



## Summary of Economic Activity

Contacts reported that economic conditions have moderately improved since our previous report. Some large employers planned for a robust hiring season, including hosting spring job fairs. Area universities also indicated a robust hiring season. Inflation pressures have increased moderately, but the degree of change has varied across industries. Many contacts cited a faster-than-expected pace of vaccinations, stronger-than-expected economic activity, and an improving outlook. Consumer spending reports indicate a high degree of sales volatility stemming from federal aid to households and low retail inventories. Contacts across many sectors continued to cite ongoing supply chain difficulties, such as sourcing imported inputs; however, some contacts reported improvements in domestic supply chains.

### Employment and Wages

Employment has increased moderately since our previous report, especially in the transportation, manufacturing, and hospitality sectors. Two large employers—one whose business grew during the pandemic and another who is hopeful growth will arrive with spring and vaccines—held job fairs to fill hundreds of positions. Hiring firms continued to compete for workers, who remain scarce; one employer reported the response rate among applicants offered an interview was as low as 50%. Many other firms, notably smaller firms, reported more mixed employment trends.

Wages have increased slightly; contacts reported raising wages and bonuses to attract potential workers concerned about their health and to keep existing workers lured by new unemployment benefits. Contacts also attributed the stronger wage pressures to higher wage expectations for new hires, particularly from low-wage workers. Growth in wages at small firms remained muted.

### Prices

Prices charged to consumers have increased moderately since our previous report, but price changes varied across industries. A regional grocer reported persistent but modest increases in costs but little change in prices

charged to consumers. Several restaurants have raised prices moderately due to earlier cost pressures and now stronger demand. A contact in the banquet industry said they have not raised prices in the past year and have no plans to raise prices within the next year. Another hospitality industry contact expects paper product costs, which have been elevated, to decline in the near future as suppliers catch up with demand and paper product use slows as in-person dining replaces take-out orders. A retail contact in outdoor furniture and equipment reported higher prices charged to consumers since our previous report due to “unbridled demand” and higher freight costs. A retail contact in home furnishing reported higher input costs and prices charged to consumers since our previous report but expects prices to stabilize due to lower demand and increased production capacity. A retail contact expects further price increases of refrigerators over the summer due to a shortage of imported materials among domestic manufacturers.

### Consumer Spending

Reports from District general retailers, auto dealers, and hospitality contacts indicate that consumer spending activity has improved moderately since our previous report. Credit and debit card spending is up sharply in recent weeks but remains at levels consistent with spikes after the previous round of federal aid.

The outlook among West Tennessee consumers improved relative to December. General retail contacts reported improved business activity. An Arkansas grocer expects that positive sales trends for groceries will continue after the pandemic. Auto dealers reported that business activity is steady but lack of inventory is a major issue. A St. Louis restaurant contact reported increased business activity due to warmer temperatures and higher vaccination rates. Hospitality contacts reported that business activity has exceeded expectations after the vaccine rollout led to a strong increase in leisure travel.

### **Manufacturing**

Manufacturing activity has strongly increased since our previous report. Firms in both Arkansas and Missouri reported a strong uptick in new orders and production. Several contacts reported that coronavirus-related labor shortages continue to be a challenge, as firms are unable to produce the quantity of products that can be sold. One contact reported that on-going supply chain issues, especially those related to semi-conductor shortages, have worsened for auto manufacturers in the region. A distribution transformer manufacturer in the region is expanding its operations, hiring 150 new workers in the process.

### **Nonfinancial Services**

Activity in the nonfinancial service sector has increased slightly since our previous report. Across District metro areas, nonfinancial service employment was unchanged, declining slightly for education and health services and increasing slightly for transportation and utilities services. Airport passenger traffic increased substantially in March. A healthcare contact reported that although referrals have been increasing in the past several weeks, first-quarter patient volume and revenue were well below pre-pandemic levels due to COVID apprehension and the extreme weather in February. Parcel services companies continue to expand employment and invest in the District. Childcare contacts reported increases in inquiries and enrollment, but are concerned about ongoing staffing shortages and how and when large employers will impose a return to working in-person.

### **Real Estate and Construction**

Residential real estate activity was unchanged since our previous report, with one contact observing that residential demand shows no sign of slowing. The total number of homes sold across the largest District MSAs has risen since February, home prices increased, and the median number of days on the market decreased. The inventory of homes remains extremely low, with levels below this time last month and this time last year. Apartment rental

rates across the District have not changed since our previous report, although rental prices in the Memphis and Little Rock MSAs are higher than one year ago.

Residential construction activity was unchanged since our previous report. Problems continue with building materials for new projects: One contact reported severely extended lead times on appliances, with some extending up to 6 months. The higher prices of wood and steel are making new construction less profitable, with the price of lumber almost doubling since the beginning of the pandemic. Contacts indicated that new residential development is needed to meet the ongoing rise in housing demand.

### **Banking and Finance**

Banking conditions in the District have improved modestly since our previous report. Outstanding loan volumes have grown moderately over the past three months and remained much higher than year-ago levels. Contacts noted strong growth in residential real estate lending and slight growth in consumer and commercial loans. Commercial real estate loan volumes decreased slightly. Banks reported ample liquidity, high asset quality, and decreasing deferral requests on loan payments. Contacts noted that the demand for the second round of PPP loans was much lower than for the first round. A contact in Memphis cited changes in eligibility requirements combined with higher-than-expected revenues as a possible explanation for this trend.

### **Agriculture and Natural Resources**

District agriculture conditions differed little from the previous reporting period. Row crop acres planted was relatively unchanged compared with the same period in 2020, although planting was up moderately in Kentucky, Tennessee, and Mississippi. Corn and rice were planted in lesser quantities compared with last year, while cotton and soybean acreage increased. A national agricultural lender contact indicated an optimistic outlook for the industry. They noted they are returning to operating at pre-pandemic levels and expect strong growth in 2021.

Natural resource extraction conditions declined moderately from January to February, with seasonally adjusted coal production down 7%. February production was also down moderately compared with a year ago, falling over 8%. ■