



Summary of Economic Activity

Economic conditions have been mixed but generally unchanged since our previous report. Contacts across multiple industries continued to note a heightened sense of economic uncertainty. There was a slight uptick in employment. Wage increases were widespread and higher than in previous years for the vast majority of firms. Contacts continued to report only a slight uptick in prices charged to consumers despite moderate increases to nonlabor input costs. Reports from manufacturing firms were mixed. Agriculture conditions remained strained by low crop prices and generally poor production and yields. Across all industries, the outlook among surveyed contacts remained slightly pessimistic; on net, 12 percent of respondents expect conditions during 2020 to be worse or somewhat worse than in 2019.

Employment and Wages

Employment has increased slightly since the previous reporting period. On net, 11 percent of survey respondents reported that employment was higher than a year ago, and 41 percent, on net, expect to hire additional workers over the next 12 months. Labor market tightness persisted across the District; on net, 34 percent of contacts reported difficulty finding qualified workers. Firms continued to deal with worker scarcity by raising benefits, lowering hiring standards, investing in technology, and/or retraining existing employees. Employment conditions in manufacturing remained more subdued. Fifty-seven percent of manufacturing contacts reported a desire to hire more workers, but other survey-based results showed slight employment declines in the sector.

The tight labor market has continued to put upward pressure on wages, which have increased moderately since the previous report. On net, 38 percent of survey respondents indicated that wages were higher than a year ago. Seventy-four percent of those seeking to hire new workers reported raising wages for some or most job categories, and 63 percent of all contacts reported raising wages for existing employees by more than they have in the past few years.

Prices

Prices have increased slightly since the previous report. On net, just 6 percent of business contacts reported that prices charged to consumers increased in the current quarter relative to the same time last year. This is the fifth consecutive survey in which the share reporting higher selling prices has declined. Despite the reported softness in prices charged to consumers, firms' input costs continued to increase at a moderate rate. On net, 32 percent of business contacts reported higher nonlabor costs, the same share as in the previous quarter. Business contacts in retail and manufacturing reported facing increased price pressures due to tariffs.

Consumer Spending

Reports from general retailers, auto dealers, and hoteliers indicate that consumer activity has been mixed since the previous report. October real sales tax collections increased in Arkansas and Kentucky but were flat in Missouri relative to a year ago. September real sales tax collections increased in West Tennessee relative to a year ago. General retailers reported that sales have been about the same or slightly lower than this time last year, and their outlook on future economic conditions has turned pessimistic. Most surveyed auto dealers reported that sales have been about the same as this time last year but have fallen short of expectations, citing

rising prices as deterrents to consumer confidence. Multiple dealers continued to note seeing an increased preference for used and low-end vehicles. Hospitality contacts in the St. Louis region shared mixed accounts of recent tourism activity relative to a year ago but remained optimistic about the coming months.

Manufacturing

Manufacturing activity has been mixed since our previous report. For the second consecutive quarter, a majority of survey respondents reported declines in production, new orders, and capacity utilization relative to one year ago. Makers of vehicle parts noted that a slowdown in the automotive industry has negatively impacted sales. However, survey-based indexes indicate that manufacturing activity overall expanded slightly in Arkansas and Missouri from September to October, with new orders and production increasing moderately in both states. Contacts were slightly optimistic about the future; on net, most survey respondents expect manufacturing conditions to improve slightly in the first quarter of 2020.

Nonfinancial Services

Activity in the services sector has improved modestly since the previous report. On net, around 40 percent of survey respondents reported higher sales compared with the same time last year, and 45 percent expect this growth to continue into the first quarter of 2020. However, nearly a third of contacts noted that sales halfway through the fourth quarter have fallen short of expectations, which some credited to increased economic uncertainty. Transportation activity has been mixed since the previous report. Trucking contacts reported that lackluster demand for freight transportation has put downward pressure on prices. Barge traffic in Little Rock exceeded expectations in the first half of the fourth quarter.

Real Estate and Construction

Residential real estate activity has been mixed since the previous report. Seasonally adjusted home sales increased slightly from August to September in Little Rock, Louisville, and Memphis but decreased slightly in St. Louis. On net, 10 percent of survey respondents reported a decrease in demand for single-family homes relative to a year ago, and some contacts noted that fourth-quarter sales have fallen short of expectations. Inventory levels remained depressed.

Residential construction activity increased slightly. There was a slight uptick in September permit activity across District MSAs relative to the previous month. On net, 10 percent of survey respondents reported higher construction activity compared with the same time last year, and 20 percent expect continued growth in the next quarter.

Builders in the St. Louis area expect an uptick in activity in the near future due to lower mortgage rates and a reduction in home inventory.

Commercial real estate activity has increased slightly since the previous report. Survey respondents reported a slight increase in demand for office space relative to one year ago, a slight decrease in demand for retail space, and no change in demand for industrial space. Contacts, on net, also noted slightly higher demand for multifamily properties.

Commercial construction activity was mixed. Survey respondents reported higher demand for office and industrial property construction. However, there were some reports of firms putting future projects on hold because of economic uncertainty.

Banking and Finance

Banking conditions in the District have experienced little change since the previous report. Demand for mortgages and auto loans decreased slightly relative to one year ago, and demand for commercial and industry loans fell modestly. However, there was a sharp increase in credit card borrowing relative to the same time last year. Bankers expect a slight increase in total loan demand in the first quarter of 2020. Credit standards tightened overall compared with year-ago levels. Delinquencies were flat on a year-over-year basis but are expected to increase moderately in the first quarter of 2020.

Agriculture and Natural Resources

District agriculture conditions have remained unchanged from the previous reporting period and well below those from a year ago. Corn and soybean yield forecasts increased from October, while cotton yield forecasts have declined modestly. All three crops and rice are projected to have lower yields than last year. Production forecasts for corn, cotton, and soybeans have increased slightly since the previous report. Production levels for corn, rice, and soybeans are expected to be significantly lower than in 2018, while that for cotton is expected to increase modestly. District contacts continued to express concerns over depressed agriculture commodity prices.

Natural resource extraction conditions declined modestly from September to October, with seasonally adjusted production declining by nearly 4 percent. October production decreased 8 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.



Little Rock Zone

Economic conditions in the Little Rock zone have strengthened slightly since our previous report. Arkansas real sales tax revenue increased modestly in October from a year ago. A Little Rock area auto dealer reported that lower interest rates have improved spending activity.

Firms reported a modest increase in employment relative to a year ago. Wage growth was also modest. On net, 17 percent of survey respondents reported that wages were higher than the same time last year. Half of firms seeking to increase employment reported raising wages to attract new hires.

Survey-based indexes indicate that overall manufacturing activity expanded slightly in the state of Arkansas from September to October. New orders and production increased moderately over the same time frame.

Seasonally adjusted home sales ticked up slightly from August to September. Single-family building permits increased robustly over the same time period.

The overall outlook among contacts remained slightly optimistic. On net, 17 percent of contacts expect regional economic conditions in 2020 to be better than in 2019.

Louisville Zone

Economic conditions in the Louisville zone are little changed since our previous report. Kentucky real sales tax revenue in October increased modestly from a year ago. A local auto dealer reported sales falling short of expectations due to weak demand.

Seasonally adjusted home sales increased slightly from August to September. However, some local contacts reported that the typical seasonal slowdown in sales activity has arrived earlier than expected. Moderately priced single-family housing remained in high demand.

Building permits were relatively unchanged from August to September. A local contact noted that construction costs continue to increase.

Manufacturing contacts reported that sales have fallen short of expectations halfway through the fourth quarter, citing a slowdown in economic activity. They generally noted a slight decrease in production, capacity utilization, and new orders relative to a year ago.

The overall outlook among contacts has remained slightly pessimistic. Across all industries, 19 percent of contacts, on net, expect regional economic conditions during 2020 to worsen relative to 2019.

Memphis Zone

Economic conditions in the Memphis zone have strengthened slightly since our previous report. West Tennessee real taxable sales increased slightly in September from the same time last year.

Firms reported that employment levels were about the same relative to a year ago as labor market conditions remained tight. Finding qualified candidates continued to be a significant issue for those hiring workers. Wage growth was moderate. On net, about a third of survey respondents reported that wages were higher than a year ago.

Seasonally adjusted home sales increased modestly from August to September. Single-family building permits also increased modestly over the same time period.

The overall outlook among contacts was neutral. On net, contacts expect regional economic conditions during 2020 to be about the same as in 2019.

St. Louis Zone

Economic conditions in the St. Louis zone are broadly unchanged since the previous report. Missouri real sales tax revenue in October was flat from the same time last year. Auto dealers reported that sales were about the same as a year ago but fell below expectations.

Seasonally adjusted home sales decreased slightly from August to September. Half of surveyed real estate contacts reported that sales midway through the fourth quarter have fallen short of expectations. Inventory shortages continued to plague the industry.

Building permits increased slightly from August to September. A construction contact reported that costs for materials and labor have been higher than expected. Builders expect an uptick in activity in the near future due to lower mortgage rates and a reduction in home inventory.

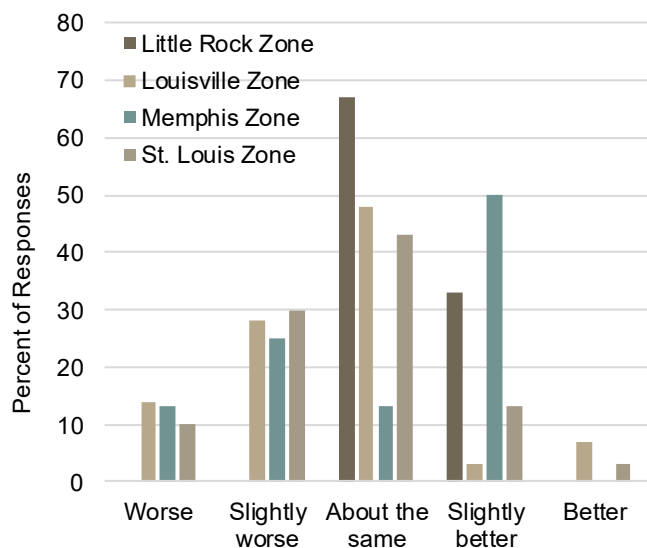
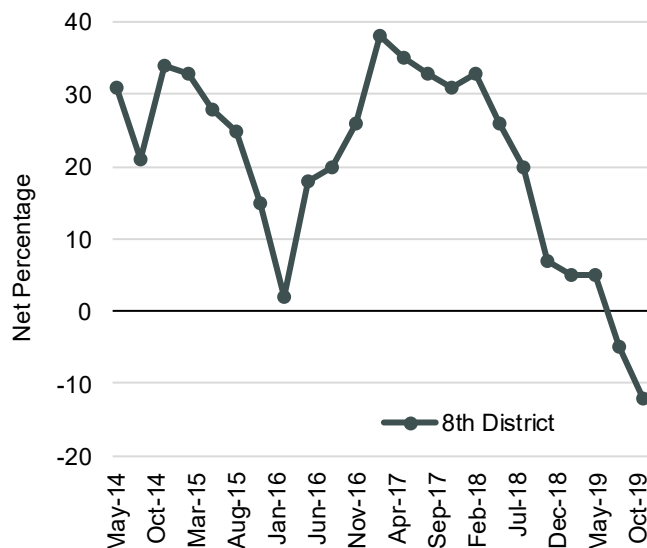
Survey-based indexes indicate that overall manufacturing activity expanded slightly in the state of Missouri from September to October. New orders and production increased moderately over the same time frame. However, reports from local manufacturing contacts indicated mixed levels of activity.

The overall outlook among contacts remained slightly pessimistic. On net, 15 percent of contacts expect regional economic conditions during 2020 to worsen relative to 2019. ■

Supplemental Data and Survey Results

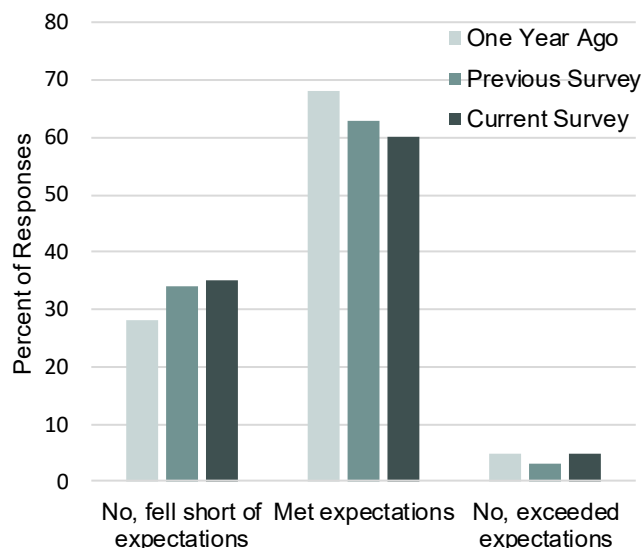
Anecdotal information in this report was provided by our panel of business contacts, who were surveyed between October 28 and November 5. The previous survey was conducted between August 5 and August 19. The following are selected results from those surveys.

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	13%	6%
Sales (Dollars)	14%	11%
Inventory	-8%	-24%
Nonlabor Costs	32%	32%
Capital Expenditures	15%	13%
Labor Costs	41%	35%
Wages	40%	38%
Hours per Employee	6%	14%
Employment	12%	11%

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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