TD Economics

March 4, 2015

Data Release: Beige Book points to continued expansion, amidst some temporary constraining factors

- The U.S. economy continued to expand over the early January to mid-February period, according to the latest edition of the Beige Book. Six Districts reported moderate growth, with the others reporting more modest growth, while the Richmond District reported a slowing from a modest pace in the previous period.
- Overall, consumer spending increased in most Districts, with contacts generally optimistic over near-term sales. Both the New York and Boston Districts reported that harsh winter weather had negatively affected the retail business.
- Nonfinancial services activity grew moderately on balance. Shipping volumes were said to be at record levels in certain Eastern Districts, with disruptions at West Coast ports viewed as a possible contributing factor.
- Manufacturing activity generally increased, although growth was varied across Districts and sectors. Aerospace and automobile output stood out positively, however increased competition from imports was cited by a few Districts as a constraining factor for steel production. Manufacturers had generally positive outlooks going forward.
- Home sales increased in most Districts, however residential construction was mixed, with some Districts reporting disruptions due to severe weather. Several Districts noted that low levels of inventory and a lack of desirable lots continued to slow the residential market. Commericial real estate market conditions were stable or improved across Districts, with the apartment market remaining particularly strong.
- Overall, loan demand increased in all but one reporting District, with residential lending positive at all reporting banks, owing in part to a pickup in refinancing activity. Credit quality remained largely unchanged or had improved since the last period.
- Agricultural conditions were said to have worsened, as a result of falling corn and soybean prices, tougher competition for exports owing to a stronger dollar, drought conditions, and disruption at West Coast ports. Unsurprisingly, oil and natural gas drilling declined broadly, with cuts to capital expenditures expected in 2015.
- Payrolls remained stable or expanded, with contacts reporting employment gains across a broad range of sectors. Contacts in several Districts noted strong labor demand and challenges filling a variety of skilled positions. The one blemish was downsizing or layoffs reported in oil & gas-related industries.
- Wage pressures remained moderate across most Districts, but some contacts reported increased wages to attract skilled workers for difficult-to-fill positions. A staffing firm in the Chicago Districts also reported that some companies were willing to raise wage rates for unskilled labor in order to reduce turnover, while contacts in the Atlantic District noted increased entry-level wages. Most Districts reported flat to slight increases in overall prices.

Key Implications

- The good news is that even if the economy has cooled somewhat from the torrid pace observed through the spring and summer of last year, growth appears to have continued early in 2015 roughly in line with the pace in the fourth quarter.
- Several temporary factors, such as harsh weather and West Coast port-related disruptions, appear to be weighing on activity, which may result in slightly weaker than expected growth in the first

quarter. However, these factors have or will soon abate, which points to faster economic growth in the second quarter.

- The strong dollar and weakness in oil and gas are likely to continue to weigh on activity this year, however these are expected to be offset by robust consumer spending. Indeed, wage growth appears to be showing some signs of life amidst a slowly tightening labor market, which is positive for real income growth and spending going forward.

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