Economics: Fed Dot Plot Shows Slower Expected Pace of Rate Hikes

This week's economic news was largely subdued. Core retail sales, a key indicator to estimate spending on goods, fell on the heels of a sizable downgrade in the prior month. The report suggests a slight downside risk to our latest forecast of real consumer spending growth of 3.0 percent annualized this quarter. Consumer sentiment dipped in early March to the lowest reading since last October. The industrial production report showed that unseasonably mild weather and low oil and gas prices led to declines in utility and mining output, which outpaced a small gain in manufacturing output. Core retail prices picked up in February, posting the largest year-over-year gain in nearly four years. Lastly, as widely expected, the Fed held the fed funds rate steady at its March Federal Open Market Committee (FOMC) meeting, noting concerns that "global economic and financial developments continue to pose risks." Its updated economic projections released following the meeting showed only modest changes to the economic outlook but material downward revisions in the expected path for the fed funds rate through 2018. The Fed's "dot plot," which shows each FOMC member's fed funds rate projection over the coming years, revealed a 50-basis-point downgrade in the median projection of the rate at the end of 2016. The March dot plot implies two rate hikes this year, the same as our February forecast call, compared with four hikes in December's plot.

- **Retail Sales** were down 0.1 percent in February, according to the Census Bureau. Declining sales at gasoline stations drove the weakness in the headline. Excluding auto, building supply, and gasoline station sales, core retail sales ticked down 0.1 percent. January core sales growth was revised lower to 0.2 percent from 0.6 percent.

- **The Consumer Price Index (CPI)** edged down 0.2 percent in February. Excluding food and energy items, core CPI rose 0.3 percent for a second consecutive month and 2.3 percent from a year ago. The core services component rose 0.3 percent, boosted by firm increases in both tenants' rent and owners' equivalent rent and another surge in medical care service prices. **The Producer Price Index (PPI)** also fell 0.2 percent in February. Core PPI was flat on the month, but up 1.2 percent from a year ago, the biggest gain since January 2015. (The Bureau of Labor Statistics releases both series).

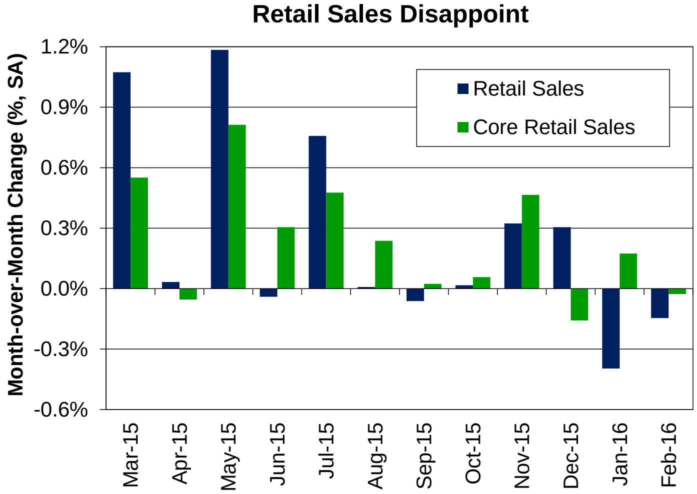
- **The Job Openings and Labor Turnover Survey (JOLTS)** showed that the job openings rate ticked up one-tenth to 3.7 percent in January, while the hires rate dropped 0.3 percentage points to 3.5 percent, according to the Bureau of Labor Statistics. The quit rate fell 0.2 percentage points from its expansion high in the prior month, dropping to 2.0 percent.

- **Industrial production,** a gauge of output in the manufacturing, utility, and mining sectors, slipped 0.5 percent in February, according to the Federal Reserve Board. A 4.0 percent drop in utilities output and a 1.4 percent decline in mining output weighed on the headline figure. Manufacturing output edged up 0.2 percent after a sizable gain in the prior month.

- **The University of Michigan Consumer Sentiment Index** fell 1.7 points to 90 in the March preliminary reading, with both the current and expectations components declining.

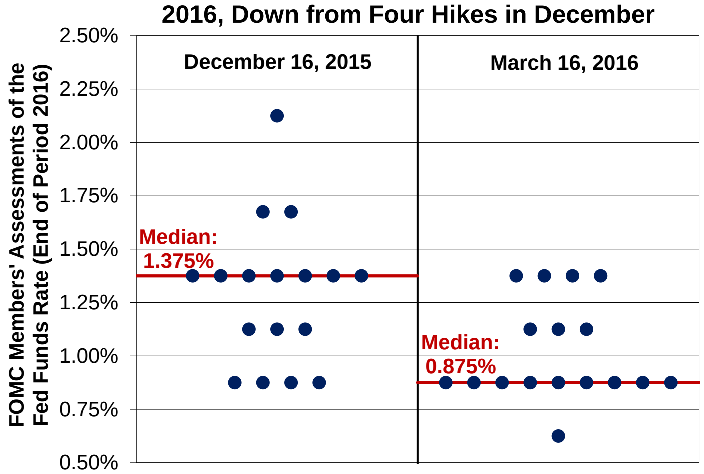
- **The Conference Board Leading Economic Index (LEI),** a gauge of the economic outlook over the next three to six months, rose 0.1 percent in February following two straight monthly drops. Initial jobless claims and the interest rate spread were the primary positive contributors, while building permits and new manufacturing orders were the principal drags.

Retail Sales Disappoint



Source: Census Bureau

Fed's March "Dot Plot" Suggests Two Hikes in 2016, Down from Four Hikes in December



Source: Federal Reserve Board

Housing: Single-family Home Construction Jumps to a Fresh Expansion High

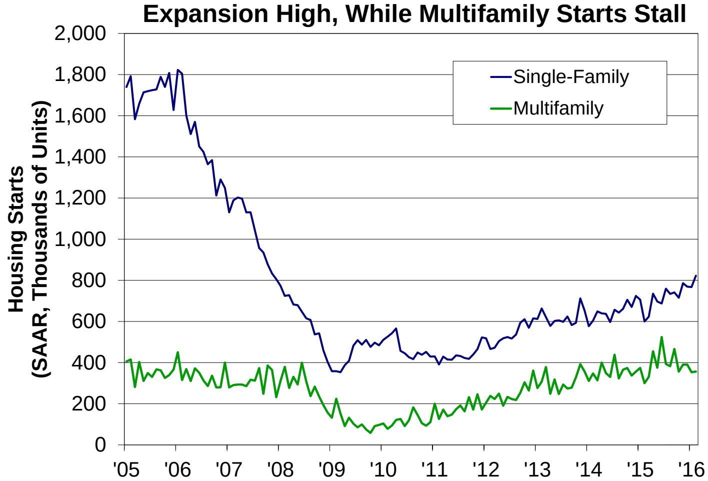
Home building was the main focus of the housing data released this week. In February, housing starts recovered the ground lost during the back-to-back declines in December and January. Single-family starts posted a strong gain to reach a new expansion high, while single-family permits have remained near an expansion high for four months, suggesting steady improvement, rather than a boom, in the coming months. On the other hand, multifamily starts increased slightly during the month but have trended down from a near three-decade high reached last June. In addition, permits for multifamily buildings dropped for the second time in three months, suggesting multifamily construction could be taking a breather in the near term, although the long-term outlook for the sector remains upbeat. Even though single-family building rebounded in February, home builders couldn't shake the winter blues in March, as a gauge of their confidence remained at the lowest level since last May. Details showed that their expectations for new home sales over the next six months slipped for a fourth time during the past five months, reaching a one-year low. Shifting to the mortgage market, refinance applications continued their month-long decline last week after jumping to a one-year best in mid-February as mortgage rates have moved higher. Rates continued to rise this week, according to Freddie Mac, with the average 30-year fixed mortgage rate increasing five basis points to 3.73 percent, marking the third consecutive rise to a seven-week high. In contrast to the recent decline in refinance activity, purchase applications rose for a second consecutive week, which bodes well for the spring selling season.

- **Housing starts** rose 5.2 percent to 1.18 million units annualized in February, according to the Census Bureau. Single-family starts drove the rise, increasing 7.2 percent to 822,000 units, while multifamily starts edged up 0.8 percent to 356,000 units. Through the first two months of 2016, single-family and multifamily starts are up 21.7 percent and 3.3 percent, respectively, from the same period one year ago. New residential building permits fell 3.1 percent in February to 1.17 million units annualized. The 8.4 percent drop in multifamily permits outweighed the 0.4 percent gain in single-family permits. On a year-to-date basis, single-family permits improved 13.1 percent from 2015, while multifamily permits declined slightly by 0.5 percent.

- **The National Association of Home Builders / Wells Fargo Housing Market Index** was unchanged at 58 points in March (a reading higher than 50 means more builders see an improving market than a deteriorating one). Expectations for future sales fell three points to 61, while the current sales index was flat at 65 points. The traffic of potential buyers ended a three-month slide, rising four points to 43 during the month.

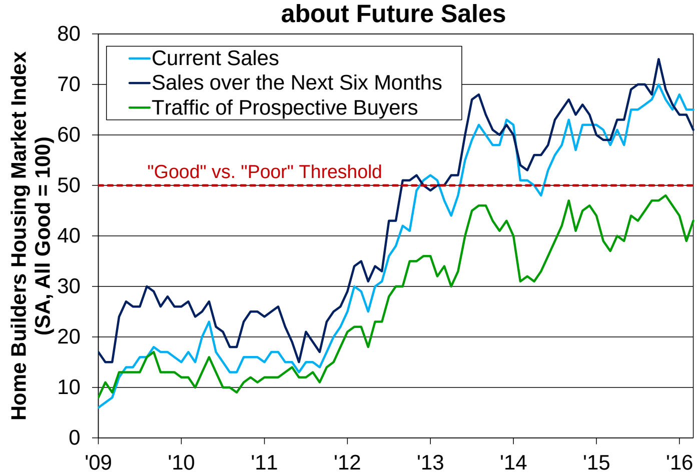
- **Mortgage applications** fell for the third time in the past four weeks, dropping 3.3 percent in the week ending March 11, according to the Mortgage Bankers Association. Refinance applications drove the fall, decreasing 5.6 percent. The fourth consecutive decline in refinance applications came in response to the third rise in mortgage rates over the past four weeks, as the average contract rate for 30-year fixed-rate mortgages rose five basis points to 3.94 percent. Purchase applications edged up 0.3 percent, marking the second consecutive rise in March following declines in the first two months of the year.

Single-family Housing Starts Reach a New Expansion High, While Multifamily Starts Stall



Source: Census Bureau

Home Builders Become More Pessimistic about Future Sales



Source: National Association of Home Builders/Wells Fargo

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