



Summary of Economic Activity

Reports from contacts indicate that economic conditions have slightly improved since our previous report. Firms continued to report difficulties finding qualified workers. Overall, wage pressures have increased moderately, with contacts citing minimum wage increases as a contributing factor. Reports on consumer spending were positive. Activity in the manufacturing sector has increased in recent months, although at a slower rate than noted in the previous report. District banking contacts reported positive but slower growth in loan volumes during the fourth quarter. Agriculture conditions improved slightly thanks to higher crop prices; however, overall conditions remain weak in this sector.

Employment and Wages

Employment has grown slightly since the previous report. Contacts in Arkansas and Missouri reported slight growth in manufacturing employment, and small business employment increased modestly. Information technology firms in the St. Louis area reported plans to increase hiring in early 2019. Contacts throughout the District continued to cite difficulties finding qualified employees. The labor market was particularly tight for technical jobs, with some firms lowering education requirements to attract more candidates. Schools and firms also continued to develop training programs to alleviate shortages in skilled trades.

Wages have increased moderately since the previous report. Pay raises were especially strong for entry-level positions. Contacts in information technology and manufacturing reported that labor market tightness led to increases in starting wages. Furthermore, minimum wage increases in healthcare and the public sector were either announced or took effect throughout the District. Small business wages in Missouri and Tennessee grew moderately.

Prices

Prices have remained unchanged on net since the previous report. Metal prices have decreased slightly. Steel prices showed some of the largest declines, but remain elevated in year-over-year terms. Coal prices have risen slightly since the previous report.

Broadly, agriculture prices have risen slightly since the previous report. Prices for soybeans and soybean meal have risen around 3 percent but remain lower than one year ago. Corn, corn meal, and sorghum all have posted particularly strong gains since the previous report.

Consumer Spending

Reports from general retailers, auto dealers, and hoteliers indicate that consumer spending activity has increased modestly since our previous report. November real sales tax collections increased in Arkansas, Tennessee, and Kentucky, but decreased in Missouri relative to a year ago. The West Tennessee consumer outlook remains positive, albeit less positive than earlier this year. On net, West Tennessee consumers expect to spend more compared with last year. Reports from Louisville auto dealers indicated that auto sales do not seem to have been affected by rising interest rates. Arkansas tourism sales tax revenue increased year over year.

Manufacturing

Manufacturing activity has increased at a moderate pace since our previous report. Survey-based indexes showed that Arkansas and Missouri manufacturing activity continued to expand from November to December, but the pace of growth slowed. New orders and production also increased in both states, but at a slower pace than in the previous report. Several contacts expressed an optimistic outlook for the next quarter, including manufacturers of commercial vehicle parts and primary metals. An aluminum producer reported running at nearly full capacity and is considering additional expansion options. Similarly, contacts in the vehicle parts manufacturing industry noted strong sales in October. On the other hand, several manufacturers noted increases in wages leading to higher costs and higher turnover rates, making it difficult for them to recruit engineers and staff.

Nonfinancial Services

Activity in the nonfinancial services sector has been unchanged since the previous report. The number of vacancies for nonfinancial services occupations in December has decreased over the previous month. This can be attributed to a slowdown following the holiday rush; however, year-to-year vacancies are also down. The transportation industry continues to experience growth. Major logistics firms continue to make investments in distribution centers across the District. Growth is limited in the river transportation industry as barges dependent on coal transportation continue to experience a slowdown in this line of business.

Real Estate and Construction

Residential real estate activity has improved slightly since the previous report. Seasonally adjusted home sales for November increased slightly from the previous report across most of the District's four largest MSAs. Inventory levels remained low.

Residential construction activity was flat. St. Louis builders reported a slight decline in year-to-date single-family permits, but were optimistic that the recent decline in mortgage rates would increase construction activity in the near future. Contacts in Louisville expressed concern regarding rising interest rates and the rising cost of building homes.

Commercial real estate activity has improved slightly since the previous report. Louisville contacts reported increased demand for retail property types compared with this time last year. Commercial construction activity was flat. Louisville contacts noted that multi-family construction is robust while there is a lack of new warehouse construction.

Banking and Finance

Banking conditions in the District have improved modestly since the previous report. According to reports from bankers, outstanding loan volumes grew by 4 percent relative to year-ago levels in the fourth quarter, which was a slight dip from the third quarter, continuing the steady decline in the rate of loan growth since the end of 2016. Commercial and industrial lending continued to be robust, but took a slight downward turn from the third quarter. Residential real estate lending in the District continued to grow slowly and lagged behind national rates for the fourth consecutive quarter. Commercial real estate maintained a positive, but slightly lower, growth rate compared with last quarter. Bankers reported a slight increase in deposits growth.

Agriculture and Natural Resources

District agriculture conditions have improved slightly since the previous report. The percentage of winter wheat rated fair or better remained approximately unchanged from the end of October to the end of November and remains at 93 percent. This is an increase from 89 percent of winter wheat rated fair or better at the end of 2017. Contacts continued to report very high crop yields for 2018. However, farmers still face headwinds due to low crop prices and continued trade concerns.

Natural resource extraction conditions improved slightly from October to November, with seasonally adjusted coal production increasing slightly. November production was also up slightly 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.



Little Rock Zone

Economic conditions in the Little Rock zone have continued to show slight improvement since our previous report.

A trucking industry contact noted demand for commercial-grade trucks remained elevated in November and dipped sharply in December. The contact's outlook for demand for commercial-grade trucks in 2019 was pessimistic.

Labor market conditions remain tight and contacts reported they are focusing on training programs to increase the pool of qualified workers. Wage pressures remain modest, although retail contacts noted some uptick due to a higher minimum wage.

Reports on residential real estate were somewhat mixed. Little Rock seasonally adjusted home sales were up strongly in November. However, contacts reported somewhat slower-than-expected sales going into the holidays. Similarly, a building and flooring retailer reported slower sales in December and into January.

Reports on consumer spending were positive. Arkansas November real taxable sales increased 6 percent from one year ago and real taxable tourism sales increased 9 percent.

Manufacturing activity increased slightly. December statewide manufacturing conditions indexes were lower than November's indexes and slightly positive. Contacts noted particularly long delivery lead times and lower inventories. One construction material supply firm noted having its longest project backlog in 40 years.

Louisville Zone

Economic conditions in the Louisville zone have continued to show slight improvement since our previous report. Contacts reported shortages for skilled trade workers, which has led to sharp increases in starting pay for these positions.

Kentucky real taxable sales increased 8 percent from one year ago. One auto dealer reported a recent slowdown in sales. Another dealer noted that more buyers are coming into the store owing too much money on their trade-ins. Recreational vehicle dealers reported that sales were down sharply in recent months.

Real estate contacts summarized 2018 as a generally positive year. However, contacts noted that recently many buyers are taking more time to make a decision, particularly as mortgage rates have declined. Area banking contacts noted that construction loan requests in the fourth quarter were down relative to one year ago.

Contacts reported that a slowdown in coal production has negatively impacted the barge industry.

Memphis Zone

Economic conditions in the Memphis zone have slightly improved since our previous report. Firms reported moderate wage pressures as large employers increased their minimum pay.

Reports on consumer spending were positive. November real taxable sales in West Tennessee counties increased 3 percent from one year ago. Retail contacts in northeast Arkansas noted that sales were better than anticipated this holiday season. Conversely, auto dealers noted that 2018 ended softer than the past few years, particularly in regions with many people employed in the agricultural sector.

Residential real estate conditions weakened slightly as seasonally adjusted home sales and inventories in Memphis both dipped in November. However, a local realtor noted that this was the busiest holiday season of his career, and sales have been particularly strong for homes priced under \$200,000.

St. Louis Zone

Economic conditions in the St. Louis zone have continued to show slight improvement since our previous report. Small business employment increased moderately in St. Louis and claims for unemployment insurance declined in Missouri. Contacts reported significantly increasing entry level wages for retail positions. Reports on holiday sales were particularly strong from specialty retailers who noted a surge in online orders.

Manufacturing activity increased at a moderate pace. December manufacturing conditions indexes for Missouri were lower than November, but continued to signal growth.

Residential real estate activity remained sluggish. Construction activity declined slightly; however, seasonally adjusted home sales and inventories both increased slightly. ■

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, email us at beigebook@stls.frb.org.

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