

U.S. economy expands even as wages stay flat, Beige Book says

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WASHINGTON - The U.S. economy expanded across most of the country in the past six weeks as the job market showed strength that's failing to stoke broad wage pressures, a Federal Reserve survey showed.

The central bank's Beige Book economic survey, which is based on reports from late November to early January by regional Fed banks, showed that two of the 12 Fed districts posted "moderate" growth and seven described the expansion as "modest." Boston contacts were described as "upbeat," while the New York and Kansas City Fed districts reported "essentially flat" economic activity.

The report released Wednesday in Washington underscores the challenge facing Fed policymakers heading into their meeting later this month: The labor market is strengthening without triggering signs of higher wages or inflation more broadly.

Few market participants and economists expect an interest-rate change at the Jan. 26-27 meeting, but the anecdotes could help to color policy makers' reading of the economy as they move toward a potential increase in March.

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BEIGE BOOK
FEDERAL ECONOMIC SURVEY

"Labor markets continued to improve, with employment increases evident in reports from seven Districts," according to the Beige Book. "Districts reported little overall change in wage and price pressures, with wage increases running from flat to moderate, while price increases tended to be minimal."

In December, the Fed raised interest rates for the first time since 2006. Policy makers are looking for continued job growth, and anticipated and actual pressure in inflation, as they gauge how fast to tighten.

Unemployment has fallen to 5 percent, half of its recession-era high of 10 percent in 2009, but widespread pay gains and higher inflation have yet to materialize.

"Just two districts -- New York and San Francisco -- indicated some acceleration in upward wage pressures," the report said. Six districts cited a boost to

pay from state minimum-wage increases and from labor shortages or turnover among entry-level positions in banking, retail and hospitality.

Meanwhile, "nearly all districts reported that overall price pressures were minimal," the report stated.

Based on the Fed's preferred gauge, U.S. consumer prices climbed 0.4 percent in November from a year earlier, well below the Fed's 2 percent goal. Core inflation -- which strips out volatile food and energy costs -- is also below the Fed's goal at 1.3 percent.

Falling oil is holding down inflation and hurting U.S. energy producers.

"Suppliers to the oil and gas exploration sector reported weak, and sometimes deteriorating, demand" in several districts, according to the Beige Book, which later said that "most segments of the energy sector struggled further."