



Summary of Economic Activity

Economic conditions in the District have improved slightly since our previous report. Firms reported slight increases in employment and modest growth in wages. Price pressures have increased modestly primarily due to higher transportation costs. Reports from consumer spending contacts remained mixed. Manufacturers reported modest growth with increases in production and new orders. Residential real estate activity improved slightly while construction activity declined slightly. Commercial real estate markets were somewhat weaker than in previous reports. District bankers reported that loan volumes remain healthy but the rate of growth continues to slow. Agriculture and natural resources conditions have improved slightly since the previous report.

Employment and Wages

Employment has increased slightly since the previous report. Manufacturing employment grew modestly. Contacts in Arkansas reported slight growth while contacts in Missouri reported modest growth. Transportation employment also increased, as multiple distribution centers announced expansions. However, firms continued to report challenges attracting workers. Contacts in Memphis and Arkansas in particular noted difficulties filling high-wage, technical positions. Firms continued to use a variety of strategies, such as business partnerships and non-wage benefits, to recruit employees. One contact reported the launch of programs that teach foreign-born workers English to prepare them for jobs in the medical field and in manufacturing.

Wages have increased modestly since the previous report. Multiple contacts reported wage increases for entry-level workers. Furthermore, wages grew in manufacturing and trucking sectors and were generally flat in the hospitality sector. Wages for small businesses in St. Louis rose slightly.

Prices

Price pressures have increased modestly since the previous report. Business contacts across the District reported moderate growth in fuel costs, contributing to

rising trucking and transportation costs. A Louisville contact noted seeing an increase in rail prices. Coal prices in the region have increased moderately. Meanwhile, steel prices decreased slightly but remain elevated compared with a year ago.

Agricultural commodity prices were mixed. Prices for cotton and rice have decreased slightly since the previous report while still remaining slightly above their prices last year. Corn and soybean prices have increased slightly since the end of August. Wheat prices showed next to no change over the same time frame, but are up 25 percent from last year.

Consumer Spending

Reports from general retailers, auto dealers, and hoteliers indicate mixed consumer spending activity. Real sales tax collections increased in Arkansas, Tennessee, and Kentucky relative to a year ago and decreased in Missouri. Louisville auto dealers reported that sales decreased year over year, and they indicate that higher interest rates may be affecting their business. Hospitality contacts in Missouri reported that sales were lower compared with the same time last year. They also expressed a pessimistic outlook for the remainder of 2018. Arkansas tourism sales tax revenue slightly increased year over year.

Manufacturing

Manufacturing activity has increased modestly since our previous report. Survey-based indexes indicate that Arkansas and Missouri manufacturing activity continued to expand from August to September but at a slower pace than in the prior month. New orders and production also increased in both states. Several firms across a variety of industries reported facility expansion and hiring plans, including manufacturers of paper products, automotive parts, and primary metals.

Nonfinancial Services

Activity in the service sector has improved modestly since the previous report. The number of posted vacancies for nonfinancial services occupations increased in September in Louisville, Memphis, and St. Louis. The transportation sector continues to exhibit strong growth with higher demand for rail traffic and increased investment in delivery and fulfillment centers. However, growth is somewhat constrained by increased freight and fuel costs. The trucking industry's shortage in drivers is further compounded by limitations on driving hours for current drivers. Firms in the healthcare industry are reporting higher demand for services and increased investment in hospitals.

Real Estate and Construction

Residential real estate activity has improved slightly since the previous report. Seasonally adjusted home sales for August were mixed across the District's four largest MSAs but were relatively flat overall. Inventory levels remained low.

Residential construction activity has declined slightly since the previous report. August permit activity decreased modestly across the District's MSAs. However, St. Louis builders reported an optimistic outlook for the rest of the year because of robust demand for single-family homes.

Commercial real estate activity has declined slightly since the previous report. Louisville contacts reported decreased activity in office and retail property markets, and they noted that demand for office space has been relatively stagnant.

Commercial construction activity has decreased slightly since the previous report. August multifamily permits were unchanged relative to the previous month in most of the District's MSAs. However, Louisville contacts reported a robust level of new construction underway for multifamily property types. They also indicated that there is a lack of new construction projects for warehouses.

Banking and Finance

Banking conditions in the District have improved moderately since the previous report. According to a survey of small and mid-sized banks, outstanding loan volumes grew by 6 percent in the third quarter relative to a year ago, which is a slight decrease from the growth rate reported in the prior quarter. District loan growth has now slowed in seven straight quarters but remains above the national rate. Commercial and industrial lending continued to be robust, growing by 11 percent from one year ago. In contrast, residential real estate lending remained slow and lagged behind that of the nation for the third consecutive quarter. Bankers continued to report slow growth in deposits growth.

Agriculture and Natural Resources

District agriculture conditions improved slightly compared with previous reports. Production and yield forecasts increased from August to September for corn and soybeans. Expected production levels also improved for cotton and rice during the same period, but yield forecasts decreased. Relative to 2017, District corn, cotton, and soybean yields are expected to increase, but rice yields are projected to decline. Production levels of all four crops are expected to be greater than those from last year.

Natural resource extraction conditions declined slightly from July to August, with seasonally adjusted coal production decreasing 0.6 percent. August coal production was 1.4 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.



Little Rock Zone

Economic conditions in the Little Rock zone continue to show slight improvement. Higher oil and gas prices provided a boost to the economy in southern Arkansas. Labor markets remain tight and shortages of workers were noted across many sectors, although the issues seemed elevated for healthcare contacts.

Reports on consumer spending indicate modest growth: Arkansas's seasonally adjusted taxable sales increased in September, and tourism contacts reported higher revenue during the summer months compared with the same time last year.

Residential real estate conditions have slightly weakened since our previous report. Single-family home sales were flat and inventories of homes for sale declined slightly. Seasonally adjusted single-family building permits in the Little Rock MSA declined 7 percent in August.

Reports from agribusiness contacts noted crop yields were generally higher early in the season but crops were recently damaged by storms.

Louisville Zone

Economic conditions in the Louisville zone have shown slight improvement since our previous report. Several manufacturing plants and distribution centers reported

expanding and hiring additional employees, although many firms reported that a tight labor market remains the primary constraint on further expansion.

Reports on consumer spending were mixed. On one hand, seasonally adjusted taxable sales increased about 6 percent in Kentucky and reports from general retailers were upbeat. On the other hand, area auto dealers reported soft sales in September.

Residential real estate conditions were also mixed. Seasonally adjusted single-family home sales increased almost 4 percent in August, and the inventory of homes for sale increased slightly. Conversely, seasonally adjusted single-family building permits declined by 11 percent over the same period.

Memphis Zone

Economic conditions in the Memphis zone have continued to slightly improve. Employment growth remains positive but slow: The leisure and hospitality sector is outperforming other sectors. Retail and transportation contacts report an early start to the hiring season for holiday workers. Reports on consumer spending have been positive, with Tennessee seasonally adjusted taxable sales up about 2 percent in August.

Residential real estate markets conditions have weakened modestly. Seasonally adjusted single-family home sales dropped sharply in September, as the inventory of homes for sale declined. Seasonally adjusted single-family building permits declined 10 percent in August.

St. Louis Zone

Economic conditions in the St. Louis zone have slightly improved since our previous report. Area labor markets continue to improve at a modest pace: Statewide employment indexes continue to indicate growth, and small business hiring in the St. Louis MSA increased modestly.

Overall price pressures remain modest. Firms reported higher fuel prices and robust increases in construction materials, while agricultural commodity prices and retail food prices are depressed.

Reports on consumer spending indicate a modest slowdown since our previous report: Missouri real taxable sales declined 3 percent in September; most contacts in the tourism industry reported lower sales compared with one year ago and generally have a negative outlook for the remainder of the year.

Real estate conditions have slightly improved: Seasonally adjusted single-family building permits ticked up in August, while seasonally adjusted home sales increased by 3 percent during 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 14.8 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 inquires

mediainquires@stls.frb.org