



[Home](#) > [Publications](#)

# Eighth District Beige Book

September 04, 2024



## Summary of Economic Activity

Economic activity across the Eighth District has remained unchanged since our previous report. However, contacts provided some indications of slowing demand. Employment has remained unchanged since our previous report. Contacts described wage growth as returning to normal. While prices to consumers increased only modestly, production costs rose and are expected to be more persistent, reducing profit margins. Consumer spending has slightly decreased, and credit standards have remained unchanged since our previous report. The economic outlook is slightly pessimistic, similar to our previous report: District contacts reported that slowing demand and election uncertainty are negatively impacting their business.

## Labor Markets

Employment has remained unchanged since our previous report. Contacts reported more people applying for open positions. While the majority of contacts noted that hiring pressures have eased noticeably, in several cases employers continue to face challenges filling open positions, particularly for skilled workers. A construction materials supplier noted that finding quality candidates remains an issue. A hotel contact in Memphis reported limited abilities of their workforce was a continuing challenge but it had started to improve with recent hires. While quasi-governmental contacts reported strong recruiting and staffing, business contacts expect slower employment growth the remainder of this year. Contacts also noted they were continuing to reduce employment slightly through attrition, although attrition had decreased considerably since the start of the year.

Wage growth has remained unchanged since our previous report. Contacts described wage growth as returning to normal, but not there yet. A St. Louis retailer reported they have continued to raise wages, and Little Rock manufacturing contacts noted increasing wages to remain competitive for high-skill workers.

## **Prices**

Prices have continued to increase modestly since our previous report. Most contacts noted that their costs continued to increase with limited ability to pass-on those higher costs to households. Contacts generally shared that they are expecting some cost increases that will continue to put upward pressure on prices, though to a lesser degree. Contacts in Missouri anticipate they will be able to pass-on higher labor costs to customers when contracts renew in the coming months. A healthcare contact noted that the cost of drugs continues to rise while the prices of other medical supplies, like gauze, remain stable. A bike shop noted that sales were up, but profit margins were down due to a reduction in manufacturers' suggested retail prices. Most retail and tourism contacts expect prices to be either the same or lower in the next quarter.

## **Consumer Spending**

Consumer spending has either remained unchanged or decreased slightly since our previous report. Restaurant and hospitality contacts have generally reported consumers have spent less per visit, and automotive and retail contacts reported that sales had fallen short of expectations. Restaurant contacts noted that customers have been spending less by purchasing to-go items rather than dining in. A hospitality contact reported declining occupancy rates across their hotels in Mississippi as leisure travel was down. Marina owners in Kentucky noted that boat rentals were lower, and customers were anchoring boats in coves and swimming instead of cruising the lake to save on gas. An auto dealer noted that many customers have been postponing buying decisions as higher inventories have reduced buying pressure. A retailer from Illinois reported seeing a good response to discounts and couponing, and a performing arts center noted that subscriptions were the highest they had been since 2020.

## **Manufacturing**

Manufacturing activity has either remained unchanged or decreased slightly since our previous report. Many firms reported that sales had been below expectations and inventory levels of finished goods had increased due to lower demand. A manufacturer from Kentucky noted that they were sitting on finished goods inventory longer, as customers reduce the frequency of their purchase orders, which has led to intentional efforts to draw down excess inventory through lower production. An automotive parts manufacturer reported slowing

their production to less-than-expected volumes this year. A food processing firm indicated they were now expecting to finish the year below their initial annual operating plan.

## **Nonfinancial Services**

Activity in the nonfinancial services sector has either remained stable or decreased slightly since our previous report. Contacts indicated sales either met expectations or fell short due to lower demand. The outlook in the sector is slightly weaker. For example, a Missouri transportation contact described lower shipments and revenue due to weak demand coupled with higher costs as “not a good scenario.” Air travel conditions were mixed: A Memphis contact reported softening demand, with budget airlines cutting routes and shrinking networks, while a Little Rock airport contact indicated that consumer demand for air travel continues to be strong.

## **Real Estate and Construction**

Existing residential home sales have slowed slightly since our previous report, with several contacts noting that sales were below expectations. A St. Louis contact attributed weaker sales to less homebuyer confidence and higher mortgage rates. Housing inventories have modestly increased, along with the average number of days on the market, suggesting a more buyer-friendly market. Yet, a contact from Kentucky noted that while the market is becoming more balanced with higher inventory, strong demand is putting upward pressure on prices.

Commercial real estate continues to differ by property type. Contacts reported seeing more properties on the market in anticipation of lower interest rates. Office and industrial sectors continued to show lower demand relative to inventory, whereas retail property demand was slightly stronger than in the previous quarter. A Louisville construction contact noted that activity fell short of expectations as developers wait to initiate projects and schedules are postponed. Missouri contacts noted that federal infrastructure spending had significantly boosted construction activity and it was expected to continue into 2025.

## **Banking and Finance**

Banking activities have remained stable although the outlook is slightly worse than in our previous report. Contacts provided mixed reports on loan demand growth. Bankers in the Mississippi Delta region noted limited lending opportunities. Mortgage loan demand continued to be low to moderate. Several contacts noted that commercial real estate lending was strong throughout Tennessee. Contacts provided mixed reports on deposits. A Memphis banker reported competition for deposits is easing slightly, while a Louisville banker reported the competitive landscape for core deposits has intensified. Contacts noted credit standards have not changed since our previous report. Past-due loans were seen as being at acceptable

levels. A Kentucky banker noted that small business loan workouts are increasing, but there were few signs of widespread issues.

## **Agriculture and Natural Resources**

Agriculture conditions have been mixed since our previous report. Several District contacts noted that sales had been below expectations due to lower demand. However, crops were in generally good shape due to a wet planting season and rains in July. In Arkansas, the summer heatwave and severe drought have driven up irrigation costs and stresses on livestock. District contacts have also noted that commodity prices had fallen below expectations, which negatively impacts the repayment capacity of farmers who took on operating loans and projected a higher cash flow.



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