



Summary of Economic Activity

Economic conditions have been mixed but generally unchanged since our previous report. Labor market conditions remained tight as firms continued to note difficulties finding qualified workers. While nonlabor input costs increased moderately, contacts reported only a slight uptick in prices charged to consumers. Construction activity improved slightly; however, some developers reported delaying projects due to economic uncertainty. In transportation, barge activity continued to improve, while airport cargo traffic declined. Farming conditions remained strained. Across all industries, the outlook among contacts turned slightly pessimistic. On net, a slightly greater share of contacts expect conditions during the remainder of 2019 to be worse or somewhat worse than the same period in 2018.

Employment and Wages

Employment has grown slightly since our previous report. On net, 12 percent of survey respondents reported that employment was higher than a year ago. Labor market tightness has persisted throughout the District, including in transportation, healthcare, and manufacturing. Firms reported increasing benefits, loosening hiring requirements, and more aggressively marketing themselves to attract workers.

Wages have grown moderately since our previous report. On net, 40 percent of contacts reported that wages were higher than a year ago; one contact in Little Rock reported that new graduates applying to jobs at an engineering firm were expecting \$10,000 to \$15,000 more than their offered starting salary. Numerous firms saw rising wages as a consequence of the tight labor market, with several businesses—due to their size, location, or budget—especially struggling to keep up with wage gains and attract potential employees.

Prices

Prices have increased slightly since our previous report. On net, 13 percent of contacts reported that prices charged to consumers increased in the current quarter relative to the same time last year. This is the fourth consecutive quarter in which the share reporting higher

selling prices has declined. Despite the reported softness in prices charged to consumers, input costs continue to increase at a moderate rate. On net, 32 percent of contacts reported higher nonlabor costs.

Business contacts continued to note the effects of tariffs and the current trade negotiations with China on price pressures, although the magnitude and direction of these effects vary greatly by product. Agricultural commodity prices generally remained depressed relative to the same time last year and have fallen since our previous report. On the other hand, several contacts noted moderate increases in the prices of steel, construction materials, and automobiles.

Consumer Spending

Reports from general retailers and auto dealers indicate consumer activity has been mixed since our previous report. July real sales tax collections increased in Missouri, Tennessee, and Kentucky, but decreased in Arkansas relative to a year ago. Most general retailers and auto dealers reported that sales have increased since the same time last year, in line with expectations. However, District auto dealers noted seeing customers purchase more used and low-end vehicles, and their outlook for the rest of 2019 has turned pessimistic. Many cited concerns about higher new vehicle prices, elevated interest rates, and trade uncertainty.

Manufacturing

Manufacturing activity has been mixed since our previous report. A majority of contacts reported declines in production, new orders, and capacity utilization relative to one year ago. Respondents have noted slowdowns in the growth of manufacturing activity over the past few quarterly surveys, but this is the first time that they have reported declines for all three of these measures since 2016. Multiple contacts reported that tariffs and general uncertainty with regard to the ongoing trade negotiations with China contributed to declines in activity. On net, most contacts expect manufacturing conditions to stay at a similar level next quarter. However, several local manufacturing firms across a variety of industries, including automotive and food manufacturing, recently announced plans to expand operations. Likewise, other survey-based indexes indicate that activity in Arkansas and Missouri increased at a modest pace from one month earlier, with new orders and production increasing in both states.

Nonfinancial Services

Activity in the services sector has been mixed since our previous report. The number of posted vacancies for nonfinancial services occupations increased from June to July in St. Louis but decreased in Louisville and Memphis. Transportation activity was mixed. Cargo traffic at District airports decreased slightly year over year, which some contacts attributed to a general slowdown in global trade. However, passenger traffic remained above year-ago levels. Barge traffic continued to improve from the holdup of business caused by the severe flooding in the spring, and contacts expect a rebound of activity through the rest of the year.

Real Estate and Construction

Residential real estate activity has been stable since our previous report. Seasonally adjusted home sales increased modestly across the four largest MSAs in the District. Conversely, a slight majority of contacts reported weaker demand for single-family homes relative to a year ago, and nearly 40 percent noted that third-quarter sales have fallen short of expectations. Contacts continued to report inventory shortages, particularly for lower-end homes.

Residential construction activity increased slightly. There was a slight increase in June permit activity across the four largest MSAs in the District. On net, 14 percent of respondents reported higher construction activity relative to the same time last year, and 7 percent expect continued growth in the next quarter.

Commercial real estate activity has improved slightly since our previous report. Survey respondents reported a slight increase in year-over-year demand for office and industrial space and a modest decrease in demand for retail space. Demand for multifamily properties was unchanged.

Commercial construction activity improved slightly. Survey respondents reported healthy demand for construction of industrial property types and stated that several projects are lined up for the next few months. However, there are some reports of developers deferring future projects due to recent economic uncertainty. Local contacts continued to report labor shortages.

Banking and Finance

Overall loan demand in the District has weakened slightly since our previous report. Demand for mortgages slightly increased relative to one year ago, while demand for auto loans and commercial and industrial loans fell modestly. Bankers expect little to no change to overall loan demand in the fourth quarter. Credit standards tightened slightly compared with year-ago levels. Delinquencies fell slightly on a year-over-year basis and are expected to continue declining into the fourth quarter.

Agriculture and Natural Resources

District agriculture conditions were down modestly from the previous reporting period. Compared with mid-July, the percentages of cotton and rice rated fair or better declined modestly, while those for corn and soybeans declined slightly. Relative to the previous year, the percentage of all four crops rated fair or better declined moderately. District contacts indicated that farming conditions remained strained due to low commodity prices and lingering effects from the unusually wet weather and flooding in the spring. New government assistance to farmers is expected to provide some short-term alleviation.

Natural resource extraction conditions rose slightly from June to July, with seasonally adjusted coal production increasing 1.8 percent. Additionally, July production was 0.8 percent above that of 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 strengthened slightly since our previous report. Transportation activity continued to improve from slowdowns caused by severe flooding earlier in the year. Contacts continued to note labor market tightness, especially for skilled jobs. There were multiple reports of employers increasing wages to attract and retain workers.

Arkansas tourism sales tax revenue increased modestly, but overall sales tax revenue fell slightly. Auto dealers reported that sales generally met expectations midway through the third quarter.

The quality of planted soybeans in Arkansas decreased moderately since mid-July, while that of rice increased slightly. The quality of both crops is modestly below that of a year ago. A banking contact expressed concerns over how a downturn in agriculture may spill over to

other sectors due to the industry's significance in the state.

Seasonally adjusted home sales increased modestly in Little Rock between June and July, and building permits increased moderately from May to June.

The overall outlook among contacts remained slightly optimistic. On net, 10 percent of contacts expect regional economic conditions during the remainder of 2019 to be better than the same period in 2018.

Louisville Zone

Economic conditions in the Louisville zone have changed little since our previous report. Employment conditions strengthened slightly. There continued to be reports of labor market tightness in several industries, especially transportation.

Kentucky real sales tax revenue in July increased moderately from a year ago. Local auto dealers reported that sales generally met expectations. One contact noted that an increase in the average price of new vehicles as a result of tariffs has negatively affected business.

The quality of corn and soybeans planted in Indiana and Kentucky has decreased slightly since mid-July. In Indiana, the quality of both crops is moderately below that of a year ago, while in Kentucky, the quality of corn is unchanged and the quality of soybeans slightly lower than a year ago. Western Kentucky coal production increased slightly from June to July.

The overall outlook among contacts turned slightly pessimistic. Multiple construction contacts reported sales falling short of expectations due to customers being more cautious. Across all industries, 10 percent of contacts, on net, expect regional economic conditions during the remainder of 2019 to worsen relative to the same period in 2018. Some cited a slowing economy and geopolitical uncertainty as reasons for their negative view of the future.

Memphis Zone

Economic conditions in the Memphis zone have strengthened slightly since our previous report. Labor markets continued to improve as firms reported slight increases in employment and moderate wage growth.

Seasonally adjusted single-family building permits increased sharply from May to June. Home sales increased modestly from June to July. Housing inventories continued to decline.

Crop quality for corn, cotton, rice, and soybeans planted in Tennessee and Mississippi has been generally unchanged since mid-July. Relative to a year ago, the quality of all four crops has declined slightly in Mississippi. In Tennessee, the quality of corn is slightly higher, the quality of cotton modestly lower, and the quality of soybeans unchanged compared with the same time last year.

The overall outlook among contacts turned slightly optimistic. On net, 5 percent of contacts expect regional economic conditions during the remainder of 2019 to be better or somewhat better than the same period in 2018.

St. Louis Zone

Economic conditions in St. Louis have remained broadly unchanged since the previous report. Missouri seasonally adjusted taxable sales increased slightly in July from the same time last year.

Labor market conditions continued to improve. Contacts reported labor market tightness across a variety of industries including healthcare, transportation, and technology. Measures of small business employment showed a slight decrease since the previous report.

Seasonally adjusted home sales increased slightly from June to July. However, half of surveyed real estate contacts reported that sales midway through the third quarter have fallen short of expectations. Inventory shortages continued to plague the industry.

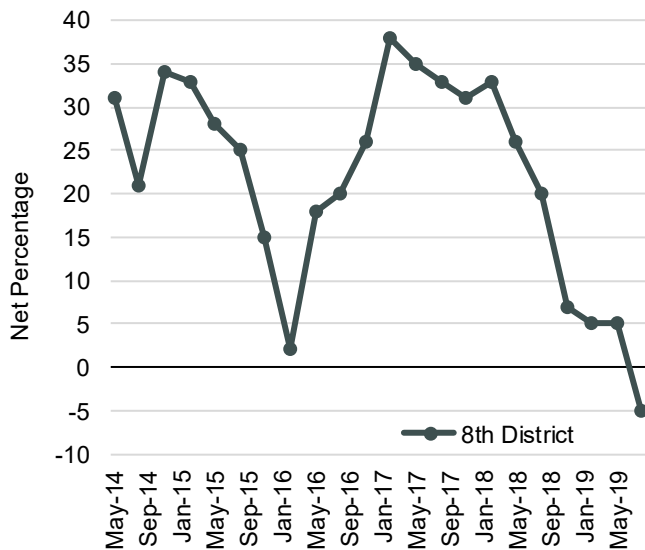
The quality of corn planted in Missouri has increased slightly since mid-July, while that of other crops has remained essentially unchanged. Relative to a year ago, the quality of corn and soybeans is significantly higher.

The overall outlook among contacts turned slightly pessimistic. On net, 7 percent of contacts expect regional economic conditions during the remainder of 2019 to worsen relative to the same period in 2018. ■

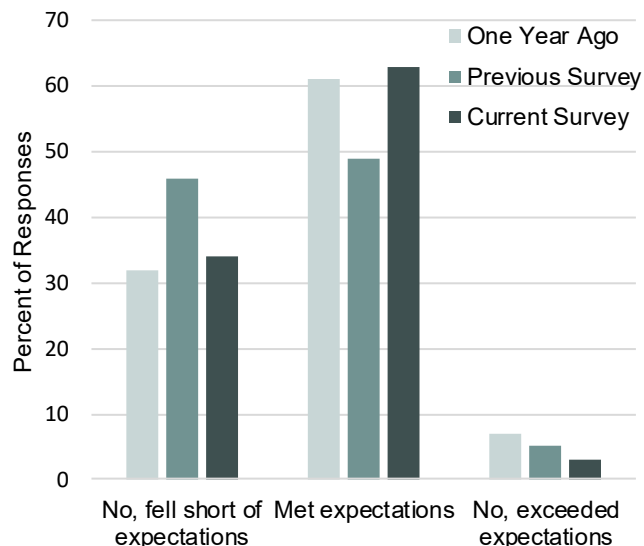
Supplemental Data and Survey Results

Anecdotal information in this report was provided by our panel of business contacts, who were surveyed between August 5 and August 19. The previous survey was conducted between May 3 and May 17. The following are selected results from those surveys.

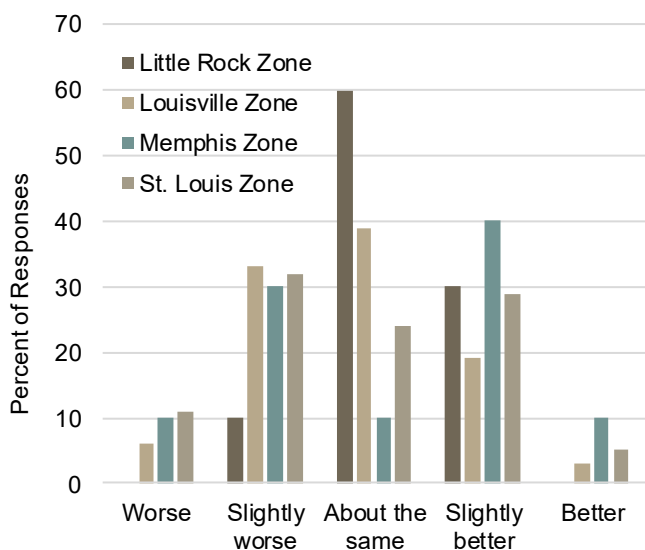
How do you expect local economic conditions to change during the remainder of this year?



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 | 16% | 13% |
| Sales (Dollars) | 8% | 14% |
| Inventory | -10% | -8% |
| Nonlabor Costs | 29% | 32% |
| Capital Expenditures | 16% | 15% |
| Labor Costs | 34% | 41% |
| Wages | 36% | 40% |
| Hours per Employee | 13% | 6% |
| Employment | 10% | 12% |

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

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:

bit.ly/stlecon

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

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