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RESEARCH

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## U.S.: No Surprises, Regional Activity Remains Subdued

- Today's Beige book report suggest labor Market weakness and employment issues continue to weigh on regional economic activity
- Input price pressure and decreasing demand slowed manufacturing output and dampen 2H11 expectations

The September release of the Federal Reserve's Beige Book is consistent with current Fed language that previous transitory issues appear more permanent. For example, structural employment and labor mismatch issues were reported in several districts along with only slight improvement to overall job market. A major New York hiring agency reported unusually slow hiring activity and several districts indicated labor mismatch with a shortage of skilled workers. In addition, manufacturing, which boosted 1H11 economic activity, slowed with several regions noting decreased European demand. Several regions reported that rising input prices strained profit margins because firms were unable to pass price increases along to consumers.

In terms of aggregate demand, there were indications of stable to growing consumer spending in some regions. However, consumer confidence continued to decline, suggesting the outlook is not improving. Furthermore, it was reported that financial market volatility weighed on consumer expectations, impacting loan demand in August. Extreme weather events, including hurricane Irene and regional drought conditions, also weighed on consumer spending, impacted agricultural activity, and disrupted strong tourism activity. Since the last report regional optimism has declined for both consumers and manufacturers. This, however, is consistent with our revised baseline scenario of low growth, slowed manufacturing, and weak labor markets.

Best Regards,

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