

U.S. Flash

Beige Book Points To Expansion On A Broad Scale

- **Modest increases in manufacturing and consumer spending across most districts**
- **Reports of general expansion in real estate with help from low borrowing rates**
- **Loan demand on the rise as asset quality improves and loan standards become looser**

The Federal Reserve's Beige Book released for March shows an overall expansion in most facets of the economy across a majority of the 12 districts. While some districts noted only slow expansion, such as Boston and Chicago, the overwhelming majority of districts noted moderate expansion across a multitude of industries, primarily in manufacturing and real estate. Auto demand and the continuing housing expansion are fueling both industries while a noted growth in loan demand shows signs that the credit market might be thawing. Delving further into the manufacturing responses, auto, food, and residential construction lead the way while commercial real estate demand was mixed. In terms of nondurable activity, an increase in technology and logistics firms was noted across the board and a majority of districts noted a rise in demand in the service sector all together.

Looking into specific sectors, consumer spending and tourism expanded in most districts but specifically due to auto demand in some. Retail sales were less positive on a broad scale with some districts noting that the payroll tax and the affordable care act put some downward pressure on growth. However, the Philadelphia and Richmond districts reported stronger retail sales growth and the Northeast districts noted healthy year-over-year growth in retail sales. An interesting facet of the report was the reported shift from physical purchases in malls and brick-and-mortar shops to online retailers which caused deep discounts from those looking to bring consumers back into the stores.

The nonfinancial services sector grew at a modest pace with stronger demand from technology, logistics, marketing, and legal services. Demand from abroad was weaker according to the Boston district but most others reported increasing optimism for the coming months. The banking and finance sectors reported steady or increased loan demand across most regions. Residential real estate loan demand grew in a strong fashion in the Philadelphia, Cleveland, Richmond, Atlanta, and Chicago districts. Loan standards were reportedly looser than the prior report which explains the competition for qualified borrowers across the districts as more consumers become fit to borrow. From the banking sector, optimism was present but Chicago bankers expected some easing throughout the middle of year. Due to the varied weather conditions across the districts, the agriculture and natural resources facet of the report was very mixed. The drought continued to lower crop and pasture conditions in the Kansas and Dallas districts while recent precipitation improved soil quality in the Atlanta and Chicago areas. Increased crop prices contributed to better farm incomes but weather and prices caused interruptions in cattle production and therefore historically low cattle supply. Most districts noted moderate price pressure for energy and food but plans to increase selling prices were limited amongst most of the districts. Finally, the wages and employment section showed a general improvement with only a few districts reporting some restrained hiring. The holiday season contributed to a growth in temporary hires but the Boston district noted an increase in full time employment. Cleveland, Kansas City and Dallas reported better hiring in respective industries but the report suggests those hired are experienced professionals rather than lower skill workers. Employers in several districts reported unknown effects of the affordable care acts have prompted them to plan some layoffs and continue to put pressure to delay hiring until the policy is better understood. In general, it seems conditions are improving despite political headwinds and industries such as manufacturing and real estate continue to be bright spots shining light onto other areas.

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