Comerica Economic Weekly

Comerica Bank

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U.S. economic data was mixed last week. Two things are clear about the U.S. economy. First, it has lost a little momentum heading into 2019. Second, it is still expanding. We expect it to keep expanding through the remainder of this year.

U.S. real GDP growth eased from a 3.4 percent annualized rate in 2018Q3, to 2.6 percent in Q4, about as expected. The biggest contributor to Q4 real GDP growth was consumer spending, which increased at a healthy 2.8 percent annual rate. Importantly, non-residential fixed investment bounced back in Q4 after weak growth in Q3. Inventories were a small boost to Q4 GDP. International trade was a small drag. Total government spending increased slightly in Q4 as a large increase in federal government defense spending was countered by a large decline in federal nondefense spending and a small dip in state and local government spending.

Nominal personal income eased by 0.1 percent in January, weighed down by the government shutdown.

Consumer confidence rebounded in February after falling for three consecutive months, according to The Conference Board.

Light vehicle sales were little changed in February, remaining at a 16.6 million unit annual rate.

The ISM Manufacturing Index for February fell to a still moderately positive 54.2, well down from the recent peak of 60.0 from June 2018. The production, new orders and employment sub-indexes all remained above the break-even 50 mark. The only industry reporting contraction was nonmetallic mineral products, which are often linked to construction.

Construction spending fell by 0.6 percent in December. Private residential construction was down 1.4 percent due to weaker single-family building. Private non-residential construction was up by 0.4 percent. Government projects dipped by 0.6 percent.

The North American rig count dipped in late February to 1,038 active rigs. We expect firmer oil prices to stabilize the rig count in coming months.

The Case-Shiller U.S. National Home Price Index increased by 0.3 percent in December and was up by 4.7 percent over the previous 12 months. Home price gains slowed through the second half of 2018 in most residential markets as demand eased.

Housing starts were soft at year end 2018, but forward-looking permits data were in better shape. Total housing starts fell noticeably in December, down by 11.2 percent to a 1,078,000 unit annual rate. This is the weakest new home construction rate since September 2016. Single-family starts were down by 6.7 percent, to a 758,000 unit annual rate. Multifamily starts fell by 20.4 percent, to a weak 320,000 unit rate. Total permits were little changed for the month, up 0.3 percent to an 1,326,000 unit annual rate. Lower mortgage rates are expected to support demand for new homes this spring, which will motivate home construction in the near-term.

In his Semiannual Monetary Policy Report to Congress, Federal Reserve Chairman Jay Powell said that current economic conditions are healthy, and the economic outlook is favorable. However, Powell noted that cross-currents and conflicting signals have emerged in early 2019. He reiterated that the timing of any further interest rate increases would depend on economic data and the outlook. His prepared testimony was less detailed on balance sheet reduction than the recently released minutes of the January 29/30 FOMC meeting.

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

February ISM Non-Manufacturing Index (3/5, *Tuesday*)

The ISM Non-MFG Index fell to 56.7 in January. Up to 59.0 in February, showing a post-government shutdown bounce. Consensus: 59.9.

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The Week Ahead, Continued

December International Trade Gap (3/6, *Wednesday*)

The trade gap narrowed to -$49.3 bln in November. Widening to -$58.0 billion in December as imports normalize after a big drop in November. Consensus: -$57.3 bln.

December New Home Sales (3/6, *Wednesday*)

New Home Sales increased to a 657k unit annual rate in November. Falling to a 590k unit annual rate. Following the trend in existing home sales down and renormalizing after a big increase in November. Consensus: 600k.

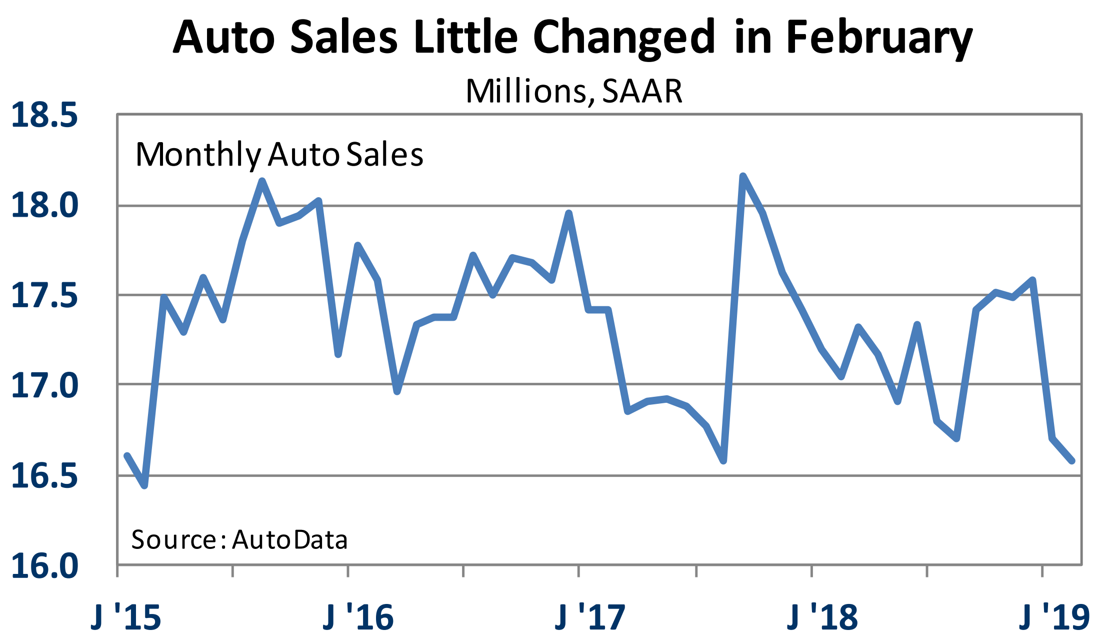
February Nonfarm Payrolls (3/8, *Friday*)

January nonfarm payrolls increased by a strong 304k. Up by 170k in February after the huge gain in January. Consensus: +170k.

February Unemployment Rate (3/8, *Friday*)

The unemployment rate ticked up slightly to 4.0 percent in January. Down to 3.9 percent in February. Consensus: 3.9 percent.

Chart of the Week



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