



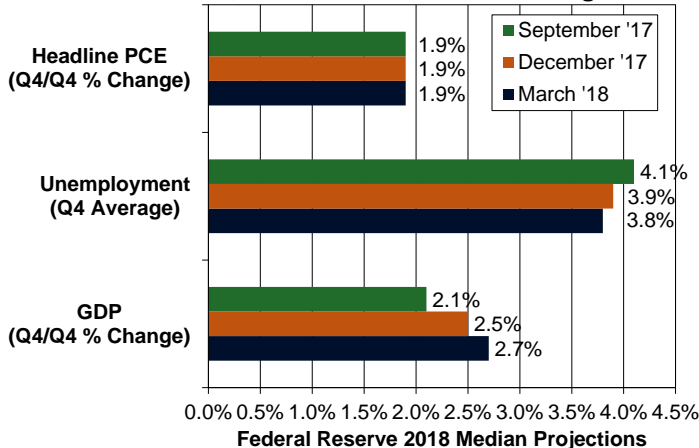
Weekly Note – March 23, 2018

Economics: Fed Raises Rates and Growth Forecast

In this week's leading story, the Federal Open Market Committee (FOMC) voted unanimously on Wednesday to raise the federal funds rate 25 basis points, to no one's surprise. The updated quarterly economic projections showed an improved outlook on growth and unemployment this year but an unchanged view of inflation. The economic growth forecast for 2018 has been revised up in the past two meetings, most recently from 2.5 percent in December to 2.7 percent in March. The post-meeting statement emphasized the strength of the labor market, noting "job gains have been strong in recent months, and the unemployment rate has stayed low." Additionally, members expect that annual inflation will move up "in coming months," as opposed to "this year" in the prior statement. Despite a more optimistic outlook, the "dot plot," which provides FOMC members' assessments for the appropriate target level for the fed funds rate, still implies three rate hikes in 2018, unchanged from the December projection. However, only two members' projections in March were below the median level compared to six members in December, implying the committee is shifting towards a more hawkish stance. For 2019, the dot plot showed a total of three rate increases, one additional rate hike compared with the December projection, and left two rate increases unchanged for 2020. Notable from Fed Chair Powell's first press conference was his view on asset bubbles, as he stated that while some "asset prices are elevated relative to their longer-run historical norms," vulnerabilities are moderate and are not a concern in the housing market. Powell also stated that several FOMC members had voiced concerns over trade policy, and he noted that trade has become a bigger downside risk to the outlook. On Thursday, the Administration imposed additional tariffs on Chinese imports. The Dow Jones Industrial Average fell more than 700 points, as fears of retaliation and trade wars grew. In other news, durable goods orders posted the largest monthly gain since June 2017 in February, driven by aircraft and defense orders. Core capital goods shipments (nondefense excluding aircraft), which are an input used to estimate business equipment spending in gross domestic product, rose the most in more than a year. In addition, their leading indicator, core capital goods orders, recovered from back-to-back drops. Despite some improvement in both core shipments and orders, we continue to expect a marked slowdown in equipment spending growth this quarter from the robust paces in the prior two quarters. Consistent with the Fed's improving outlook, the Leading Economic Index (LEI) rose to reach an all-time high in February. The index has not declined since May 2016. Despite February's stock market correction and weakness in housing construction, the LEI's six-month growth rate reached the fastest pace since 2011, suggesting strengthening economic growth in coming quarters. Finally, initial jobless claims rose for the second time in three weeks but remain at historically low levels.

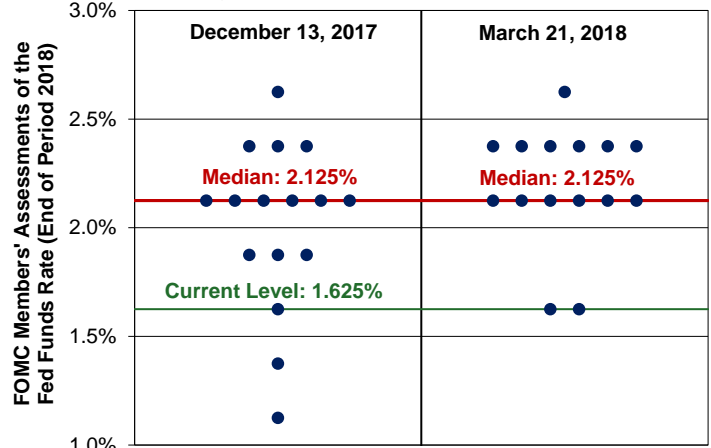
- **Durable goods orders** rose 3.1 percent in February, according to the Census Bureau. January durable goods orders were revised up one-tenth to a 3.5 percent drop. Core capital goods shipments increased 1.4 percent, while core capital goods orders rose 1.8 percent.
- **The Conference Board Leading Economic Index (LEI)**, a gauge of the economic outlook over the next three to six months, rose 0.6 percent in February, the fifth straight monthly gain.
- **Initial claims for unemployment insurance** increased by 3,000 to 229,000 in the week ending March 17, according to the Department of Labor. The four-week moving average rose by 2,250 to 223,750.

FOMC Has Rosier View of Growth and Labor Market, But Leaves Inflation Unchanged



Source: The Federal Reserve

Despite Static Median Projection of Two More Hikes, FOMC Members Grow More Hawkish



Source: The Federal Reserve

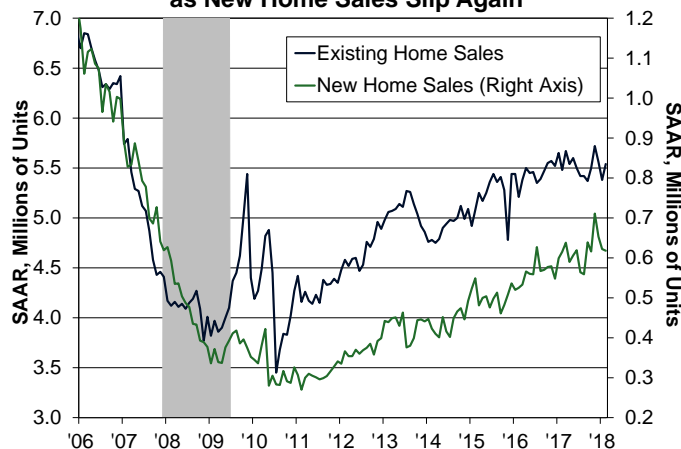


Housing: New Home Sales Miss, Existing Sales Rebound

Housing data released this week featured an update on home sales. First, new home sales fell for the third consecutive month in February, dropping further from the decade-high reached in November. However, the negative news was tempered by large upward revisions to data from the prior three months. The new home supply picture continues to improve, however, as the number of new homes for sale increased for the fifth consecutive month, approaching a nine-year high. Despite the steady improvement, the inventory of new homes remains well below historical norms seen during an expansion. Existing home sales rebounded in February after declining for two months. Single-family home sales, which made up 90 percent of the market during the month, drove the gain, as condo/coop sales fell for the second time in three months to hit the lowest level since November 2015. Strong gains in total existing sales in the South and West outweighed declines in the Northeast and Midwest. Sales in the Northeast have fallen particularly fast, reaching the lowest level in almost three years. The annual trend for nationwide sales improved in February, as sales rose after posting the largest year-over-year decline since August 2014 in January. The number of existing homes for sale continues to shrink, falling on an annual basis unabated since May 2015. The tight inventory of homes has maintained upward pressure on home prices. The FHFA Purchase-Only House Price Index posted the strongest annual gain since October 2013 in January. Of note, annual gains in the indices for New England, the Middle Atlantic, and the East North Central Census Divisions hit expansion highs. Mortgage demand fell this week for the first time in four weeks, dragged down by refinance applications, which dropped to an expansion low. Purchase applications, on the other hand, rose for the third time in four weeks to reach a six-week high. Mortgage rates edged up one basis point this week to 4.45 percent, 1 basis point below the four-year high hit two weeks ago, according to the survey by Freddie Mac.

- **New single-family home sales** fell slightly by 0.6 percent in February to a seasonally-adjusted annualized rate (SAAR) of 618,000, according to the Census Bureau. New home sales over the prior 3 months were revised upward by 54,000, on net. Sales were flat on a year-over-year basis. The number of new homes for sale (seasonally adjusted) improved 2.0 percent from January and 16.2 percent from a year ago. The month's supply rose one-tenth to 5.9 months. The median sales price, unadjusted for the composition of sales, rose 9.7 percent from a year ago.
- **Existing home sales** rose 3.0 percent in February to 5.54 million units (SAAR), according to the National Association of REALTORS®. Single-family sales increased 4.2 percent to 4.96 million units, while condo/coop sales dropped 6.5 percent to 580,000 units. From a year ago, total existing home sales rose 1.1 percent. The number of homes for sale (not seasonally adjusted) fell 8.1 percent year-over-year. The months' supply was 3.4 months, four-tenths lower than in February 2017. The median sales price rose 5.9 percent on an annual basis.
- **The FHFA Purchase-Only House Price Index**, reported on a seasonally-adjusted basis, rose 0.8 percent in January. On an annual basis, the index rose 7.3 percent, accelerating six-tenths from the December increase.
- **Mortgage applications** fell 1.1 percent for the week ending March 16, according to the Mortgage Bankers Association (MBA). Refinance applications fell 4.5 percent, outweighing the 1.4 percent rise in purchase applications. The MBA survey's average 30-year fixed mortgage rate ticked down 1 basis point to 4.68 percent.

Existing Home Sales End a Two-Month Slide, as New Home Sales Slip Again



Source: Census Bureau & National Association of REALTORS®

Annual Growth in the FHFA Home Price Index Hits the Highest Level Since October 2013



Source: FHFA

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Economic and Strategic Research Group
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