

U.S. economic data was mixed again this week even though recent labor data has been robust. It is tempting to say that this bimodal view of the U.S. economy probably can't last. At some point one of the two poles dominates. Either the labor data deteriorates as business conditions degrade, or the labor data is so strong that other data is either irrelevant or recovers (in the case of consumer and business confidence). However, if we resist the temptation to jump to conclusions, there is another possibility. That is that the U.S. economy muddles through the year, beset and preoccupied by downside risks, but continues to grow through the year, supported by a strong household sector. Our forecast for the year follows that middle ground. We will see.

The Conference Board's Leading Economic Index for the U.S. eased for the second time in the last four months in January, off by 0.1 percent. The Coincident Index was barely positive in January, up by 0.1 percent. The Lagging Index was still strong, showing a 0.5 percent gain.

New orders for durable goods increased by 1.2 percent in December, lifted by commercial aircraft orders. Most other categories were positive, but orders for computers and communications equipment fell noticeably. As a result, core durable goods orders, nondefense capital goods excluding aircraft, dipped by 0.7 percent in December after falling by 1.0 percent in November.

Existing home sales were down again in January, falling for the third consecutive month and extending an ugly trend that began in early 2017. Sales dipped by 1.2 percent to a 4,940,000 unit annual rate. This is the weakest sales rate since November 2015. Lower mortgage rates may be a positive factor in February.

Builder confidence increased in February according to the National Association of Home Builders. Lower mortgage rates were cited as a positive factor.

Mortgages apps increased for the week ending February 15 as refi apps gained 6.4 percent. Purchase apps were up by 1.7 percent, reversing a four-week slide. On a four-week moving average basis, refi apps are down 16.1 percent from a year ago, while purchase apps are up by 0.5 percent from a year ago. According to the Mortgage Bankers Association, the rate for a 30-year fixed-rate mortgage ticked up to 4.66 percent.

Initial claims for unemployment insurance fell by 23,000 for the week ending February 16, to hit 216,000. Initial claims data has been choppy since last November and the trend still looks like it is up slightly since the lows from last September. Continuing claims fell by 55,000 for the week ending February 9, to hit 1,725,000.

In addition to the economic data releases, the Federal Reserve released the minutes of the January 29/30 FOMC meeting. Even though there was no rate hike announced at the meeting, as was widely expected, it was an important meeting. The Fed changed their tone about future rate hikes, using the words "patient" and "flexible". The Fed also concluded that they are sticking with the current mechanism for controlling the fed funds rate. This conclusion allows them to establish the goal for balance sheet reduction. The Fed will likely wind down balance sheet reduction by the end of this year, reaching an asset level of about \$3.5 trillion dollars. Their portfolio will be dominated by Treasury bonds, but they may retain some mortgage backed securities as well. We expect balance sheet maneuvers to remain in the Fed's tool bag.

Fed Funds Rate

Fed Funds Rate (Effective): After FOMC Meeting of 3/19-3/20

We expect the Fed to keep the fed funds rate range unchanged at 2.25-2.50 percent at the next Federal Open Market Committee meeting over March 19/20, and remain on hold until at least June, possibly longer.

The Week Ahead

December Housing Permits (2/26, Tuesday)

Housing permits rose to a 1,328k unit annual rate in November. Down to a 1,280k unit rate as multifamily permits normalize. Consensus: 1,280k.

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The Week Ahead, Continued**December Housing Starts (2/26, Tuesday)**

Housing starts increased to a 1,256k unit annual rate in November. Down in December, to a 1,225k unit rate. Consensus: 1,245k.

December New Home Sales (2/26, Tuesday)

New Home Sales jumped to a 657k unit annual rate in November. Backing down to a 585k unit rate after the November surge. Consensus: 600k.

December Case-Shiller 20-City (2/26, Tuesday)

The November Case-Shiller Home Price Index was up 4.7 percent. Housing markets were hurt by the government shutdown in December and January. Up by 4.5 percent in November. Consensus: 4.5 percent.

2018 Q4 GDP, 1st Estimate (2/28, Thursday)

The 3rd Estimate of 2018 Q3 GDP growth was 3.4 percent. Up at a 2.5 percent annualized rate. Consensus: 2.4 percent.

2018 Q4 GDP Price Index, 1st Estimate (2/28, Thursday)

The 3rd Estimate of the 2018 Q3 Price Index was 1.5 percent. Up at a 1.7 percent annualized rate. Consensus: 1.7 percent.

December Personal Income (3/1, Friday)

Personal Income increased by 0.2 percent in November. Up by 0.4 percent, supported by strong job growth. Consensus: 0.3 percent.

December Personal Spending (3/1, Friday)

Personal Spending increased by 0.3 percent in November. Unchanged in December. Retail sales fell noticeably in December. Consensus: 0.1 percent.

February ISM Manufacturing Index (3/1, Friday)

The ISM MFG Index increased to 56.6 in January. Down to 56.0 in February. Consensus: 56.0.

February Auto Sales (3/1, Friday)

Auto Sales fell to a 16.7 mln SAAR in January. Bouncing back to a 17.0 million unit rate after a sharp drop in January. Consensus: 16.9 mln.

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