



Summary of Economic Activity

Economic conditions in the District have improved at a modest pace since our previous report. Labor market conditions remain tight as most firms reported raising starting wages and salaries as a way to attract new workers. Reports on consumer spending were somewhat weak, and reports from other nonfinancial service firms were mixed. Manufacturing contacts reported slight growth, and banking conditions improved moderately. The outlook among District firms surveyed in mid-November was generally optimistic. On net, 49 percent of contacts expect District economic conditions in 2018 to be better or somewhat better than 2017. This outlook was slightly weaker than the outlook from the mid-August survey, but it is a modest improvement from the outlook one year ago.

Employment and Wages

Employment has increased modestly since the previous report. Of the business contacts surveyed in early November, on net, one-third of contacts reported that employment was higher or slightly higher than a year ago. Of those hiring, over half expect to increase their firm's employment over the next year, while 40 percent expect to hire only to replace departing workers. Contacts cited growth of sales, a need for skills not possessed by their current staff, and overworked staff as the top factors for hiring. Contacts cited an inability to find workers with the required skills as a key factor restraining hiring plans, behind only a desire to keep operating costs low.

Contacts have reported moderate wage growth since the previous report, as tightness in the labor market has resulted in upward pressure on wages. On net, 61 percent of contacts reported wages were higher or slightly higher than a year ago, and 68 percent reported increases in labor costs. Nearly 80 percent of those hiring reported raising starting wages or salaries to attract new hires, while about two-thirds reported raising wages or salaries to retain existing employees.

Prices

Price pressures have continued to increase modestly. Overall, prices charged to consumers increased slightly, but the pace of growth slowed during the fourth quarter. On net, 15 percent of business contacts reported that

prices charged to customers were higher than a year ago. Conversely, growth in non-labor costs was moderate. On net, 45 percent of contacts reported that costs were higher than a year ago.

Multiple contacts in Louisville reported rising construction costs, and a Memphis contact noted a significant increase in lumber prices. In the energy sector, coal prices increased moderately.

Consumer Spending

Reports from general retailers, auto dealers, and hoteliers indicate consumer spending has slightly declined since our previous report. Although October real sales tax collections increased in Kentucky and Tennessee, they decreased in Missouri and Arkansas. Multiple auto dealers reported a decline in sales, which have failed to meet their expectations during 2017. Memphis and Louisville dealers noted a shift in demand away from used vehicles. Reports from hospitality contacts were mixed.

Manufacturing

Manufacturing activity has increased slightly since our previous report, although the pace of growth has continued to slow. In a recent survey, contacts reported that production and capacity utilization were unchanged in the fourth quarter relative to one year ago, while a slight majority on net reported an increase in new orders. The results are down from this time last year, when over half

of contacts on net reported increases in production and capacity utilization and over one-fourth reported increases in new orders. Contacts are also less optimistic about the next quarter, with only around 10 percent on net expecting increases in production, capacity utilization, and new orders, compared with over three-fourths expecting increases in all three areas at this time last year. Despite the weaker outlook, several companies reported new capital expenditure and facility expansion plans, including firms that manufacture transportation equipment and food products. In addition, some contacts reported supply disruptions as a result of hurricanes, and other contacts expressed concern about a slowdown in the auto industry.

Nonfinancial Services

Conditions in the service sector weakened from the previous period, but remain positive on net. Reports of fourth-quarter sales were mixed. About one-third of contacts reported higher dollar sales in the current quarter than this time last year; however, one-third reported lower dollar sales. Despite mixed sales reports, about two-thirds of transportation and service contacts reported that sales met or exceeded expectations. Over half of contacts expect sales to be higher in the next quarter than they were last year. Firms that provide information technology services reported plans to expand facilities and hire employees. Reports from the healthcare sector indicate modest growth since the previous period. Healthcare contacts report that heightened uncertainty surrounding policy decisions over the past year has become an operating norm, and some providers are moving forward with small capital expansions.

Real Estate and Construction

Residential real estate activity has remained unchanged since the previous report. Seasonally adjusted home sales for September were flat relative to the previous month across the District's four largest MSAs. Local contacts continued to report that shortages in inventory have hindered sales; on net, about one-quarter of contacts reported that sales have fallen short of expectations halfway through the fourth quarter.

Residential construction activity improved modestly. September permit activity increased moderately relative to the prior month. However, few contacts indicated that construction activity has increased compared with a year ago. Local contacts continued to report that a shortage of labor is preventing homebuilders from meeting demand.

Commercial real estate activity has improved modestly since the previous report. Contacts reported relatively strong demand for most property types, particularly office and industrial. These trends are expected to continue into the first quarter of 2018.

Commercial construction activity remained flat. Several Memphis contractors continued to report optimism regarding future projects. New multifamily construction continued, and contacts indicated that the level of activity has been the same relative to a year ago. New hotel development also continued in the major MSAs. Similar to residential markets, contacts reported labor shortages negatively impacting activity.

Banking and Finance

Banking conditions have improved at a moderate pace since the previous report. Banking contacts reported overall loan demand increased moderately relative to last year; however, the pace of loan growth continues to steadily slow. Demand for auto loans declined for a second straight quarter, though bankers anticipate that auto lending standards could loosen modestly next quarter. Mortgage demand expanded at the fastest rate among major loan categories, while demand for business lending was unchanged relative to year-ago levels. After trending up the past few quarters, delinquencies declined moderately across all loan types. District banks are expanding the geographic market areas they serve as competitive pressures from other lenders continue to increase.

Agriculture and Natural Resources

Agriculture conditions have improved moderately since the previous reporting period, although farmers continue to struggle with low crop prices. Expected yields for corn, cotton, rice, and soybeans were all higher in mid-November than they were in mid-October. The mid-November expectations were also higher than realized levels in 2016. Expected corn yields saw the largest improvement, with November expectations 3 percent above October expectations. Contacts concurred with the projections for all four crops, noting that there will be record yields in a lot of areas.

Natural resource extraction conditions declined slightly from September to October, with seasonally adjusted production declining a half a percent. October production was also down 3 percent from a 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.



Little Rock Zone

Reports from contacts in the Little Rock zone indicate only slight growth in overall activity since our previous report. On net, only 14 percent of contacts reported increases in employment, although wage growth remains moderate. October sales tax revenues in Arkansas declined 4 percent from one year ago, suggesting little to no growth in consumer spending.

Reports from the manufacturing sector indicate slight growth in Arkansas, a notable slowdown from moderate growth in recent months. Real estate activity declined slightly in recent months, with declines in single-family building permits and inventories and little growth in home sales.

Despite reports of weak growth, the outlook among business contacts remains relatively optimistic and generally unchanged since they were last surveyed in August. On net, 50 percent of contacts expect local conditions to improve in 2018 relative to 2017.

Louisville Zone

Economic activity in the Louisville zone has picked up since our previous report, with conditions improving at a modest pace. Firms reported modest hiring, and wage pressures remain moderate. Contacts reported difficulties finding qualified workers for both skilled and entry-level positions.

Reports on consumer spending were somewhat mixed. October sales tax revenues in Kentucky were up about 5 percent from one year ago, suggesting positive growth in consumer spending. However, auto dealers reported little growth in sales, and Louisville hoteliers reported weaker occupancy rates in the fourth quarter.

Real estate activity continues to improve at a modest pace. Single-family building permits have surged in recent months, and area bankers report strong demand for mortgages. Conversely, home sales have been flat, and pending sales have fallen in recent months.

The outlook among business contacts is generally unchanged relative to our August survey. On net, 56 percent of contacts expect conditions in 2018 to be better or somewhat better than 2017.

Memphis Zone

Economic conditions in the Memphis zone have slightly improved since our previous report. Firms reported slow growth in hiring and modest growth in wages. October sales tax revenues in Tennessee increased by 2.6 percent from one year ago, suggesting modest growth in consumer spending. Unlike other parts of the District that reported modest price pressures, contacts in Memphis reported lower prices charged to customers and only slight growth in non-labor costs. One contact reported decreases in corn, beans, wheat, and cotton prices.

Reports on real estate conditions indicate slight to modest declines in activity. Single-family building permits dropped modestly. Home sales were generally flat: Current sales were lower than prior months, but pending sales were up slightly.

Reports from the agriculture sector indicate the Arkansas cotton yields will be higher than initially projected.

Optimism among business contacts in the Memphis zone increased slightly in November. On net, 42 percent of contacts surveyed expect local economic conditions during 2018 to be better or somewhat better than this year. This is unchanged from respondents' outlook at the same time last year.

St. Louis Zone

Economic conditions in the St. Louis zone have improved at a modest pace since our previous report. Firms reported modest employment growth and moderate growth in labor costs. Reports on consumer spending were weak. Missouri sales tax revenue in October was 2 percent lower than one year ago, and reports from auto dealers suggest moderate declines in auto sales. Conversely, hospitality contacts in Missouri reported that business activity has increased since our previous report, exceeding their expectations.

Manufacturing activity improved slightly, although the pace of growth has slowed in recent months. Real estate activity was mixed, with an uptick in building permits and inventories, while home sales were flat to slightly lower than previous months.

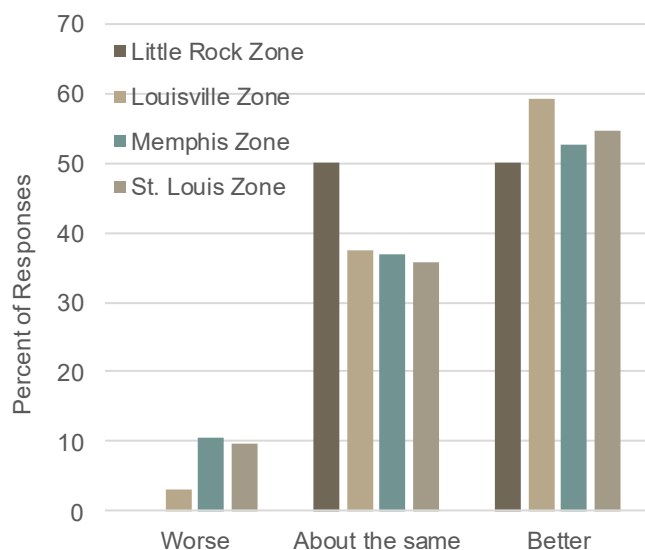
Wheat and soybean meal prices decreased modestly, while corn prices were unchanged and soybean prices rose slightly.

The outlook of business contacts in the St. Louis zone has weakened somewhat since August but remained optimistic and better than one year ago. On net, 45 percent of contacts expect local economic conditions next year to be better or somewhat better than this year (compared with 60 percent in August 2017 and 28 percent in November 2016). ■

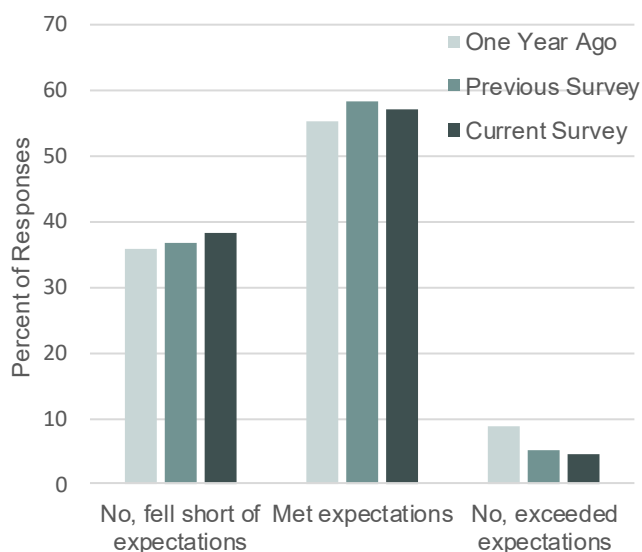
Supplemental Data and Survey Results

Anecdotal information in this report was provided by our panel of business contacts, who were surveyed between October 24 and November 7. The previous survey was conducted between August 8 and August 22. The following are selected results from those surveys.

Question: How do you expect local economic conditions to change in 2018 relative to 2017?



Question: Have sales at this point in the fourth 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	23%	15%
Sales (Dollars)	35%	23%
Inventory	13%	-10%
Non-Labor Costs	37%	45%
Capital Expenditures	24%	19%
Labor Costs	54%	68%
Wages	61%	61%
Hours per Employee	20%	16%
Employment	29%	33%

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 headquar-

ters 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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