



Summary of Economic Activity

Reports from contacts suggest economic conditions have improved slightly since our previous report. Labor market conditions remained tight, with slight growth in employment and a moderate increase in wages. Price pressures strengthened slightly. Multiple contacts cited tariffs as a contributing factor to higher input prices, but responses were mixed as to whether they would pass these costs on to their customers. Manufacturing activity improved moderately. Barge traffic began to pick up after being halted by the severe spring flooding in the region. Outstanding loan volumes continued to increase, but growth slowed slightly compared with three months prior. Crop quality is noticeably below that of a year ago, mainly due to the recent flooding.

Employment and Wages

Employment has increased slightly since the previous report. Survey-based measures of employment indicated slight-to-modest growth in manufacturing employment in Arkansas and Missouri. Small business employment declined slightly throughout the District. Contacts continued to report labor market tightness for employees across a broad range of skill levels. To attract and retain workers, firms reported offering a wide array of benefits, including extended parental leave, teleworking opportunities, and assistance with student loans. Furthermore, local governments and companies announced several new education and training initiatives as part of long-term efforts to fill skilled trades, transportation, and tech positions.

Wages have grown moderately since the previous report, in part due to upward pressure from the tight labor market. Contacts in healthcare and the public sector in particular reported pay increases resulting from increased competition for workers. However, small business wage growth was more modest.

Prices

Price pressures have increased slightly since the previous report. Grain crop prices have risen sharply due in

large part to recent flooding that has limited the quantity and quality of planted crops. Soybeans, sorghum, wheat, and corn prices have increased 10, 4, 17, and 22 percent, respectively, since the previous report. Local contacts noted that increased feed prices will likely translate into higher meat prices in the future. On the other hand, cotton prices showed slight decreases over the same time period and year-over-year losses in excess of 20 percent. The price of coal also fell modestly.

Local contacts in retail and manufacturing held that tariffs affecting access to China and the EU continued to place upward pressure on input prices. However, there were significant differences among firms in their ability to pass elevated costs on to consumers, with some noting that online competition was a limiting force.

Consumer Spending

Reports from general retailers and hoteliers indicate consumer activity has slightly improved since the previous report. May real sales tax collections increased in Arkansas, Kentucky, Missouri, and Tennessee relative to a year ago. Consumers in West Tennessee, on net, expect to spend slightly more than they did last year. However, the consumer outlook in the region has fallen since March. Missouri contacts reported that tourism

spending was slightly lower than a year ago.

Manufacturing

Manufacturing activity has increased moderately since our previous report. Overall manufacturing activity in May was stronger than one month earlier in both Arkansas and Missouri, although the pace of growth slowed. Both production and new orders increased in each state. Several companies across a variety of industries announced new capital expenditure and hiring plans throughout the District.

Nonfinancial Services

Activity in the services sector has improved slightly since the previous report. The number of posted vacancies for nonfinancial services occupations increased from April to May in Louisville, Memphis, and St. Louis. Transportation activity improved modestly. Both freight and passenger traffic at District airports increased year over year. Barge activity began to recover after being halted by severe flooding in the spring, but overall traffic levels remained depressed.

Real Estate and Construction

Residential real estate activity has improved slightly since the previous report. Seasonally adjusted home sales increased slightly in May across Louisville, Memphis, and St. Louis but dipped slightly in Little Rock. Inventory levels remained low.

Residential construction activity was unchanged. May permit activity was mixed across District MSAs relative to the previous month but increased slightly overall. Local contacts continued to report that labor shortages are restricting construction activity. Builders in St. Louis expect increased permit numbers in the summer as they make up for muted activity earlier in the year caused by wet weather.

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 second quarter, which was a slight decrease from the first quarter of 2019. District growth remained below the national rate for the third consecutive quarter. Commercial and industrial lending continued to expand, but growth slowed significantly to 5 percent year-over-year from 9 percent in the previous quarter. Commercial and residential real estate lending maintained positive, and slightly lower, growth rates compared with the previous quarter.

Agriculture and Natural Resources

District agriculture conditions have declined modestly

since the previous reporting period and have deteriorated moderately relative to a year ago. Compared with one month prior, the percentage of corn and cotton rated fair or better at the end of June declined modestly, the percentage of soybeans rated fair or better declined slightly, and the percentage of rice rated fair or better increased slightly. The percentages of all four crops rated fair or better were moderately below those from the same time last year. Contacts have frequently attributed the decline in crop quality to the historic flooding along the Mississippi River this spring.

Natural resource extraction conditions declined slightly from the previous reporting period, with seasonally adjusted coal production falling by less than one percent. Similarly, year-to-date coal production was relatively unchanged compared with this time in 2018.

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 improved slightly since our previous report. Arkansas manufacturers reported relatively strong new orders; however, inventories have declined. Construction activity remains solid.

Reports on consumer spending were generally positive. Arkansas real taxable sales and tourism tax revenue were both up modestly from one year ago.

Residential real estate conditions remain weak. Seasonally adjusted single-family building permits in the Little Rock MSA declined sharply in May. Seasonally adjusted home sales (and inventories) declined 3 percent between April and May.

Receding flood waters led to improving conditions for both the agriculture and transportation sectors. By the end of June, crop quality for all major row crops improved. Flooding led to closures of some waterways from barge traffic, and traffic has been slow to resume.

Louisville Zone

Economic conditions in the Louisville zone have improved slightly since our previous report. Reports on consumer spending were upbeat through May: Kentucky real taxable sales increased sharply from the same time last year.

There are continued reports of labor market tightness, particularly for skilled trades. Reports from small businesses in Indiana indicate slight declines in employment and modest growth in wages.

Residential home sales increased slightly in the Louisville MSA and inventories were generally unchanged. Residential construction weakened as seasonally adjusted single-family building permits declined 3 percent between April and May.

Agriculture conditions continued to decline. Crop quality of Kentucky corn and soybeans slightly deteriorated during June.

Memphis Zone

Economic conditions in the Memphis zone have improved slightly since our previous report. Reports on consumer spending were positive as real taxable sales increased modestly in West Tennessee.

Labor markets remain tight and wage pressures have modestly increased, as firms and institutions reported increases in their minimum wages. Contacts noted many initiatives underway to increase the supply of workers.

Real estate conditions have improved modestly since our previous report. Seasonally adjusted home sales increased sharply between April and May, while inventories experienced a steep decline. However, seasonally adjusted single-family building permits also increased sharply, which should increase the future supply of housing.

Agriculture conditions continued to decline. Crop quality of Tennessee corn, cotton, and soybeans slightly deteriorated during June.

St. Louis Zone

Economic conditions in the St. Louis zone have improved slightly since our previous report. Manufacturing activity remains positive but weakened slightly across Missouri.

Reports on consumer spending were mixed. Real taxable sales increased moderately in Missouri in May. However, hospitality and tourism contacts reported sluggish sales growth more recently.

Residential real estate conditions have been mixed since our previous report. Seasonally adjusted single-family home sales increased slightly; however, inventories jumped sharply. Seasonally adjusted single-family building permits were down slightly from one year ago.

Agriculture conditions continued to deteriorate due to spring flooding. Crop quality for Missouri rice significantly deteriorated during June, while crop quality of cotton and soybeans was slightly worse. Corn quality improved modestly. ■

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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