



Daily Economic Update

April 19, 2017

Latest *Beige Book* reinforces gradual tightening despite slower Q1 growth

Our Take:

Today's *Beige Book* report can be added to the list of surveys and other 'soft' indicators that point to an improving economic backdrop in the first quarter even as 'hard' data have been less impressive. This reinforces our view that an expected moderation in Q1 GDP growth (to 1.5%, largely reflecting softer consumer spending) will prove temporary. The FOMC expressed a similar sentiment in March with minutes from their policy meeting largely attributing slower Q1 activity to temporary factors. And while growth has faltered, labour market conditions clearly continued to tighten early this year, supporting some Committee members' views that their maximum employment objective has more or less been met.

The Fed is not expected to alter monetary policy following their upcoming meetings on May 2-3, but we expect the statement to reiterate that a gradual withdrawal of accommodation remains appropriate, notwithstanding softer Q1 growth. A less-than-dovish policy statement might provide some pushback against recent paring of market expectations for tightening this year. Current pricing implies slightly more than a single rate hike over the remainder of 2017 compared with the two further moves that we and the Fed see as more likely.

Highlights:

- Economic activity once again increased in all twelve districts over the reporting period (mid-February to end of March) with half reporting "modest" growth while the other half saw "moderate" gains.
- A pickup in activity was evident across all sectors, though to varying degrees.
- Reports on consumer spending varied with strong auto sales but somewhat softer growth in other areas of retail spending. Services industries generally saw steady expansion and manufacturing recorded modest to moderate gains.
- Employment expanded across districts and labour markets "remained tight"; wage growth (though modest) broadened while turnover and labour shortages increased. Moderate employment growth and modest wage growth are expected to continue.
- Prices rose modestly with stronger increases in input than output prices (although retail prices generally rose moderately).

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