



Inflation fixation

By Taylor Schleich & 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. Unsurprisingly, it's the inflation boogeyman that's been getting more and more airtime in recent issues of the publication. Without even having to read the full report, the easiest way to assess how much inflation is weighing on the U.S. economy is to simply count how many times it's referenced among the districts. We, of course, did pour through the report as we detail below but this simplistic word-count analysis, [which we also ran in April](#), is telling. Indeed, the word 'inflation' (or some derivative of it) was mentioned 37 different times in this latest Beige Book (Chart). That's 11 more than in April (which itself was an outsized tally) and 33 more times than the report from a year ago—back when the 'transitory' dream was still alive. Clearly, inflation/cost/price pressures are top of mind for businesses/consumers and there's widespread consensus that elevated inflation won't be abating in the near term. There are some indications in some jurisdictions that the rate of inflation is moderating as activity slows but with CPI inflation still north of 8%, the FOMC can't afford to take their collective foot off the policy brake. Later in the year, if these nascent signs of moderation persist, maybe, just maybe, the Fed will be able to take a breather. That's what we expect. For now, here are some highlights from the Beige Book, with a focus on prices:

Overall summary > "Most Districts noted that their contacts had reported **strong or robust price increases**" | "...half of the Districts observed that many contacts maintained pricing power... However, more than half cited **some customer pushback**". | "In a majority of Districts, firms reported **strong wage growth**, whereas most others reported **moderate growth**. However, in a few Districts, firms noted **wage rate increases were leveling off or edging down**." | "8 Districts reported that expectations of future growth among their contacts had diminished; contacts in 3 Districts specifically expressed **concerns about a recession**".

Boston > "Price inflation persisted at a **moderate to fast pace**." | "Most manufacturers enacted above-average price increases to defray inflation in the prices of a variety of inputs"

New York > "Businesses continued to report widespread increases in selling prices, input prices, and wages...", but "price increases were **not quite as widespread** as in the last report" | "Contacts in all major industry sectors expect input prices to rise further..."

Philadelphia > "Price increases attenuated throughout the supply chain – to a moderate pace for nonmanufacturers and to a still-strong rate among manufacturers. Moreover, while price increases remained pervasive, they were **less widespread** than during the prior period."

Cleveland > "Contacts generally reported that they had **little difficulty passing through costs** to customers. However, some consumer-facing firms observed that customers were starting to trim expenses because of higher food and gas prices"

Richmond > "Service sector firms reported that **price growth picked up** from an already robust rate. Manufacturers, on the other hand, reported a **slight moderation** in price growth, but compared to last year, prices were still growing at a strong rate"

Atlanta > "Margins largely remained at record highs for many firms as **price increases were met with little resistance**; however, several contacts noted a **slight dampening** of demand or consumers 'trading down' to second tier products."

Chicago > "Most contacts indicated that they were experiencing **only limited pushback on price increases** from customers, but some said they were seeing **more resistance to higher prices** than in previous reporting periods."

St. Louis > "**Prices have increased robustly** since our previous report... A Missouri manufacturer noted that industry attitudes toward price increases have shifted, with sales staff and customers '**numb**' to **continued increases**."

Minneapolis > Inflationary pressures **remained elevated** since the previous report." More than half [of survey respondents] said they increased their selling prices over the previous month; a slightly lower proportion expected to increase prices in May"

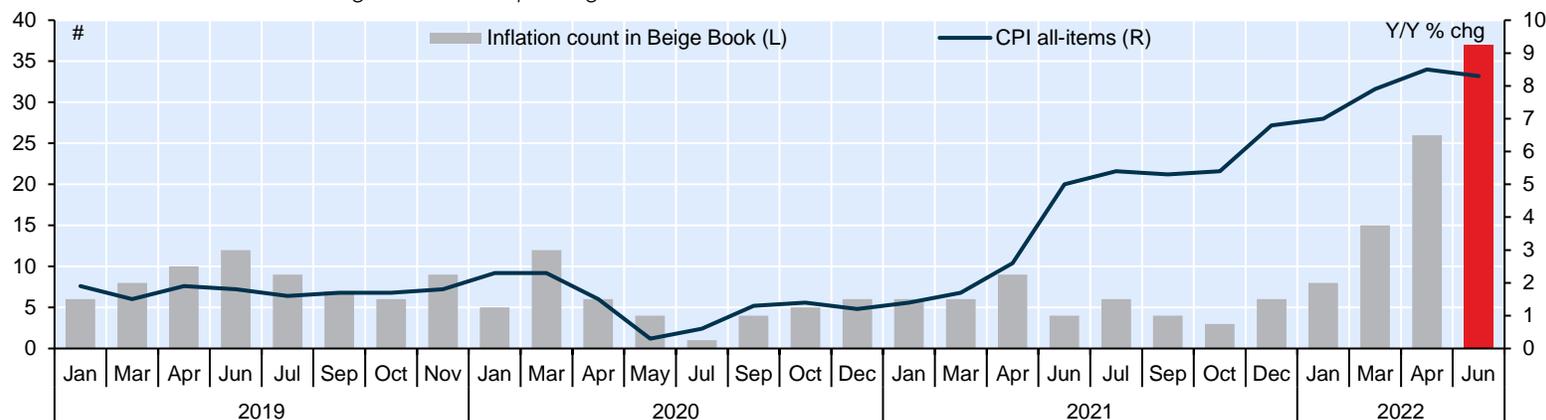
Kansas City > Prices rose at a **robust pace**. Recent increases in commodity prices are leading to price pressures for food that have not fully passed through to consumers. | "Some restaurants [...] noted that customers have been **unwilling to fully accept higher prices**".

Dallas > "Selling prices climbed further at a rapid clip" | "Pricing power generally remained solid, though several contacts, particularly in the service sector, noted **diminished ability to fully pass along costs** to end users and pushback from customers on the rapid pace of price increases."

San Francisco > "Prices continued to **increase briskly** over the reporting period. Cost pressures associated with energy price increases were expected to be passed on to consumers relatively quickly."

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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