



Summary of Economic Activity

Economic conditions have declined slightly since our previous report. Consumer demand for goods and services has slowed slightly and price increases have continued across a broad range of sectors. Labor shortages have limited activity in service sectors, and employers continue to raise wages to attract and retain workers. Input prices rose, and most firms reported plans to pass additional increases on to consumers. Real estate contacts saw homebuying activity slow significantly, while demand for rental properties strengthened. The agriculture and manufacturing sectors experienced continued supply chain bottlenecks and input shortages that contributed to price increases. The overall outlook for business conditions over the next 12 months has improved slightly but remains pessimistic.

Labor Markets

Employment activity has been mixed since our previous report. Contacts across the District continue to report that workers remained scarce. Several St. Louis public schools temporarily suspended school bus services because of a shortage of drivers. Some firms utilized flexible hours, bonuses, and increased entry-level pay to fill jobs and retain workers. In contrast, some Arkansas contacts reported recent signs of the labor market easing, including wage pressures beginning to level out.

Wages across the District have grown moderately since our previous report. One Louisville-area professional services firm gave workers bonuses to keep up with inflation, and a Little Rock leisure and recreation contact had to raise their skilled labor wages by 15%. Some short-staffed firms reported they were continuing to offer incentives to work more hours or on weekends but were still receiving few to no takers.

Prices

Prices have increased moderately since our previous report. Approximately half of all contacts reported modest to moderate increases in prices charged to consumers. A jewelry retailer reported higher prices charged to consumers and expects to further raise prices in coming months. Auto dealers reported increased prices charged to consumers. A contact in the health care industry reported “double digit” increases in payroll costs. Multiple

contacts in the hospitality industry reported higher input costs, but reports on the pass-through rate to consumers were mixed. A furniture store contact expects sales prices to decrease due to excess supplier inventory.

Consumer Spending

District general retailers, auto dealers, and hospitality contacts reported mixed business activity and a mixed outlook. One retailer in St. Louis noted that they had a dramatic improvement in sales in early August; although they are not completely sure of the reason, they suspect that declining fuel prices played a big role. An auto dealer in Little Rock reported that some of their customers are asking to be let out of their vehicle order commitments. Most restaurants in Louisville noted that overall customer volume is down considerably. Hospitality contacts reported mixed business activity compared with this time last year and a mixed outlook for the upcoming months.

Manufacturing

Overall manufacturing activity increased slightly since our previous report. Survey-based indices suggest that production, capacity utilization, and new orders have all increased slightly, while inventory levels and employment remain low. Production times are still longer than they were pre-pandemic, and supply chain issues still limit the availability of key inputs. Though the backlog of orders remains long, the rate of new orders has slowed

due to softening demand. Labor shortages from COVID-related absenteeism are still a major concern for manufacturers. On average, firms reported they expect slight increases in production, capacity utilization, and new orders in the coming quarter.

Nonfinancial Services

Activity in the nonfinancial services sector has decreased slightly since our previous report. While freight air traffic has slightly increased, passenger traffic decreased. A ground transportation company in Kentucky reported struggling to meet demand and to find new trucks and mechanics. Healthcare firms in the Louisville region saw tight labor markets and high employee turnover rates. Labor costs increased as outpatient medical clinics competed with hospitals for the same credentialed employees by increasing pay by 25% and paying licensing fees, but an increase in appointment cancellations and higher out-of-pocket expenses for patients led to fewer sales this quarter. In Eastern Missouri and Northern Kentucky, post-secondary education institutions saw lower enrollment as fewer people opted to attend college, and childcare contacts reported that a lack of qualified applicants inhibited expansion.

Real Estate and Construction

Commercial real estate activity has slowed slightly since our previous report, with large office buildings competing for few clients. Industrial real estate inventory remains extremely low, though industrial construction activity has increased.

Residential real estate demand has slowed significantly since our previous report. Contacts reported that it remains a seller's market, but the "multiple-offer" market has ended. Prices remain elevated compared with one year ago, and inventories are just beginning to return to pre-pandemic levels. An Arkansas real estate contact noted that, while demand has contracted, it remains above pre-pandemic levels.

Demand for rental units has continued to increase since our previous report—especially for single-family housing. Rental rates in all four major District MSAs increased since our previous report. The general outlook of contacts remains negative, with over 80% of contacts in real estate and construction describing their outlook as somewhat or significantly worse than the previous quarter.

Banking and Finance

Banking conditions in the District have seen little change since our previous report. On average, surveyed bankers indicated that overall loan demand has decreased slightly compared with the same quarter of last year. While mortgage loan demand has declined, due to a combination of rising interest rates and low housing inventory, demand for commercial and industrial loans has increased moderately. Delinquency rates for all loans are largely unchanged relative to the same quarter of last year, and watch-list loans remain manageable. Banking contacts in Louisville expect more competitive deposit rates in the coming months, as liquidity wanes from its previously high levels.

Agriculture and Natural Resources

District agriculture conditions have moderately worsened since our previous report. Compared with the previous reporting period, crop conditions in the District have either slightly declined or remained relatively unchanged. Relative to the previous year, the percentage of corn, cotton, and soybeans rated fair or better sharply declined, while the same measure for rice slightly increased. Worsened conditions may be partially attributable to the droughts and severe flooding that have affected the District, especially Missouri and Kentucky. Additionally, District contacts indicated that farming conditions remained strained due to input prices and labor shortages, with the ability to hire quality labor being their biggest concern.

Natural resource production fell moderately from July to August, with seasonally adjusted coal production decreasing just above 7%. Additionally, production is down approximately 3% 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 seen little change since our previous report.

Northwest Arkansas saw continued strong homebuyer activity and rising prices. The rate of growth slowed slightly in July and August, but the region's growth is still well above District averages.

A Northwest Arkansas auto dealer reported that consumer demand for new vehicles remains strong, but rising interest rates have affected affordability.

Several firms reported cancelling or delaying capital expenditures due to price increases. One retailer reported that the cost of a recent store was more than double expectations. An Eastern Arkansas childcare facility has canceled expansion plans due to rising costs and concerns about the payroll needed to staff a larger space.

The overall outlook among contacts is pessimistic. On

net, 38% of contacts expect regional economic conditions during the remainder of 2022 to be worse than in 2021.

Louisville Zone

Economic conditions in the Louisville zone have worsened slightly since our previous report.

A truck manufacturer reported that they are struggling to meet the demand for new trucks due to labor and supply shortages. Across the trucking industry, mechanic shortages have led to rising labor costs.

A social services agency noted that rising prices have decreased the quantity of supplies food pantries can purchase, even as demand for their services is rising.

Multiple firms noted that demand for electric motors and renewable energy developments had softened in recent months because of increased price sensitivity.

A Western Kentucky bike shop noted that inventory has risen, but demand has slowed in recent weeks. Sales are slightly above 2019 levels but down about 20% from the previous two years.

The overall outlook among contacts is pessimistic. On net, 35% of contacts expect regional economic conditions during the remainder of 2022 to be worse than in 2021.

Memphis Zone

Economic conditions in the Memphis zone have worsened slightly since our previous report.

A healthcare contact reported that bed capacity has been reduced by 30% due to labor shortages.

A food service contact reported that they are focusing on reducing portions in an attempt to avoid further price increases and that competitors are doing the same.

A multinational textile firm reported they expect demand to soften and margins to tighten over the remainder of the year, citing weakening conditions in Europe as a primary reason.

The overall outlook among contacts is pessimistic. On net, 27% of contacts expect regional economic conditions during the remainder of 2022 to be worse than in 2021.

St. Louis Zone

Economic conditions in the St. Louis zone have worsened slightly since our previous report. Contacts cited labor shortages and softening demand as key issues hampering growth.

St. Louis City trash pickup was limited by staffing short-

ages. The city offered sign-up bonuses and held a job fair, but struggled to fill required positions.

St. Louis County raised wages for new and existing police officers in an attempt to attract and retain workers.

A financial services firm reported an increase in customers seeking payment deferrals and extensions.

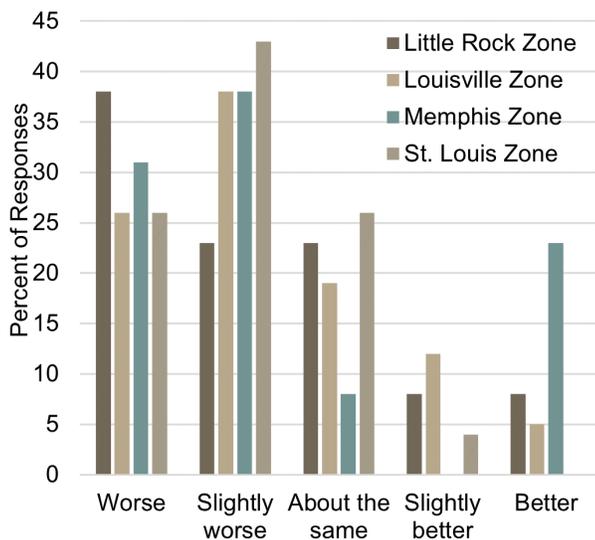
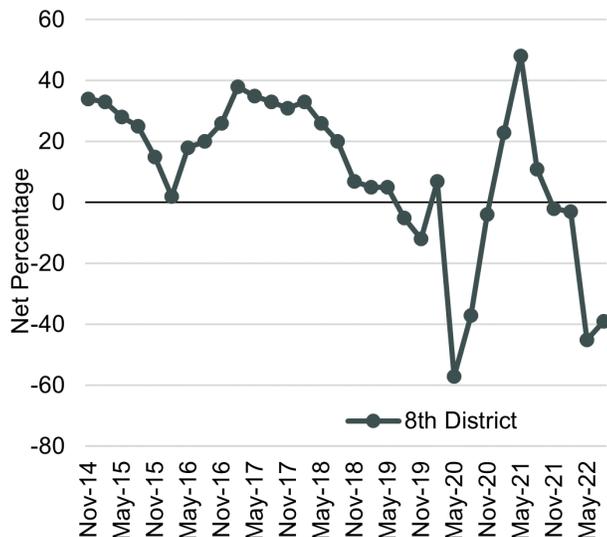
A tourism contact with an elderly customer base reported that demand has remained strong over the past few months.

The overall outlook among contacts is pessimistic. On net, 46% of contacts expect regional economic conditions during the remainder of 2022 to be worse than in 2021. ■

Supplemental Data and Survey Results

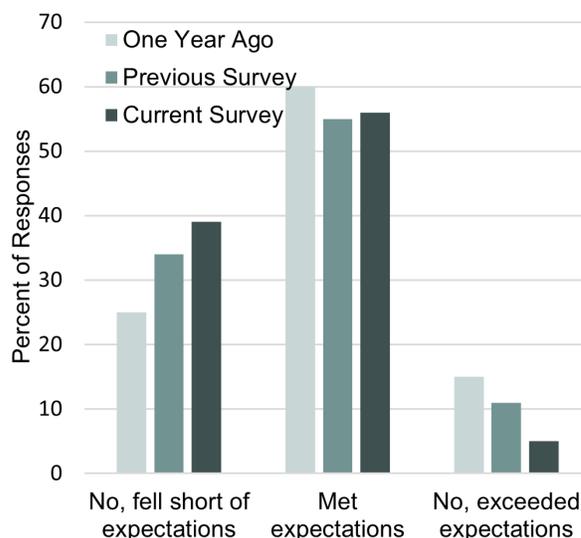
Anecdotal information in this report was provided by our panel of business contacts, who were surveyed between August 8 and August 19. The previous survey was conducted between May 9 and May 27. The following are selected results from those surveys.

How do you expect local economic conditions to change during the remainder of this year?



Note: Interactive versions of these charts can be found at: <https://research.stlouisfed.org/publications/regional/beige-book>.

Have sales at this point in the current quarter met expectations?



How do you expect each of the following measures to change at your firm relative to the same time last year?

	Previous Survey	Current Survey
Prices Charged to Customers	51%	41%
Sales (Dollars)	14%	-4%
Inventory	-2%	2%
Nonlabor Costs	69%	64%
Capital Expenditures	23%	25%
Labor Costs	68%	62%
Wages	71%	64%
Hours per Employee	19%	14%
Employment	14%	3%

Notes: Values are reported as the net percentage of respondents reporting increases. Responses are weighted as follows: *increase* (+1), *slightly increase* (+0.5), *decrease* (-1), and *slightly decrease* (-0.5). Values greater than zero indicate a net increase from one year ago, while values less than zero indicate a net decrease from one year ago.

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