



December 2, 2015

TD Economics

Data Release: Beige Book reports continued improvement in the labor market in November, boding well for Friday's payrolls

- The most recent Beige Book, for the survey period between late-October and late-November indicated that economic activity increased at a modest across most Federal Reserve Districts.
- Consumer spending was up in nearly all Districts driven by robust sales of motor vehicles. Overall consumption ranged from sluggish in New York to moderate in Minneapolis and San Francisco Districts. Tourism activity improved across most Districts, but weakened in the New York District.
- Non-financial services were improved but the degree was mixed. Technology-related services led growth, while transportation activity was softer. Port activity was strong, boosted by import volumes, while exports continued to pull back. Port activity in the Dallas District was quoted as soft on a slowdown in energy-related cargo.
- Manufacturing sector were mixed in recent weeks, with a strong dollar, low commodity prices, and weak global demand named as key factors constraining demand. Still, Boston, Richmond, Atlanta, Chicago, St. Louis and Dallas Districts reported improvements while New York, Philadelphia and Minneapolis Districts reported declines inactivity. Most manufacturers expected slightly improved business conditions in the coming months, with Boston, St. Louis and Kansas City Districts reporting robust CAPEX plans.
- Housing markets improved moderately, with sales up in the Boston, New York, Philadelphia, Cleveland, Richmond, Chicago and Kansas City Districts. Housing inventory continued to decline in the Boston, Cleveland, Richmond and St. Louis Districts from last year. Improvement in residential construction was modest to moderate with the New York, Philadelphia, Cleveland, Atlanta, Chicago, St. Louis and Kansas City Districts reporting growth, while construction was little changed in Dallas and Minneapolis.
- CRE construction strengthened modestly while leasing activity improved moderately increasing in Boston, Cleveland, Richmond, Atlanta, Chicago, Dallas and San Francisco Districts. It remained unchanged in the New York District.
- Loan demand increased with residential mortgage demand stable, HELOC demand up in the Richmond and Dallas Districts. Demand for commercial loans strengthened in most Districts with credit quality reported as stable. San Francisco District noted rising share of nontraditional lenders in mortgage markets.
- Labor markets continued to improve modestly with the Atlanta, Kansas City and Dallas Districts reporting slight pickup in job gains, while remaining Districts reported modest to moderate gains. Several Districts reported difficulties hiring in the construction industry, with Atlanta, Minneapolis, Kansas City and San Francisco Districts reporting these shortages were spreading to lower skilled jobs. Wage pressures increased for skilled occupations and workers that were in short supply.
- Prices were reported as steady, with some prices lower due to continued declines in commodity and energy prices and strengthening dollar. Nonmanufacturing firms in New York, Philadelphia, Richmond, Kansas City and San Francisco Districts reported some upward price pressures.


Key Implications

- The theme of strength in domestically-exposed sectors juxtaposed with weakness in externally-exposed ones remained intact in this Beige Book. Nonfinancial services, housing, and CRE sectors are all exhibiting strength. On the other hand, manufacturing, transport, energy, and export exposed sectors remain the weak links, as a high dollar and weak global growth leads to challenging demand conditions. Furthermore, the surging greenback appears to also be taking a bite out of tourism in the Big Apple.
- While the greenback strength is likely to persist, with the ECB likely to announce further stimulus measures tomorrow, there are nascent signs that conditions for externally-exposed sectors may be near inflection point. Despite the contractionary ISM manufacturing print, many Districts are reporting improvements among manufacturers, with firms generally expecting better conditions in 2016. At the

same time, transport firms seem to be benefitting from surging import growth, which are partly a function of an elevated dollar.

- The theme of tightening labor markets was also prevalent in this edition of the Beige Book, with modest to moderate job gains reported across the country. This bodes well for Friday's payroll report which is perhaps the last major data print that could 'make or break' the notion of a 2015 liftoff in rates. We see a solid 219k print, and expect that average hourly earnings will continue to tick higher by 0.3% m/m (a theme that is also corroborated in today's Beige Book) with both these factors giving the Fed further assurance to pull the interest rate lever in two weeks' time.

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