



Summary of Economic Activity

Reports from contacts indicate that economic conditions have continued to improve at a modest pace since our previous report. Labor market conditions remain tight, the pace of hiring remains slow, while wage growth has been moderate. Reports on consumer spending were positive. Residential real estate conditions have improved modestly after a few months of sluggish home sales. District bankers reported moderate loan growth across most categories. Unseasonably cold weather has negatively impacted the quality of winter wheat in the District.

Employment and Wages

Anecdotal evidence suggests little change in employment since the previous report. Contacts continued to report difficulties finding experienced or qualified employees. Construction contacts in Louisville and Little Rock reported labor shortages, while manufacturing contacts reported difficulties hiring for both skilled and unskilled positions. Labor demand in Missouri was particularly high in healthcare services, leisure and hospitality, retail, and wholesale trade.

Contacts reported moderate growth in wages since the previous report. A contact in Louisville reported increasing starting salaries multiple times a year to attract new hires, as well as increasing wages to retain skilled employees in information technology. Construction and manufacturing contacts across the District reported increasing wages to attract new employees.

Prices

Price pressures have increased moderately since the previous report. Residential real estate prices rose moderately, with especially strong growth in northwest Arkansas. Construction materials price pressures increased as well. Steel prices rose moderately throughout the District, and a Louisville contact reported an uptick in construction costs. A contact in Arkansas reported solid

wood products prices increased moderately but saw-timber and pulpwood prices were flat or decreased.

In the energy sector, coal prices were flat. In the agricultural sector, prices generally rose at a moderate pace. Corn feed, sorghum, and rice prices increased moderately, soybean prices were flat, and wheat and cornmeal prices decreased slightly. Contacts in Memphis reported strong increases in cotton prices, and Little Rock contacts reported rapid increases in large egg prices.

Consumer Spending

Reports from general retailers, auto dealers, and hoteliers indicate consumer spending has grown modestly since our previous report. November real sales tax collections increased in Arkansas, Kentucky, Missouri, and Tennessee relative to a year ago. Consumer confidence continued to increase in West Tennessee, as households indicated their willingness to spend more in the next few months relative to a year ago. Reports from auto dealers were mixed: While multiple auto dealers from Louisville and Little Rock reported improved traffic and sales, Memphis auto dealers reported that sales have softened the past two months. Auto dealers throughout the District hold an optimistic outlook for 2018. Louisville hoteliers continued to report weaker occupancy rates in the fourth quarter.

Manufacturing

Manufacturing activity has increased modestly since our previous report. Overall manufacturing activity was stronger than one month earlier in both Arkansas and Missouri, although the pace of growth slowed in Missouri. Production increased in both states, but at a slower rate than previously. Several companies in the District reported new capital expenditure and facility expansion plans, including firms that manufacture food and beverage products, chemical products, and transportation equipment. Sales to auto manufacturers, however, were flat to slightly down, according to contacts that supply the auto industry. Most manufacturing contacts expect conditions in 2018 to be similar to those in 2017, although a contact in the plastic products manufacturing industry expects a decline in business in 2018, citing increased foreign competition.

Nonfinancial Services

Activity in the service sector has expanded modestly since the previous report. Firms that provide transportation, logistics, and information technology services announced plans to increase employment, open new facilities, and renovate existing facilities. Demand for commercial trucking remains elevated because of Hurricane Harvey relief efforts, exacerbating a shortage of drivers. Reports from healthcare firms remain mixed. One major healthcare employer is cutting employees to improve operational management, while other healthcare providers began capital expansions.

Real Estate and Construction

Residential real estate activity has improved moderately since the previous report. Seasonally adjusted home sales for November increased sharply from the previous month across the District's four major MSAs. Local contacts continued to report shortages in inventory.

Residential construction activity was flat. November permit activity within District MSAs was unchanged relative to the previous month. Local contacts continued to report that a shortage of labor is limiting new construction.

Commercial construction activity improved slightly. November nonresidential construction starts increased moderately within the District relative to the previous month while multifamily permits dropped slightly. Little Rock construction contacts reported healthy levels of activity that they expect will continue through the first half of 2018 at least.

Banking and Finance

Banking conditions in the Eighth District have improved at a moderate pace since the previous report. District banking contacts report that outstanding loan volumes expanded by 7 percent relative to year-ago levels, indicating that loan growth, which had been slowing since the start of 2017, levelled off in December. Year-over-year growth in residential mortgage lending continued at 4 percent for the second consecutive quarter while commercial real estate lending grew by 9 percent. Commercial and industrial credit growth was also strong as loan volumes rose by 9 percent compared with 6 percent nationwide. Lending activity in open-ended home equity loans declined by 1 percent relative to year-ago levels and was the only major loan category that experienced negative growth.

Agriculture and Natural Resources

District agriculture conditions declined moderately from the previous reporting period. Due to unusually low temperatures across much of the District, the percentage of winter wheat rated fair or better fell 4 percentage points from the middle of November to the end of December; it is now 89 percent. Contacts are concerned that crop conditions worsened further during the first week of January, when temperatures plunged.

Natural resource extraction conditions declined slightly from October to November, with seasonally adjusted coal production falling 2 percent. November production was also down by 4 percent from a year ago.

Highlights by Zone

The Beige Book report provides an overview of economic conditions in the Eighth District based on information received from business contacts. Because aggregating zone data to the District level sometimes masks variations in conditions within the District, the summaries below are by zone: The headquarters office is in St. Louis and the branch offices are in Little Rock, Louisville, and Memphis.



St. Louis Zone

Economic conditions in the St. Louis zone continued to improve at a modest pace. Statewide surveys of hiring activity in Missouri were particularly positive in December, and claims for unemployment insurance dropped 5 percent between mid-November and the end of 2017.

Consumer spending grew at a moderate pace. November Missouri taxable sales increased 5 percent from one year ago. Reports of holiday sales were generally upbeat.

Manufacturing activity expanded at a modest pace, but at a slower pace than earlier in 2017; in particular, growth in new orders has slowed.

Housing market conditions continue to improve. Seasonally adjusted home sales in November were up over 10 percent, and inventories of homes for sale have also ticked up. Residential construction activity was little changed, with seasonally adjusted building permits up 2 percent in November.

Conditions of Missouri's winter wheat crop deteriorated in December, and unseasonably cold weather in January is likely to have worsened the condition of the crop even further.

Little Rock Zone

Economic conditions in the Little Rock zone have improved at a modest pace since our previous report. Consumer spending growth was modest. Arkansas taxable sales in November were up about 3 percent from one year ago. Local auto dealers were generally more optimistic about sales, mostly due to increased foot traffic in recent months.

Reports suggest slight growth in employment. The Arkansas purchasing managers' survey was consistent with slow employment growth in December. Contacts cited labor shortages and high turnover as key challenges to increasing employment. Statewide claims for unemployment insurance increased about 5 percent between mid-November and the end of December.

Manufacturing conditions modestly improved in December. Manufacturers reported an uptick in new orders, although current production levels are lower than a few months ago.

Real estate conditions were mixed. On one hand, seasonally adjusted single-family building permits dropped by 19 percent in November. On the other, seasonally adjusted home sales increased 5 percent, with the inventory of homes for sale dropping 3 percent.

Louisville Zone

Economic conditions in the Louisville zone continued to improve at a modest pace. Contacts across the zone reported moderate growth in wages. Contacts expressed a general sense of optimism for the region, often citing the number of active commercial construction projects. Bankers cited positive loan growth.

Several auto dealers reported that sales in 2017 were lower than in 2016, and they expect sales to remain at the same or a slightly lower level in 2018.

Reports from the manufacturing sector were generally positive, with about half of contacts reporting a record year. Firms reported a modest uptick in capital spending for 2018; most did not attribute this to changes in tax policy.

There was little growth in the residential real estate sector. Seasonally adjusted single-family building permits were down about 4 percent. Home sales were unchanged, and pending sales dropped 1 percent. The inventory of homes for sale also dropped slightly.

Memphis Zone

Economic conditions in the Memphis zone have shown slight improvements since our previous report.

Reports on consumer spending were mixed. Auto dealers in northwest Mississippi reported low sales volumes in December. Some retailers reported slow holiday sales, partially attributing this to a weak agriculture economy in the region and a shift to online shopping. However, convenience stores reported positive sales, with final sales above 2016 levels; and a sporting goods store reported the best holiday sales on record, driven by strong sales of higher-priced items.

Manufacturing reports were generally positive. Poultry manufacturing facilities continued to expand in the area, and a firm that produces refrigeration products noted expansion plans. However, a boat manufacturer reported a slowdown in new orders.

Real estate activity showed strong growth since our previous report. Single-family home sales in the Memphis area jumped by double digits, pushing inventories lower. Pending homes sales are up slightly, indicating that early 2018 sales could be off to a slow start. Construction activity increased, although at a slower pace: Seasonally adjusted single-family building permits were up about 2 percent in November. ■

Disclaimer

This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

Frequently Asked Questions

What is The Beige Book?

The Beige Book is a Federal Reserve System publication about current economic conditions across the 12 Federal Reserve Districts. It characterizes regional economic conditions and prospects based on a variety of mostly qualitative information, gathered directly from District sources.

The qualitative nature of the Beige Book creates an opportunity to characterize dynamics and identify emerging trends in the economy that may not be readily apparent in the available economic data. Because this information is collected from a wide range of business and community contacts through a variety of formal and informal methods, the Beige Book can complement other forms of regional information gathering.

How is the information collected?

Each Federal Reserve Bank gathers anecdotal information on current economic conditions in its District through reports from Bank and Branch directors, plus phone and in-person interviews with and online questionnaires completed by businesses, community contacts, economists, market experts, and other sources.

How is the information used?

The anecdotal information collected in the Beige Book supplements the data and analysis used by Federal Reserve economists and staff to assess economic conditions in the Federal Reserve Districts. This information enables comparison of economic conditions in different parts of the country, which can be helpful for assessing the outlook for the national economy. The Beige Book also serves as a regular summary of the Federal Reserve System's efforts to listen to businesses and community organizations.

Where can I find other Federal Reserve District Reports?

All current and past versions of the Beige Book are available on the Federal Reserve Board of Governors website: www.federalreserve.gov/monetarypolicy/beigebook/.

What is the Eighth Federal Reserve District?

The Federal Reserve Bank of St. Louis is the headquar-

ters for the Eighth Federal Reserve District, also known as District 8H. With Branches in Little Rock, Louisville, and Memphis, the District serves approximately 14.6 million people in the four zones that span all of Arkansas and parts of the six states of Missouri, Mississippi, Tennessee, Kentucky, Indiana, and Illinois.

The Federal Reserve Bank of St. Louis is one of 12 regional Reserve Banks in the United States that, together with the Board of Governors in Washington, D.C., make up the Federal Reserve System—the nation's central bank. The St. Louis Fed and the other regional Reserve Banks help formulate monetary policy, supervise and regulate banks and bank holding companies, and provide financial services to depository institutions and the federal government.

Join Our Panel of Business Contacts

The anecdotal information in this report was provided by our panel of business contacts. If you're interested in becoming a member of our panel, follow this link to complete a trial survey:

www.research.stlouisfed.org/outlooksurvey/.

Or email us at beigebook@stls.frb.org.

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