Comerica Economic Weekly

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It was another week of mixed readings for the U.S. economy. Inflation was muted. Retail sales were disappointing and industrial production was so-so.

Upstream prices showed little momentum in February as the Producer Price Index for final demand gained just 0.1 percent for the month. Over the previous 12 months, the PPI for final demand was up by 1.9 percent, well below the recent peak year-over-year change of 3.4 percent from last July. A jump in energy prices in February was countered in the headline index by a drop in prices for transportation and warehousing services.

Downstream prices also behaved. The Consumer Price Index for February increased by 0.2 percent. Over the previous year, the headline CPI was up by just 1.5 percent. Consumer energy prices climbed through February, up by 0.4 percent for the month. Utility, vehicle and medical care commodity prices all dropped.

Retail sales gained just 0.2 percent in January after dropping by 1.6 percent in December. The nominal value of motor vehicle sales fell 2.4 percent for the month. Several other categories were weak, reflecting the direct impact of the government shutdown and its weight on overall consumer confidence.

Business optimism has been sliding, down every month from September through January. In February, the National Federation of Independent Business's Small Business Optimism Index broke the losing streak, inching up after the government shutdown came to an end.

Industrial production inched up by 0.1 percent in in February. Manufacturing output dropped by 0.4 percent even though vehicle assemblies were steady. Utility output bounced by 3.7 percent in February after sliding through December and January.

Total mortgage applications improved by 2.3 percent for the week ending March 8. Purchase apps were up by 4.3 percent. Refi apps were down by just 0.2 percent. On a four-week moving average basis, refi apps were down 5.5 percent from a year ago, while purchase apps were up by 2.2 percent from a year ago. According to the Mortgage Bankers Association, the rate for a 30-year fixed rate mortgage fell to 4.64 percent.

Sales of new homes dropped by 6.9 percent in January, to a 607,000 unit annual rate. The January drop came after a sizeable gain in December and it also was coincident with the government shutdown. Lower mortgage rates will help this spring.

Total construction spending increased by 1.3 percent in January, led by an unsustainable 4.9 percent jump in spending on public projects.

Job openings increased in January, consistent with the outsized net gain of 311,000 payroll jobs for the month. The JOLTS data confirm that hiring was strong.

New claims for unemployment insurance increased by 6,000, to hit 229,000 for the week ending March 9. Continuing claims gained 18,000, to hit 1,776,000 for the week ending March 2.

The Federal Open Market Committee will meet over March 19/20. Just like the January FOMC meeting, this will be an important meeting, more for what the Fed says than what they do. We expect them to leave the benchmark fed funds rate range unchanged. But we look forward to new information about balance sheet reduction and the final target level of the Fed's balance sheet. We also look forward to seeing the new dot plot, which we expect to be flatter than the December dot plot, reflecting the Fed's expectations for fewer rate hikes in the near term. We expect this to be corroborated by downward revisions to the Fed's economic forecast numbers.

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 for the remainder of this year.

The Week Ahead

February Leading Indicators (3/21*, Thursday)*

The Conference Board's Leading Index was unchanged in January. Up by 0.2 percent, buoyed by the rally in equity prices through February. Consensus: 0.1 percent.

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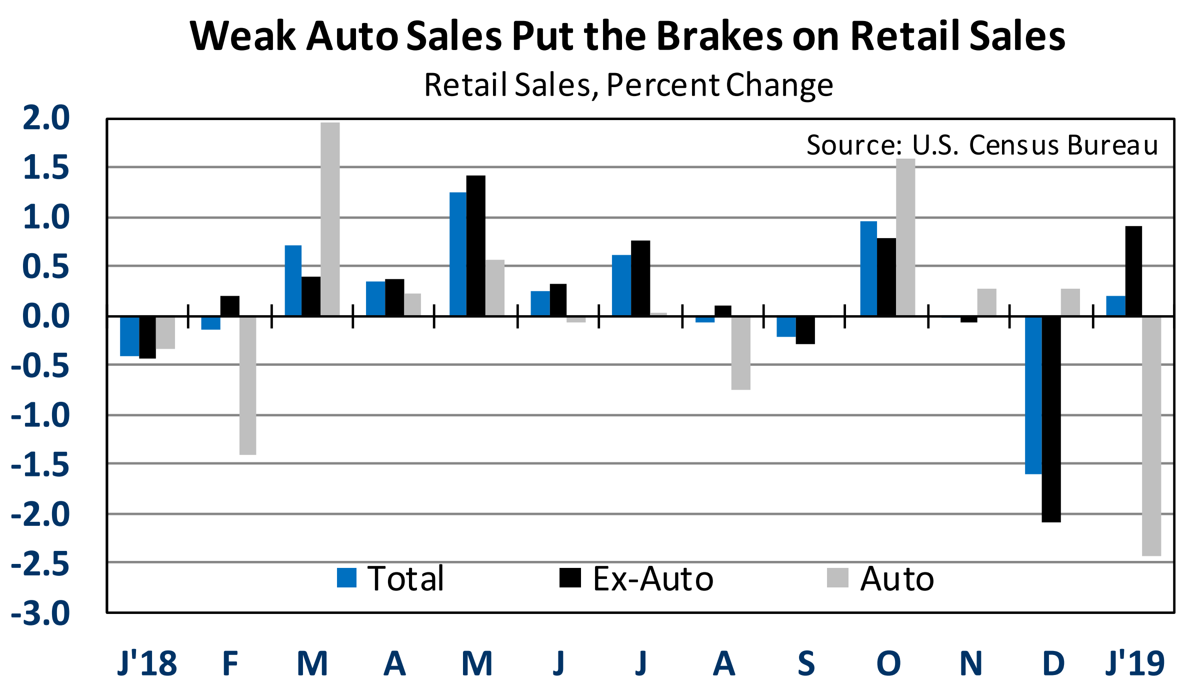
The Week Ahead, Continued

February Existing Home Sales *(3/22, Friday)*
Existing home sales declined by 4,940k in January, down now for three consecutive months. Lower mortgage rates and improved consumer confidence helped in February. Up to a 5,100k unit rate. Consensus: 5,100k

Chart of the Week



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