# TD Economics

January 11, 2012

**Data Release: Economy Improving, but Housing Remains a Drag**

- The economy "expanded at a modest to moderate pace" in all of the twelve Federal Reserve Districts during the second half of November and through December.
- Consumer spending continued to show encouraging signs of recovery on the coattails of holiday traffic, tourism and auto sales.
- Manufacturing improved across most Districts, led by heavy equipment and steel production. However, manufacturing activity related to housing remains depressed.
- Lending markets showed a modest improvement, as delinquency rates fell and loans to businesses continued to grow.
- Residential real estate remains stuck in a rut, although things appear to be nearing a bottom. The only signs of life are coming from the multi-family sector.
- There was surprisingly little mention of the job market. Staffing services in three Districts reported "strong and rising demand," while two Districts reported "below-average seasonal hiring".

**Key Implications**

- Consistent with hard economic data releases, the latest Beige Book points to an economy vastly improved from the summer and fall months of 2011.
- Yet despite this momentum, the Beige Book offers a reminder that the market for owner occupied housing is still in a depression. Given the pivotal role housing plays in the economy – including building, financing and furnishing – this remains a big impediment to a full fledged recovery.
- As a result, the Fed is likely to continue experimenting with policy tools targeted at housing. This year, for example, the Fed is poised to purchase roughly $200 billion of mortgage bonds with the proceeds of maturing agency debt and agency mortgage-backed securities. Also, last week the Fed took the unusual step of sending Congress a policy brief on the nation's foreclosure crisis.

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