

# U.S. Flash

## Beige Book Notes Modest End to 2013, Optimistic 2014

- **Economic activity expanded across most regions through the end of the year**
- **Outlook positive in most districts, some regions expecting a pickup in growth**
- **Manufacturing stronger across nearly all Districts, expected to continue in 2014**

The latest Federal Reserve Beige Book released for January indicates that there was moderate economic growth throughout most of the districts. The report showed that nine of the twelve districts were expanding at a moderate pace, with Atlanta and Chicago displaying improved conditions from the last report. Kansas City was the only region to report steady growth, while Boston and Philadelphia noted only modest economic growth. The majority of regions noted an increase in retail activity since the last report, a positive sign that consumer spending is on the rise. Overall, the regions are optimistic about growth entering 2014, with some districts expecting more of the same and others forecasting a pickup in activity.

With regard to consumer spending, most Districts reported modest or moderate increases in retail spending in comparison to a year ago. However, the Richmond District saw a slowdown in spending and Kansas City retail sales fell short of expectations, attributed to worst than expected weather conditions and a short selling season. San Francisco found that both electronic sales were lower than expected, and also noted that in-store sales were lower than online sales as consumers become more acquainted with online shopping. The Northern regions reported strong apparel sales, a sign that winter items and cold-weather clothing were in high demand among consumers. Auto sales were mixed across regions, with New York, Philadelphia, and Kansas City also seeing declines, while Richmond, Atlanta, and San Francisco continuing to have strong auto sales. An increase in light-vehicle demand was reported in Chicago and Minneapolis; conversely, the Cleveland region noticed a shift from smaller cars to SUV's and light trucks. Tourism spending was very mixed across regions, as San Francisco noticed low spending in Hawaii and Las Vegas, but Minneapolis found tourism spending to be up due to the snowy weather. The 2014 outlook remains mostly positive, as the majority of regions are expecting nonfinancial services to increase at a moderate or strong clip.

As consumer activity gains strength, businesses still remain relatively cautious when it comes to hiring. Wage and price pressures were not a problem across the board, as regions reported prices were stable or increasing modestly. Wages were mostly steady, with the Atlanta district noting that increases remained between 1 and 3 percent. Two-thirds of the Districts saw an increasing in hiring, with the Richmond district citing exceptionally strong labor demand.

Manufacturing reports were high across almost all regions, a great sign that consumers spending habits are strong enough to boost demand for these goods. Kansas City was the only district to report a decline for December, but overall activity was still higher than a year earlier. Commercial aviation, autos, and construction materials were the most frequently mentioned areas where manufacturing appeared to be strongest across districts. Richmond, Chicago, and San Francisco Districts attributed the increase in manufacturing to the recovering housing markets, as construction material demand has been rising. On the other hand, Boston, Cleveland, Atlanta, and Chicago noted strength in the auto industry, and credited the increase in manufacturing to auto supplies.

Moving on to real estate and construction, the majority of Districts noted an increase in home sales in the last quarter of 2013 in comparison to 2012, though Cleveland, Kansas City, and Atlanta found that the rate of growth had slowed down. Boston, Minneapolis, Philadelphia, and Dallas reported some areas had home sales during the closing months of 2013 to be lower than those of 2012. Home prices appreciated in most areas, and at least remained stable for the rest of the regions. Commercial leasing increased in most regions as well, and held steady in the reasons that did not experience higher leasing activity. Meanwhile, industry leasing activity fell in New York District in the last quarter, but was positive for the St. Louis and Richmond Regions.

The banking and financial services sector remained relatively quiet among most districts, as none saw changes in loan volume. Residential real estate loans declined in several regions, largely due to slowdowns in refinancing activity. Commercial real estate loans were mixed across the board, with an increase in the Cleveland District but a fall in both the Philadelphia and St. Louis Districts. Finally, business industrial loan demand was up for the Chicago, San Francisco, and Richmond Regions and remained stable in all other regions other than St. Louis, where it experienced a decline. Overall, current economic conditions across all Districts are mostly positive and momentum is expected to carry forward into 2014.

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