



Summary of Economic Activity

Reports from contacts suggest economic conditions have continued to improve at a modest pace since our previous report. Labor market conditions remain tight: Employment grew slightly and wage growth was modest. Overall inflation strengthened slightly, held down by a slight decline in commodity prices. Reports on consumer spending were generally positive. Residential real estate activity improved modestly while construction activity was little changed. District banks reported increased lending activity driven by robust growth in commercial and industrial loans. Agriculture and natural resources conditions have remained generally unchanged since the previous report.

Employment and Wages

Anecdotal evidence suggests employment has grown slightly since the previous report. There were reports of modest increases in manufacturing employment in Arkansas and Missouri as well as a modest increase in small business employment in Missouri. Contacts continued to report difficulties finding qualified employees. For example, a construction contact in Little Rock reported difficulties filling skilled positions, and a used-auto retailer reported trouble hiring mechanics and technicians. Several organizations in Little Rock have undertaken initiatives to create training opportunities to address the skills gap.

Wages have increased modestly since the previous report. Reports from contacts in Little Rock indicate that wages have risen for workers such as truck drivers, warehouse workers, and skilled mechanics. One used-auto retailer noted plans to use some of their tax savings to increase compensation for some employees.

Prices

Price pressures have increased slightly since the previous report. Building materials prices rose. A contact in northwest Arkansas reported an increase in construction costs, and steel and scrap metal prices increased moderately throughout the District. Flooding throughout the

Midwest led to a significant increase in barge freight rates along the Mississippi River.

After modest to moderate increases through the first two months of the year, commodity prices have declined slightly since the previous report. Wheat, sorghum, corn, and soybean prices decreased moderately, and coal, cotton, and rice prices were unchanged.

Consumer Spending

Reports from general retailers, auto dealers, and hoteliers indicate that consumer spending has modestly increased since our previous report. Real sales tax collections decreased in Missouri relative to a year ago but increased in Arkansas, Tennessee, and Kentucky. Consumer confidence surveys continued to show improvements in West Tennessee, although households expect no change in their level of spending over the next few months. Reports from Little Rock auto dealers were mixed. Hospitality contacts in St. Louis reported that sales increased year-over-year and that their outlook remains positive over the next few months.

Manufacturing

Manufacturing activity has increased modestly since our previous report. Overall manufacturing activity was stronger than one month earlier in both Arkansas and Missouri, and the pace of expansion increased in both

states. Several companies in the District reported facility expansion and hiring plans, including firms that produce auto parts and aviation equipment. In addition, steel and aluminum manufacturers announced plans to reopen facilities and call back workers. Contacts at economic development agencies in central Arkansas reported growing interest from manufacturing firms looking for locations to build new facilities.

Nonfinancial Services

Activity in the service sector has been mostly unchanged since the previous report. The number of vacancies posted by firms for nonfinancial services occupations in March remained flat since the prior month, with the exception of St. Louis area vacancies, which moderately declined. In Arkansas, river barge traffic was much lower in the beginning of 2018 compared with a year ago, while air passenger volume remained unchanged.

Real Estate and Construction

Residential real estate activity has improved modestly since the previous report. Seasonally adjusted home sales increased modestly in February across the District's four major MSAs. Local contacts reported that demand remains strong but shortages in inventory continue to hinder sales.

Residential construction activity remained unchanged. February permit activity was flat within District MSAs. Local contacts continued to report that a shortage of labor is limiting new construction.

Commercial construction activity was flat. February nonresidential construction starts remained unchanged relative to the previous month, although multifamily permits declined moderately. Little Rock construction contacts reported healthy levels of commercial construction activity across most sectors and expect this trend to continue through the second quarter of 2018.

Banking and Finance

Banking conditions in the District strengthened at a moderate pace relative to the previous reporting period. According to reports from District bankers, overall loan volume has accelerated since our previous report, increasing by 9 percent on a year-over-year basis in the first quarter of 2018, up from 7 percent growth for the previous quarter. Stronger loan growth was driven by robust activity in commercial and industrial lending, where loan volumes grew by 17 percent relative to year-ago levels. In addition, outstanding loans for commercial real estate increased by 11 percent, more than double the national rate. Meanwhile, mortgage lending slowed slightly as loan volumes rose by 3 percent, down from 4 percent the prior quarter.

Agriculture and Natural Resources

District agriculture conditions were unchanged from the previous reporting period and the same as a year earlier. District corn acreage for 2018 is expected to decrease 2 percent from last year. Planned soybean acreage is about the same as 2017 acreage. Cotton and rice acreages are expected to increase 2 percent and 16 percent, respectively, due to expectations of improved profitability. Overall, District acreage for the four major crops is expected to be roughly the same as in 2017.

Natural resource extraction conditions improved modestly from January to February, with seasonally adjusted coal production increasing 9 percent. However, February production was down 6 percent from the same month last year.

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 slightly since our previous report. Employment reports were mixed. Statewide surveys of hiring activity in Missouri were positive in February although a report on hiring in the St. Louis area indicated a drop relative to a year ago. Average hourly earnings for Missouri private-sector workers expanded by more than 4 percent over the past 12 months.

Manufacturing activity increased at a modest pace. Purchasing managers in Missouri indicated that new orders continued to grow at the same rate as the previous month but that growth in production levels slowed slightly.

Consumer spending activity was mixed. March real sales tax revenue decreased 2 percent in Missouri relative to a year ago, while hospitality contacts in the St. Louis area reported year-over-year increases in sales, which met or exceeded expectations.

Residential real estate activity was little changed since the previous report. February home sales increased slightly relative to the prior month while inventories grew by 8 percent. There was a modest decrease in construction activity as single-family building permits declined by 9 percent.

Little Rock Zone

Economic conditions in the Little Rock zone have improved at a moderate pace since our previous report. The labor market remained tight. An index of Arkansas hiring activity indicated a slight expansion in February after contracting the prior month. Contacts across multiple industries reported difficulties finding skilled laborers, and several identified labor costs as a challenge. Average hourly earnings for Arkansas private-sector workers expanded by 3 percent over the past 12 months.

Manufacturing activity increased modestly. A statewide survey of manufacturing activity ticked up in February, indicating a stronger expansion relative to the previous month. Purchasing managers reported faster growth of production levels but slower growth in new orders.

There was a slight increase in consumer spending activity. Arkansas real sales tax revenue increased by 1 percent relative to a year ago. Multiple jewelers in southern Arkansas reported significant increases in February sales compared with the same time last year. Reports from Little Rock auto dealers were mixed.

Real estate activity has improved modestly since the previous report. Single-family homes sold increased by 5 percent in February relative to the prior month while inventories dropped slightly. Single-family building permits increased by 1 percent. A Little Rock commercial construction firm reported a steady pipeline of new projects, which is expected to continue into the second quarter of 2018.

Agriculture conditions improved moderately. Rice acreage in Arkansas is expected to increase by 15 percent in 2018 relative to 2017.

Louisville Zone

Economic conditions in the Louisville zone have modestly improved since our previous report. Claims for unemployment insurance dropped sharply in Kentucky between mid-February and the end of March while Indiana claims ticked up slightly over the same period. Manufacturing employment increased slightly from January to February.

Reports on consumer spending were generally positive. Kentucky real sales tax revenue increased by 4 percent in March relative to a year earlier.

There was a slight improvement in transportation activity. A leading indicator of logistics and distribution activity in the Louisville area indicates increased activity in April relative to the same time last year.

Real estate activity has experienced strong growth since our previous report. Seasonally adjusted single-family home sales jumped by double digits in February, pushing inventories down further. On the other hand, pending sales decreased by 2 percent. Construction activity was flat, with single-family building permits remaining unchanged.

Memphis Zone

Economic conditions in the Memphis zone have improved slightly since our previous report. Initial claims for unemployment insurance dropped in both Tennessee and Mississippi between mid-February and the end of March. Reports from local manufacturers indicate continued hiring of quality workers at a reasonable pace.

Consumer spending activity increased moderately. Real sales tax revenue in Tennessee increased by 3 percent in February. Surveys of consumers in West Tennessee continued to indicate an improvement in consumer confidence. Respondents, on net, reported that now is a good time to buy a house, a car, and major household items and expect no changes to their spending levels in 2018 compared to last year.

There has been a slight decline in Memphis residential real estate activity since the previous report. Single-family permits decreased by 4 percent in February, home sales dropped slightly, and inventories went unchanged. On the other hand, pending sales were up 2 percent. ■

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 14.8 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