



Summary of Economic Activity

Information from contacts suggests that economic conditions have continued to expand at a modest pace since our previous report. Reports of planned activity in the manufacturing and nonfinancial services sectors were generally positive. Labor market conditions remain tight, with moderate growth in both employment and wages. Reports indicate that consumer spending growth was generally unchanged, but with expectations of improvement in the first part of this year. Residential real estate conditions were somewhat mixed, while commercial real estate activity remained robust. District bankers reported that loan demand remained modest, with growth among most loan types.

Employment and Wages

Anecdotal evidence suggests moderate increases in employment and wages since our previous report. Contacts described the year-end increases in employment as in line with growth in previous years. Reports indicated that manufacturing employment increased moderately in Missouri and modestly in Arkansas. Contacts in Louisville expressed difficulties finding seasonal workers because of the high demand for seasonal employment combined with a tight labor market, leading some to increase wages temporarily to attract employees. Contacts in Little Rock reported that wages for skilled workers continue to steadily increase. In addition, the number of unemployed workers per advertised vacancy fell modestly throughout the District in December.

Prices

Price pressures in the District remained modest. In general, business contacts did not report many changes in prices charged to customers. Low commodity prices continue to put pressure on profit margins in sectors dependent on the agricultural sector. For example, agricultural equipment dealers outside of Memphis reported they have reduced prices on late-model used trade-ins to fuel sales. A contact in Arkansas reported there has been no shale drilling activity recently due to large inven-

tories and the low price of oil. Another contact in Little Rock cited concerns that the strengthening of the U.S. dollar is putting downward pressure on grain prices. However, since the previous report, cash prices for coal and feed corn both increased moderately; those for corn meal, soybeans, and sorghum increased slightly; and those for rice declined slightly. Across the District, home prices continued to increase moderately. A contact in the Memphis area also reported higher prices in industrial and retail properties.

Consumer Spending

Reports from general retailers and auto dealers indicate consumer spending growth in the District was generally unchanged. Contacts described the increase in year-end sales as in line with typical seasonal fluctuations. Arkansas taxable sales picked up in December after a sluggish November. The purchasing sentiment of District households continued to indicate that the next few months should be a good time to buy major household items. Multiple business contacts cited relatively low gas prices compared with the national average as a source of optimism. Furthermore, nearly half of surveyed auto dealers expect year-over-year increases in sales in the first quarter of 2017, and the majority anticipate increases in inventory over the same period.

Manufacturing

Manufacturing activity has increased modestly since our previous report. Many companies reported capital expenditure and facility expansion plans in the District, including several manufacturers of food products and wood products. In contrast, a large manufacturer of transportation equipment announced plans to close a large facility and relocate operations outside of the District. Manufacturers were generally optimistic and expect new orders and production to increase over the first quarter. Contacts expressed concern about the strong dollar, the possibility of trade restrictions, and global economic weakness.

Nonfinancial Services

Reports of plans in the District's service sectors have been positive since the previous report. In particular, several firms that provide healthcare, retail, and utilities services announced plans to build or expand facilities and hire new employees. Reports from information services, leisure and hospitality, and professional and business services were mixed, with some expansion but also several facility closings and layoffs. Reports from the transportation sector were positive. A Little Rock contact noted that trucking activity has outperformed seasonality in the past 5 or 6 weeks.

Real Estate and Construction

Residential real estate activity was mixed across the District, with little overall change in home sales from the previous reporting period, while inventory remained tight. Residential construction activity was also roughly unchanged since the previous report. Seasonally adjusted building permits for November were flat, on average, across District metropolitan areas. Still, permit activity was higher than a year ago. Some local homebuilders indicated concerns over rising mortgage rates.

Commercial real estate activity increased at a moderate pace. Multifamily and industrial demand continued to strengthen. Commercial construction activity improved moderately. The amount of new non-residential space started in November was significantly lower than a year ago in the largest metro areas in the District. However, a number of new projects were announced or approved across the District. St. Louis in particular saw plans established or greenlighted for a multitude of new multifamily and office buildings. A local contact also noted that field work has been steadily increasing despite the slowdown in construction starts.

Banking and Finance

Credit market conditions within the District improved at a moderate pace since the previous reporting period. According to a survey of 85 small- and mid-sized District banks, overall lending activity experienced moderate growth across all lending categories with some signs of a slight tapering. Increases in real estate lending made the largest contributions to aggregate loan growth since the previous reporting period. Over the same time frame, loans to individuals expanded at the highest rate for any singular loan category. Bankers reported demand for commercial real estate loans was generally unchanged while commercial and industrial loan portfolios grew at a moderate pace. Some banks have reported increases in non-performing loans in their agricultural loan portfolios, which they attribute to low commodity prices throughout last year.

Agriculture and Natural Resources

As of late November, 95 percent of the District's planned winter wheat had been planted, which is a roughly 1-percentage-point improvement over last year. Faster planting occurred partly because District farmers planned to plant 13 percent fewer acres than they did for the prior crop year. Reports suggest that low snow accumulation, which serves as insulation for winter wheat, and periods of extremely cold temperatures may reduce yields.

District seasonally adjusted coal production dropped 3 percent from November to December, while year-to-date production through December was 18 percent below last year's level.

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

Information received since our previous report indicates that economic conditions in the St. Louis zone have improved modestly since then. Labor market conditions in the zone improved at a moderate pace. In St. Louis, there was an uptick in seasonally adjusted job vacancies to over 3 open positions per 100 persons in the labor force, well above both the District and national rates.

Residential real estate activity was similar to the District-wide trend. St. Louis seasonally adjusted home sales were little changed, dropping slightly between November and December, but ending the year about 5 percent higher than 2015. Local residential construction activity fared a bit better than in the District overall, as seasonally adjusted building permits in St. Louis were up about 9 percent between October and November.

Commercial real estate activity in St. Louis slowed slightly during the fourth quarter. Office vacancy rates ended the year slightly lower than one year ago, while retail vacancy rates remained flat. Demand for apartments remained strong. New construction offset stronger demand, keeping vacancy rates unchanged while rents increased about 4 percent from one year ago. Commercial construction activity ended the year showing steady upward momentum, with both the number of projects and value of the projects up from one year ago.

Louisville Zone

Economic conditions in the Louisville zone continue to be among the strongest in the District. Recent reports suggest growth continued at a moderate pace. Labor market conditions improved, as businesses posted more seasonally adjusted job openings in December than November.

Contacts in the hospitality sector noted that the closure of the Louisville convention center did not negatively impact business as much as anticipated; but 2017 is expected to remain a challenging year, with the facility undergoing renovation. Reports from area auto-industry contacts were mixed, with dealers indicating that sales numbers for 2016 were good and improvement was expected into 2017; whereas, a manufacturing contact noted that auto-parts production was down slightly in 2016 and flat sales were expected for 2017.

There has been a modest decline in the number of non-residential construction projects during 2016; however, contacts report that larger projects have generated stronger demand for services. A commercial real estate contact in the Louisville area reported that, after a slow-down in leasing during the fall, activity picked back up toward the end of the year.

Residential real estate activity slowed slightly toward the end of the year. Both seasonally adjusted existing and pending home sales have declined since our previous report. However, single-family construction has picked up; single-family building permits increased about 1 percent between October and November.

Little Rock Zone

Reports suggest that labor market conditions in the Little Rock zone improved modestly. There was a slight uptick in seasonally adjusted job vacancies in Arkansas during December, although the vacancies rate remains below the District average. Conversely, statewide initial unemployment insurance claims moved up slightly between November and December.

Anecdotes suggest steady improvement in consumer spending as taxable sales increased in December and consumer confidence surveys indicate households feel it is a good time to buy household goods. However, many farmers, especially in eastern Arkansas, are less optimistic about their cash flow projections for 2017.

Nonfinancial services remain strong, particularly in central Arkansas, as three medical centers announced or completed facility upgrades. Food and wood manufacturing contributed to growth in manufacturing, and plans to renovate a southern Arkansas sawmill corroborate anecdotal evidence of increased sawmill activity. Contacts report the drought that persisted through the end of November hindered barge traffic on the Arkansas River.

Real estate activity has improved since our previous report, with strong growth in November home sales pushing year-to-date values above their 2015 levels in Little Rock. Residential construction activity in Little Rock slowed slightly as seasonally adjusted single-family building permits declined 7 percent between October and November, but are up strongly year to date. Rising mortgage rates were mentioned by both realtors and construction contacts as a concern, as they could lead to a drop in first-time home buyers and reduce the demand for new housing.

Memphis Zone

Information received since our previous report indicates that economic conditions in the Memphis zone have improved modestly since then. Anecdotes from business contacts indicate that local holiday retail sales were strong, and contacts generally held an optimistic outlook for 2017. Farmers reported a good bean crop and a great cotton crop; farmers are generally more optimistic at the start of this growing season than last year. Regional labor market conditions in Memphis improved since our previous report as firms posted slightly more jobs in December than in November.

Residential real estate activity showed steady improvement during the final months of the year. Year-to-date home sales in Memphis were 10 percent higher than in 2015. Memphis pending home sales moved slightly higher. Residential construction activity, however, has slowed somewhat after steady growth earlier in the year. Despite the slowdown, local general contractors reported that their pipelines and prospects for 2017 are in a good position. An architecture contact reported that their business continues to look promising for 2017 for both rehab and new construction.

Commercial real estate activity has moderated somewhat, but a local banking contact reported that the demand for commercial real estate loans remains strong. Vacancy rates for retail and office properties are stable, with modest increases in rental rates. The industrial propriety market continues to be very strong and rents are expected to rise as supply remains tight. ■

For more information about District economic conditions visit:
research.stlouisfed.org/regecon/

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 14.6 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.

For more information, contact the St. Louis office:

Charles Gascon

charles.s.gascon@stls.frb.org

Media inquiries

mediainquiries@stls.frb.org