



Summary of Economic Activity

Economic conditions have continued to expand at a modest pace since our previous report. District labor market conditions continue to improve, with modest employment growth and moderate growth in wages. Reports from retail contacts paint a mixed picture on consumer spending, with signs of weakening auto sales but positive reports from non-auto contacts. Manufacturing contacts generally reported increases in new orders. Real estate contacts reported that low inventories and higher construction costs continue to reduce home sales and push up prices, while banking contacts reported strong growth in the demand for mortgages. In general, business contacts surveyed in mid-May continued to hold an optimistic outlook for growth in 2017. On net, 55 percent of contacts expect District economic conditions in 2017 to be better or somewhat better than last year. This outlook was generally unchanged since contacts were surveyed in mid-February.

Employment and Wages

Employment has increased modestly since the previous report. Of the business contacts surveyed in mid-May, on net, 31 percent reported that second-quarter employment was higher or slightly higher than a year ago and 40 percent expect third-quarter employment to be higher or slightly higher than a year ago. Contacts continued to report difficulties finding skilled or motivated employees. Construction contacts in St. Louis, Louisville, and Memphis reported shortages of workers, with a contact in Louisville noting that the shortage has affected their ability to complete work.

Contacts reported moderate wage growth since the previous report. On net, 61 percent of contacts reported wages and labor costs were higher or slightly higher than a year ago; however, a slightly smaller share expect increases in the third quarter. Contacts in construction, manufacturing, and banking reported increasing wages to retain and attract employees. However, a contact in Louisville noted that a shortage of workers in information technology has not resulted in increased wages. In addition, depressed agriculture prices have kept wage increases to a minimum in eastern Arkansas.

Prices

Price pressures in the District were moderate. Business contacts surveyed reported that prices charged to con-

sumers and non-labor input costs increased moderately. Contacts reported prices and non-labor costs were slightly higher or higher than a year ago. Contacts also reported that healthcare costs have increased moderately.

House prices increased moderately. Real estate contacts reported that high costs of residential construction are pushing house prices higher and lack of construction labor is pushing up costs of commercial construction projects. Contacts reported increasing costs of raw materials. In particular, prices of lumber, concrete, and sheetrock have increased more than expected.

Contacts in the agriculture sector in Memphis and St. Louis reported that lower crop prices continued to negatively affect their business. Since the previous report, cash prices of wheat and corn decreased moderately. However, prices for sorghum and cotton have increased moderately and the price of soybeans increased slightly, while rice and coal prices did not change.

Consumer Spending

Reports from general retailers, auto dealers, and hoteliers portray a mixed picture of consumer spending activity. General retailers reported moderate sales growth, although contacts in Arkansas and Missouri reported year-over-year declines in April sales tax collection. Sixty

-three percent of surveyed auto dealers reported a reduction in year-over-year sales halfway through the second quarter. On net, 50 percent expect this negative growth to continue into the next quarter. Hospitality contacts in St. Louis and Louisville indicated a modest increase in business activity after a slow first quarter.

Manufacturing

Manufacturing activity has increased at a moderate pace since our previous report. Several companies across a broad range of industries reported capital expenditure and facility expansion plans, including firms that manufacture textiles, nonmetallic mineral products, transportation equipment, and food products. In a recent survey, contacts reported continued improvement in manufacturing conditions. The majority reported that production, new orders, and capacity utilization increased in the second quarter relative to one year ago. The results are generally unchanged from our previous survey in mid-February. Contacts were generally optimistic about the third quarter, with 65 percent, on net, expecting further growth in production, new orders, and capacity utilization. Despite the optimistic outlook, some contacts expressed concerns about regulatory uncertainty and the difficulty of finding employees.

Nonfinancial Services

Reports from the service sector have been positive since the previous report. More than two-thirds of transportation and service contacts reported that sales met or exceeded expectations in the current quarter. On net, 25 percent of contacts expect sales to be higher in the next quarter than they were at that time last year. Firms that provide transportation, utility, and information technology services reported plans to expand facilities and hire employees. Reports from healthcare firms remain mixed. One major hospital announced layoffs in the Louisville area, citing uncertainty around healthcare reform and low patient volumes. Another healthcare provider cited high costs as a reason for lower-than-expected sales over the past quarter. Other healthcare providers in Louisville and Memphis announced expansions.

Real Estate and Construction

Residential real estate activity has declined modestly since the previous report. Home sales remained flat or decreased in the District's largest metro areas. Several contacts reported that significant shortages in inventory have hindered sales, particularly in Louisville, as single-family demand has continued to be strong. Local inventory levels are mostly expected to decline further in the

coming months. Some contacts noted a beneficial impact from a slight decrease in mortgage rates.

Residential construction improved modestly since the previous report. On net, 40 percent of contacts reported a slight increase in residential construction relative to the same time last year and about the same fraction expect this trend to continue through the third quarter.

Commercial real estate activity has also improved modestly since the previous report. Contacts continued to indicate an increase in demand for both office and industrial properties compared with the same time last year. Meanwhile, most contacts reported no change or a slight increase in multifamily property demand and no change or a slight decrease in retail property demand.

Commercial construction activity remained robust. Local construction contacts reported relatively no change to demand across most property types. Some contacts noted an increase in multifamily and industrial building.

Banking and Finance

Banking conditions continued to strengthen at a moderate pace, driven primarily by strong growth in demand for business and mortgage loans. Demand for auto loans was flat over the period and is expected to remain level over the coming quarter, while overall loan demand is expected to grow at a moderate rate. The creditworthiness of applicants for agriculture loans worsened for a third straight quarter; credit standards for agricultural lending increased relative to a year ago and are expected to continue tightening in the near term.

Agriculture and Natural Resources

Agriculture conditions deteriorated significantly due to flooding across the District. Mid-May percentages of corn and rice crops rated fair or better were down or unchanged from a year ago in every state for which data were reported. Flooding and rain also slowed planting, with planned acreage planted for corn, cotton, rice, and soybeans each below the percentages of the previous year. Cotton was the farthest off last year's planting pace.

Natural resource extraction conditions improved modestly from the previous report and year. Seasonally adjusted coal production growth was up slightly from March to April, and April production was also 14 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

The outlook of business contacts in the St. Louis zone continued to improve relative to the generally optimistic outlook when contacts were surveyed in mid-February. On net, 64 percent of contacts expect local economic conditions in 2017 to be better or somewhat better than last year.

Labor markets continue to improve at a modest pace: On net, 40 percent of contacts surveyed in mid-May reported second-quarter employment was higher or slightly higher than a year ago. Contacts continued to report general labor shortages. Contacts reported moderate wage growth: On net, 63 percent reported wages were slightly higher or higher than one year ago. These results were very similar to both our current-quarter District-wide survey and previous results for the zone.

Real estate conditions in the St. Louis zone improved modestly but remain constrained by several factors. Banking contacts have reported strong demand for mortgages over the past two years; but, with higher mortgage rates, demand has tapered off a bit. Real estate contacts cited low inventories for causing weak April home sales, which were about 2 percent lower than one year ago in the St. Louis MSA. Construction activity has increased modestly; however, contacts in this industry noted a limited number of lots and difficulties finding workers. Strong demand combined with a constrained supply has boosted prices in the zone, which are up almost 5 percent from one year ago and up 4.5 percent in the St. Louis MSA.

Flooding has led to some rather significant declines in crop quality relative to one year ago, with the percent of Illinois corn rated fair or better down 10 percentage points from last year; Missouri corn and rice percentages were down 9 and 7 percentage points, respectively. Because of flooding, a considerable amount of acreage may need to be replanted.

Little Rock Zone

Reports from contacts in the Little Rock zone suggest slight growth since our previous report. Reports on consumer spending indicate low growth in general retail sales and moderate declines in auto sales.

Contacts reported mixed hiring, although they were slightly positive on net. Manufacturers have reported utilizing part-time workers who are not looking for full-time employment to fill labor gaps. Wages increased moderately: On net, 53 percent of contacts reported wages were slightly higher or higher than one year ago. Contacts in banking and manufacturing and information technology reported higher wages, while agriculture contacts reported lower wages because of depressed commodity prices.

Similar to other parts of the District, real estate conditions only modestly improved. Home sales decreased and contacts expressed concern over low inventories. Banking contacts reported modest growth in overall loan demand. House prices growth continued to accelerate, with prices up 4 percent in the zone, 4.4 percent in Arkansas, and about 3 percent in the Little Rock MSA.

Flooding damaged almost a million acres of farmland in Arkansas. This severely damaged the state's rice crop, with the mid-May proportion of the crop rated fair or better down 11 percentage points from a year ago.

Contacts generally hold an optimistic outlook for the remainder of 2017. On net, 53 percent of contacts expect local economic conditions to be better or somewhat better in 2017. This is down from the record high of 81 percent in our mid-February survey, but is in line with the District average of 55 percent.

Louisville Zone

Economic conditions in the Louisville zone continue to expand at a modest pace. The regional optimism that spiked in our November 2016 survey was evident again in our mid-May survey. On net, 51 percent of contacts expect conditions to be better or somewhat better than one year ago.

Slow growth in consumer spending was a general point of weakness in the regional economy. Auto dealers reported modest declines in sales. Hospitality contacts reported that hotel occupancy rates for the second quarter were looking better after being down during the first quarter relative to one year ago.

Regional labor market conditions improved at a modest pace: On net, 32 percent of contacts reported higher employment. Businesses also reported an uptick in hours worked as firms have had difficulties finding qualified labor. Manufacturing contacts noted difficulties attracting and retaining both unskilled and experienced employees.

Banking contacts in the Louisville area noted robust increases in demand across several loan categories, with particularly strong growth in commercial and industrial loans. Similarly, construction contacts noted increases in both spec and build-to-suit industrial projects. However, contacts reported prices rose too fast and in some cases projects have been held up as project bids exceeded estimates.

Memphis Zone

Reports suggest that economic conditions in the zone continued to modestly improve. Reports on consumer spending were generally weak, with slow growth in general retail sales and modest declines in auto sales. Conversely, reports from manufacturers and transportation industry contacts were positive.

Residential real estate market conditions fared a bit better in Memphis than other parts of the District, although overall growth was still modest. Home sales were generally flat relative to one year ago, and flat pending sales indicate this trend is likely to continue. However, banking contacts reported a notable increase in the demand for mortgages. This stronger demand has boost-

ed prices, as contacts indicate supplies remain constrained by low inventories. Housing prices in the zone are up almost 7 percent from one year ago, the fastest pace this decade.

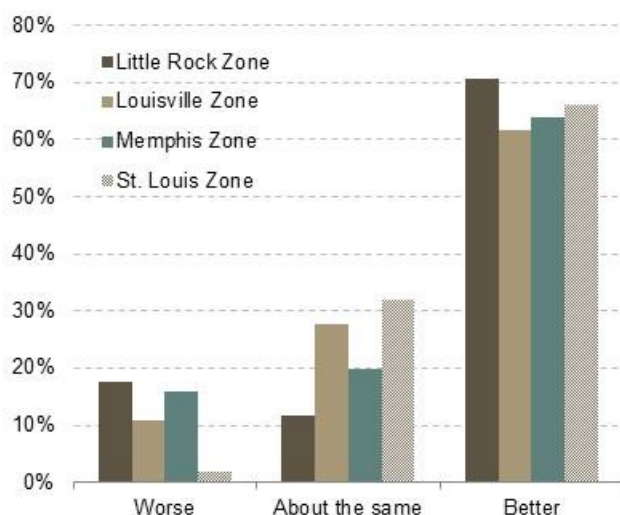
Labor market conditions in the zone improved at a modest pace: On net, 32 percent of contacts reported that second-quarter employment was higher or somewhat higher than the same time last year. Wage growth remained moderate: On net, 52 percent reported higher wages. A furniture manufacturer noted increasing wages and offering signing bonuses in order to attract employees. Similarly, construction contacts reported using higher wages to attract and retain employees.

Optimism among business contacts in the Memphis zone continued its upward trend over the past year and is now in line with the District average. On net, 48 percent of contacts surveyed in mid-May expect local economic conditions in 2017 to be better or somewhat better than last year. This is up from 33 percent in mid-February and 11 percent in May 2016. ■

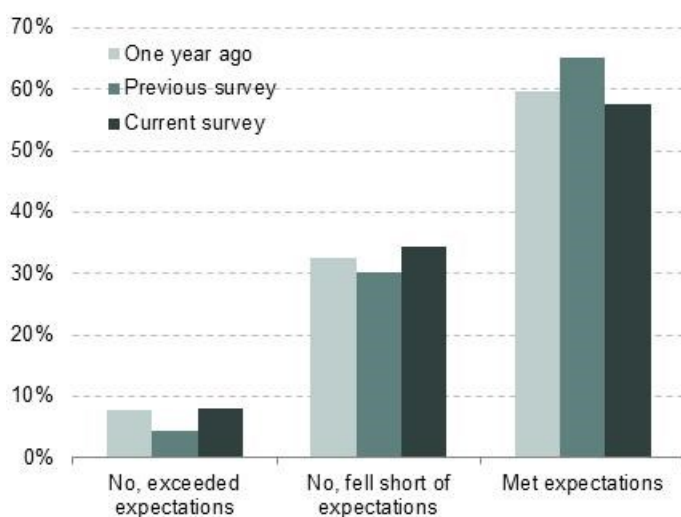
Supplemental Data and Survey Results

Anecdotal information in this report was provided by our panel of business contacts, who were surveyed between May 2 and May 16. The previous survey was conducted between February 8 and February 13. The following are selected results from those surveys.

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



Question: Have sales at this point in the second 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	33%	35%
Sales (Dollars)	31%	28%
Inventory	4%	-4%
Non-Labor Costs	44%	51%
Capital Expenditures	15%	18%
Labor Costs	51%	60%
Wages	63%	61%
Hours per Employee	18%	23%
Employment	25%	31%

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.

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