



## Summary of Economic Activity

Reports from contacts suggest economic conditions have improved slightly since our previous report. Labor market conditions remained tight: Employment grew slightly while wages continued to increase at a moderate rate. Price pressures strengthened modestly, with many contacts citing tariffs as a contributing factor to higher input prices. Most retailers expect to pass along increased costs to their customers. Reports on consumer spending activity remained mixed. Manufacturing activity continued to improve at a moderate pace. Residential real estate activity increased modestly while residential construction activity was unchanged. District bankers reported a moderate increase in loan demand. Agriculture conditions declined modestly, as some farmers expressed concerns over recent flooding.

### Employment and Wages

Employment has increased slightly since the previous report. Contacts throughout the District continued to note a tight labor market in a variety of industries, including construction, healthcare, manufacturing, and information technology. Companies have used a myriad of strategies to attract and retain workers, such as signing bonuses and paid time off. A contact in the trucking industry reported that insurance policies have prevented firms from hiring less-experienced drivers. Contacts in the agriculture industry near Memphis reported filling vacancies with temporary workers through the H-2A visa program.

Wages increased moderately, as the tight labor market has led to higher wages in several sectors. Contacts reported that raises for entry-level workers resulted in pay increases for experienced workers as well. Upward wage pressures for technical workers were especially strong. Small business wages increased modestly, with several contacts reporting that they could not afford to raise wages as much as larger firms could.

### Prices

Prices have increased modestly since the previous report. Retailers cited Chinese tariffs as a major factor driving up input prices, along with rising wages and

freight costs. Most expect to pass along these costs to their customers, with the exception of a regional grocer who noted that competition limits their ability to raise prices. Construction contacts similarly lamented increased costs from tariffs, wage pressures, and rising material prices. Metal prices have increased modestly since the previous report.

Healthcare contacts reported that there has been continuing robust growth in drug prices in the range of 8 to 15 percent annually, straining hospitals. However, consumers have been largely sheltered from these changes by insurance companies, experiencing only slight increases in deductibles and out-of-pocket maximums and actual decreases in premiums.

Agricultural commodity price changes have been mixed, although prices remain historically low. Cotton prices have experienced moderate growth since the previous report, while corn and soybean prices both declined.

### Consumer Spending

Reports from general retailers, auto dealers, and hoteliers indicated mixed consumer spending activity. Retailers in Missouri reported that bad winter weather negatively affected sales. Furthermore they expect weaker growth in 2019 compared with last year. Reports indicate

that retail sales were mixed in northwest Mississippi. Consumers in West Tennessee expect to spend slightly more this year than they did last year and have an improved outlook relative to three months ago. A grocer reported a shift in consumer demand away from products in the middle of the price spectrum toward both high- and low-end products. Multiple hospitality contacts reported flat tourism growth in Missouri from the same time last year.

Auto dealers reported mixed sales activity across the District. Some contacts conjectured that delayed or lower tax refunds reduced sales earlier in the year. Multiple dealers reported a decline in the credit ratings of buyers and increased demand for used vehicles. One dealer suggested that the latter trend may be due to higher financing costs for new vehicles rather than changing consumer preferences. Demand for electric vehicles has softened due to lower gas prices.

### **Manufacturing**

Manufacturing activity has increased moderately since our previous report. Overall manufacturing activity was stronger than one month earlier in both Arkansas and Missouri, and the pace of growth increased. New orders and production also increased in both states, each at a similar rate as in the prior month. Several companies across a variety of industries announced new capital expenditure and hiring plans, including firms that manufacture auto parts, primary metals, chemical products, and furniture.

### **Nonfinancial Services**

Activity in the services sector has slightly improved since the previous report. Contacts reported increased demand for barge, rail, and especially trucking transportation. However, growth in rail transportation has been muted due to flooding and lower exports of grain to China. In general, contacts indicated that a lack of recruits and high employee turnover have negatively affected their businesses.

### **Real Estate and Construction**

Residential real estate activity has improved modestly since the previous report. Seasonally adjusted home sales increased slightly in February across the District's largest MSAs. Contacts reported a dichotomy in the market: There is strong demand for lower-priced houses, while housing inventory comprises mostly higher-priced homes.

Residential construction activity remained unchanged. February permit activity was mixed. Contacts continued to report that labor shortages and high input costs have limited new construction.

Commercial real estate activity was mixed. Contacts reported a healthy market for office space in Memphis. Contacts in Memphis and Little Rock reported robust demand for multifamily units. Demand for retail space decreased modestly across the District.

Commercial construction activity declined slightly. Contacts in Memphis and Little Rock noted healthy levels of activity, but mostly in the form of renovations rather than new projects. Contacts reported that shortages of labor, combined with inclement weather, have limited new construction.

### **Banking and Finance**

Banking conditions in the District have improved moderately since the previous report. Outstanding loan volumes grew by 5 percent relative to year-ago levels in the first quarter, which was a slight increase from the fourth quarter of 2018. The rate of loan growth increased for the first time since the end of 2016. Commercial and industrial lending continued to be robust, growing by 9 percent year over year. Growth in residential real estate lending ticked up from the previous quarter and is now in line with the national rate. Bankers reported a sharp increase in deposits growth.

### **Agriculture and Natural Resources**

District agriculture conditions have declined modestly since the previous reporting period and the same time last year. District cotton and corn acreages are expected to increase from last year by 12 percent and 4 percent, respectively, while rice and soybean acreages are expected to decrease by 1 percent and 6 percent, respectively. This reflects reports by contacts that continued trade conflict with China has caused growers to shift production from soybeans to other crops. Overall, acreage for the four main crops is expected to decline by 1 percent from last year. Contacts have reported that the flooding of the Mississippi Valley is a major concern for growers and is expected to negatively impact timing and yields of crops this year.

Natural resource extraction conditions declined modestly from the previous reporting period, with seasonally adjusted coal production declining 3 percent from February to March. Additionally, District coal production declined nearly 8 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.*



### Little Rock Zone

Economic conditions in the Little Rock zone have continued to show slight improvement since our previous report. Labor market conditions remained tight, and wages increased moderately. One contact in construction noted that labor costs had risen so much that only the largest firms could complete projects.

Arkansas real taxable sales in February decreased 3 percent from a year ago. Auto dealers reported mixed sales activity.

Overall manufacturing activity in February strengthened since one month prior. New orders and production continued to grow moderately.

Single-family building permits were relatively unchanged from January to February. Home sales increased modestly while inventories dipped slightly. Local contacts noted a tight industrial market.

Arkansas corn and cotton acreages are expected to increase relative to last year, while rice and soybean

acreages are expected to fall. Overall, planned acreage for the four major crops is roughly the same as in 2018.

### Louisville Zone

Economic conditions in the Louisville zone have continued to improve at a slight pace since our previous report. Contacts indicated that labor market conditions remain tight and that wage pressures have increased as a result. Manufacturers within the zone announced plans to expand facilities in upcoming months. However, some areas in southwest Kentucky have seen expansions and new investment plateau.

Kentucky real taxable sales in February increased 5 percent from a year ago. Western Kentucky auto dealers reported strong auto and service sales activity. Louisville-area auto dealers noted that March sales improved after a very slow start to the year.

Single-family building permits fell slightly from January to February. Home sales ticked up slightly while inventories dropped slightly. Contacts anticipate a robust spring market, citing the recent decline in mortgage rates that is enticing buyers.

Kentucky farmers planned to increase corn acreage by 7 percent from last year while decreasing soybean acreage by 13 percent. In aggregate, acreage for the two crops is expected to be 5 percent lower than in 2018. Western Kentucky coal production declined modestly from January to February.

### Memphis Zone

Economic conditions in the Memphis zone have improved slightly since our previous report. Labor market conditions remained tight. According to local farmers, temporary workers hired through the H-2A visa program have provided much-needed labor. Reports indicate wage increases across a variety of industries. A contact in construction noted that wages have increased 5 percent from a year ago. Contacts in healthcare reported moderate price growth across most areas of their business.

West Tennessee real taxable sales in February increased 3 percent from the same time last year. Area consumers expect to spend slightly more this year than they did last year, and they have an improved outlook relative to three months prior. Auto dealers reported increased sales activity.

Memphis building permits ticked up slightly from January to February. Home sales increased modestly, while inventories continued to decline. Local contacts noted a very healthy office market but expressed concerns that there may be an overbuilding of hotels.

Tennessee corn acreage is expected to increase 15 percent relative to 2018, cotton acreage is expected to remain unchanged, and soybean acreage is expected to fall by 12 percent. Planned acreage for all three crops is 3 percent lower than last year. February coal production declined 7 percent from the prior month.

### **St. Louis Zone**

Economic conditions in the St. Louis zone have slightly improved since our previous report. Local contacts indicated that a tight labor market has restricted hiring. There were reports of wage growth across a variety of sectors, and this trend is expected to continue through the rest of the year.

Overall manufacturing activity strengthened from a month ago and the pace of growth increased. New orders and production continued to grow moderately according to a survey of Missouri manufacturing contacts.

Local contacts in transportation reported increases in freight costs. Rail transportation has been hampered by recent flooding.

Missouri real taxable sales in February increased 9 percent year-over-year. Local retailers indicated that bad winter weather negatively affected sales. Auto dealers reported that new car sales were lower than a year ago but used car sales have been strong.

Single-family building permits were relatively unchanged from January to February. Home sales picked up slightly, while inventories dropped moderately. Contacts in construction lamented rising input costs.

Missouri farmers planned to increase cotton and rice acreages from last year, leave corn acreage unchanged, and decrease soybean acreage. Illinois farmers likewise shifted away from soybeans, planning to increase corn acreage slightly. Overall, Missouri acreage is expected to decline by 3 percent this year from 2018, while Illinois acreage is expected to remain relatively unchanged. Missouri coal production in February decreased by 3 percent from the previous month. ■

## 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/](http://www.federalreserve.gov/monetarypolicy/beigebook/).

### What is the Eighth Federal Reserve District?

The Federal Reserve Bank of St. Louis is the headquarters for the Eighth Federal Reserve District, also known as District 8H. With Branches in Little Rock, Louisville, and Memphis, the District serves approximately 14.8 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, email us at [beigebook@stls.frb.org](mailto:beigebook@stls.frb.org).

### For more information, contact the St. Louis office:

Charles Gascon

[charles.s.gascon@stls.frb.org](mailto:charles.s.gascon@stls.frb.org)

Media inquiries

[mediainquiries@stls.frb.org](mailto:mediainquiries@stls.frb.org)