



Summary of Economic Activity

Economic activity has rebounded sharply since late May; however, overall conditions remain significantly depressed and the pace of recovery appears to have slowed since mid-June. Contacts reported reopening and bringing back furloughed workers, but the pace has been uneven across firms and sectors. General retailers, auto dealers, and hospitality contacts reported increases in business activity, while manufacturing contacts reported little change. Homes sales increased sharply while construction activity was mixed. In comparison with our previous report, the outlook among contacts is slightly more pessimistic while also much more uncertain.

Employment and Wages

Employment continued to increase at a robust pace. However, the pace of recovery has slowed through the reporting period and the level of economic activity remains depressed. Businesses have begun to reopen and bring back furloughed workers, but recovery has been uneven across firms and sectors. Small businesses have been slow to recover; one staffing contact reported small firms were "decimated," estimating that 5% of their small clients had filed for bankruptcy and expecting up to 25% to do so by the end of the year. Businesses that support other businesses, such as wholesalers and intermediate-goods manufacturers, have also been slow to recall workers in the face of weak demand. Some firms reported difficulty hiring back low-wage workers, attributing it to continued health concerns and unemployment benefits. Other firms, especially larger ones, have increasingly laid off workers as they reassessed how long the recovery will take and whether they should downsize permanently.

Reports on wage growth have been mixed. Some firms have increased wages for low-wage workers to entice them to return to work and forgo unemployment benefits; however, other contacts reported reducing hazard pay. A payroll contact reported that half his clients who had previously cut wages had returned them to pre-March

levels. Other firms have reported cutting nonwage benefits, such as matching 401K contributions, to control costs. One contact emphasized a systemic lack of "normal" raises and bonuses.

Prices

Prices have increased slightly since the previous report. The majority of contacts reported little to no change in input prices. However, many manufacturing and healthcare contacts reported somewhat higher input prices. Contacts reported robust growth in some commodity prices, such as coal, lumber, and shredded scrap; however, most prices remain lower than one year ago. Prices for crops have decreased moderately since the previous report. Some crop prices have risen robustly, but others such as those for wheat have decreased significantly. Although the price of corn has increased moderately since the previous report, the price has decreased significantly year-over-year. This has been largely triggered by lower demand for ethanol. The trucking industry has increased prices for services slightly since the previous report.

Consumer Spending

Consumer spending activity remains far below typical levels, though general retailers, auto dealers, and hospitality contacts reported increases in business activity

since our previous report. Seasonally adjusted credit and debit card spending in most District states increased from the end of May to mid-June. Most general retailers indicate that activity in May has exceeded low expectations and they had reported an optimistic outlook prior to the recent surge in new coronavirus cases. Many restaurants continue to struggle under modified business models, and some indicate that they may not be able to stay open much longer if business conditions do not improve. Auto dealers reported strong sales in June, with some firms reporting year-over-year increases. St. Louis-area hotel contacts reported that occupancy has increased since the beginning of May but remains significantly depressed. Hospitality contacts do not expect business to return to typical levels until 2022.

Manufacturing

Manufacturing activity is little changed since our previous report. Survey-based indices showed slight improvement in overall manufacturing activity in Arkansas and Missouri from May to June. New orders and production increased modestly in both states, the first signs of growth since February. Contacts in steel and printing industries reported no change to production because of limited demand; both are still producing at about two-thirds capacity. One contact reported extending planned shutdowns past the Fourth of July, resulting in the furloughing of some workers; another contact reported having recently laid off a few workers.

Nonfinancial Services

Activity in the services sector has improved since the previous report. Job vacancies decreased uniformly across the District in nonfinancial services firms by approximately 10 percent year-over-year. Staffing contacts reported that professional service sector positions have increased halfway to pre-pandemic levels and very few contractors have been laid-off in recent weeks. A hospital contact reported volumes for inpatient services has increased faster than anticipated. Reports from contacts at airports in the District noted steady recoveries. Passenger traffic has more than doubled since our previous report. However, levels compared with last year remain severely depressed. Contacts reported that cargo traffic remains steady and is down in some airports by only 1.5 percent compared with last year. Trucking contacts noted small increases in revenue due to price and hauling increases.

Real Estate and Construction

Residential real estate activity has sharply increased since the previous report. Pending home sales in early June improved from their lows in April, and some contacts reported new sales above levels relative to last

year. Home showings in early June were up relative to one year ago across most states in the District. Inventory levels remained very low throughout the District, and contacts reported increased competition for available listings, with sales exceeding the asking price. A contact in St. Louis reported an increase in in-person showings and closings. A contact in Memphis noted that some businesses were downsizing their office real estate as they moved toward permanent remote-work arrangements. Construction activity was mixed in late May and early June as businesses reported either no change or a decrease in weekly operating revenue in June relative to prior weeks. A contact in St. Louis reported a slowdown in invoice payments from customers, suspecting that customers were looking for ways to conserve cash.

Banking and Finance

Reports from District banks indicate a strong increase in demand for banking services. Demand for commercial and industrial loans has increased sharply, while residential real estate and consumer loan volumes modestly increased. Low interest rates spurred many customers to refinance mortgages, providing new fee income to bankers. In addition to mortgage closings, PPP loans and other incentives have provided additional liquidity. However, banking contacts have expressed concerns about profitability due to the expectation of a longer-term low-rate environment and higher delinquency rates. As a result, many bankers have reduced deposit rates to offset margins.

Agriculture and Natural Resources

District agriculture conditions remain unchanged relative to the previous reporting period. Between the end of May and end of June, the percentages of corn and soybeans rated fair or better increased modestly, while the percentages of cotton and rice decreased modestly. The percentages of corn, rice, and soybeans rated fair or better are significantly above their values a year ago, while the percentage of cotton rated fair or better slightly decreased. Agriculture contacts have indicated that, in the past month, agribusinesses have not experienced significant shortages or slowdowns in demand and have remained open due to their essential status. However, there is some concern that additional financing may be necessary to bridge gaps in cash flows if the overall economic slowdown is prolonged.

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

According to a banking contact in southern Arkansas, most businesses had reopened by June with only a few permanent closures; PPP loans and other grants have played a significant role in sustaining local firms during the crisis.

A transportation contact noted the availability of food-grade commercial trucks has tightened considerably over the past month. As most of the country attempts to reopen its economy, demand for hauling food and other consumer products has increased dramatically.

A publisher noted advertising is down significantly, by 25% to 50%, since the typical advertisers have been very hard hit by the pandemic-related economic shock.

A construction and industrial equipment sales company reported experiencing no slowdown in their overall sales during the peak pandemic months of March through May 2020. A negative effect from COVID-19 within the industry is that the lead times for receiving new equipment have been stretched out to 12 to 16 weeks, which is about double historic lead times. A home construction contact noted that business has been good over the past few months, with particularly strong home-remodel business.

An auto contact noted tight supply has impacted used vehicle prices. June used car prices were up 6% from one year ago and more than that for the lower priced units. At the beginning of the pandemic, it was originally thought that used car pricing would drop significantly.

Boat sales are now at historical highs, with dealers interviewed for this report having only 3 to 5 boats available for sale as of July 8. Many of the boat manufacturers shut down production due to the virus concerns. Those same manufacturers have now reopened, building boats again and filling new orders.

Agriculture contacts noted a historic surge in demand for rice has come at a time when U.S. crop production was the second smallest in the past 10 years. In Arkansas, the start of the rice harvest is only a little over a month away, and the 2020 U.S. long grain crop is expected to be 29% higher than the 2019 crop.

Louisville Zone

A Kentucky hospital noted that after a 60% decline in activity in April, by June activity was back to pre-COVID-19 levels.

Several restaurants with drive-throughs reported that business has increased. Also, restaurants with delivery service reported that business has been good during the past several months. As restaurants open for in-house service at 50% capacity, contacts reported that business is sluggish and that they are having trouble getting employees to report to work.

An auto manufacturer experienced enough demand to require an additional shift and overtime schedules. Plastics manufacturers also reported a surge in demand.

A lumber distributor noted that lumber pricing has increased about 75%, and doubled in some cases, due to supply shortages.

Major real estate firms indicate that residential real estate sales levels are exceeding last year's. Commercial property sales are much slower, but activity is growing, particularly for warehouse space.

Banking contacts noted that continued adjustment to PPP repayment terms and guidelines is limiting business interest in other borrowing opportunities; however, clients continue to maintain higher cash balances.

Memphis Zone

Banking contacts reported their mortgage departments have seen a surge in business, while the pipelines for commercial loans are down. Many loan payments are in deferral, but businesses are back operating and financial stress of clients has moderated.

Manufacturing contacts reported stronger demand; however, supply chain difficulties are leading to slower delivery times.

Memphis-area hospitals reported bed shortages due to increased COVID-19 cases, and testing delays have become more prominent in recent weeks.

Northern Mississippi furniture industry contacts reported very strong demand for their products, although manufacturing remains strained due to labor shortages.

Banking contacts reported about one-quarter of borrowers are pursuing additional deferrals on loans or modified terms. Overall commercial loan demand is weak, while residential loan demand has strengthened.

St. Louis Zone

Area real estate contacts reported strong home sales during the month of June and modest increases in selling prices. Contacts expect to see a slowdown in July, as inventories have been reduced.

Staffing contacts noted that interest in contractors declined sharply in March but has climbed about halfway back in the months since. Overall demand is lower across all sectors they service. Overall wage rates remain stable. Ironically, there's a tight labor market for some positions due to the large number of people not returning to work.

A manufacturing contact reported continued operations, but this was only due to federal assistance; the contact noted incoming orders have continued to slow over the past few weeks, causing its order backlog to weaken. ■

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 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 beige-book@stls.frb.org.

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