



TD Economics

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Data Release: Economy progressing at a modest to moderate pace says the latest Beige Book

- The economy expanded at a “modest to moderate” pace over the end of April and May period, according to the latest edition of the Beige Book. This represents a deceleration from the “moderate” pace registered in the previous edition.
- Most districts reported slight to moderate gains in consumer spending, with a number of Districts citing late winter weather as a drag on retail sales. Vehicles sales were a strength, with sales generally increasing moderately across most Districts.
- The manufacturing sector expanded in most districts, and similar to the last report, this was particularly evident for industries directly exposed to residential construction.
- Nonfinancial services activity grew at a “modest to moderate” pace since the previous report, in line with the rest of the economy.
- Residential real estate and construction increased at a “moderate to strong” pace in all Districts, while commercial real estate and construction also expanded at a slightly lower “modest to moderate” pace.
- Finally, hiring increased at a measured pace in several Districts. Wage pressures on the other hand remained contained.

Key Implications

- Although this edition of the Beige Book represents a step back relative to previous months, it was largely in line with expectations and our forecast (1.4% Q2 real GDP growth annualized) of slower growth in the second quarter.
- As has been a constant theme since the beginning of the year, everything the housing market touches is gold, including real estate and manufacturers exposed to the sector.
- Looking forward and on the bright side, some Districts reported a positive outlook for manufacturing and vehicle sales, with advanced tourism bookings and the overall outlook for summer travel also positive.
- Nonetheless, the pace of hiring is still below where the Fed would like it to be. With personal incomes rising only slowly, it is hard to see the economy taking off at least until the fiscal headwinds subside.
- Overall, the Beige Book is likely to be overshadowed by the payrolls data released on Friday, in setting the tone for the Fed unwinding QE. Although the market has been pricing in an earlier slowdown in asset purchases, the latest salvo of indicators signals that this shift in expectations may have been premature. We continue to target September as the beginning of a gradual slowdown in purchases.

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