Economics: First Quarter Ends with a Whimper

Economic data released this week put the nail in the coffin on first quarter 2015 growth. March retail sales, while showing modest improvement, failed to overcome the contraction witnessed over the prior three months. Consumers still appear reluctant to spend money saved at the pump and on other goods. Industrial production also disappointed with only a slight increase in March and downward revisions to previous months. Manufacturing output was weaker than expected in March, barely eking out a gain for the first time in four months and contracting at an annual rate of 1.3 percent in the first quarter, the worst showing in over five years. Small business optimism fell in March to the lowest level since last June in reaction to the poor economic performance at the start of the year. In addition, the March index of leading economic indicators, though still showing positive growth, has slowed in recent months. Two pieces of good news include an uptick in the consumer sentiment index in early April, ending two months of decline and sending the index to the second-highest reading since 2007, and firming core consumer prices in March, which should help alleviate deflationary fears.

- **Retail sales** rose 0.9 percent in March according to the Census Bureau, driven by a 2.8 percent surge in vehicle sales, the largest increase in a year. Core retail sales, which exclude auto, building supplies, and gasoline station sales and are input to estimate consumer spending, increased 0.4 percent, breaking a two-month streak of declines.

- **Industrial Production,** a gauge of output in manufacturing, utility, and mining sectors, decreased 0.6 percent in March, according to the Federal Reserve Board. A large decline in utilities output of 5.9 percent, reversing the surge in February, combined with the third consecutive monthly decline in mining production, drove the decline. Manufacturing production edged up a disappointing 0.1 percent following two consecutive monthly declines.

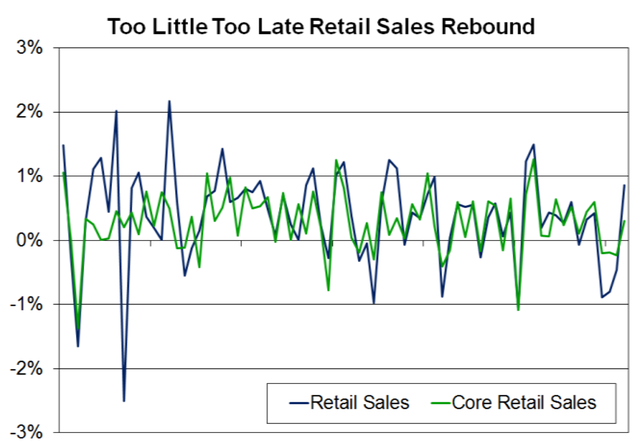
- **The National Federation of Independent Business (NFIB) Small Business Optimism Index** fell 2.8 points in March to 95.2, with all 10 components slumping for the first time since the index was conducted on a monthly basis in 1986. Firms' expectation for the economy to improve fell the farthest among all the components, reaching its lowest level since last June.

- **The Reuters/University of Michigan Consumer Sentiment Index** rose 2.9 points in April to 95.9 in the preliminary release, as both the current conditions and expectation components rose for the first time since January.

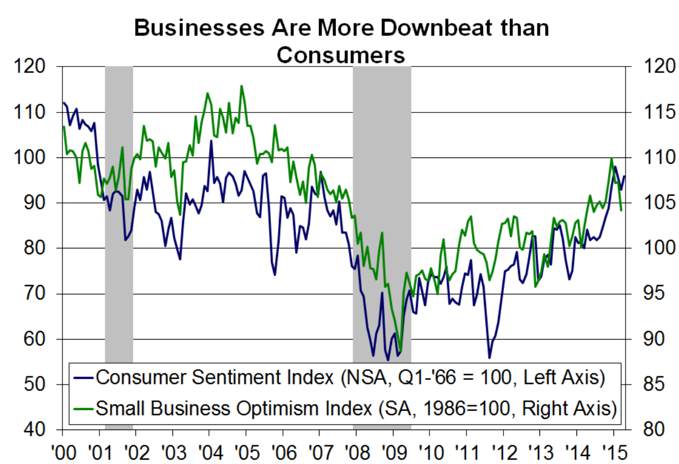
- **The Conference Board Index of Leading Economic Indicators (LEI),** a gauge of the economic outlook over the next three to six months, rose 0.2 percent in March. Seven out of 10 components increased, but growth in the headline index slowed to 2.0 percent in the three months ending in March, down from 5.5 percent in the prior three months.

- **The Consumer Price Index (CPI)** increased 0.2 percent for the second consecutive month in March, according to the Bureau of Labor Statistics. Prices nudged down 0.1 percent from a year ago—the second month of annual deflation in the first quarter. Core CPI, which excludes the volatile food and energy components, rose 0.2 percent for the third month running, and 1.8 percent from a year ago. **The Producer Price Index (PPI)** rose for the first time in five months, increasing 0.2 percent in March. On a year-over-year basis, producer prices were down 0.8 percent.

- **Initial claims for unemployment insurance** increased by 12,000 to 294,000 in the week ending April 11, according to the Department of Labor. The four-week moving average increased by 250 to 282,750.



Source: Census Bureau



Source: NFIB, University of Michigan

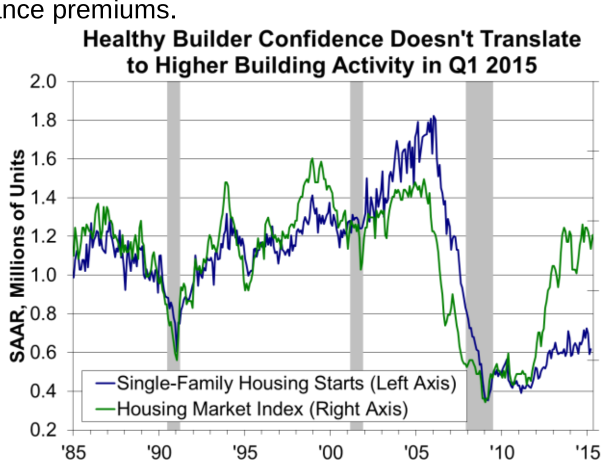
Housing: Anemic Homebuilding Rebound Underscores the Bumpy Housing Recovery

March housing starts data disappointed broad expectations for a healthy rebound in building activity following a sharp pullback in February. Instead, housing starts made up only a fraction of the ground lost, as marginal improvement in single-family building offset a plunge in the volatile multifamily segment to the slowest pace in 18 months. Still, there are reasons for optimism. Builder confidence rebounded in April, boosted by rising sales expectations over the next six months, suggesting builders believe the surge in March new home sales reported last week was no fluke. Meanwhile, purchase mortgage demand, while declining in aggregate last week, remains at the second-highest level since 2013 following a strong showing in March. Over the past several months, the government segment has been a larger driver of purchase demand—perhaps an early indicator that the long-dormant first-time homebuyer segment is building momentum. And with a 3.67 percent contract interest rate for 30-year fixed mortgages, according to Freddie Mac, it may be tempting for some potential first-time buyers to enter the market as it will likely be cheaper to own than rent in many markets.

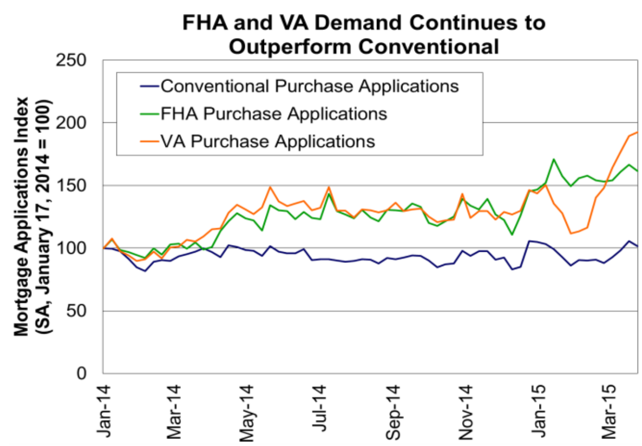
- **Housing starts** increased 2.0 percent in March to 926,000 annualized units, reversing only a fraction of the 15.3 percent plunge in February, according to the Census Bureau. All the improvement was in single-family building, which increased 4.4 percent to 618,000 units, amid a 2.5 percent drop in multifamily housing starts to 308,000 units. The March data suggested a payback from the weather-induced weakness in February, as starts rebounded in the Northeast, surging nearly 115 percent from the prior month. Housing starts also rebounded in the Midwest, jumping 31 percent from February but failing to overcome the steep declines in the first two months of the year. Unfortunately, starts dropped in the West and the South, the latter of which accounts for about half of the nation's housing starts. For the first quarter of 2015, single-family starts fell about 34 percent annualized from the fourth quarter of 2014, the biggest quarterly decline since the third quarter of 2010, while multifamily starts dropped approximately 25 percent annualized from the prior quarter. Both single-family and multifamily building managed to outperform activity during the same period last year, when the weather appeared to be a much bigger issue, rising 4.4 and 2.9 percent, respectively, from the first quarter of 2014. Permits fared worse in March, falling 5.7 percent to a six-month low of 1.04 million units, as a 15.9 percent drop in multifamily permits outweighed a 2.1 percent increase in single-family permits.

- **The National Association of Home Builders/Wells Fargo Housing Market Index** increased 4 points in April to 56 (a reading above 50 indicates more builders view the market as "good" than "poor"). All three sub-indices improved during the month, highlighted by a five-point gain in builder sales expectations over the next six months to a four-month high of 64.

- **Mortgage Applications** fell 2.3 percent in the week ending April 10, according to the Mortgage Bankers Association, as the drop in conventional mortgage demand outweighed the gain in the government segment. Refinancing applications declined for a second consecutive week, dropping 1.8 percent amid a slight increase in the contract interest rate for 30-year fixed mortgages to 3.87 percent. The decrease came solely from the conventional segment, which more than offset the second consecutive solid gain in FHA refi applications and a slight increase in VA refi applications. Purchase applications also declined, falling 3.1 percent during the week. FHA and VA purchase demand has outperformed the conventional market since last spring, and the gap has sizably widened since late January, partly because of the drop in FHA mortgage insurance premiums.



Source: Census Bureau, National Association of Home Builders



Source: Mortgage Bankers Association

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