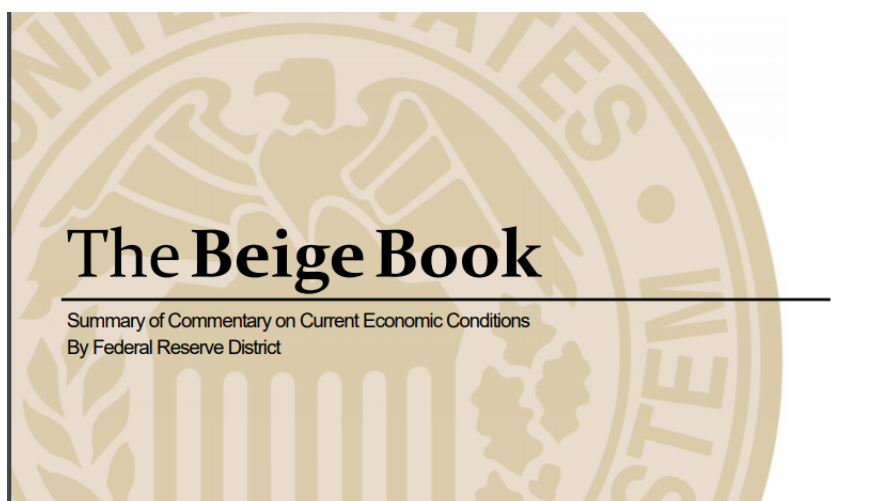


US: Feeling Beige

Beige isn't the most exciting or vibrant colour in the world, but it does a good job of describing the US economy right now. Subdued and unspectacular, coincidentally, was the theme within the Fed's Beige book, which reinforces the message of stable monetary policy for now, although we still see scope for modest additional stimulus



Respectable... if uninspiring

The Federal Reserve's Summary of Commentary on Current Economic Conditions, or Beige Book as it is more widely known – because its cover is a bit beige – reinforces the message that Fed policy is on hold for a while. At best there is an underlying tone that we would describe as tentatively positive given the economy expanded “modestly in the final six weeks of 2019” with an outlook that is described as “modestly favourable”.

On the positive side, the holiday sales season was described as “solid”, which should be reflected in respectable retail sales numbers tomorrow (consensus is 0.5% month-on-month growth excluding autos). The report did acknowledge internet retailers were the big winner at the expense of traditional brick and mortar stores although we were well aware of following the Mastercard sales figures (3.4% year-on-year for total ex auto sales versus 18.8% YoY for online).

Outside of the consumer orientated world, manufacturing remains in the doldrums with output described as “essentially flat” in most districts as tariff and trade uncertainty “continued to weigh”. “Flat” was also used to describe home sales although residential construction “expanded

modestly". Tourism was 'mixed', as was non-financial services and transportation.

Tight jobs market, but no inflation threat

Survey participants gave the impression that while the jobs market "remained tight", employment growth was muted. "Most districts cited widespread labour shortages", which was constraining jobs growth and in some instances opportunity for business expansion. Nonetheless, businesses seem reluctant to get into a bidding war for potential recruits with wage growth characterized as "modest or moderate". In fact the main upward pressure was resulting from "year-end hikes in minimum wages".

Given this backdrop underlying prices pressures are likely to remain muted although the Beige Book did note some reports of higher tariff costs being passed onto consumers and some price pressures in food services and construction. That said, Federal Reserve officials will continue to take comfort from the fact that consumer price inflation expectations remain well anchored.

All a bit... beige...

As such we have a narrative of reasonable if modest growth and limited inflation threat, which suggests the Federal Reserve will stick with the status quo at the January 29 FOMC meeting having cut rates three times in 2H19. Certainly those actions together with the cessation in US-China trade tensions marked by today's signing of the phase one trade deal have stabilized sentiment and seemingly stemmed the weakening trend in activity.

Equity markets clearly like what they see and hear, but we are still hunting for a catalyst to generate a real turnaround in growth prospects. Indeed, trade could yet return as a threat if Europe finds itself caught in President Trump's cross-hairs. Moreover, with global growth remaining subdued and little prospect of any additional fiscal support we continue to see the risks to US growth being skewed to the downside versus the current 1.9% consensus forecast for 2020 GDP growth. Given this prognosis, we still see scope for a modest additional policy ease from the Fed to keep growth ticking along with Treasury yields lingering in a 1.75-1.5% range through mid-2020.

Author

James Knightley

Chief International Economist, US

james.knightley@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.