

ANALYSING THE IMPACT: KEY US REPORTS UNDER THE MICROSCOPE

April saw the publication of two key reports coming out of the United States covering current economic conditions and forward expectations for capital markets; the Small Business Economic Trends report published by the National Federation of Independent Business, and the Beige Book published by the US Federal Reserve (the Fed).

MESSAGES FROM THE BEIGE BOOK

The Beige Book provides a summary of commentary on current economic conditions within each Federal Reserve District in the US, characterising changes in economic conditions since the last publication. Essentially, the Beige Book offers qualitative insights into economic trends across the US. The information gathered complements the more statistical, research-heavy data used by the Fed when making interest-rate decisions.

The April publication of the Beige Book saw a modest increase in overall economic activity in the US since the start of the year, with ten out of twelve districts reporting either slight or moderate economic growth – up from eight districts in the previous report.

Consumer spending, while showing marginal growth overall, exhibited a complex pattern across different Districts and spending categories. Reports highlighted a general softness in discretionary spending, reflecting the ongoing price sensitivity among consumers. However, there were pockets of resilience, particularly in auto spending, which saw notable buoyancy in some Districts owing to improved inventories and attractive dealer incentives. Nonetheless, sales in the automotive sector remained subdued in certain regions.

Tourism activity displayed a modest uptick on average, although reports were characterised by considerable variability across Districts. Manufacturing activity, on the other hand, experienced a slight decline, with only a minority of Districts reporting growth in this sector.

In the realm of nonfinancial services, contacts reported slight increases in activity levels on average. Bank lending remained relatively unchanged overall, showing a flat trajectory during the reporting period.

Residential construction showed modest growth on average, supported by strengthened home sales in most Districts. However, the picture was less optimistic for non-residential construction, which remained stagnant. Additionally, commercial real estate leasing saw a slight downturn.

Overall, employment saw a slight uptick, with nine Districts reporting slow to modest increases and the remaining three noting no significant changes. Most Districts observed an increase in the labour supply and noted improvements in the quality of job applicants. Several Districts mentioned better retention of employees, while others reported staff reductions at certain firms.

MESSAGES FROM THE BEIGE BOOK: CONTINUED

Despite the overall improvements in the labour supply, many Districts highlighted persistent shortages of qualified candidates for specific positions, such as machinists, trades workers, and hospitality staff. Wages experienced moderate growth in eight Districts, while the remaining four reported only slight to modest increases. Multiple Districts noted that annual wage growth rates had recently returned to historical averages.

Despite the mixed performance across sectors, there was an undercurrent of cautious optimism among contacts regarding the economic outlook. While uncertainties persisted, particularly in light of ongoing global challenges, there was a prevailing sense that economic conditions could gradually improve, albeit with careful navigation required in the months ahead.

SMALL BUSINESSES TREND SIDWAYS

The Small Business Economic Trends Survey (SBET) is a monthly survey conducted by the National Federation of Independent Business (NFIB) in the US. The survey provides a snapshot of the health and outlook of the small business economy by gauging the current performance and near-term prospects of small businesses in the US. The report is a valuable resource for understanding the economic climate for small businesses in the US through providing insights into business owners' confidence, hiring plans, and overall economic sentiment. This information is useful for policymakers, economists, and interested parties in the health of the small business sector, which is a crucial driver of the US economy.

The latest indicators suggest a potential slowdown looming in the small business sector, as reflected in a notable 8-point drop in net sales expectations—a key contributor to the decline in the previous month's index. Despite this, the overarching challenge remains navigating through persistent inflationary pressures, which continues to be a headwind for small business owners.

Inflation remains a primary concern for a significant portion of small business operators, constituting the top hurdle in running their enterprises. This frustration

has not gone unnoticed by the Federal Reserve, with a discernible shift in discourse evident among some members of the Federal Open Market Committee (FOMC). The previously anticipated schedule of rate cuts for 2024 has seen a steep decline over recent months, shrinking from a potential 6-7 cuts to a more uncertain projection of 2-3 cuts, or perhaps even none at all.

Keeping rates higher for longer will, however, also have an adverse effect on small businesses, which tend to be more debt-laden than their larger counterparts. As a result, the increased interest expense can also be expected to place a drag on operations and expansion within the small-business sector.

On the employment front, the Bureau of Labour Statistics (BLS) reported a notable addition of 303,000 jobs to the labour market in March, signalling robustness in job creation. The addition was well ahead of the 214,000 jobs expected by economists, underscoring the continued strength of the US economy.

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