



Summary of Economic Activity

Reports from contacts suggest economic conditions have continued to improve at a modest pace since our previous report. Labor markets remain tight, with positions remaining unfilled; employment was little changed. Contacts report moderate growth in wages, while broader price pressures remain modest. Reports on consumer spending improved since our previous report, although reports from auto dealers remain mixed. The District continues to see relatively stronger growth in both the manufacturing and banking sectors, although growth in both sectors has decelerated somewhat since the beginning of the year.

Employment and Wages

Anecdotal evidence suggests little change in employment since the previous report. Contacts continued to report difficulties finding experienced or qualified employees. A construction contact in Little Rock noted that high levels of real estate activity have created a shortage of skilled workers, and a transportation contact reported that the shortage of truck drivers worsened. Several contacts reported that potential employees' lack of transportation to and from work has posed a challenge to hiring.

Contacts have reported moderate growth in wages since the previous report. A contact in Little Rock reported increasing compensation as part of an effort to retain staff, while another contact reported moderate increases for both hourly and salaried employees throughout the area.

Prices

Price pressures have increased modestly since the previous report. Residential real estate prices continued to rise moderately throughout most of the District. Non-residential real estate price pressures were mixed: A contact in Little Rock reported a decrease in industrial rents, while a contact in Memphis reported an increase. Construction costs declined slightly. Steel prices fell slightly, and a contact in Little Rock reported that wood product prices continued to decrease modestly. Due to

low water levels, barge rates along the Mississippi and Illinois rivers increased significantly.

Energy prices increased moderately since the previous report. In Illinois and Kentucky, coal prices rose modestly. In Arkansas, Mississippi, and Tennessee, Hurricane Harvey caused relatively strong increases in gasoline prices compared with national prices. Cotton, rice, soybean, and wheat prices increased moderately, while sorghum prices were flat and corn prices decreased modestly.

Consumer Spending

Reports from general retailers, auto dealers, and hoteliers indicate consumer spending has grown modestly since our previous report. Although August's real sales tax collections decreased in Arkansas and Kentucky relative to a year ago, they increased in Missouri and Tennessee. Consumer confidence increased substantially in West Tennessee, as households indicated their willingness to spend more in the next few months relative to a year ago. Reports from auto dealers were mixed; although some dealers in the Memphis area indicated strong sales, dealers in Little Rock noted slower foot traffic and are less optimistic that 2017 sales will exceed last year's. Hospitality contacts in Missouri and Tennessee indicated that business activity has increased and exceeded expectations since our previous report.

Manufacturing

Manufacturing activity has increased moderately since our previous report. Manufacturing production, inventories, and employment growth were all stronger than one month earlier in both Arkansas and Missouri. However, new manufacturing orders grew at a slower rate in both states.

Contacts in several industries across the District reported increased sales, including industrial pipe manufacturing and plastic manufacturing. However, a contact in the plastic product manufacturing industry noted a drop in requests for quotes from new customers. A contact in the wood product manufacturing industry reported that production has outpaced demand.

Nonfinancial Services

The nonfinancial services sector has expanded at a modest pace since the previous report. Firms that provide transportation and logistics services are reporting plans to increase employment and renovate existing structures. Demand for commercial trucking from firms headquartered in the District is up from Hurricane Harvey relief efforts and expected to remain elevated during rebuilding efforts. Several firms that provide professional business and information services are reporting plans to expand and increase employment. Reports from healthcare firms remain mixed. Employers continue to streamline operations in an uncertain environment, with one major employer shifting jobs from low-profit to high-profit areas.

Real Estate and Construction

There was little change in residential real estate activity since the previous report. Seasonally adjusted home sales for August ticked up slightly relative to the previous month across the District's four major MSAs, and year-to-date sales remained in line with those from a year ago. Local real estate contacts continued to report that significant shortages in inventory have hindered sales, particularly for median-priced housing.

Residential construction activity improved slightly. August permit activity within District MSAs increased modestly relative to the previous month. Local contacts reported that lot scarcity and a shortage of labor continue to limit new construction.

Commercial real estate activity was unchanged from the previous report. Contacts largely indicated that demand remained steady for most property types. A central Arkansas banker reported strong demand for commercial real estate loans.

Commercial construction activity was mixed. August nonresidential construction starts dropped slightly within the District relative to the previous month, and multifamily permits were below levels from a year ago. However, local contacts generally reported a robust level of new multifamily construction underway or being planned, and several Memphis contractors continued to report optimism regarding future projects.

Banking and Finance

Lending activity in the Eighth District improved moderately. According to a survey of 84 small and mid-sized District banks, outstanding loan volumes grew by 8 percent relative to year-ago levels. Loan growth in the District has been gradually slowing since the start of 2017, but it continues to exceed the national rate. Commercial and industrial loan growth has stabilized at 9 percent after decelerating through the first half of 2017. Meanwhile, consumer and commercial real estate lending grew the fastest among all loan categories, rising by 11 and 10 percent, respectively.

Agriculture and Natural Resources

District agriculture conditions improved modestly from the previous reporting period. Reports from farmers indicated that they have been impressed by their harvest numbers so far. Production and yield forecasts improved from August to September for corn, cotton, and soybeans. For rice, expected yields ticked up from August to September, while expected production ticked down after downward revisions to rice acreage estimates. Relative to 2016, District cotton and soybean production levels were projected to be higher, while those for corn and rice were projected to be lower.

Natural resource extraction declined slightly from July to August, with seasonally adjusted coal production declining 3 percent. However, August production was 10 percent above the level from one 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.



St. Louis Zone

Economic conditions in the St. Louis zone have improved at a modest pace since our previous report. Manufacturing activity in Missouri picked up in August and September after growth slowed in July. Reports on consumer spending were generally upbeat. Hospitality contacts in St. Louis and Springfield noted that activity has been better than expected during the past two months. Moreover, Missouri sales tax revenues were up strongly in August.

Commercial real estate conditions were somewhat mixed. Multifamily permits were up between July and August, but below 2016 levels. The appraised value of over 2 million square feet of downtown office space was significantly reduced. However, office markets outside of the city remain relatively tight.

Residential housing markets were generally stable. Seasonally adjusted single-family permits in St. Louis

increased about 1 percent between July and August, and home sales increased about 1 percent over the same period, while the inventory of homes for sale declined about 4 percent.

Little Rock Zone

Economic conditions in the Little Rock zone have improved at a modest pace since our previous report. Manufacturing activity in Arkansas continued to show moderate growth. Little Rock auto dealers contacted in September continued to report modest declines in sales and indicated they were less optimistic that 2017 sales will exceed 2016 sales.

Residential real estate activity improved since our previous report. Single-family building permits spiked in August, and seasonally adjusted home sales were up about 5 percent between July and August. The inventory of homes for sale declined about 2 percent over the same period.

Louisville Zone

Economic conditions in the Louisville zone have slightly improved since our previous report. Auto dealers in the region indicated sales were generally flat; they stated that models with incentives are selling but that models without any incentives are selling more slowly than one year ago.

Labor market conditions remain tight. Contacts in the region continue to report shortages of workers, which is driving wage growth, particularly for skilled positions.

Residential housing market conditions were mixed. Seasonally adjusted single-family building permits declined about 5 percent between July and August. Over the same period home sales increased by about 12 percent, while pending sales declined about 6 percent. The inventory of homes for sale also declined by 6 percent.

Memphis Zone

Economic conditions in the Memphis zone have improved at a moderate pace since our previous report. Consumer confidence in west Tennessee reached a two-year peak in September. The pace of hiring was modest among service sector firms, while reports on manufacturing indicated slower growth. Reports from auto dealers were mixed, with some dealers reporting strong sales and others reporting very slow sales.

Area employers continue to report difficulty in attracting and retaining a qualified, quality workforce. One furniture manufacturer has continued to offer a 10 percent increase in base pay and a signing bonus with only slight positive effects.

Residential real estate activity was somewhat mixed. Construction activity was strong, as single-family building permits jumped in August, but reports on sales activity suggested little growth. Seasonally adjusted home sales declined about 1 percent between July and August, while pending sales increased by less than 1 percent. The inventory of homes for sale also declined by about 1 percent over the same period. ■

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