



Summary of Economic Activity

Reports from contacts suggest that economic activity in the District has continued to increase at a modest pace since our previous report. Overall employment growth was modest, while wage growth remains moderate. Overall inflationary pressures remained modest. Reports on consumer spending suggest moderate growth since our previous report, with a moderate uptick in auto sales toward the end of the first quarter. Real estate activity was little changed, while District banks reported moderate growth in loan demand. Overall activity in agriculture and natural resources remains weak because of low commodity prices; however, conditions remain generally unchanged since the previous report.

Employment and Wages

Anecdotal evidence suggests modest employment growth since the previous report. Several industries continue to report shortages of available workers. Construction contacts in Memphis and Little Rock reported shortages of workers, and manufacturing contacts reported difficulties in hiring and retaining experienced employees. Contacts in transportation and manufacturing reported that growth has been restrained because of difficulties hiring experienced workers.

Contacts reported moderate wage growth since the previous report. A manufacturing contact in Louisville noted upward pressure on wages in the region, with employers expecting to moderately increase wages. Anecdotal evidence suggests that tightness in the labor market has resulted in some employers increasing wages to attract employees.

Prices

Price pressures in the District remained modest. Business contacts did not report changes in overall prices charged to customers. Low commodity prices continue to put pressure on sectors dependent on the agricultural sector. The most-expensive used farm equipment is selling at deep discounts at auctions, while equipment prices have remained stable or increased slightly for the less-expensive equipment. Contacts in Memphis and

Little Rock reported feed prices have declined, given the lower price of corn. Since the previous report, prices for coal and rice have remained about the same, while prices for corn, soybeans, sorghum, and wheat have declined slightly.

Across the District, home prices continued to increase moderately, with contacts in all areas reporting low inventory. Contacts in Memphis and Louisville reported rents were modestly higher for Class A commercial properties, particularly in some major markets. Price pressures from construction materials were mixed. Contacts in Little Rock reported solid wood prices increased modestly, while prices for pine saw timber, chips, and pulpwood remained flat or decreased slightly since the mild winter allowed for an increase in supply.

Consumer Spending

Reports from general retailers, auto dealers, and hoteliers indicate consumer spending growth has been moderate since our previous report. Retail sales growth was particularly strong in the Memphis area; accordingly, the majority of households in west Tennessee continue to hold an optimistic outlook for their financial situation for 2017. Furthermore, the northwest Arkansas region reported record sales tax revenue figures for March. Hospitality contacts in St. Louis and Louisville reported a modest to moderate decline in occupancy rates. Reports

from auto dealers indicate that sales picked up after a relatively slow January. Furthermore, multiple dealers in the Memphis area noted a shift in demand toward used vehicles.

Manufacturing

Manufacturing activity has increased modestly since our previous report. Manufacturing activity in March was stronger than one month earlier in both Arkansas and Missouri, although the pace of increase slowed slightly in Missouri. Many companies reported capital expenditure and facility expansion plans in the District, including firms that manufacture medical devices, clothing, and chemical products. However, a number of firms announced plans to close facilities, including manufacturers of machinery, food products, and primary metals.

Nonfinancial Services

Reports of plans in the District's service sector have been mixed since the previous report. In particular, several firms that provide transportation, warehousing, and information services reported plans to build new facilities or expand employment. Two trucking contacts reported business is good enough to justify new equipment and increased hiring. Reports from the professional business services sector were mixed. Some existing employers laid off workers, but new companies opening in the District were hiring and building facilities. Reports from the healthcare sector were mostly negative; layoffs were announced in Louisville and Memphis; however, healthcare facility expansions were announced in Little Rock.

Real Estate and Construction

Residential real estate activity has decreased slightly since our previous report. Home sales declined in most major metro areas. Local contacts continued to report a shortage of inventory relative to strong current demand. Concerns about rising mortgage rates were mixed, as some contacts indicated that higher rates have had no significant effect on the market.

Residential construction activity has improved modestly since the previous report. February construction starts were generally flat, while permit activity increased moderately. Some local builders reported that speculative homes were selling before completion, indicating that construction has continued to lag behind demand.

Commercial real estate activity has been flat since the previous report. Local contacts indicated that demand has remained steady for most property types. Contacts

noted some concerns that St. Louis office vacancy rates will rise in the near future due to new construction combined with expiring leases of vacant properties.

Commercial construction activity was mixed. Non-residential construction started to dip in February. However, recent reports from local contacts were generally positive, with most seeing either a continuation of strong construction activity or an increase in the number of projects undertaken. Contacts expect this trend to continue through the year. New projects for various property types were announced or broke ground, including several new hotels, multifamily structures, speculative industrial parks, and mixed-use projects.

Banking and Finance

Banking and credit conditions in the District have strengthened at a moderate rate since the previous report, with some signs of accelerating growth in lending. Real estate loan volumes increased at a moderate pace over the period, with the rate of growth continuing to tick upward. However, contacts report that high-volume lenders are shrinking market areas for multifamily properties due to softening demand. Meanwhile, commercial and industrial lending among District banks rose at a moderate to robust rate and markedly outpaced the nation in terms of growth. Loans to individuals and households continue to expand at a robust rate and continue to account for an increasingly larger share of outstanding loan portfolios.

Agriculture and Natural Resources

Agricultural conditions were unchanged from the previous report and the same time last year. In March, farmers planned to plant about 20 percent more cotton than last year, but 20 percent less rice. These movements correspond to a continued increase in cotton fiber prices and a continued decline in rice prices. With corn and soybean prices remaining low, farmers planned to reduce corn acreage by 5 percent and increase soybean acreage by roughly the same percentage. This planned switch in the District's two largest crops was largely driven by the fact that soybeans, with much lower per-acre costs, require much smaller operating loans.

Natural resource extraction conditions improved modestly from the previous report. District seasonally adjusted coal production grew 4 percent from January to February and was 10 percent higher than one year ago. ■

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

Economic conditions in the St. Louis zone improved at a modest pace. Contacts report that hiring is generally slow but jobs in hospitality and healthcare are in high demand. Manufacturing activity improved modestly, and contacts expect continued modest growth.

Consumer spending improved at a modest pace, as Missouri sales tax collection increased in March both with respect to February and with respect to a year ago. Conversely, hospitality contacts in St. Louis and Springfield reported weakness in the hospitality sector during the past two months.

Real estate conditions were somewhat mixed. March single-family home sales were unchanged relative to the same time last year. However, construction activity picked up modestly.

Little Rock Zone

Economic conditions in the Little Rock zone have improved at a moderate pace since our previous report. With generally low unemployment rates, labor market conditions remain tight. Contacts noted that even with on-the-job training, there is significant turnover.

Overall consumer spending activity improved modestly. Auto dealers reported that sales started picking up in February after a slow January.

Manufacturing activity increased at a moderate pace, and contacts hold a generally optimistic outlook for the upcoming months.

Residential real estate conditions have continued to soften. Seasonally adjusted home sales declined modestly between January and February and are about 5 percent lower than one year ago. Similarly, construction activity weakened slightly, with a drop in single-family permits.

In a notable turn, Arkansas farmers planted significantly fewer acres of rice.

Louisville Zone

Conditions in the Louisville zone improved at a modest pace, with some general weakness on the consumer spending side and strength in real estate markets. Wage pressures remain moderate, as almost all polled regional employers are expecting wages to increase around 3 percent during the year.

Auto dealers reported mixed sales activity during the first quarter, while hotel occupancy rates in Louisville have declined.

Commercial real estate prices for most property types continued to increase modestly from a year ago, except suburban office, retail power centers, and regional malls. Seasonally adjusted homes sales rebounded in February, increasing almost 5 percent from January, but activity remains slightly slower than one year ago. Similarly, residential construction activity was generally unchanged.

Memphis Zone

Economic conditions in the Memphis zone have improved at a moderate pace since our previous report. The pace of hiring remains slow, as employers have struggled to attract workers to keep up with demand.

The furniture industry in northeast Mississippi is very strong and some manufacturers cannot fill orders due to lack of workers. A large manufacturer has begun offering a sign-on bonus to attract new employees.

Consumer spending activity showed signs of a rebound after a weak start to the year. Multiple auto dealers reported unusually strong months, especially for used cars. Reports of convention and tourist activity also indicate strong spending in February and March. Measures of consumer sentiment for west Tennessee improved in March relative to three months ago.

Housing market activity was somewhat mixed. Seasonally adjusted home sales fell sharply between January and February, but February sales remain 3 percent higher than one year ago. Prices have also moved up. A contact in Memphis noted that an inventory shortage is driving up prices for homes in the \$200,000 to \$400,000 range. ■

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.

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