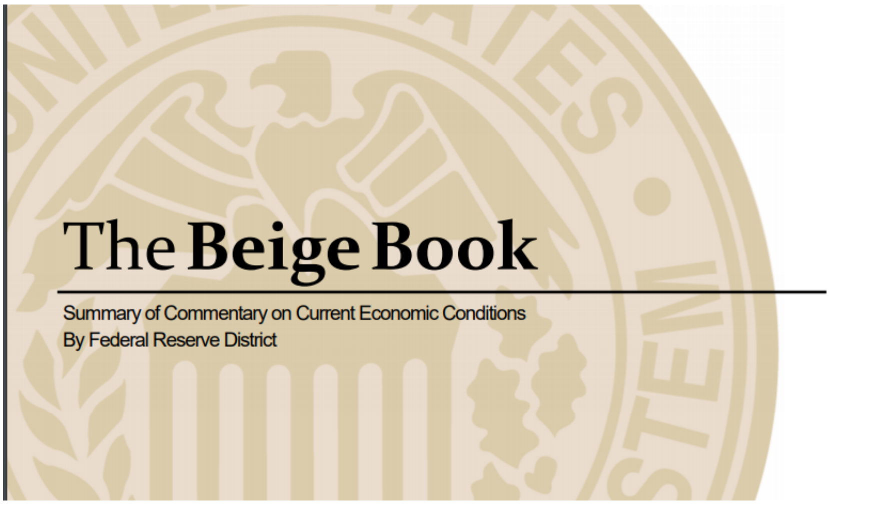
US: Feeling Beige

Beige isn't the most exciting or vibrant colour in the world, but it does a good job of descibing the US economy right now. Subdued and unspectaclar, 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.

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