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TD Economics

Data Release: Economic activity progressed at a decent clip to cap off the first-quarter

- The most recent Beige Book notes that economic activity continued to expand at a modest-to-moderate pace throughout the country during the period of mid-February to the end of March, with half of the districts reporting moderate gains. The notion that weather effects may have contributed to a slowdown in economic activity during the first-quarter were not emphasized in the report.
- Labor markets tightened further, with some contacts noting the potential for labor shortages. High-skilled IT workers, which were already reported to be in short supply in past rounds, are becoming more scarce with some employers noting worries around visa issuance regulations. Moreover, employers noted rising difficulty filling low-skilled positions.
- Wages increased modestly, but have been blamed for restraining growth in some sectors, including manufacturing, transportation, and construction. Employers increasingly quoted rising turnover rates and indicated that they would raise wages moderately the coming months.
- Low inventory levels have constrained sales activity despite strong demand for housing. This resulted in upward pressure on home prices across the country, a trend likely to be most detrimental to first-time homebuyers. Overall, in spite of higher mortgage rates demand for housing is strengthening as a consequence of income gains and an improving labor market.
- Price increases were seen as only modest by businesses and were broadly little changed from the previous report. Small increases in selling prices were noted by manufacturers while restaurateurs only raised menu prices slightly as declines in grocery store prices only partly offset labor cost increases at restaurants.
- The manufacturing sector continued to exhibit strength despite a slowdown in the pace of freight shipment growth. Lingering policy uncertainty around trade deals is likely still causing delays in investment, with most capital outlays related to maintaining existing equipment and less so for adding capacity.

Key Implications

- Despite economic data pointing to a slowdown in economic activity through the end of March, businesses remained largely optimistic through the end of March supported by solid demand in several segments including manufacturing, IT, and restaurants.
- Although business contacts across several industries cited policy uncertainty as worrisome, this Beige Book corroborates the sanguine attitude reported by other business sentiment readings March, such as the NFIB and ISM manufacturing indices.
- All told, this Beige Book provides further confirmation that the economy is continuing to expand at a decent clip and suggests continued, albeit moderate, economic improvement – something that's likely enough to motivate the Fed to pursue its gradual rate-raising path.

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