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## TD Economics

### Data Release: Economic activity continues to expand with contacts citing accelerated manufacturing activity

- The most recent Beige Book for the period between early-January through mid-February indicated that the economy continued to expand at a modest to moderate pace across all regions.
- Labor markets were reported to be tight, with some Districts noting widening labor shortages. Employment growth was for the most part characterized as moderate, with three Districts citing modest growth and only two reporting that it was little changed.
- Wages in most Districts rose modestly or moderately, with a few reporting some pickup in the pace of wage growth. Wage pressures were particularly felt by engineers and IT workers as a number of Districts noted shortages of these skilled workers.
- Price pressures were little changed from the prior report across most Districts. Both selling and input prices were up, with the former up modestly to moderately in some case while the latter was only up modestly. Businesses expect this trend to continue in the months ahead, with modest upward pressure expected in both selling and input prices.
- Manufacturing activity accelerated, with most Districts characterizing the pace of growth as moderate. Key measures of activity, such as new orders, production, and shipments were all said to be up in several Districts and the outlook was said to be generally positive. There were also some reports of labor shortages in the sector.
- Businesses were generally optimistic about the near-term outlook but to a somewhat lesser degree than in the prior report. Some respondents from the Boston and Dallas Districts cited concern about policy changes in the new administration along with the associated uncertainty.

### Key Implications

- The Beige Book continues to paint a relatively bright picture of the domestic economy and outlook, corroborating our view of ongoing economic improvement. Most Districts highlighted the manufacturing sector's continued improvement, pointing to a number of activity proxies (new orders, production, shipments, and capacity utilization) that continued to exhibit stronger growth. This morning's ISM manufacturing report for February further corroborates this story, with the index rising for a sixth consecutive month to 57.7 – the strongest expansion on record in well over two years.
- The one fly in the ointment was associated with the somewhat lesser degree of optimism reported by business contacts. Respondents also expressed concern about the new administration's policy changes and associated uncertainty. With that said, it should be noted that businesses were still generally optimistic about the near-term outlook and indicators for business sentiment, such as the NFIB's small business optimism index, are holding at very high levels.

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