending

District general retailers, auto dealers, and hospitality contacts reported mixed business activity and a slightly negative outlook. A retail contact in Louisville reported that their sales are starting to ramp up due to Halloween seasonal merchandise. A St. Louis auto dealer reported that despite pent-up demand from lack of inventory, business activity is being affected by decreased savings and high credit card debt. Their outlook for the next few months was initially optimistic but has weakened be-
cause of the auto worker strikes, and they now expect business activity to be impacted until 2024. A Memphis restaurant contact reported that business activity was down slightly due to unseasonably hot weather. District hospitality contacts reported mixed business activity and a slightly negative outlook.

Manufacturing
Manufacturing activity has moderately increased since our previous report. Firms in both Arkansas and Missouri reported moderate increases in new orders, production, and inventories. However, there were moderate decreases in employment. Rising input costs continue to be an ongoing issue for manufacturers, with labor being a significant factor. Auto workers went on strike at a St. Louis-area plant. A St. Louis-area steel manufacturer announced plans to temporarily idle one blast furnace at a plant and shift work to other facilities. On average, firms reported they expect slight decreases in employment in the coming quarter.

Nonfinancial Services
Activity in the non-financial services sector has cooled since our previous report. Overall, airport contacts reported leisure travel decreasing and business travel increasing, marking a return to pre-pandemic norms. A Memphis airport contact reported shortages due to a lack of trained pilots. A Memphis freight contact was one of many facing challenges with finding contractors willing to bid on smaller projects. Healthcare contacts reported high staffing turnover rates and uncertainty around the unwinding of pandemic-era policies and regulations.

St. Louis and Memphis trucking contacts reported that their industry was in a recession, with low demand and falling profits as consumers shifted spending to services and necessities. The consensus was that conditions will worsen, as elevated inflation, high interest rates, and persistent labor shortages negatively impact business.

Real Estate and Construction
Rental rates in the residential, industrial, and office real estate market have remained unchanged since our previous report. Demand in the office market continues to be a concern. Rental rates in retail spaces have increased since our previous report. Residential real estate median sale prices have remained constant since our previous report. Total homes sold have dropped over 10% in Little Rock and Louisville, and residential inventory has increased slightly across the District.

Industrial, multifamily, and residential construction have all slowed since our previous report. Construction contacts reported input costs plateauing in the past three months, but lead times continue to be longer than pre-pandemic. Construction contacts across the District reported that while financing is available for new projects, it is at such high rates that, when combined with higher input costs, "the numbers don't work" on even the best projects. Contacts report that due to uncertainty, some developers are buying land to save and develop in 12-18 months, while other developers are donating their own land for tax write-offs.

Banking and Finance
Banking conditions in the District have remained stable since our previous report. Commercial and industrial loan demand has remained steady. The demand for new housing loans is limited due to few home transactions. Rising deposit interest rates continue to create a tight market for deposits, raising the cost of funds and shrinking profit margins. Contacts reported that merger and acquisition activity of smaller banks has increased, with investment bankers reaching out for potential buyers. Demand for consumer loans continued to decline, and credit card usage remained elevated. While banking contacts reported that signs of consumer financial stress are increasing, they believe that overall credit risk remains moderate.

Agriculture and Natural Resources
Overall agricultural activity has remained stable since our previous report, though contacts’ outlook for future conditions was mixed. Corn and cotton yields across the District fell slightly below 2022 levels, while rice and soybean yields hovered slightly above. Corn and rice production increased relative to this time last year, but cotton and soybeans decreased. Low water levels meant that barges needed to float at a lower weight, which raised shipping costs. Due to elevated storage and transport costs, some contacts stated they planned to leave their crop in the field rather than harvest.