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TD Economics

Data Release: Beige Book paints a relatively bright picture of the domestic economy

- The most recent Beige Book, for the period between July and late-August, indicated that economic activity increased at a modest pace on balance. Most Federal Reserve Districts reported a modest or moderate pace of overall growth, with the Philadelphia and Richmond Federal Reserve Banks (FRBs) noting that activity slowed albeit still expanded. Two of the twelve Federal Reserve Banks, namely Kansas City and New York, reported no change in economic activity in their Districts,.
- Consumer spending appeared little changed in most Districts, but Cleveland, Boston, and San Francisco FRBs indicated that sales were modestly higher. In the case of Boston, firms reported little change in international tourist arrivals despite the elevated dollar. Contacts in San Francisco also reported that demand for air travel remained strong. Auto sales were reported to have declined somewhat, in line with last week's vehicle sales report for August, but remained at high levels.
- The manufacturing outlook was on balance positive despite the strong dollar, with most Districts reporting that activity was flat to slightly up.
- Housing markets continued to improve in most Districts, with many reporting moderate growth in construction activity. Contacts in San Francisco reported robust growth despite capacity constraints for new projects. Contacts in Boston, Richmond, Philadelphia, and St. Louis noted that home sales slowed in some areas, but more due to inventory shortages rather than a lack of demand. Most Districts reported a favorable outlook, with the exception of Kansas City.
- Credit conditions improved on net with most Districts reporting a moderate pace of growth. The Dallas Fed District was the exception, where demand for loans remained soft. Credit quality remained strong in most Districts, with only the Richmond District noting a slight deterioration of credit quality.
- Labor markets continued to improve with conditions remaining tight in most Districts. This was particularly true for high-skilled positions, including those in technical, engineering, and construction firms. Most Districts reported that wage pressures increased further and were moderate on net, with particular pressures seen across highly-skilled jobs.
- Prices of consumer goods increased modestly across most Districts with contacts in largely expecting prices to continue to increase at a modest pace in the coming months.

Key Implications

- The most recent Beige Book paints a relatively bright picture of the economy. Many facets of the domestic economy, including housing, commercial real estate, and nonfinancial services are exhibiting strength with the report providing some comfort after the disappointing ISM surveys released in recent days.
- Despite the election-related uncertainty, contacts across most Districts are optimistic about growth prospects and expect domestic demand to strengthen and continue to pick up the slack that has resulted from weaker foreign demand and a stronger dollar.
- Spending should be helped by continued labor market improvements which are resulting in further wage pressures. Rising input costs for firms are expected to help support prices in the coming months and help lift inflation toward the Federal Reserve's 2% target over the medium-term.
- While we expect the Federal Reserve to remain on the sidelines in two weeks' time we believe that a rate hike later this year is still probable. This view is hinged on the notion that the recent weakness exhibited by some economic reports proves transitory and the tone of economic data improves in the coming months, with today's Beige Book largely supporting this view.

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