



## Summary of Economic Activity

Economic activity has slowed slightly since our previous report. Labor markets remained tight, but reports of easing continued. An increased share of contacts reported holding wages flat. Prices rose moderately, though businesses continued to report consumer price sensitivity. Retailers and freight transport contacts reported slowing demand, particularly for high-end goods, but hospitality and travel contacts saw steady growth. Construction activity slowed, especially for multifamily projects, many of which have been delayed or cancelled due to higher interest rates. Loan demand fell, and delinquencies ticked up above pre-pandemic rates. The general outlook for the regional economy weakened slightly due to concerns about future demand.

### Labor Markets

Employment has remained unchanged since our previous report. Labor mismatches and struggles replacing departing employees have contributed to a tight labor market, but reports of easing have continued. Some contacts reported that availability of skilled workers remains a top issue, while others reported a more stable labor force for the first time in a few years. Staffing contacts reported clients are staying at jobs and less prone to leave than they were last year.

Wages have continued to grow slightly since our previous report, with an increased share of contacts reporting that wages remain level. A manufacturing contact in Evansville noted that hourly wages have risen only slightly, but an increase in overtime pay due to labor shortages has driven up labor costs. Several hiring contacts in St. Louis reported wage growth has slowed or reverted to pre-pandemic trends and fewer prospective employees have successfully negotiated for higher wages.

### Prices

Prices have increased modestly since our previous report. Although approximately three-quarters of contacts reported higher labor and nonlabor input costs, many businesses are choosing to maintain or only slight-

ly increase prices. Among respondents who do not plan to fully pass on costs to consumers, two main reasons stood out: First, some previous price increases were enough to cover more-recent cost increases. In an effort to raise prices less frequently, some businesses hedged by implementing larger increases earlier in the year. For example, an Arkansas brewer reported that they incorporated potential future volatility in input costs in past price increases. Second, increased consumer sensitivity to price increases has lessened businesses' ability to raise prices. Some items, such as luxury handbags and watches, have seen price decreases of about 15%.

### Consumer Spending

District general retailers, restaurant, and hospitality contacts reported mixed business activity since our previous report. In general, auto dealers reported a decline in business activity. Louisville auto contacts reported that higher interest rates have slowed consumer demand for new car purchases. October real sales tax collections increased in Kentucky, Missouri, and Western Tennessee relative to September and decreased in Arkansas. A Little Rock pawn shop noted that, while sales over the past 18 months have been at high volumes historically, sales have slowed in recent months. A Memphis hospitality contact noted that hotel occupancy rates have been consistent compared with the same 6-

month period last year.

### **Manufacturing**

Manufacturing activity growth has declined slightly since our previous report. In Arkansas and Missouri, firms reported slight decreases in production and employment and slight increases in delivery lead times and new orders. Missouri reported a slight decrease in inventories, while Arkansas saw a very slight increase. Higher interest rates and the auto worker strikes impacted deliveries of some products for local automotive markets. On average, firms reported they expect slight decreases in production, capacity utilization, and new orders in the coming quarter.

### **Nonfinancial Services**

Activity in the nonfinancial services sector has cooled since our previous report. Overall, sales and sales expectations were the same or slightly lower, and the general outlook was slightly worse. A Louisville tourism contact reported postponing capital expenditures because of flagging demand but also reported local growth in the hospitality industry. A St. Louis tourism contact reported continued investment and expressed hope that the local economy would be somewhat insulated from economic challenges faced by more expensive areas. A Memphis freight contact echoed the sentiment of low demand, which, coupled with overbuying during the COVID pandemic, has contributed to slow reduction of inventory. A St. Louis transportation contact reported stable demand from ongoing customers, but less new client acquisition. A Little Rock healthcare provider reported lower sales expectations and a worsening outlook.

### **Real Estate and Construction**

Residential rental prices across the District have remained unchanged since our previous report. In the Louisville, Memphis, and Little Rock MSAs, pending sales and houses off the market in two weeks have fallen since our previous report, while inventory and months of supply for residential real estate have increased. Contacts reported high mortgage rates continuing to constrain demand for buying homes. In commercial real estate, strong demand for office space continues to be focused on Class A buildings, while vacancies remain high for Class B and C office space.

Commercial construction has slowed sharply since our previous report, particularly for new starts in the warehouse and industrial sectors. Residential construction has also seen slowing activity, with some projects sidelined or cancelled, especially for multifamily. One Memphis commercial real estate contact reported that new

construction has all but stopped for developments aside from single-family housing. While the number of ongoing projects remains high, contacts with a strong existing project pipeline have reported slowing demand for future projects.

### **Banking and Finance**

Activity in the banking sector has slowed modestly since our previous report. A survey of contacts found that, overall, credit card and commercial and industrial loans all show signs of modest decreases in demand. Mortgage loan demand moderately declined due to high mortgage rates and low housing inventory, making housing affordability beyond the reach of many buyers. Contacts across the District reported that profit margins are tightening due to higher interest expenses. Consumer delinquencies continue to rise and are being closely monitored by banking contacts, who report they are returning to and in some cases exceeding pre-pandemic levels. Overall, banks continue to report stable conditions due to low credit risk and high asset quality.

### **Agriculture and Natural Resources**

Agriculture conditions have improved slightly since our previous report. Yields for the District's primary commodity crops were at or moderately below 2022 levels. Despite this slight decline, total corn production in the District rose relative to last year. Rice production also rose, reaching levels over 33% higher than in 2022, while soybean production dipped slightly below 2021-22 levels and cotton production returned to 2021 levels. Commodity crop prices fell but remained at or above typical levels for the 2015-2020 period and stayed relatively stable throughout the reporting period. District contacts reported a mixed outlook but were generally less pessimistic than in previous reports. A Louisville contact attributed the moderate improvement in outlook to higher-than-expected yields and prices for crops such as corn and soybeans. ■