



Summary of Economic Activity

Economic conditions have continued to improve at a moderate pace since our previous report. Contacts continued to cite labor shortages and supply chain disruptions as primary issues. Increased input costs have led to cost pressures across industries, and firms with the power to do so reported passing along these costs to their customers. Consumer spending has remained steady since our previous report. Residential real estate inventories increased slightly, but prices remained high. Industrial real estate has experienced strong growth, with major projects launched around the District. Banks reported declines in lending activity due to increased uncertainty related to the COVID-19 Delta variant.

Employment and Wages

Employment has increased modestly since our previous report, with widespread hiring attempts hindered by the continuing labor shortage. Firms reported various strategies to attract scarce workers. Some redesigned open positions to be more attractive; others held job fairs; others turned to offshoring; and many reported sign-on and retention bonuses. One large retailer planned to raffle off a car to seasonal employees with good attendance. Several firms emphasized a new focus on students and young workers: One contact at a transportation technical institute remarked that, in contrast to typical years, every student graduating this year has already found a job. Other contacts simply reported adapting to worker shortages—automating jobs, cutting down on business hours, or turning to contractors as necessary. One Indiana school district, lacking bus drivers, temporarily returned to remote learning.

Wages continued to increase strongly in the tight labor market, with small firm wages rising more slowly. One real estate contact reported giving employees raises every pay period, which they feared was unsustainable; an agriculture employer reported that a 20% wage increase still left them with significantly fewer workers than they wanted.

Prices

Prices have increased moderately since our previous report. Contacts across industries reported increased input costs. Some industries, such as construction, have been able to pass these cost increases to consumers, whereas contacts in the healthcare industry noted difficulty passing along increases in input costs. One contact noted double-digit price increases on farming equipment. In the construction industry, contacts reported lower lumber prices but noted the high cost for items such as steel and shingles. One contact reported that steel suppliers will honor discussed prices only for a day.

Consumer Spending

General retailers, auto dealers, and hospitality contacts reported that activity has been unchanged since our previous report. September seasonally adjusted credit and debit card spending increased in Illinois, Indiana, Mississippi, and Missouri relative to August and decreased in Arkansas and Tennessee. In West Tennessee, consumer perceptions of the current economic situation declined slightly and expectations for the future of the economy declined significantly. Auto dealers and restaurants continued to report that supply chain issues and labor shortages are restraining sales. A truck dealer reported record demand and all-time high profitability. A St. Louis hospitality contact reported that revenue per

available room exceeded 2019 levels in early October for the second time since the pandemic began.

Manufacturing

Manufacturing activity has seen a moderate increase since our previous report. Firms in both Arkansas and Missouri reported upticks in new orders and production, although the rate of growth has slowed slightly. Supply chain delays and availability have continued to be issues, affecting the prices of intermediate goods in steel, concrete, and timber. Manufacturers are beginning to explore producing these goods domestically to address shortages. Contacts are still optimistic about future growth but remain concerned over global supply chains and wage inflation. The industry is undergoing significant physical expansion in the District, with plans for a paper mill in Henderson, KY, battery plants in Kentucky and Tennessee, and a speculative industrial warehouse in St. Louis.

Nonfinancial Services

Activity in the nonfinancial service sector has increased slightly since our previous report. Airport passenger traffic remains near 80 percent of pre-pandemic levels due to strong leisure travel; several airport contacts were optimistic about business travel as more firms return to in-person work. Several transportation contacts noted that demand is strong, but shortages of shipping containers and barges remain an issue. A healthcare contact noted that, while revenue has improved since this time last year, surgery and emergency room revenues have not returned to pre-COVID levels. Several healthcare contacts mentioned that hospitals are busy, in part due to COVID patients, and face staffing issues.

Real Estate and Construction

The residential real estate market has remained strong since our previous report. Inventory remains restricted, but there are some increases in inventory across all price ranges. Prices remained steady, but there are fewer bidding wars and some price reductions. Residential construction has remained strong since our previous report, but the industry is struggling with supply chain shortages and retaining workers. Many input materials continued to have extended lead times. Some buyers who purchased a property and planned to build on it have elected to delay construction until supply chain issues are resolved.

The commercial real estate market has remained mixed since our previous report. Industrial real estate remains strong, and many major firms are buying build-to-suit and spec industrial space across the District. The office market is improving, but prices and vacancy rates have

not returned to pre-pandemic levels. One contact reported companies are more willing to sign leases but are still wary of signing full five-year lease contracts. There is very little financing available for office space, which is causing delays as landlords and tenants disagree over who should pay for repairs and improvements. The market for retail space struggled last year, but demand has improved rapidly since February. A contact in the healthcare sector noted that rising construction prices are hindering infrastructure updates for rural hospitals.

Banking and Finance

Banking conditions have worsened slightly since our previous report. Contacts noted a pause in lending activity due to uncertainty surrounding the Delta variant. Consumer, commercial, and industrial loans declined moderately, while real estate loans increased modestly. A contact in Kentucky reported strong growth in residential real estate lending due to higher construction costs. Delinquency rates remained low, but some lenders are concerned that delinquencies will increase as unemployment benefits have expired. Loan pricing remained competitive, and multiple contacts cited concerns over elevated deposit levels and interest margin compression.

Agriculture and Natural Resources

Agriculture conditions have slightly improved since our previous report. Overall crop yields have increased moderately over the previous year. Contacts are very optimistic about the current conditions in the District. Farmers have reported a strong harvest season combined with high prices, which have contributed to a strong season overall. Hurricane Ida caused some slight delays but was not a major disruption to the District's agribusiness. There is, however, some concern about rising input prices, global supply chain disruptions, and the lack of labor necessary for both low- and high-skilled agriculture work.

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 improve at a moderate pace. Contacts noted that supply chain issues and labor shortages remain primary concerns.

A central Arkansas contact noted that a warehousing firm dealing with labor shortages has begun shifting office workers to warehouse work when delivery trucks arrive.

Several contacts reported wage increases for existing employees and signing bonuses for new employees. An Arkansas staffing firm reported wage increases of 25% in manufacturing and warehouse requests and an increase in job seekers negotiating for remote work in sectors where it is possible.

Parts shortages have constrained business in several construction and services industries. An Arkansas truck mechanic has turned down jobs due to a lack of available parts and does not plan to replace a recently departed employee until they can resume work.

While the housing market remains strong, demand has slowed slightly from the record highs of the past few months. Contacts noted that product availability has slowed construction, and the resulting supply shortages have limited sales. One contact reported an 18-week wait for window deliveries; another noted that while lumber prices have fallen, the volatility has caused additional disruptions in inventories and pricing discrepancies between companies.

Louisville Zone

Economic conditions in the Louisville zone continue to improve at a moderate pace. Contacts noted that the economic impact of the rise in COVID cases was less severe than expected. Hotel operators noted strong weekend bookings, with very few weekday business travelers.

Contacts in counties with low vaccination rates expressed concern vaccine mandates could exacerbate labor supply issues in the next few months. Worker groups cited lack of childcare and rigid work schedules as the main obstacles for individuals accepting positions.

Contacts in southern Indiana noted that industrial development inquires continue at a record pace. The residential real estate market appears to have softened but contacts are unclear if trends are due to normal seasonal patterns or a broader softening in the market. Prospects of high renovation costs and uncertain timelines have deterred some would-be buyers from purchasing properties. A banking contact noted that fewer borrowers are requesting loan pre-approvals in excess of list prices.

A truck dealer reported that staffing is down significantly; but, with low inventories and strong demand, the firm believes it can do more with less. An auto parts manufacturer noted that vehicle production delays have mitigated their failure to hire more staff, which would be needed if production levels were higher.

Natural resource and agriculture conditions have improved since our previous report. Row crops have remained in good condition throughout harvest season and prices have remained stable. Coal prices and production have both increased sharply.

Memphis Zone

Economic conditions in the Memphis zone have continued to improve at a moderate pace since our previous report. Firms reported wage increases across a wide range of positions as they seek to hire additional workers. A large retailer had to postpone opening a new store because of lack of staff.

Banking contacts reported ample liquidity and low deposit rates. Nonperforming loans remain low across asset classes, and payoffs of existing loans are elevated.

A chemical manufacturer noted that sales growth remains healthy for 2021 but it's "very clear" that supply chain disruptions since February have restrained growth and are now leading to sharp price increases starting in the fourth quarter.

Tissue manufacturers reported that most of the excess inventory in homes appears to have diminished, allowing production to return to a normal capacity.

Agriculture conditions have improved as prices for cotton remain higher than average as the harvest begins and corn and soybean yields have been stronger than expected. Farm equipment dealers reported strong business and higher prices but similar supply disruptions and inventory issues as in the auto industry.

St. Louis Zone

Economic conditions in the St. Louis zone have improved at a moderate pace since our previous report. The pace of hiring has slowed in recent weeks, with firms reporting ongoing difficulties hiring and retaining workers. Area hospitals reported significant staffing shortages and rapid wage increases for nurses.

Hospitality and tourism contacts noted that hotels continue to struggle with staffing shortages, which has eliminated or reduced some services. Contacts indicated that the surge in COVID cases likely impacted their business for about a two-week period and then activity returned to the "new normal."

Residential real estate contacts noted that sales of single-family homes have slowed and are down slightly from one year ago. However, pending sales of condos and townhouses are up slightly. Prices for both property types are up sharply from the same period last year. Contacts indicated a steady number of new listings, which is uncommon for the fall, when new listings tend to slow.

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, follow this link to complete a trial survey:

bit.ly/stlecon

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

For more information, contact the St. Louis office:

Charles Gascon

charles.s.gascon@stls.frb.org

Media inquiries

mediainquiries@stls.frb.org