



Summary of Economic Activity

Reports from District contacts suggest economic activity has continued to increase slightly since the previous report; however, conditions deteriorated toward the end of the reporting period. The pace of activity continues to remain highly variable across sectors. Employment has increased slightly, while wages have increased modestly. Consumer prices increased slightly; however, nonlabor input costs have experienced stronger increases. The overall outlook for business conditions over the next 12 months has improved but remains slightly pessimistic.

Employment and Wages

Employment has increased slightly since the previous report. The strongest growth was reported in manufacturing, transportation, and healthcare. Expanding firms continued to note labor supply shortfalls, ascribing it to workers' childcare and health concerns. One firm sought new employees in neighborhoods without adequate transportation by expanding a bus system to and from its warehouses. However, half of contacts reported remaining below pre-pandemic employment levels. Staffing contacts noted that many firms remained hesitant to hire or re-hire workers in the face of policy uncertainty and COVID-19 resurgences. Some firms—particularly small firms and those in the leisure and hospitality industry—exhibited more mixed employment trends.

Wages have grown modestly. Two-thirds of contacts reported raising wages for new and existing employees due to labor shortages, especially for low-wage and high-contact positions; one staffing firm instituted a minimum wage at which it would hire industrial workers for clients, believing it impossible to fill vacancies otherwise. Small-firm wage growth remained more mixed, with many reportedly unable to compete with larger firms' raises.

Prices

Input prices have increased strongly. However, contacts reported only a slight growth in prices charged to consumers, indicating that very little of the increased input

cost is being passed on to consumers. Raw materials prices have increased moderately overall; agriculture contacts noted that prices are at a yearly high, which contacts attributed to low yields nationally paired with healthy demand for staple crops such as corn and wheat both domestically and from China. Coal and lumber prices have declined since the previous report. A lumber yard contact noted that with inventories back to normal levels, lumber prices have declined 40% after spiking in recent months, putting them back at average levels compared with prices in previous years. A real estate contact noted that the price of plumbing materials has increased. Another contact noted increases in container-board prices due to higher demand from online shopping coupled with lower supply from COVID-19 and natural-disaster-related production delays.

Consumer Spending

Reports from general retailers, auto dealers, and hospitality contacts indicated that consumer spending activity has been mixed since our previous report. Over the course of October, seasonally adjusted credit and debit card spending generally declined across the District. As of early November, general retailers and restaurants reported mixed business activity. Auto dealers reported that current-quarter sales have met or exceeded expectations. Dealers cited low interest rates and gas prices helping to bolster sales. Tourism and hospitality contacts reported that current-quarter sales fell short of expecta-

tions and continued to be much lower than they were during the same period last year. Hospitality contacts expect business activity to decline in the coming months.

Manufacturing

Manufacturing activity has strongly increased since our previous report. Survey-based indices suggest that manufacturing activity moderately increased in Arkansas and strongly increased in Missouri. In both states, firms reported a strong uptick in new orders and production. Auto manufacturers in south central Kentucky and southern Indiana reported high levels of production. Firms reported that supply chain issues that were previously constricting production have mostly been resolved. One contact noted that containerboard paper manufacturers are seeing increased demand, but some mills are experiencing slowed back production due to minimal crew schedules in response to COVID-19 precautions.

Nonfinancial Services

Activity in the nonfinancial services sector has been mixed since our previous report. Airport passenger traffic appears to be declining further relative to last year as business travel remains minimal and rising numbers of COVID-19 cases lead to holiday travel cancellations. A parcel services contact indicated that business has improved, and the firm is already experiencing holiday-level activity. Several trucking contacts were optimistic about the industry going into 2021, as fewer competitors remain in business. Feedback from other logistics contacts was mixed regarding both sales in the previous quarter and the outlook for the next quarter, with one citing a lack of demand. A healthcare contact reported lower-than-expected sales last quarter, given increased apprehension about seeking health services.

Real Estate and Construction

Residential real estate activity has increased modestly since our previous report. Home sales remain robust for this time of the year and inventory levels remain low. A St. Louis-based contact noted that lower interest rates are a major factor in the increased demand for homes and thus why selling prices are rising.

Residential construction activity has remained unchanged since the previous report. Contacts noted that high demand for residential real estate is driving new residential construction, as there continues to be low residential inventory. Contacts also noted that construction is limited by lack of building materials, and a contact in St. Louis reported that the spike in COVID-19 cases is forcing them to regularly quarantine workers due to outside exposure.

Commercial real estate activity has been mixed since our previous report. Demand is down for both retail and office space, with contacts reporting a loss of retail tenants. Contacts in Memphis expect a loss of tenants as leases come to an end. However, demand for industrial space remains high, particularly for warehouse and manufacturing space, with demand expected to remain high or increase in the next quarter.

Commercial construction activity has been mixed. Contacts observed that most speculative activity in the office and retail space has ceased. However, construction for industrial space remained strong due to high market demand, with multiple active projects across the region. Contacts reported that large distribution companies are buying up new speculative inventory in order to quickly expand capacity.

Banking and Finance

Banking conditions in the District have experienced little change since the previous report. Overall loan demand remained low due to the pause in business activity following the recent surge in COVID-19 cases in the District. Residential real estate loans increased slightly, led by elevated refinancing activity to lock-in favorable rates. Banking contacts continued to report high levels of deposits despite lower rates paid on interest-bearing accounts. Delinquency rates remained generally low; however, some contacts observed a slight uptick in deferred payments among hospitality and commercial real estate clients. Competition for new loans and lower interest rates continued to narrow net interest margins.

Agriculture and Natural Resources

District agriculture conditions have remained unchanged since our previous reporting period. Production forecasts for corn, cotton, and soybeans have decreased, while cotton production forecasts have increased. Production levels for corn, rice, and soybeans are expected to be significantly higher than in 2019, while cotton production is expected to see a moderate decline. District contacts expressed optimism, citing higher-than-expected yields due to excellent weather conditions and a strong rebound in prices.

Natural resource extraction conditions declined modestly from September to October, with seasonally adjusted coal production declining around 3%. Production is still struggling overall, declining 24% from a year ago. Contacts reported reducing employee hours and offering early retirement options as a result of the industry struggles. ■

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 are little changed since the previous report. Manufacturing contacts reported that sales have fallen short of expectations during the third quarter and now expect new orders to decline during the first quarter of 2021. Auto dealers reported that sales have generally exceeded expectations, with one contact noting that digital marketing campaigns are gaining traction and inventories of new vehicles are building up.

An area banking contact noted that mortgage refinancing activity remains very strong. Commercial projects have slowed. People are holding cash likely due to the uncertainty related to COVID and the economy.

The overall outlook among contacts has improved but remains pessimistic. On net, 19% of contacts expect regional economic conditions in 2021 to be worse than in 2020.

Louisville Zone

Economic conditions have slightly improved since our previous report, although conditions remain weaker than one year ago. Agriculture contacts reported strong yields this fall and that corn and soybean prices are at yearly highs. Beef and pork prices have also been strong. Regional coal mining operations have reduced employee hours and have offered some employees early retirement options.

Several manufacturing contacts reported increasing production volumes, though not necessarily to pre-pandemic levels. Manufacturing contacts also indicated labor force challenges stemming from employees having to quarantine following virus exposure outside the workplace and lack of childcare.

Trucking industry contacts reported an uptick in business and improvements in pricing. Freight volumes have also rebounded with economic conditions. Beverage industry contacts reported difficulties maintaining inventory largely due to aluminum can shortages. A lumber yard owner reported that lumber prices are down and inventories are back to normal.

Banking contacts indicated that they are experiencing higher levels of mortgage fee income. Residential real estate contacts continued to report strong sales volumes throughout the region. Non-residential real estate contacts reported strong activity for warehouse and manufacturing space. However, they noted that local malls and retail spaces are losing tenants and expect significant losses as commercial leases come up for renewal and are not renewed.

The overall outlook among contacts has improved and is neutral to slightly optimistic. On net, only 3% of contacts expect regional economic conditions in 2021 to be better than in 2020.

Memphis Zone

Economic conditions in the Memphis zone remain unchanged since the previous report. Wages and available jobs have both increased, with job gains led largely by the manufacturing and shipping industries in the area. Shipping companies plan to expand their seasonal workforce more than prior years to keep up with online shopping orders. Manufacturers producing household products and food reported strong activity, while a manufacturing contact with ties to the paper and leather industries reported lower revenues due to dampened purchasing power of international consumers.

The retail and hospitality sectors reported mixed conditions: Some businesses reported improvements, while others reported they continue to struggle. An industry contact speculated that some firms have better adapted to COVID-19 restrictions, such as offering online sales, thus have a higher chance of remaining in business.

Residential real estate demand remains elevated, especially for homes under \$350,000. Contacts reported that the lumber shortage in the past few months is still an issue for building new units but that this should soon be resolved since lumber yards are beginning to catch up with demand.

Banks reported offering forbearance for the commercial real estate sector, which is depressed from decreased demand for office space. Banking contacts also reported excessive cash deposits and a large amount of mortgage refinancing activity as people take advantage of lower interest rates. Contacts are expecting loan activity outside of refinancing to pick up early next year.

The overall outlook among contacts has improved and is slightly optimistic. On net, 5% of contacts expect regional economic conditions in 2021 to be better than in 2020.

St. Louis Zone

Economic conditions in the St. Louis zone slightly improved but remain weaker than one year ago. Staffing contacts emphasized a tight but expanding labor market, with firms adapting to the shortage of workers and the work-from-home environment by hiring more IT support and workers from outside the region. However, small businesses reported a decline in the number of workers and a rise in temporary businesses closures in the St. Louis metro area.

Residential real estate contacts remain optimistic, generally reporting higher demand for residential properties compared with the same period last year. Contacts expect unseasonably strong demand to persist at least through the first quarter. Commercial real estate contacts noted mixed trends, reporting lowered demand for office and retail space but higher demand for industrial space compared with last year.

Manufacturing activity remained strong through November. A contact noted their business had grown due to COVID-related demand for their product, and another noted a desire to hire beyond its current, normal employment level.

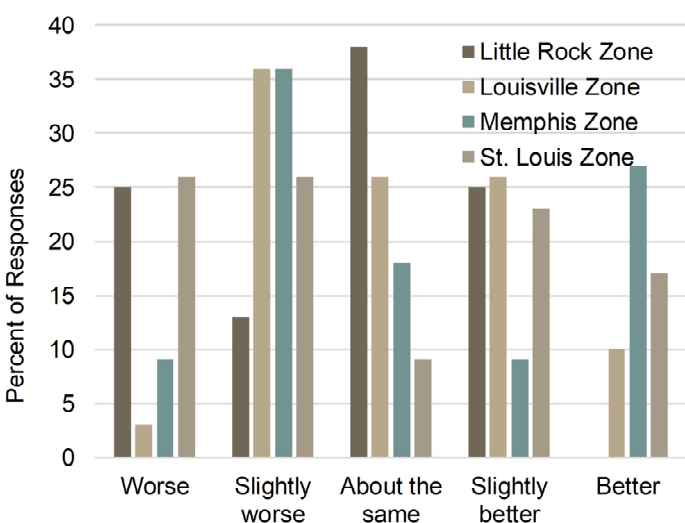
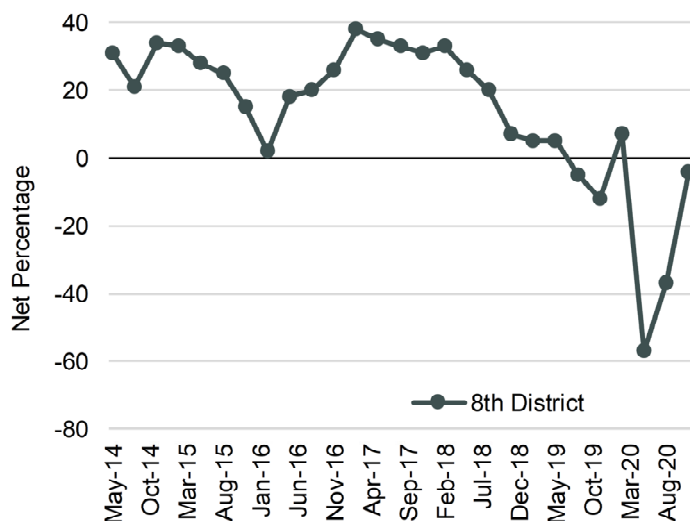
Consumer spending declined slightly since the previous report, driven by COVID concerns and temporary business closures due to new COVID cases and local policy changes.

The overall outlook among contacts has improved but remains pessimistic. On net, 10% of contacts expect regional economic conditions in 2021 to be worse than in 2020. ■

Supplemental Data and Survey Results

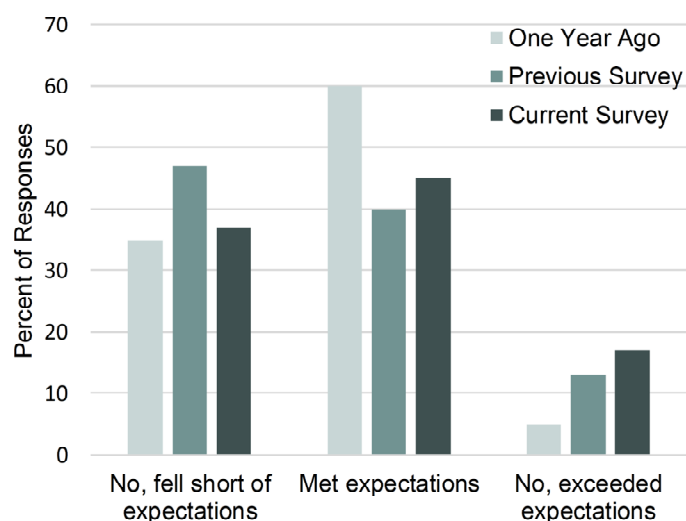
Anecdotal information in this report was provided by our panel of business contacts, who were surveyed between August 3 and August 14. The previous survey was conducted between May 4 and May 11. The following are selected results from those surveys.

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	-8%	2%
Sales (Dollars)	-23%	-8%
Inventory	-31%	-32%
Nonlabor Costs	15%	18%
Capital Expenditures	-30%	-7%
Labor Costs	8%	16%
Wages	15%	25%
Hours per Employee	-4%	-1%
Employment	-12%	-8%

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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