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TD Economics

Data Release: Beige Book cites broadening tightness in the labor market

- The most recent Beige Book, for the period between late-August and early-October, indicated that economic activity continued to increase, this time at a modest to moderate pace. The exception was the New York District, which reported no change in overall economic activity.
- A majority of reporting Districts noted that retail sales had increased, but contacts in the New York and Cleveland Federal Reserve Districts indicated that sales of cold-weather apparel were soft, given to the unseasonably warm weather. The elevated dollar also continued to weigh, with contacts around Boston, Atlanta, and Dallas reporting reduced spending by international customers.
- Manufacturing activity has been mixed since the previous report. Contacts in nearly half of the Districts reported increases in factory activity, while those in Richmond and Atlanta indicated that activity declined. The U.S. dollar was also a topic of conversation here, with some Districts expressing concern that its strength would depress exports of manufactured goods. Nonetheless, the outlook for manufacturing was broadly positive, in line with the ISM's manufacturing index, which bounced back robustly into expansionary territory last month.
- Housing markets continued to improve in most Districts, with New York being the only District to report slowing in multifamily construction – something that was apparent in this morning's housing starts report. Inventory shortages continued concern firms in the Boston and Philadelphia Districts, and Minneapolis has also started to echo the same worries.
- Credit conditions improved on net, although there were some scattered reports of seasonal softening, particularly on the residential lending side. Credit quality continued to improve in the Philadelphia, Cleveland, Dallas, and San Francisco Districts. Moreover, the San Francisco and New York Districts indicated that delinquency rates had declined since the last report.
- Labor markets continued to improve with conditions remaining tight in most Districts. In addition to the tech and engineering sectors, which typically voice these concerns, shortages were reported in a broader number of sectors, including positions in manufacturing, hospitality, health care, truck transportation and sales. Most Districts reported fairly steady wage pressures on net, with pressures reportedly intensifying for entry-level positions.
- Prices of consumer goods increased only mildly, with only selected reports of increases across some Districts and sectors.

Key Implications

- The Beige Book continues to paint a relatively bright picture of the domestic economy, further underscoring the divergence between externally-exposed and domestically-oriented sectors. The high-flying dollar continues to remain a risk with concerns highlighted by manufacturing and retail contacts. Nonetheless, most facets of the domestic economy continue to improve.
- Importantly, firms continue to cite increased shortages of labor, with the tightness coming through on a broader basis. This should lead to rising wage pressures and contribute to higher input costs in the coming months, both of which should help push inflation toward the Federal Reserve's medium-term target.
- While we don't expect the Federal Reserve to raise rates in two weeks' time, given the proximity of U.S. presidential election, we expect the Fed to increasingly telegraph a relatively hawkish narrative and raise rates before the year is out.

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