



Summary of Economic Activity

Economic conditions in the District have improved slightly since our previous report. Firms reported modest increases in employment despite continued difficulties finding workers. Wages continued to increase modestly. Price pressures have increased modestly as freight costs have increased across all sectors. Reports from consumer spending contacts remained mixed. Manufacturers reported increases in production and new orders. Residential real estate activity improved modestly while construction activity picked up slightly. District bankers reported increased lending activity as commercial and industrial loan growth continued to be robust. Agriculture and natural resources conditions have been relatively unchanged since the previous report.

Employment and Wages

Employment has increased modestly since the previous report. Several manufacturing companies, including multiple steel producers, announced plans to expand and hire new employees. Furthermore, survey-based employment indexes indicated modest increases in June manufacturing employment across Missouri and Arkansas. To attract and retain employees, firms reported lowering hiring standards, offering more-generous non-wage benefits, and establishing training programs through partnerships with local schools and non-profit organizations. Contacts noted difficulties filling construction and trucking positions in particular.

Wages have increased modestly since the previous report. Contacts reported that the continued tight labor market has led to increased wages in the services sector, particularly for entry-level positions. Retail and food-service firms reported having to raise wages of existing employees to match the higher rates for new employees. One trucking company offered the largest one-time pay increase in its history. Wages paid by small business in the St. Louis metro area grew slightly.

Prices

Price pressures have increased modestly in general since the previous report. Local contacts reported robust increases in shipping costs across all sectors due to higher fuel prices and driver shortages. Tariffs and trade

restrictions have had a mixed effect on prices. U.S.-imposed tariffs have raised the prices of steel and aluminum, increasing input costs for several business contacts. Those contacts in construction lamented that rising prices pressured the industry before this tariff-induced inflation of metal costs. In contrast, proposed tariffs by China have led to an overall downturn in agricultural commodity prices, particularly the price of soybeans. These lower agricultural commodity prices have been passed on to food retailers, who reported that lower food prices have more than offset increased freight costs.

Consumer Spending

Reports from general retailers, auto dealers, and hoteliers indicate mixed consumer spending activity. Real sales tax collections modestly increased in Arkansas relative to a year ago, but declined slightly in Missouri, Kentucky, and West Tennessee. The consumer outlook in West Tennessee has improved since the first quarter, and households, on net, expect to increase spending in the next few months relative to a year ago. Retailers in Tennessee indicated that year-to-date sales have been above last year's levels and expect this trend to continue through the rest of the year. In response to the recent Supreme Court ruling, internet-based retailers indicated that they will likely "eat the cost" from collecting sales tax in the medium term. However, they expect to pass the cost to consumers in the long run through the prices they charge for shipping and by changing eligibility for free

shipping.

Reports from auto dealers were mixed: Memphis auto dealers reported an increase in sales year over year, while dealers in Louisville and Little Rock reported a decrease. Memphis and Little Rock auto dealers also indicated a shift in demand toward SUVs and crossovers. Hoteliers in Little Rock and Memphis reported strong and stable demand, and St. Louis hospitality contacts continued to express a positive outlook for the coming months.

Manufacturing

Manufacturing activity has increased at a moderate pace 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 each. New orders and production also rose in both states. Several companies that manufacture motor vehicles and motor vehicle parts reported plans to expand facilities and increase production. Contacts in the paper packaging manufacturing industry reported running at nearly full capacity. Similarly, contacts in the recycled metal industry noted record volumes, and contacts in the mining equipment manufacturing industry reported experiencing backlogs. On the other hand, a manufacturer of plastic products for appliances indicated that sales were down. Several manufacturers noted increases in input prices, which they linked to tariffs.

Nonfinancial Services

Activity in the services sector has improved slightly since the previous report. The number of posted vacancies for nonfinancial services occupations in May was generally unchanged in Louisville and Memphis relative to the prior month and increased moderately in St. Louis. Arkansas air passenger transit and river barge traffic volumes were somewhat lower compared with the previous year, while Louisville air passenger transit volume remained flat. Contacts noted that a continuing shortage of commercial truck drivers has led to higher demand for railroad shipping.

Real Estate and Construction

Residential real estate activity has improved modestly since the previous report. Seasonally adjusted home sales were slightly higher in April. Inventory levels remained low, and contacts continued to report a shortage of homes in the market with newly listed homes selling quickly.

Residential construction activity has improved slightly. Permit activity in May was flat relative to the prior month. A contact in Louisville reported seeing a robust level of new construction under way, and a contact in Little Rock

noted that a healthy demand for single-family homes has led to new prospective developments. St. Louis builders expect 2018 permits to exceed the total from last year.

Commercial real estate activity has been unchanged since the previous report. Contacts in Little Rock reported that the market is generally healthy across most property types but were apprehensive over how future interest rate increases may impact profits and cash flows.

Commercial construction activity was flat. Some contacts in Little Rock expressed concerns that new hotel construction under way risks oversaturating the market. A Louisville contact reported continued robust multifamily construction.

Banking and Finance

Banking conditions in the District have improved at a moderate pace since the previous report. Outstanding loan volumes at small and mid-sized banks grew by 6 percent relative to year-ago levels in the second quarter, down from 7 percent in the first quarter and continuing the steady decline in the rate of loan growth since the end of 2016. Commercial and industrial lending remained strong, growing by 12 percent in year-over-year terms, double the national rate. In contrast, residential real estate lending grew slowly and lagged behind that of the nation for the second consecutive quarter. Bankers also continued to report sluggish deposit growth.

Agriculture and Natural Resources

Agriculture conditions weakened slightly from the previous reporting period, but improved slightly from the same time last year. The percentages of corn, cotton, and rice rated fair or better in June declined slightly relative to the prior month, while that of soybeans increased modestly. However, both the corn and soybeans percentages were higher than a year ago, the cotton percentage was little changed, and the rice percentage was down slightly. Estimated soybean acreage saw a substantial upward adjustment in Illinois relative to March planting intentions but was revised downward in Missouri.

Natural resource extraction conditions were essentially unchanged from May to June, with seasonally adjusted coal production up 0.1 percent. However, June production was 6 percent below prior-year levels. ■

Memphis Zone

Economic conditions in the Memphis zone have continued to improve slowly since our previous report. Area bankers continue to report increased loan growth, with strong competition for new loans.

Reports on auto sales were generally positive, although one dealership stated that factory incentives have played a big role in recent sales of trucks and SUVs. Other retailers reported favorable year-to-date sales that were in line with expectations and higher than one year ago.

Manufacturers of automobile parts, furniture, farm equipment, and construction materials reported higher input prices and passing those increases along in the prices of their goods due to tariffs on steel and aluminum.

Housing market conditions showed improvement. Seasonally adjusted homes sales in the Memphis metro area increased by 11 percent in April; at the same time, inventories increased by a little less than 1 percent. Construction activity was slightly weaker, as single-family building permits declined by 0.2 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.

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