Data Release: Beige Book points to continued expansion in economic activity, albeit at a slightly decelerating rate

- The U.S. economy continued to expand across most Federal Reserve Districts over the mid-February to late-March period according to the latest edition of the Beige Book. Overall, five (previously six) Districts reported moderate growth, three (unchanged from prior edition) reported modest growth, while Boston continued to expand and growth was slight in Cleveland. Atlanta and Kansas City described economic conditions as steady.

- A majority of Districts reported higher retail sales, with savings from lower gasoline prices cited as helping to boost consumer activity. Colder-than-normal temperatures were mentioned as weighing on activity. Among retailers, the outlook was generally optimistic in several Districts.

- Business services firms saw rising activity, with a number of Districts reporting an optimistic outlook and expecting positive near-term growth. East Coast ports reported that labor disputes on the West Coast had boosted activity. A pickup in demand for high-tech services was reported in several Districts.

- Demand for manufactured goods was mixed, indicating a slowdown from the last survey period. Weaker activity was attributed in part to the strong dollar, falling oil prices and the harsh winter weather. The outlook was mixed with three Districts reporting positive sentiment, two reported a waning in optimism, while expectations had moderated but nonetheless remained positive in Kansas City. One contact in the Dallas District expected the energy industry to begin showing signs of life in the second quarter.

- Residential real estate activity was steady to improving, but abnormal seasonal patterns had led to some slowing in housing starts. Once again, low-to-declining levels of inventory were cited by several Districts. Contacts across the U.S. uniformly reported that they were optimistic, with many expecting a greater than normal upswing in home sales over the spring period. Multifamily construction remained strong, while activity in nonresidential real estate was stable or improved slightly.

- Agricultural conditions worsened for a second consecutive period, albeit less than during the previous one. Wet fields, persistent drought and a harsh winter were cited as factors.

- Investment in oil and gas unsurprisingly declined, but even with the decline in permits and investment overall production remains strong to increasing.

- Labor markets remained stable or continued to improve modestly, a similar, if slightly weaker, characterization compared to the previous period. Layoffs related to oil and gas prices were reported in multiple Districts.

- Districts reported only modest upward pressure on overall prices and wages. However, there continue to be tentative signs of wage pressures finding their way to lower skilled professions.
Key Implications

- Overall, the Beige Book paints a picture of an economy that continues to grow, albeit at a slightly decelerating rate. In terms of explanations for the deceleration, there is no smoking gun, but rather several factors are contributing. Lower oil and gas drilling is affecting Districts exposed to that sector, the strong dollar is one factor, while the abnormally harsh weather in particular was frequently cited.

- Overall, any weather-related weakness will lead to a roughly equal positive bounce in the second quarter. The negative impact of lower oil prices on activity in the sector will be front-loaded in 2015, and should lessen as the year progresses. In addition, the benefits of lower prices at the pump should become more apparent as savings accumulate and become more pronounced. Overall, our core view for a pickup in economic growth during the second quarter and beyond remains intact.

- The outlook among contacts generally appears to be positive, however it does not yet point to a significant rebound in economic activity. This may suggest that the anticipated pickup in economic growth may take slightly longer than expected to be realized. This, along with that fact that price pressures remain subdued, suggest caution on the outlook, and may delay the Fed's hand until additional certainty that the recovery is intact can be had. We expect the Fed to remain on the sidelines until September, at which point economic momentum should have had a chance to materially improve.

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