# Weekly Economic Commentary



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# Highlights

The latest Beige Book indicates that the economy is still expanding at a modest pace.

Rising fuel prices are a concern, but food prices are less of concern today than last spring.

The warm weather almost certainly made an impact on economic activity in the late winter and early spring.

In short, the details of the April 2012 Beige Book do support the idea that some of the recent strength in the economic data may have been weather-related, which suggests that we could continue to see "payback" in the form of softer data over the remainder of the spring as the weather normalizes.

# Beige Book Shows Modest Growth

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 Federal Reserve (Fed) districts (Boston, New York, Philadelphia, Kansas City, etc.). 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 April 24 and 25.

The nearby "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 in April and January 2012, April 2011, and April 2009. 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 nearby word clouds show the top 50 words for each of the 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.).

#### 1 April 2012 Beige Book Word Cloud



Source: The Federal Reserve Beige Book, LPL Financial 04/16/12



#### **Global Notables** U.S. Data Fed 2012 16 Apr Pianalto Retail Sales (Mar) ■ Empire State Mfg Index Bullard (Apr) Business Inventories (Feb) **NAHB** Homebuilder Sentiment (Apr) 17 Apr Housing Starts (Mar) ■ IMF Releases its World **Economic Outlook** Building Permits (Mar) ■ India: Reserve Bank of Industrial Production (Mar) India meets to set rates Capacity Utilization (Mar) Canada; Bank of Canada meets to set rates Germany: ZEW investor confidence (Apr) Eurozone: CPI (Mar) 18 Apr China: Home prices (Feb) Germany: Bond auction Brazil: Central bank meets to set rates Sweden: Rlksbank meets to set rates 19 Apr Initial Claims (4/14) ■ G-20 Finance Ministers and Central Bankers Index of Leading Economic Indicators (Mar) meeting Philadelphia Fed Mfg. Japan: trade deficit (Mar) **Span: Bond auction** Index (Apr) ■ France: Bond auction Existing Home Sales (Mar) 20 Apr Germany: IFO (Apr)

#### LPL Financial Research Weekly Calendar

- Hawks: Fed officials who favor the low inflation side of the Fed's dual mandate of low inflation and full employment
- → Doves: Fed officials who favor the full employment side of the Fed's dual mandate

This leaves a word cloud that is dominated by words describing the tone of the economy at the time the Beige Books were published. Below are some observations on the current Beige Book (released on April 11, 2012), the Beige Book released in January 2011, the Beige Book from a year ago (April 2011), and the Beige Book released in April 2009, at one of the worst phases of the 2007–2009 Great Recession. Our key takeaways from our analysis of the Beige Books are that:

- The economy is still expanding at a modest pace.
- Themes that dominated the Beige Books last summer and fall—weak confidence, European concerns, and high uncertainty—have nearly disappeared from the most recent Beige Book.
- Warm weather almost certainly made an impact on economic activity in the late winter and early spring.

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#### 2 January 2012 Beige Book Word Cloud



Source: The Federal Reserve Beige Book, LPL Financial 04/16/12

### 3 April 2011 Beige Book Word Cloud



Source: The Federal Reserve Beige Book, LPL Financial 04/16/12

#### 4 April 2009 Beige Book Word Cloud



Source: The Federal Reserve Beige Book, LPL Financial 04/16/12

- Rising fuel prices are a concern, even more so than a year ago in the aftermath of the "Arab Spring," but food prices are less of a concern today than last spring.
- Supply chain disruptions from the Japanese earthquake and tsunami and flooding in Thailand have largely dissipated.
- Not surprisingly, the economy is vastly improved from where it was in April 2009, at the worst of the Great Recession.

The latest Beige Book shows some modest improvement from the Beige Book released at the start of 2012, but not marked improvement. The word clouds of both the January 2012 and the April 2012 Beige Books paint a picture of a modestly expanding economy, with words like "growth," continued," "strong," and "increase" dominating both clouds. As shown in the nearby table, however, one key difference in the latest Beige Book was the weather. The major concerns from last summer and fall—including Europe, uncertainty surrounding Washington and debt levels, and ebbing confidence—have diminished noticeably in recent months, as can be seen in the nearby table.

Weather was mentioned 34 times in the April 2012 Beige Book, and made it into the April 2012 Beige Book word cloud. Although this cannot be discerned from either the cloud or the table, nearly all the mentions of weather in the April 2012 Beige Book reference warm weather, and how the warm weather had a positive impact on the economy. Weather was mentioned 13 times in the January 2012 Beige Book, but did get 20 mentions in the Beige Book released a year ago, in April 2011. A quick read of that Beige Book finds that the weather mentions cited cool and inclement weather dampening economic activity in the spring of 2011. In short, the details of the April 2012 Beige Book do support the idea that some of the recent strength in the economic data may have been weather-related, which suggests that we could continue to see "payback" in the form of softer data over the remainder of the spring as the weather normalizes.

Rising fuel prices were a dominant economic theme in the late winter and early spring of 2011 in the aftermath of the Arab Spring. This year, rising energy prices are also a big concern. The words "gas" and "fuel" both appear in the April 2012 Beige Book word cloud. Neither word appeared in the word cloud generated from the April 2011 Beige Book. However, a quick look at the nearby table does reveal that both "fuel" and "gas" were mentioned frequently in the April 2011 Beige Book, but not quite enough to make it into the word cloud. The word "food" was mentioned 10 times in the latest Beige Book, but had 19 mentions in the April 2011 Beige Book.

#### Beige Book Breakdown

	4/11/12	2/29/12	1/11/12	11/30/11	10/19/11	9/7/11	4/13/11	4/15/09
Weather	34	29	13	10	0	12	20	1
Uncertainty	10	9	13	19	26	38	15	9
Europe	6	14	16	10	2	5	0	0
Confidence	1	5	7	4	9	11	4	10
Japan/Thailand	0/0	1/1	2/2	10/7	9/0	14/0	30/0	0/0
Gasoline/Fuel	16/27	5/12	5/4	4/11	2/4	2/12	10/24	3/3

Source: Federal Reserve Board, LPL Financial 04/13/12

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This supports our view, which is also backed up by the latest reading on the food component of the consumer price index—that while energy prices are surging again this spring, food prices, while rising, are not surging as they were in early to mid-2011.

As noted in the table, there were no mentions of either the flooding in Thailand or supply disruptions emanating from Japan in the latest Beige Book. Although not in the word cloud of the April 2011 Beige Book either, the word Japan showed up 30 times in that Beige Book, even though the data were collected only a few weeks after the earthquake hit on March 11, 2011. Japan-related supply chain disruptions continued to surface in the Beige Books throughout 2011, but by year-end 2011 had dwindled. This suggests that the supply chain disruptions that contributed to the slowdown in economic growth in the United States and around the globe in the middle to latter part of 2011 have now largely subsided. This also raises the risk that the recent strength in U.S. economic data could simply be a snap back from the supply-chain-induced weakness in mid-2011.

While the rebound in the economy and global financial markets has quieted those who insisted during the summer and fall of 2011 that this was going to turn out "just like 2008 and 2009," skeptics remain. A quick comparisons of the word clouds of the latest (April 2012) Beige Book and the Beige Book from April 2009—at the worst of the Great Recession—suggests that the business owners and bankers across the country are using very different set of words to describe the economy today than they were in April 2009. The April 2009 Beige Book word cloud is littered with words like "weak," "decline," "lower," "low," "slightly," "credit," and "fell," and has very few words in common with the word cloud generated by the April 2012 Beige Book.

On balance, the latest Beige Book corroborates the latest quantitative data we have seen on the economy as 2011 ended and 2012 began. The latest two Beige Books certainty do not describe a booming economy, but they are also a far cry from the economy described in the April 2009 Beige Book.

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### LPL Financial Research 2012 Forecasts

- GDP 2%\*
- Federal Funds Rate 0%^
- Private Payrolls +200K/mo.†

Please see our 2012 Outlook for more details on LPL Financial Research forecasts.

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#### IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance reference is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

- \* Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.
- ^ Federal Funds Rate is the interest rate at which depository institutions actively trade balances held at the Federal Reserve, called federal funds, with each other, usually overnight, on an uncollateralized basis.
- † Private Sector the total nonfarm payroll accounts for approximately 80% of the workers who produce the entire gross domestic product of the United States. The nonfarm payroll statistic is reported monthly, on the first Friday of the month, and is used to assist government policy makers and economists determine the current state of the economy and predict future levels of economic activity. It doesn't include:
- general government employees
- private household employees
- employees of nonprofit organizations that provide assistance to individuals
- farm employees

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 United States Treasure securities).

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

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