



Summary of Economic Activity

Economic conditions have continued to expand at a modest pace since our previous report. General retail sales growth was modest, while manufacturing activity showed signs of strengthening. Conversely, reports from auto dealers indicated a slight decline in first-quarter sales. Business contacts surveyed in mid-February continued to hold an optimistic outlook for growth in 2017. On net, 57 percent of contacts expect District economic conditions in 2017 to be better or somewhat better than last year. This was a slight improvement since contacts were surveyed in mid-November.

Employment and Wages

Employment has increased modestly since the previous report. On net, 25 percent of business contacts surveyed in mid-February reported that first-quarter employment was higher or slightly higher than a year ago; 18 percent reported hours worked were higher or slightly higher. District contacts continue to report that the labor market remains tight. Manufacturing, real estate, and construction contacts in St. Louis reported difficulties finding qualified candidates, and contacts in Memphis and Louisville reported an inability to fill key positions.

Contacts reported moderate wage growth since the previous report. On net, 63 percent of contacts reported wages were slightly higher or higher than a year ago. Contacts in Little Rock reported that wages for skilled workers continue to increase slowly, with more employees changing employers for higher wages. Contacts in Memphis and Louisville reported upward pressure on wages for both skilled and unskilled positions.

Prices

Price pressures have increased modestly since our previous report. A greater share of business contacts surveyed reported higher prices charged to consumers than in previous surveys. On net, 33 percent of contacts reported prices were slightly higher than a year ago and a similar share expect price increases during the second

quarter. On net, 44 percent reported non-labor input costs were slightly higher or higher.

A contact in the Louisville manufacturing sector reported their raw material input costs were slightly higher due to supply shortages of certain chemicals needed higher in their supply chain. Since the previous report, cash prices of rice and corn have declined slightly, while the prices of sorghum and soybeans were slightly higher and coal prices were modestly higher. House prices across the District also increased moderately. A residential real estate contact in the St. Louis area reported raw material prices have climbed.

Consumer Spending

General retail sales growth has been modest since our previous report and contacts continued to hold an optimistic outlook for 2017. Most general retailers reported a slight increase in year-over-year sales halfway through the first quarter. Similarly, the majority of hospitality contacts in St. Louis, Memphis, and Little Rock indicated that sales during this period met expectations and that they anticipate sustained growth in the months to come. On the other hand, a hospitality contact in Louisville reported that occupancy rates are projected to decrease this year after a strong 2016. Reports from auto dealers indicate a slight decline in year-over-year sales in the first quarter. Half of surveyed auto dealers reported a

shift in demand toward used vehicles, and the remaining dealers reported no change.

Manufacturing

Manufacturing activity has increased at a moderate pace since our previous report. Several companies reported capital expenditure and facility expansion plans in the District, including motor vehicle, food product, and wood product manufacturers. In a recent survey, contacts reported an improvement in manufacturing conditions. A strong majority reported that production, new orders, and capacity utilization increased in the first quarter relative to one year ago. This is an improvement from our previous survey, when most contacts reported no change in activity from one year earlier. Contacts were also optimistic about the second quarter, with three-fourths expecting further growth in production, new orders, and capacity utilization. Despite the optimistic outlook, some contacts expressed concerns about labor shortages and possible trade restrictions.

Nonfinancial Services

Responses from the service sector have been positive since the previous report. In particular, several firms that provide information technology services, leisure and hospitality services, and healthcare announced plans to build new or expand current facilities and hire new employees. Reports from the transportation sector were positive, with two large employers hiring new employees and renovating facilities. Reports from the professional business services and warehousing sectors were mixed—some existing employers reduced employment while new companies began hiring. About two-thirds of service and transportation contacts reported sales met or exceeded expectations in the current quarter, and two-thirds of contacts expect dollar sales to be higher in the second quarter than at the same time last year.

Real Estate and Construction

Residential real estate activity has improved slightly since our previous report. Real estate contacts reported mixed home sales activity, indicating little change in overall sales. Nearly half of respondents indicated that sales fell short of expectations midway through the first quarter, citing reasons such as low inventory levels and higher mortgage rates. Still, many real estate contacts expect demand to improve in the second quarter, pushing single-family sales above one year ago. Residential construction activity has improved slightly since the previous report. December construction starts ticked up, while there was a minor decrease in permit activity. A

slim majority of local real estate contacts reported that residential construction activity was slightly higher than a year ago halfway through the first quarter, and a similar fraction of respondents expect construction to continue to increase into the second quarter.

Commercial real estate activity has improved at a moderate pace since the previous report. A majority of respondents indicated an increase in demand for both office and industrial properties compared with the same time last year. Meanwhile, most contacts reported no change in demand for retail and multifamily properties. These trends are expected to continue in the coming months. Commercial construction activity improved modestly. Local construction contacts continued to report a rise in demand for office and retail properties.

Banking and Finance

Banking conditions in the District have improved at a moderate pace since the previous report. Banking contacts report moderate to robust year-over-year growth in demand for business and mortgage loans. District bankers also indicate that the credit quality of applicants for these two loan categories was markedly higher during the relevant period compared with last year. Since the previous report, there has been an uptick in the number of bankers reporting deteriorating credit quality among agricultural loan applicants. Nevertheless, contacts indicate that delinquency rates were slightly improved across all loan categories. The overall outlook among banking contacts is positive, with contacts citing expectations of modestly higher loan demand and the possibility of regulatory relief reducing compliance costs.

Agriculture and Natural Resources

Agriculture conditions were unchanged from the previous report. As of the end of January, more than 94 percent of District winter wheat was rated fair or better, a slight improvement over crop conditions at the end of January 2016 and the current crop's condition at the end of December. However, contacts reported that lower grain prices continued to affect farmers in the area, who have further reduced investment in land and equipment.

Natural resource extraction conditions improved slightly from the previous report, with coal production stabilizing and higher coal prices helping profits. District seasonally-adjusted coal production was little changed from December to January, while production was 10 percent above last year's level.

Highlights by Zone

The 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

Business contacts in the St. Louis zone showed increasing optimism for stronger growth in 2017. On net, 60 percent of contacts expect local economic conditions in 2017 to be better or somewhat better than last year. This was a notable improvement to the outlook since contacts were surveyed in mid-November when, on net, 28 percent expected conditions in 2017 to be better than in 2016.

Employment growth in the zone remained modest: On net, 32 percent of business contacts surveyed in mid-February reported that first-quarter employment was higher or slightly higher than a year ago. Area manufacturing contacts noted labor shortages for both technical and production employees. Wages have grown moderately since the previous report. On net, 60 percent of contacts reported wages were slightly higher or higher

than a year ago. Contacts in real estate and construction noted that steady growth in the industry and effectively full employment are nudging wages higher.

Real estate conditions in St. Louis improved, but remained somewhat weaker than the same time last year. Seasonally adjusted January home sales were unchanged from December, but were about 5 percent lower than the same time last year. Residential construction activity gained some momentum to start the year, as housing starts picked up in December after declining during the second half of 2016.

Louisville Zone

The outlook of business contacts surveyed in mid-February in the Louisville zone remained optimistic. On net, 54 percent of contacts expect local economic conditions in 2017 to be better or somewhat better than last year. This result is essentially unchanged since contacts were surveyed in mid-November.

Employment growth in the Louisville zone remained modest: On net, 24 percent of business contacts surveyed in mid-February reported that first-quarter employment was higher or slightly higher than a year ago. Wage pressures were a bit stronger than in the District overall. On net, 65 percent of contacts reported wages were slightly higher or higher than a year ago.

Nonresidential construction activity remained robust. A commercial real estate contact in Louisville reported downward pressure on rents due to speculative industrial construction that has increased inventory.

Little Rock Zone

The outlook of business contacts in the Little Rock zone continued to signal increased optimism for 2017. On net, 81 percent of contacts expect local economic conditions in 2017 to be better or somewhat better than last year. No contacts expect conditions to worsen. This was a notable improvement from the already-optimistic outlook in mid-November when, on net, 59 percent expected conditions in 2017 to be better than in 2016.

Contacts indicated only slight growth in employment: On net, 13 percent of business contacts surveyed in mid-February reported that first-quarter employment was higher or slightly higher than a year ago. Contacts in rural parts of the zone noted that continued outward migration has made it difficult to recruit and hire quality candidates. Wage pressures were generally moderate. On net, 44 percent of contacts reported wages were slightly higher or higher than a year ago.

A significant amount of growth took place in non-residential real estate in the Little Rock metro area itself, where demand for office space increased and plans for a new entertainment district were recently announced. Conversely, seasonally adjusted home sales dipped 8 percent between December and January and were about 6 percent lower than the same time last year. Residential construction activity was generally unchanged.

Memphis Zone

The outlook of zone business contacts surveyed in mid-February remained optimistic but weakened slightly since mid-November. On net, 33 percent of contacts expect local economic conditions to be better or somewhat better than last year. This is down from 46 percent in mid-November, but a considerable improvement from the outlook one year ago when, on net, 23 percent of contacts expected conditions to be worse or somewhat worse.

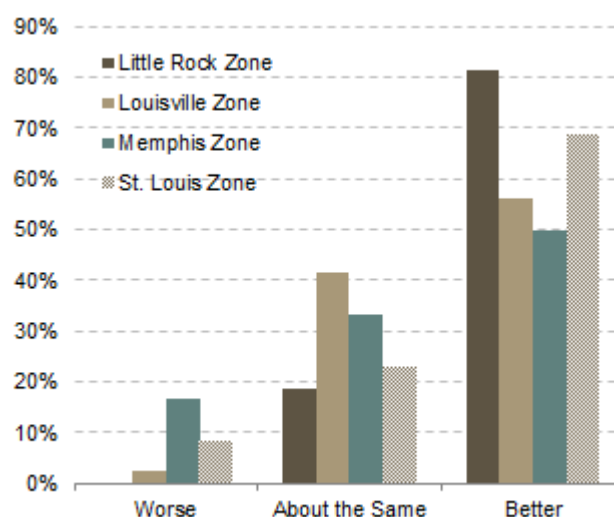
Employment growth in the Memphis zone was slightly weaker than in the District overall: On net, 17 percent of business contacts surveyed in mid-February reported that first-quarter employment was higher or slightly higher than a year ago. Conversely, wage pressures were a bit stronger than in the District overall. On net, 78 percent of contacts reported wages were slightly higher or higher than a year ago. Consistent with the general survey results, a contact in Memphis noted that the lack of qualified candidates is affecting businesses' ability to meet demand and driving up wage costs.

Real estate conditions in Memphis weakened slightly in recent months, but sales activity remains stronger than one year ago. Seasonally adjusted home sales fell 1 percent between December and January, but were up 12 percent from one year ago. Residential construction activity rebounded in December after dropping sharply in late fall. ■

Supplemental Data and Survey Results

Anecdotal information in this report was provided by our panel of business contacts, who were surveyed between February 8 and February 13. The previous survey was conducted between November 8 and November 16 of 2016. The following are selected results from those surveys.

Question: How do you expect local economic conditions to change in 2017 relative to 2016?



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	18%	33%
Sales (Dollars)	27%	31%
Inventory	11%	4%
Non-Labor Costs	48%	44%
Capital Expenditures	27%	15%
Labor Costs	55%	51%
Wages	52%	63%
Hours per Employee	18%	18%
Employment	30%	25%

Note: Values are reported as the net percentage of respondents reporting increases. The percent of contacts responding “increase” or “slightly increase” minus those responding “decrease” or “slightly decrease.” 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 14.6 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