



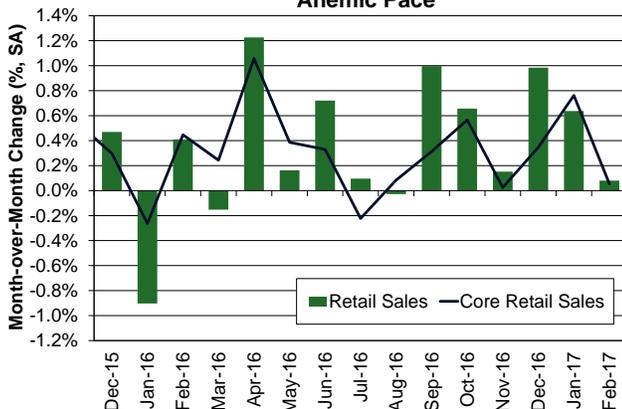
Weekly Note – March 17, 2017

Economics: Projected Rate Hike Pace Remains Gradual

Last week's economic calendar was packed, but the Fed took center stage. While several Fed officials' hawkish speeches led the market to fully price in the rate hike at this week's Federal Open Market Committee (FOMC) meeting, they also fueled expectations that the updated quarterly economic projections would indicate a faster pace of rate increases at coming meetings. The rate increase did occur; however, the new projections showed a median of three increases this year, the same as in December. The Fed noted recent increases in overall inflation, as the FOMC statement changed its reference to inflation from "still below" to "moving close to" the 2-percent objective. The Fed also added that it expects inflation "to stabilize around" 2 percent. This week's inflation data showed building pressure, with February's CPI posting the biggest annual rise since March 2012. Data related to consumer spending were mixed. Growth in core retail sales, which are an input to estimate consumer spending on goods, slowed markedly in February. However, January's increase received a sizable upgrade. The February industrial production report suggests that utilities likely dragged on services spending for the second consecutive month. Outside of weather-related weakness in utility output, industrial production was quite healthy, with mining and manufacturing outputs showing solid gains. Consumer sentiment improved in early March, partially recouping the drop in February, while business sentiment worsened only slightly in February, marking the first decline since last September. Economic growth this quarter likely slowed from the fourth quarter, but it should pick up in the near term, as the Conference Board Leading Economic Index jumped in February for the second month in a row.

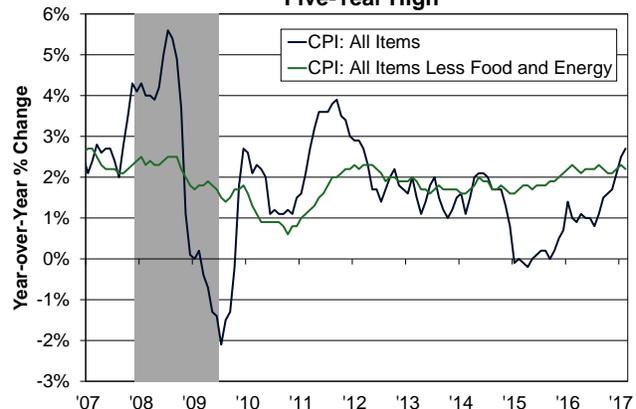
- **Retail sales** and core (excluding auto, gasoline, and building material) sales both edged up 0.1 percent in February, according to the Census Bureau. Retail sales were revised higher for January. Building material sales posted a large gain in February for the second straight month, which bodes well for residential investment this quarter.
- **The Consumer Price Index (CPI)** edged up 0.1 percent in February. From a year ago, retail prices rose 2.7 percent. Excluding food and energy, core prices increased 0.2 percent from January and 2.2 percent from a year ago. **The Producer Price Index (PPI)** for final demand of goods and services and core prices both rose 0.3 percent in February. On a year-over-year basis, headline PPI increased 2.2 percent, the biggest gain since March 2012, compared with 1.5 percent growth in core PPI. Both indices are from the Bureau of Labor Statistics.
- **The National Federation of Independent Business (NFIB) Small Business Optimism Index** edged down 0.6 points in February to 105.3.
- **The University of Michigan Consumer Sentiment Index** was up 1.3 points to 97.6 in the March preliminary reading. Current economic conditions drove the gains, while consumer expectations rose modestly.
- **Industrial production**, a gauge of output in the manufacturing, utility, and mining sectors, was flat in February, according to the Federal Reserve Board. Utilities output fell 5.7 percent, similar to the prior month's drop. Mining output rose 2.7 percent, and manufacturing output rose 0.5 percent for the second straight month.
- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that the job openings rate remained at 3.7 percent in January for the fourth consecutive month, according to the Bureau of Labor Statistics. The hires rate ticked up one-tenth to 3.7 percent. The quits rate rose one-tenth to 2.2 percent, tying an expansion best.
- **The Conference Board Leading Economic Index (LEI)**, a gauge of the economic outlook over the next three to six months, advanced 0.6 percent in February. Nine out of 10 components made positive contributions.

Growth in Retail Sales Slows to an Anemic Pace



Source: Census Bureau

Headline Retail Inflation Approaches a Five-Year High



Source: Bureau of Labor Statistics

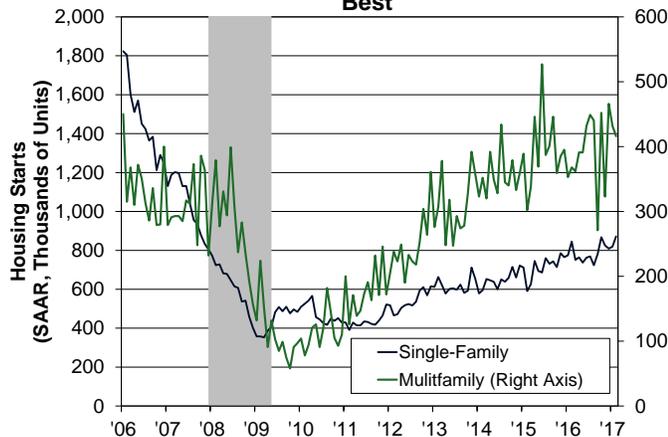


Housing: Construction Tracks Well for the First Quarter

This week's data pointed to an improvement in homebuilding activity this quarter, especially for the single-family segment. Total housing starts rebounded in February, more than offsetting the prior month's drop, to reach the highest level since last October. Single-family starts increased for the second straight month to reach a new expansion best. In addition, after declining in January for the first time in six months, single-family building permits rose to a new expansion high. By contrast, multifamily starts dropped for a second consecutive month, and permits fell to an 11-month low. The outlook for single-family home construction is brighter in February, according to home builders' sentiment, which climbed to a new 11-year high after two straight monthly drops. All three subcomponents—current sales, sales in the next six months, and foot traffic of prospective buyers—reached expansion bests. Shifting to the construction labor market, the Job Openings and Labor Turnover Survey reported the rate of hires in construction slowed in January from a two-year high the prior month, while the rate of job openings rose for the first time in four months from a 12-month low in December. Construction workers appeared more confident in their job prospects, as they quit their jobs at the fastest rate during this expansion. January's pullback in the hires rate was likely a temporary blip, as the February jobs report released last week showed the largest monthly rise in construction payrolls in the expansion, helped by the fourth consecutive solid gain in residential construction employment. Mortgage demand improved again last week, with purchase and refinance applications rising for the third straight week to reach seven- and 12-week highs, respectively. Last week's increase in mortgage demand may have partly reflected a rush to apply for mortgages before the widely expected rate hike at this week's Fed meeting, which pushed long-term interest rates higher ahead of the meeting. Following the 11-basis point rise the prior week, the average 30-year fixed mortgage rate rose nine basis points this week to reach 4.30 percent, the highest level this year, according to Freddie Mac's survey.

- **Housing starts** rose 3.0 percent in February to 1.29 million annualized units, according to the Census Bureau. Single-family starts improved 6.5 percent to 872,000 units, while multifamily starts slipped 3.7 percent to 416,000 units. Year-to-date, single-family starts are up 3.5 percent and multifamily starts are 15.3 percent higher from a year ago. New residential permits dropped 6.2 percent to 1.21 million annualized units. Multifamily permits drove the decline, decreasing 21.6 percent, as single-family permits climbed 3.1 percent. On a year-to-date basis, single-family permits are up 12.9 percent, while multifamily permits are 0.3 percent lower compared to a year ago.
- **The National Association of Home Builders/Wells Fargo Housing Market Index** jumped 6.0 points to 71 in March. (A reading of 50 or higher indicates more builders view single-family market conditions as "good" rather than "poor").
- **The Jobs Openings and Labor Turnover Survey (JOLTS)** showed that the construction job openings rate ticked up one-tenth to 2.1 percent in January, while the hires rate slipped three-tenths to 5.6 percent, according to the Bureau of Labor Statistics. The quits rate rose three-tenths to 2.3 percent. The layoff rate dropped seven-tenths to 2.5 percent.
- **Mortgage applications** increased 3.1 percent for the week ending March 10, according to the Mortgage Bankers Association. Purchase applications improved 2.3 percent, while refinancing applications were up 4.1 percent. The survey's average 30-year fixed mortgage rate jumped 10 basis points to 4.46 percent.

Single-Family Starts Rise to a New Expansion Best



Source: Census Bureau

Home Builders' Confidence Rebounds to an 11-Year High



Source: National Association of Home Builders

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