



## Don't let the name fool you, nothing 'beige' about this

By Warren Lovely

By design and with the utmost consistency, the 32-page Beige Book speaks to the prevailing economic condition in each of the 12 Federal Reserve Districts. Here, you'll find a primarily qualitative update on everything from labour markets, consumer spending, housing market activity, key regional industries and of course prices.

On this latter topic—prices—your average Beige Book offers ample commentary. After all, we're talking about an economic report card from a monetary authority tasked with price stability (and maximum employment). But the latest Beige Book, released Wednesday, reveals a not-so-subtle shift in the characterization of price behavior, specifically the growing prevalence of truly extraordinary inflation.

In the simplest-of-all-quantifications, the word 'inflation' warranted 26 unique mentions in April's Beige Book. That's nearly double the number of times the inflation boogeyman was cited in the prior issue (from March) and is 3-5X the standard number of inflation mentions you would have seen through 2021. This is entirely consistent with rapidly mounting uneasiness at the Fed as it relates to runaway consumer price inflation, headline CPI inflation touching 8.5% in the latest monthly report. Beyond simple word counts, the associated language is telling and fully consistent with an FOMC about to adopt a hurry-up posture when it comes to policy rate hikes (at least into the fall, if not longer). A sampling:

**Overall summary** > "Firms reported that **inflationary pressures were also contributing to higher wages**, and that higher wages were doing little to alleviate widespread job vacancies." / "**Inflationary pressures remained strong** since the last report, with firms continuing to **pass swiftly rising input costs through to customers**." / "...contacts in a few Districts noted **negative sales impacts from rising prices**. Firms in most Districts expected **inflationary pressures to continue** over the coming months."

**Boston** > "Manufacturing contacts faced **robust-to-extreme inflationary pressures across a variety of inputs**, including food commodities, fuel, freight, metals, and paper." / "The war in Ukraine injected **greater uncertainty into the inflation outlook** among some contacts."

**New York** > "...some contacts noted that **inflation has eroded consumers' spending power, dampening demand**."

**Philadelphia** > "Bankers, accountants, and attorneys noted that **ongoing uncertainty and weariness stemming from inflation, COVID-19, and the war in Ukraine have created mental health issues** for some households and small business owners."

**Cleveland** > "...some hospitality contacts said that **inflationary pressures were causing some customers to hold back on spending**." / "...[manufacturing] optimism was tempered by continued difficulty sourcing inputs, fears over a recession in Europe, and **general concern about rising inflation**."

**Atlanta** > "More contacts noted that **inflation is creating upward pressure on wages**." / "Firms' year-ahead **inflation expectations increased significantly**..." / "**Cost inflation in the construction of new homes persisted** as supply chain disruptions and labor shortages challenged homebuilders."

**St. Louis** > "Workers increasingly cited **inflation when demanding higher wages**."

**Minneapolis** > "...**rapid wage inflation induced more turnover** among lower-wage positions."

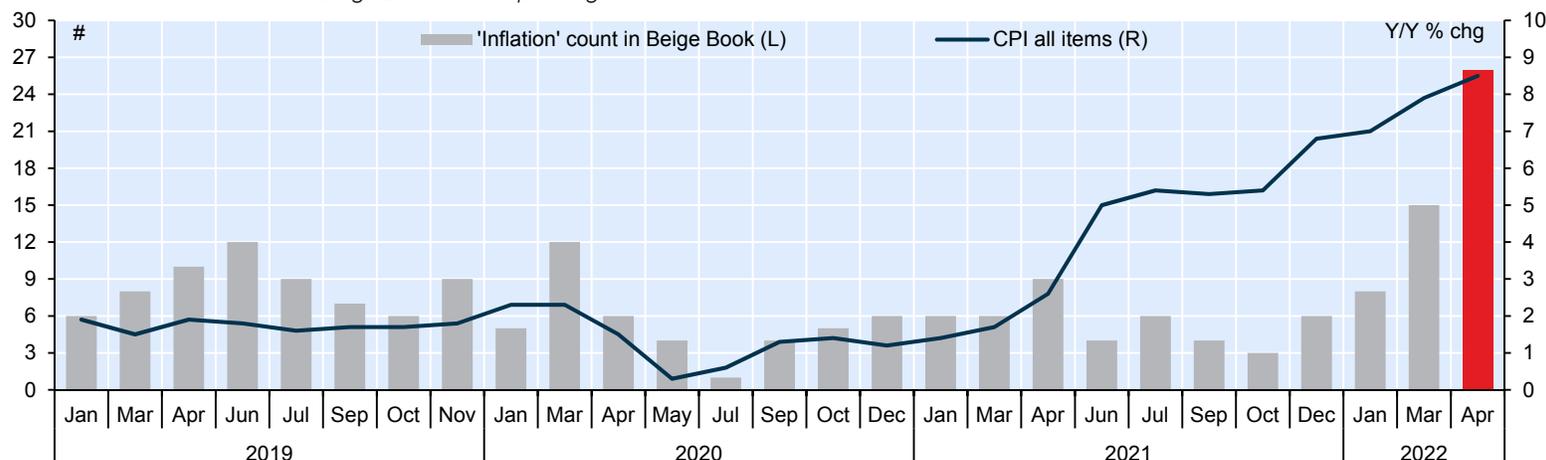
**Kansas City** > "Several contacts noted **near-term risks stemming from rising inflation**, elevated home prices, increased labor costs, and considerable economic uncertainty."

**Dallas** > "...**rising concern about the effects on future growth of escalating geopolitical tensions, climbing wages, rising interest rates, inflation, lingering supply-chain disruptions, and labor shortages**."

Note: In a couple of cases (e.g., Richmond, Chicago), the characterization of current economic conditions was technically devoid of 'inflation' references, but you'd be hard pressed to miss indirect worries related to rising input costs and supply chain issues. Across districts, wage-price spiral risks are harder and harder to ignore. Inflation then is the word of the day/month/quarter/year. So don't let the colour of this book fool you, it's increasingly red-hot when it comes to describing prices and likely to stay that way for some time.

### Chart: 'Inflation' increasingly the word of the day at U.S. central bank

References to 'inflation' in Fed's Beige Book & corresponding U.S. CPI inflation rate



Source: NBF, FRB (Beige Book), Bloomberg | Note: Beige Book released eight times per year; corresponding CPI all items inflation rate based on closest monthly reading



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