

Weekly Economic Commentary



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Beige Book: Window on Main Street Still Growing, With Limited Wage and Price Pressures

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Highlights

In early 2014, harsh winter weather has replaced policy uncertainty as the biggest weight on the economy.

Our Beige Book Barometer decreased to +62 in March 2014 from +76 in January 2014, as weather received 119 mentions.

The Affordable Care Act continues to be a key concern for Main Street.

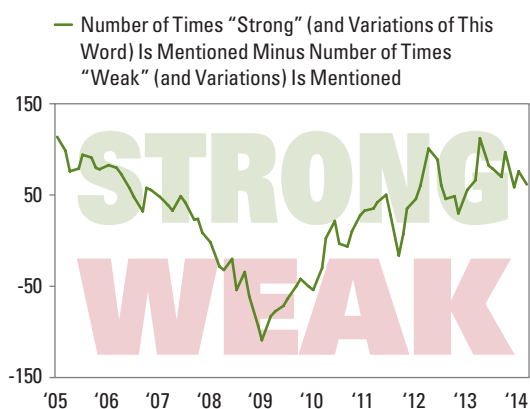
The Beige Book is a qualitative assessment of the U.S. economy that we believe is best interpreted quantitatively by measuring how the descriptors change over time. The latest edition of the Federal Reserve's (Fed) Beige Book once again described the economy as increasing at a "modest-to-moderate" pace, with price pressures described as "subdued" and noted that wage pressures remained "stable" for most districts. The modest-to-moderate description of the overall economy has now been used in the last seven Beige Books, and in eight of the past nine dating back to March 2013. The Fed's Beige Book—a qualitative assessment of economic and financial conditions in each of the 12 Federal Reserve districts—was released last Wednesday, March 5, 2014, ahead of the March 18–19, 2014, Federal Open Market Committee (FOMC) meeting.

Weather Weighs on Growth

To provide a snapshot of the sentiment behind the entire Beige Book collage of data, we created our proprietary Beige Book Barometer (BBB) [Figure 1]. The barometer ticked down to +62 in March 2014 from +76 in January 2014. At +62, the latest reading remains well below its recent peak (+112 in April 2013), but the +62 reading is consistent with the Beige Book Barometer readings seen in the middle of the 2001–07 economic expansion in the United States.

Weather was mentioned an incredible 119 times in the latest Beige Book, and the mentions were almost always in a negative context. To put the 119 mentions of weather in the March 2014 Beige book in historical context, weather was mentioned only 48 times in the Beige Book released just after Superstorm Sandy hit the east coast of the United States in October 2012. Weather was mentioned a total of 61 times in the three Beige Books released during the unusually cold and snowy winter of 2010–11. On balance, the 119 mentions of weather in the latest Beige Book—along with 31 of the word "cold," 24 of "snow," and 35 of "severe"—suggest that the weather's impact on the economy in the early part of 2014 was widespread and significant.

1 Since Peaking in Early 2013, First Policy Uncertainty and Now Weather Have Pushed Our Beige Barometer Lower



Source: LPL Financial Research, Federal Reserve 03/05/14



Beige Book: How It Works

The Beige Book compiles qualitative observations made by community bankers and business owners about economic (labor market, prices, wages, housing, nonresidential construction, tourism, manufacturing) and banking (loan demand, loan quality, lending conditions) conditions in each of the 12 Fed districts (Boston, New York, Philadelphia, Kansas City, etc.). This local color that makes up each Beige Book is compiled by one of the 12 regional Federal Reserve districts on a rotating basis—the report is much more “Main Street” than “Wall Street” focused. It provides an excellent window into economic activity around the nation using plain, everyday language. The report is prepared eight times a year ahead of each of the eight Federal Open Market Committee (FOMC) meetings. The next FOMC meeting is March 18–19, 2014.

The previous word clouds or text clouds, which are a visual format useful for quickly perceiving the most important words in a speech, text, report, or other transcript, are culled from the Fed’s Beige Books published last week (March 5, 2014) and the prior report (January 15, 2014). In general, the more often a word appears in a speech, text, report or other transcript, the larger that word appears in the word cloud. The word clouds show the top 50 words for each of the two Beige Books mentioned above. Similar words are grouped together and common words like “the,” “and,” “a,” and “is” are excluded, as are words that appear frequently in all Beige Books (federal, district, loan, level, activity, sales, conditions, firms, etc.).

While weather dominated the March 2014 Beige Book, the uncertainty and lack of confidence around fiscal policy (fiscal cliff, debt ceiling, sequester, government shutdown) that dominated the Beige Book for most of 2013 began to fade. In the March 2014 Beige Book, there were just 18 mentions of the words noted above after 26 mentions in the January 2014 Beige Book. These words were mentioned 65 times, on average, in each of the eight Beige Books released in 2013. As we wrote in our *Outlook 2014: The Investor’s Almanac*, we continue to expect concerns over government policy to fade over the course of this year.

Good weather or bad, the Affordable Care Act (ACA), and health care in general, has remained a consistent source of concern among respondents to the Beige Book. The ACA received 29 mentions in the March 2014 Beige Book, close to the 32 mentions in the January 2014 edition. On average, the ACA/health care saw 22 mentions per Beige Book in 2013. We continue to expect this topic to appear frequently in the Beige Book in the quarters ahead as businesses and consumers adjust to the rollout of the legislation.

Wage Pressures

Wage pressures were described as “stable” for most districts in the latest Beige Book, although there were scattered mentions of upward pressure on wages in certain areas and among skilled workers in certain regions of the country. The reference to scattered wage pressures and lack of workers in certain skilled occupations has been a consistent refrain in the Beige Book for over a year now. Fed Chair Janet Yellen, and the rest of her FOMC colleagues, are watching wages closely (see the *Weekly Economic Commentary: Janet Yellen’s Employment Report* from March 3, 2014). While wage increases have moved beyond scattered reports in just a few industries, the bond market will likely keep a close eye on this component of the Beige Book in the coming months and quarters as it gauges whether or not the Fed is “behind the curve” on wages, and, in turn, inflation. We’ll take a closer look at how wages and prices are described in the Beige Book in an upcoming edition of the *Weekly Economic Commentary*.

For now, the Beige Book describes an economy that is still growing slowly, with limited wage and price pressures, which suggests that the Fed can remain accommodative. However, the underlying Beige Book tone suggests when the weather returns to normal, the economy could accelerate—forcing the Fed to begin thinking about removing some of the accommodation sooner than the market now thinks is likely. ■



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The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Stock investing involves risk including loss of principal.

The Federal Open Market Committee (FOMC), a committee within the Federal Reserve System, is charged under the United States law with overseeing the nation's open market operations (i.e., the Fed's buying and selling of U.S. Treasury securities).

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