



Summary of Economic Activity

Economic conditions have again improved slightly since our previous report. Firms indicated modest increases in employment despite continued difficulties finding workers. Wages and nonlabor costs increased modestly, and contacts reported modest growth in prices charged to consumers. Consumer spending activity improved slightly. Manufacturers reported no change in production but reported declines in capacity utilization and new orders. Residential real estate contacts noted that low inventories continue to limit sales. Construction activity increased modestly as contacts stated concerns over labor shortages and rising prices of building materials. District bankers reported little change in loan demand but expect an uptick in the fourth quarter. Agriculture conditions declined modestly, and local farmers expressed anxieties over low commodity prices. Overall, the outlook among contacts weakened slightly but remained optimistic. On net, 20 percent of contacts expect conditions for the rest of 2018 to be better relative to a year ago.

Employment and Wages

Employment has grown modestly since the previous report. On net, 25 percent of survey respondents indicated that employment was higher than a year ago. Contacts reported shortages of qualified job candidates across a variety of sectors, including construction, transportation, and healthcare. Organizations continued to undertake initiatives that attempt to address the current skills gap, such as firms forming partnerships with local high schools to prepare students for a technical career. Small business contacts highlighted the tight labor market as their main challenge, citing difficulties matching compensation and benefits that larger employers offer.

Wages have increased modestly since the previous report. On net, 40 percent of survey respondents indicated that wages were higher or slightly higher than a year ago, and 39 percent reported increases in labor costs. Contacts in construction and transportation reported that labor shortages have led to wage increases in those industries. Small business wages in St. Louis grew moderately.

Prices

Prices have continued to increase modestly since the previous report. On net, 32 percent of business contacts reported that prices charged to consumers increased relative to a year ago, about the same share as three months prior.

Nonlabor input costs also rose modestly. On net, 33 percent of survey respondents indicated that costs were higher than the same time last year. Multiple manufacturers reported facing elevated input prices linked to steel and aluminum tariffs as well as increased freight costs. Many of these contacts indicated they have passed or intend to pass along these costs to their customers.

Agricultural food prices have shown slight to modest growth across the District since the previous report, yet remained depressed. The price movements of other commodities were mixed. Steel prices have declined slightly since mid-July but remain elevated compared with a year ago. Coal prices were unchanged.

Consumer Spending

Reports from general retailers, auto dealers, and hoteliers indicate that consumer spending has slightly increased since our previous report. Real sales tax collections increased in Missouri, Arkansas, Tennessee, and Kentucky relative to a year ago. Retailers from northeast Arkansas reported year-to-date sales well above 2017 levels, and they expressed a positive outlook for the remainder of the year. Reports from auto dealers were mixed: Some contacts indicated that sales were higher than anticipated while others reported that sales failed to meet expectations. Multiple dealers noted that higher interest rates have posed a challenge to their business. Hospitality contacts in Missouri reported that sales ex-

ceeded expectations, and they continued to express a positive outlook for the coming months.

Manufacturing

Manufacturing activity has been mixed since our previous report. District contacts, on net, indicated that new orders and capacity utilization decreased in the third quarter relative to one year ago while production remained unchanged. However, survey-based indexes suggested that Arkansas and Missouri manufacturing activity continued to expand from June to July, and survey respondents expressed an optimistic outlook for the fourth quarter. Several companies reported new capital expenditure and facility expansion plans, including firms that manufacture auto parts, food and beverage products, and medical devices.

Nonfinancial Services

Activity in the services sector has improved slightly since the previous report. On net, 37 percent of survey respondents indicated dollar sales in the current quarter increased relative to a year ago, and 32 percent expect next quarter's sales to be higher as well. The number of posted vacancies for nonfinancial services occupations in July increased moderately across Louisville, Memphis, and St. Louis. Transportation and logistics activity has slightly improved and firms expanded investment within the District. Local contacts continued to report a shortage of truck drivers. A Kentucky rail transporter voiced concerns that tariffs may reduce demand in the upcoming grain season.

Real Estate and Construction

Residential real estate activity has increased slightly since the previous report. Seasonally adjusted home sales for July were modestly above prior-month levels across the District's four largest MSAs. Local contacts indicated that inventory shortages continued to hinder sales, but they expect inventory levels to improve in the fourth quarter.

Residential construction activity improved modestly. June permit activity within District MSAs was slightly higher relative to the previous month, and about 40 percent of survey respondents, on net, indicated that they expected residential construction to increase in the next quarter. Local contacts continued to report constraints caused by a shortage of skilled workers and rising prices of building materials.

Commercial real estate activity has improved modestly since the previous report. Contacts noted increased demand for most property types compared with a year ago. They expect these trends to continue into the final quarter of 2018.

Commercial construction activity improved slightly. Survey respondents indicated healthy demand for most property types. Contacts in Memphis and Little Rock noted that hotel construction activity remained robust.

Banking and Finance

Banking conditions in the District have remained stable since the previous report. Loan demand in each major lending category was little changed relative to year-ago levels, but bankers, on net, expect stronger demand in the fourth quarter. While overall delinquencies decreased only slightly on a year-over-year basis, credit card delinquencies declined dramatically. On the other hand, commercial and industrial loan delinquencies are expected to increase slightly next quarter. Lending standards for such loans rose sharply and are expected to continue tightening through the remainder of 2018. A large share of District bankers reported strong gains in banking sector employment, as well as new branch openings and expanded market areas served.

Agriculture and Natural Resources

District agriculture conditions have deteriorated since the previous report. Compared with late June, the percentages of corn and soybeans rated fair or better declined moderately, while those for cotton and rice increased modestly. Relative to the previous year, however, the percentage of District rice rated fair or better was modestly higher, while corn and cotton was unchanged. The percent of soybeans rated fair or better was modestly below its August 2017 value. Farmers continued to express concerns over low agricultural commodity prices resulting from the trade dispute between China and the United States. Contacts in Missouri and Indiana indicated that farmers did not lock-in pre-tariff pricing for a majority of their soybean crop, leaving them exposed to current market conditions.

Natural resource extraction conditions rose slightly from June to July, with seasonally adjusted coal production increasing 0.6 percent. July production was 4.1 percent higher than 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.



St. Louis Zone

Economic conditions in the St. Louis zone have slightly improved since our previous report. Area bankers reported slow but positive growth in demand for new loans across most types with the exception of commercial and industrial loans.

Firms reported a modest uptick in hiring despite challenges finding qualified workers. Nonfinancial services firms reported an increase in job vacancies, and hospitality firms reported shortages of part-time and seasonal workers. Reports of wage growth were widespread, although most firms reported that any increases were slight. Small businesses surveyed in the St. Louis metro area reported wages were about 3 percent higher than one year ago.

Reports on consumer spending were generally upbeat. Missouri real taxable sales increased about 5 percent from one year ago in June. Reports from leisure and hospitality contacts were somewhat mixed, but favorable on net. Recreational areas reported an uptick in foot traffic during July and August, and per-customer sales were notably higher. However, firms relying on convention business reported weaker sales. Reports from auto dealers continued to indicate slightly slower sales of new autos, as higher interest rates have pushed up effective prices.

Manufacturing conditions were weaker but continue to indicate growth. A Missouri manufacturing business conditions index dropped in July. Area contacts reported longer delivery lead times, shipping capacity constraints, and higher shipping costs.

Real estate activity was generally unchanged. Seasonally adjusted single-family home sales in the St. Louis metro area were slightly lower between June and July and inventories also fell slightly. Seasonally adjusted building permits increased slightly over the same period.

The overall outlook among contacts was generally optimistic and unchanged from three months ago, with most contacts expecting conditions to improve slightly during the remainder of 2018.

Little Rock Zone

Economic conditions in the Little Rock zone continue to show slight improvement. Area employers, on net, reported higher employment in the third quarter compared with the same time last year. Inflation pressures accelerated somewhat, with about two-thirds of contacts reporting higher selling prices than one year ago. Business contacts noted stronger wage growth along with increasing nonlabor input costs.

Consumer spending increased at a modest pace as statewide real sales and use tax revenue increased just under 2 percent from one year ago. Arkansas real tourism tax revenue increased slightly year over year.

Manufacturing activity continued to expand, although at a slower pace than our previous report. A July manufacturing index for Arkansas dropped from the elevated levels reported in June.

Residential real estate conditions improved. Seasonally adjusted single-family home sales in the Little Rock metro area increased 13 percent between June and July, while inventories declined slightly. Seasonally adjusted permits for single-family homes dropped sharply over the same period.

The overall outlook among contacts was generally optimistic and improved from three months ago. On net, 35 percent of contacts expect conditions to improve during the remainder of 2018.

Louisville Zone

Economic conditions in the Louisville zone have shown slight improvement since our previous report. Banking contacts reported stronger demand for most loan types. The exception was credit card lending, where requests for new lines of credit showed little change.

Reports on the labor market were somewhat better than the overall outlook. On net, 15 percent of contacts reported higher employment than one year ago. Reports of wage growth were even stronger: On net, 41 percent of contacts reported higher wages than one year ago. Contacts noted particularly stronger wage growth for lower-wage and part-time positions.

Consumer spending reports were mixed. Kentucky statewide real taxable sales increased almost 7 percent from one year ago. At the same time, auto dealers from Louisville reported weaker-than-expected sales for new vehicles, while used auto sales were stronger.

Residential real estate conditions improved. Seasonally adjusted single-family home sales in the Louisville metro area increased 17 percent between June and July. Seasonally adjusted permits for single-family homes increased 13 percent over the same period. Inventories of homes for sale declined slightly, as strong sales were mostly offset by new construction.

The outlook among contacts was mixed, as survey respondents were split on their expectations for the remainder of the year. On net, 2 percent of contacts expect economic conditions for the rest of 2018 to be better or somewhat better than one year ago.

Memphis Zone

Economic conditions in the Memphis zone have continued to slowly improve since our previous report. Consistent with previous reports, about a third of businesses, on net, reported higher employment compared with one year ago. Almost all firms reported increasing prices charged to customers, although contacts reported the magnitude of the increases as slight.

Reports on consumer spending were generally positive. Seasonally adjusted real taxable sales increased slightly. Auto dealers in West Tennessee reported sales that exceeded expectations. Area hoteliers reported summer hotel occupancy rates were at the highest levels they have experienced in recent years.

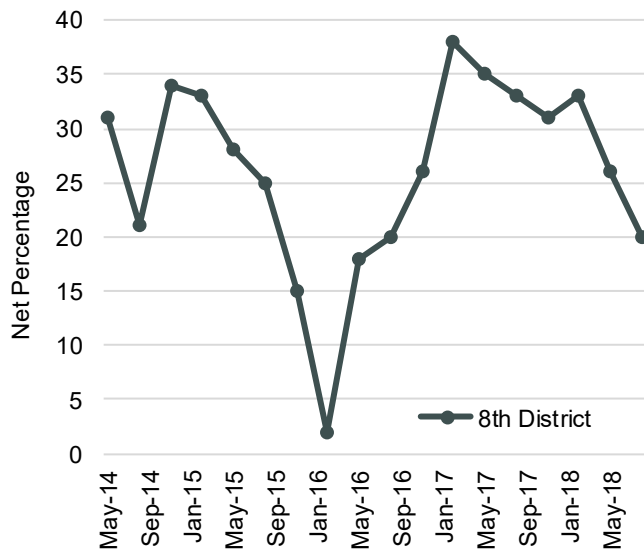
Residential real estate conditions improved. Seasonally adjusted single-family homes sales in the Memphis metro area increased 12 percent between June and July, while inventories increased slightly. Seasonally adjusted permits for single-family homes dropped sharply over the same period.

The overall outlook among contacts was generally optimistic and unchanged from three months ago, with most contacts expecting conditions to improve slightly during the remainder of 2018. ■

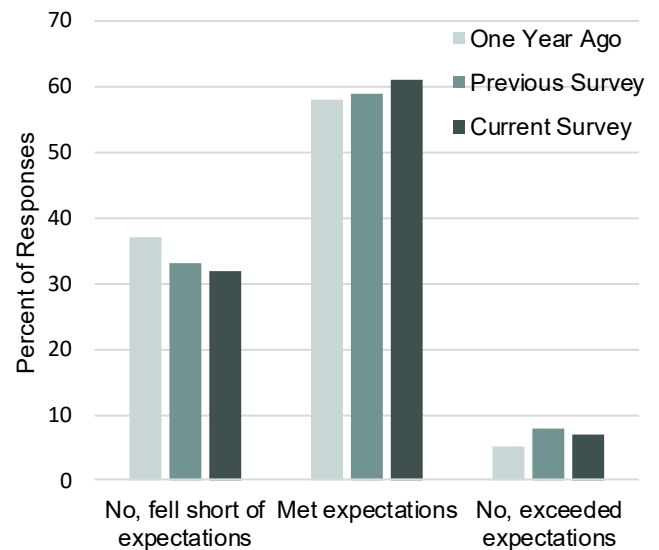
Supplemental Data and Survey Results

Anecdotal information in this report was provided by our panel of business contacts, who were surveyed between August 9 and August 20. The previous survey was conducted between May 1 and May 14. The following are selected results from those surveys.

How do you expect local economic conditions to change during the remainder of this year?



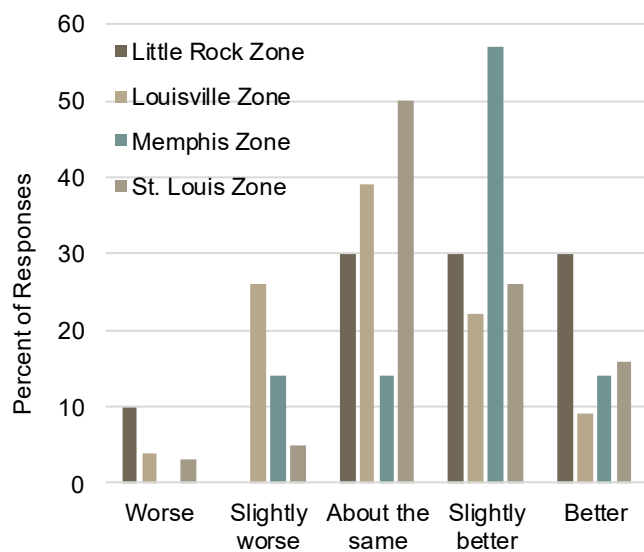
Have sales at this point in the current quarter met expectations?



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	27%	32%
Sales (Dollars)	14%	26%
Inventory	-9%	-4%
Nonlabor Costs	27%	33%
Capital Expenditures	30%	30%
Labor Costs	36%	39%
Wages	42%	40%
Hours per Employee	14%	22%
Employment	13%	25%

Notes: Values are reported as the net percentage of respondents reporting increases. Responses are weighted as follows: *increase* (+1), *slightly increase* (+0.5), *decrease* (-1), and *slightly decrease* (-0.5). 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.



Note: Interactive versions of these charts can be found at: <https://research.stlouisfed.org/publications/regional/beige-book>

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 14.8 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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