

# 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



## LPL Financial Research Weekly Calendar

	 U.S. Data	 Fed	 Global Notables
2012			
16 Apr	<ul style="list-style-type: none"> <li>■ Retail Sales (Mar)</li> <li>■ <b>Empire State Mfg Index (Apr)</b></li> <li>■ Business Inventories (Feb)</li> <li>■ <b>NAHB Homebuilder Sentiment (Apr)</b></li> </ul>	<ul style="list-style-type: none"> <li>🦅 Pinalto</li> <li>🦅 Bullard</li> </ul>	
17 Apr	<ul style="list-style-type: none"> <li>■ Housing Starts (Mar)</li> <li>■ Building Permits (Mar)</li> <li>■ Industrial Production (Mar)</li> <li>■ Capacity Utilization (Mar)</li> </ul>		<ul style="list-style-type: none"> <li>■ <b>IMF Releases its World Economic Outlook</b></li> <li>■ <b>India: Reserve Bank of India meets to set rates</b></li> <li>■ Canada; Bank of Canada meets to set rates</li> <li>■ Germany: ZEW investor confidence (Apr)</li> <li>■ Eurozone: CPI (Mar)</li> </ul>
18 Apr			<ul style="list-style-type: none"> <li>■ China: Home prices (Feb)</li> <li>■ Germany: Bond auction</li> <li>■ <b>Brazil: Central bank meets to set rates</b></li> <li>■ Sweden: Riksbank meets to set rates</li> </ul>
19 Apr	<ul style="list-style-type: none"> <li>■ Initial Claims (4/14)</li> <li>■ Index of Leading Economic Indicators (Mar)</li> <li>■ <b>Philadelphia Fed Mfg. Index (Apr)</b></li> <li>■ Existing Home Sales (Mar)</li> </ul>		<ul style="list-style-type: none"> <li>■ <b>G-20 Finance Ministers and Central Bankers meeting</b></li> <li>■ Japan: trade deficit (Mar)</li> <li>■ <b>Spain: Bond auction</b></li> <li>■ <b>France: Bond auction</b></li> </ul>
20 Apr			<ul style="list-style-type: none"> <li>■ Germany: IFO (Apr)</li> </ul>

🦅 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.





The latest two Beige Books certainly do not describe a booming economy, but they are also a far cry from the economy described in the April 2009 Beige Book.

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 comparison 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 certainly do not describe a booming economy, but they are also a far cry from the economy described in the April 2009 Beige Book. ■

#### LPL Financial Research 2012 Forecasts

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

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 Treasury 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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