Comerica Economic Weekly

Comerica Bank

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U.S. economic data was mixed for the week, still partly scrambled by the federal government shutdown through January.

The biggest disappointment came from the March payroll numbers which showed a very weak gain of just 20,000 net new jobs for the month. The already strong December and January payroll numbers were revised up slightly. The unemployment rate for February came back down to 3.8 percent. So it was not a universally bad report. Wages picked up. Average hourly earnings were up by 3.4 percent over the previous 12 months.

New claims for unemployment insurance fell by 3,000, to hit 223,000 for the week ending March 2. Continuing claims dropped by 50,000, to hit 1,755,000 for the week ending February 23. No problems here.

Nonfarm business productivity increased by a 1.9 percent annual rate in the fourth quarter, about the same as its year-over-year increase. Unit labor costs increased at a 2.0 percent clip in the fourth quarter and were up by 1.0 percent over the year. Productivity growth appears to be gradually improving. Stronger productivity growth means that increases in wages are less inflationary.

Housing starts bounced back in January, up by 18.6 percent for the month, to a 1,230,000 unit annual rate. Single-family starts surged to their strongest rate since last May. Multifamily starts also improved for the month. Both series still appear to be range bound. Permits improved modestly in January, up by 1.4 percent with help from the multifamily segment.

New home sales for December increased by 3.7 percent, to a 621,000 unit annual rate. The interesting story with the new homes sales data is the significant downward revision to the November sales rate, down to 599,000, after originally being reported at 657,000. The trend for new home sales still looks soft, and the December sales rate of 621,000 remains well below the recent peak of 712,000 from November 2017. The months' supply of new homes on the market ticked up to 6.6 months' worth in December, still moderately over-supplied.

The U.S. international trade gap widened noticeably in December, to -$59.8 billion from -$50.3 billion in November . Exports dropped by $3.9 billion in December, while imports increased by $5.5 billion. The wider-than-expected trade gap in November will be a slight negative factor in the Q4 GDP revision.

The biggest positive for the week came from the ISM Non-Manufacturing Index for February, which increased more than expected, to a strong 59.7. This was the highest index value since November 2018. The index shows that the bulk of the U.S. economy is still performing well. The production and new orders sub-indexes both increased to strong levels in February. The employment sub-index eased, to a still-positive 55.2, consistent with ongoing hiring in the service sector. Anecdotal comments were generally positive. However, some firms were concerned about trade tariffs. All 18 reporting industries said they grew in February.

The Federal Reserve will have a monetary policy meeting over March 19/20. There is a near-universal expectation of no change to the fed funds rate at the upcoming meeting. We expect to hear more about the Fed's plans for balance sheet reduction. We expect balance sheet reduction to end this year after achieving a target level of about $3.5 trillion. We also look forward to a new dot plot, which we expect to be flatter, consistent with one rate hike this year at most. Jay Powell will also host a press conference at the conclusion of the 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

January Retail Sales (3/11*, Monday)*

Retail sales fell by 1.2 percent in December. The government shutdown was a big factor in January. Consumer confidence dropped. Gasoline prices fell, as did auto sales. Store closings were announced. Not a good month for retail.

Down by 0.3 percent in January. Consensus: -0.1 percent.

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The Week Ahead, Continued

January Retail Sales Ex-Auto *(3/11, Monday)*

Retail sales excluding autos were down by 1.8 percent in December. Unchanged in January. Consensus: 0.2 percent.

February Consumer Price Index (3/12*, Tuesday)*

Headline CPI was unchanged in January. Up by 0.3 percent in February as gasoline prices increased. Consensus: 0.2 percent.

February CPI Ex. Food & Energy *(3/12, Tuesday)*

Core CPI increased by 0.2 percent in January. Up by 0.2 percent again in February. Consensus: 0.2 percent.

February Producer Price Index (3/13*, Wednesday)*

The PPI for Final Demand was down 0.1 percent in January. Up by 0.3 percent in February with high energy prices. Consensus: 0.2 percent.

February PPI Ex. Food, Energy, & Trade *(3/13, Wednesday)*

Core PPI was up 0.2 percent in January. Up by 0.2 percent in February. Consensus: 0.2 percent.

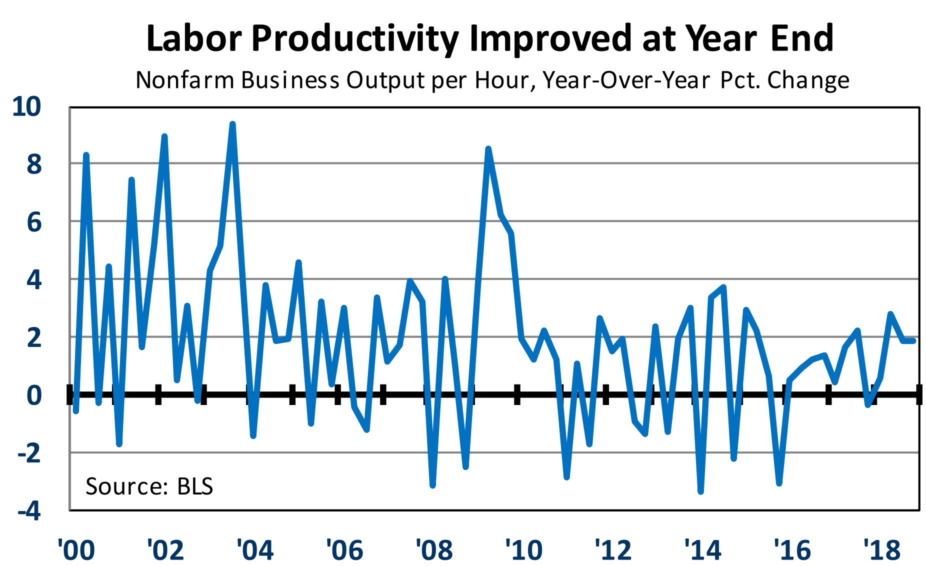
February Industrial Production *(3/15, Friday)*

Industrial Production fell by 0.6 percent in January. Up by 0.4 percent in February. Consensus: 0.4 percent.

February Capacity Utilization *(3/15, Friday)*

Capacity Utilization ticked down to 78.2 percent in January. Up to 78.5 percent in February. Consensus: 78.5 percent.

Chart of the Week



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