



Summary of Economic Activity

Economic conditions have slightly improved since our previous report. Firms indicated modest growth in employment and wages. Wage increases were widespread and higher than previous years for the vast majority of firms. Similarly, price pressures have increased modestly since our previous report. Consumer spending activity improved slightly, although auto sales showed little to no growth. Reports from manufacturing firms were upbeat; many firms reported strong orders and a positive outlook. Conversely, reports from bankers and real estate contacts were generally pessimistic, with these contacts reporting slight declines in activity. Overall, the outlook among all contacts continued to weaken but remains slightly optimistic for the upcoming year. On net, a slightly greater share of contacts expect economic conditions in 2019 to be better or somewhat better than 2018.

Employment and Wages

Employment has grown modestly since the previous reporting period. On net, 22 percent of business contacts surveyed reported that employment was higher or slightly higher than a year ago. Approximately half of the contacts expected their firm to increase employment over the next year, and the remaining contacts expected employment to remain unchanged. Contacts ranked an inability to find candidates with the required skills as the single greatest factor restraining hiring. The labor market was especially tight in the manufacturing, construction, and transportation sectors. One contact reported that manufacturing firms were turning down new orders due to worker shortages. Firms, particularly small businesses, continue to use non-wage benefits to attract employees. Staffing contacts in St. Louis reported that employees seem to have more leverage than employers for the first time in several years.

Wages have moderately increased since the previous report. On net, 39 percent of survey respondents indicated that wages were higher or slightly higher than a year ago, and 30 percent reported increases in labor costs. Contacts reported that the tight labor market led to increased pay for both new hires and existing employees: 77 percent of firms reported raising wages and salaries by more than they did in the past few years. Additionally,

raises for new hires at national retailers have pushed up starting wages. Small business wages increased modestly in the St. Louis area and moderately in Tennessee.

Prices

Prices have increased modestly since the previous report. On net, 27 percent of business contacts reported that prices charged to consumers increased relative to last year. Non-labor costs for businesses also rose modestly. On net, 33 percent of survey respondents held that costs were higher than the same time last year, which is unchanged from our survey three months ago. Metal prices, while remaining high in year-over-year terms, showed little change since the previous report. Agricultural prices remain generally low, and decreased international demand has increased the cost of using grain storage facilities as farmers seek to store, rather than to sell, their crops.

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 Arkansas, Missouri, Tennessee, and Kentucky relative to a year ago. Reports from St. Louis auto dealers indicated that auto sales slightly increased, while Little Rock and Memphis auto dealers indicated

that auto sales were flat relative to a year ago. Auto dealers reported increased demand for new vehicles, but they also expressed concern over higher interest rates on new vehicle loans. Hospitality contacts in Missouri reported that sales were flat year over year. Arkansas tourism sales tax revenue slightly increased year over year.

Manufacturing

Manufacturing activity has increased moderately since our previous report. A large majority of contacts reported that production, new orders, and capacity utilization increased. Several companies reported new capital expenditure and facility expansion plans, including firms that manufacture agricultural chemicals and window coverings.

Contacts are also optimistic about the next quarter, with net majorities expecting increases in production, new orders, and capacity utilization. However, one contact in the chemicals sector is reporting that layoffs will take place between this quarter and the first quarter of 2019, and a few manufacturing contacts expressed concern that labor market tightness is contributing to a shortage of qualified employees.

Nonfinancial Services

Activity in the nonfinancial services sector has improved slightly since the previous report. Across the District, sales expectations were met. Compared with a year ago, 68 percent of survey respondents noted higher sales and 52 percent expect the next quarter also to be higher year over year. Local contacts note that barge activity has increased due to the large number of storage barges for soybeans affected by recent tariffs. National logistics firms continue to hire temporary workers due to higher seasonal demand.

Real Estate and Construction

Residential real estate activity increased slightly. Seasonally adjusted home sales for October increased slightly overall. Contacts continued to report inventory shortages; and, on net, about one-quarter of contacts reported that sales halfway through the fourth quarter have fallen short of expectations.

Residential construction activity was mixed. October seasonally adjusted permit activity within District MSAs was modestly lower than one year ago. However, about 36 percent of survey respondents, on net, reported an increase in residential construction relative to the same time last year, and the same fraction of respondents reported that they expect this trend to continue into the first quarter of 2019.

Commercial real estate activity has decreased modestly since the previous report. Contacts reported a decrease in demand for most property types, particularly office and retail, and about 40 percent of respondents, on net, reported a decrease in multifamily demand in the current quarter. About 10 percent of respondents, on net, expect a slowdown in activity to continue into the first quarter of 2019; however, respondents expect demand for retail space to pick up in the first quarter of 2019.

Commercial construction activity has remained unchanged since our previous report. There was a slight decrease in multifamily permit activity in most of the District's major MSAs relative to the prior month, but local contacts in Little Rock reported that the market was strong and there was robust demand for construction. On net, one-third of contacts expressed an optimistic outlook going into the first quarter of 2019.

Banking and Finance

Banking conditions have weakened slightly since the previous report. Loan demand for commercial and industrial loans was unchanged relative to year-ago levels, while loan demand for mortgages slightly declined. Bankers expect stable demand growth overall into the first quarter of 2019. Credit standards overall tightened slightly relative to year-ago levels. Overall delinquencies remained relatively stable on a year-over-year basis, with only a slight increase for the final quarter of 2018. Commercial and industrial loan delinquencies are expected to remain unchanged in the first quarter of 2019.

Agriculture and Natural Resources

District agriculture conditions declined modestly from the previous reporting period. Corn, cotton, and soybean yields are expected to be higher than 2017 levels, while rice yields are expected to be lower. Contacts noted that unusually wet weather has impacted crop quality negatively this fall, which contributed to a deterioration in crop prices. In addition, contacts expressed concern over the ongoing tariffs leveled at U.S. agricultural products. There are reports of storage shortages as soybeans that are normally exported to China are being stored in large quantities rather than exported.

Natural resource extraction conditions declined slightly from September to October, with seasonally adjusted production declining a little over 3 percent. October production increased 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.



Louisville Zone

Economic conditions in the Louisville zone have shown slight improvement since our previous report. Nonfinancial service firms reported higher year-over-year sales and they met expectations. Banking contacts reported demand for new loans was generally flat from one year ago. Kentucky seasonally adjusted real taxable sales increased 3 percent in October.

Contacts reported continued tightness in the labor market. Overall employment increased modestly, while wages increased at a moderate pace. Contacts noted that minimum wage increases at national retailers had put upward pressure on wages in this sector.

The outlook among contacts improved slightly from the mixed report three months ago. A slightly greater share of contacts hold an optimistic outlook for regional economic growth in 2019.

Little Rock Zone

Economic conditions have slightly improved since our previous report. Manufacturing activity increased modestly. Reports on consumer spending showed slight growth: Arkansas real taxable sales increased slightly and tourism tax revenue was flat from one year ago. Area bankers reported demand for new loans was flat or slightly weaker across all types of loans.

Employment increased modestly, although several contacts noted that a lack of applicants was restraining hiring. Wages have increased at a moderate pace for both new and existing employees. Overall inflation pressures remain modest, although contacts in the construction sector report significant price increases for building materials and home finishes.

The overall outlook among contacts has weakened from three months ago. A slightly greater share of contacts expect local economic conditions to be worse in 2019 compared with 2018.

Memphis Zone

Economic conditions in the Memphis zone are little changed since our previous report. Although there were reports of strong seasonal demand in the transportation sector.

Reports on consumer spending were positive. October seasonally adjusted real taxable sales increased a little over 2 percent in West Tennessee. Nonfinancial services firms reported higher year-over-year sales that were in line with expectations. Banking contacts reported little change in overall loan demand.

Residential real estate activity was generally weak. The number of single-family building permits declined on a seasonally adjusted basis. Single-family home sales also declined slightly.

The overall outlook among contacts dropped sharply from three months ago. Most contacts expect regional economic conditions to be worse in 2019 compared with 2018.

St. Louis Zone

Economic conditions in the St. Louis zone have slightly improved since our previous report. Growth in Missouri manufacturing activity slowed but remains positive, as new orders and sales remain strong. Nonfinancial services firms noted sales were lower than one year ago and tended to fall short of expectations. October seasonally adjusted home sales increased 3 percent in the St. Louis MSA. Area bankers reported that demand for new loans was flat to slightly weaker than one year ago across all types of loans.

Contacts reported little to no change in employment, primarily due to difficulties hiring, but the number of job openings remains elevated. Wages increased at a moderate pace, with strong wage pressures when filling open positions. Despite some wage pressures, firms report modest pressure on overall inflation rates, in part due to declines in energy and commodity prices.

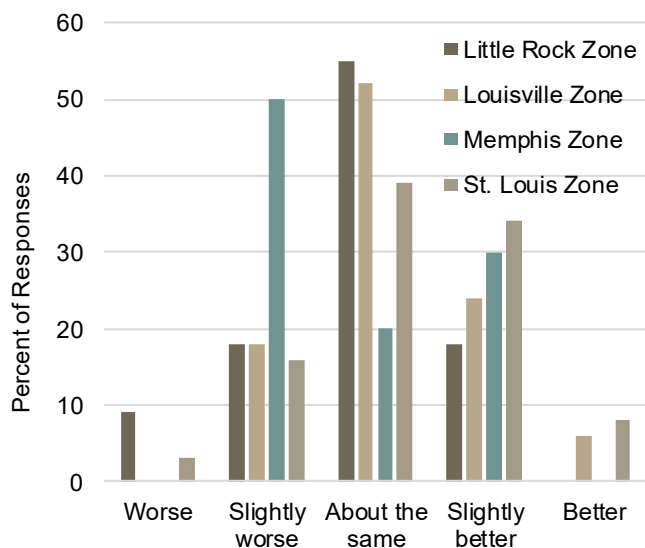
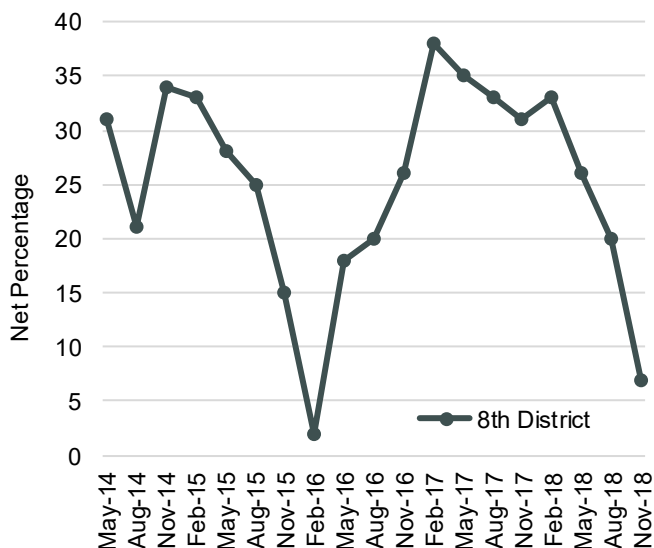
Reports on consumer spending were neutral but generally positive. Missouri seasonally adjusted taxable sales showed strong gains in October. Auto dealers reported flat sales, in line with expectations, and hospitality contacts reported flat year-over-year sales that were generally weaker than expected.

The overall outlook among contacts weakened from three months ago, although, on net, contacts hold an optimistic outlook for regional growth in 2019. ■

Supplemental Data and Survey Results

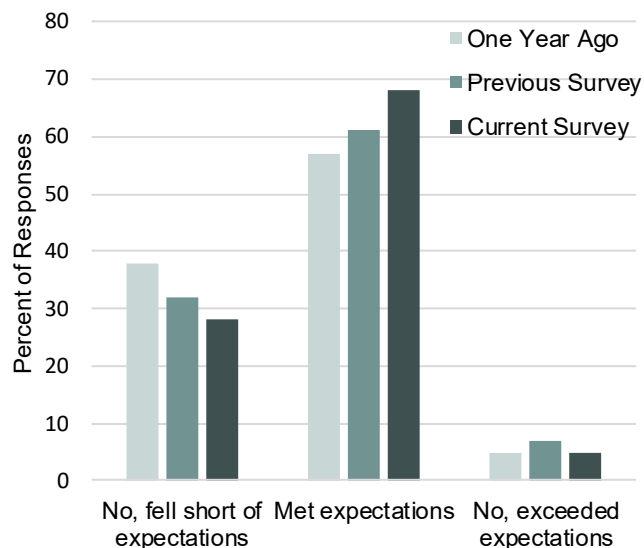
Anecdotal information in this report was provided by our panel of business contacts, who were surveyed between November 7 and November 16. The previous survey was conducted between August 9 and August 20. The following are selected results from those surveys.

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



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

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	32%	27%
Sales (Dollars)	26%	24%
Inventory	-4%	0%
Nonlabor Costs	33%	33%
Capital Expenditures	30%	21%
Labor Costs	39%	41%
Wages	40%	47%
Hours per Employee	22%	18%
Employment	25%	18%

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.

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 inquiries

mediainquiries@stls.frb.org