Comerica Economic Alert

Comerica Bank

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March CPI, April Mortgage Apps

Energy Pushed the CPI in March, Fed Still Patient

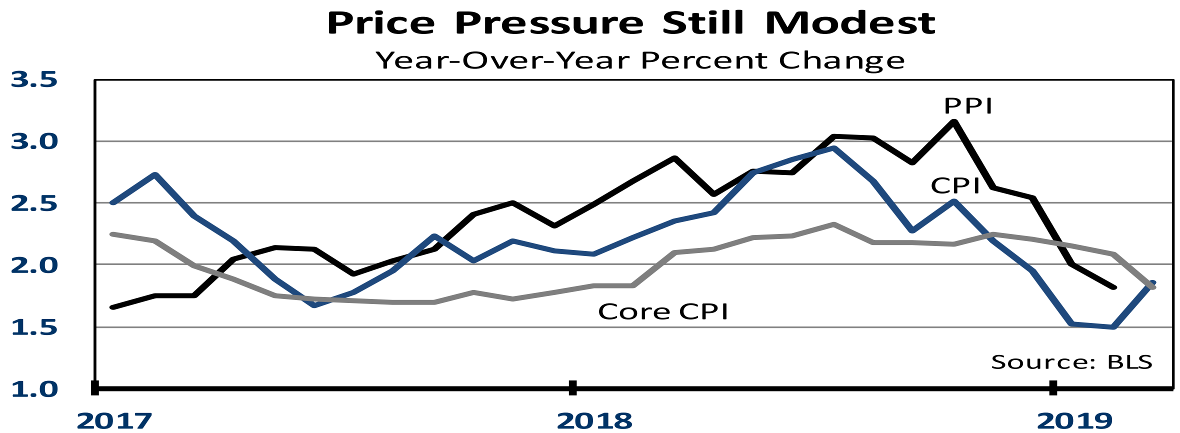
- The March Consumer Price Index increased by 0.4 percent, pushed by energy prices.
- The Core CPI gained just 0.1 percent in March and is up by 2.0 percent over the last year.
- Mortgage Applications decreased by 5.6 percent for the week ending April 5.

Prices at the gasoline pump pushed the overall Consumer Price Index up by 0.4 percent in March. Crude oil prices climbed through March, with WTI near $60 per barrel through the second half of the month. The 6.5 percent increase in the CPI for gasoline pushed the energy sub-index up by 3.5 percent in March. Food prices were also warm, gaining 0.3 percent in March after a 0.4 percent increase in February. Fresh fruits and vegetables pushed the overall food price index up. Core CPI (all items less food and energy) remained calm, gaining 0.1 percent in March after a similar weak gain in February. Over the 12 months ending in March, core CPI is up by 2.0 percent, while headline CPI is up by 1.9 percent. If crude oil prices remain near the current $64 per barrel range then the overall energy price index will again be a boost to CPI in April. According to AAA, the national average price for regular unleaded gasoline is $2.76 per gallon today, up from $2.48 a month ago. The price 12 months ago was $2.66, so the one-year price changes from energy are still calm.

We expect the Federal Reserve to remain in “patient” mode at the upcoming FOMC meeting over April 30/May 1 and keep the fed funds rate unchanged. This afternoon the minutes from the previous FOMC meeting, over March 19/20 will be released. We may see some more details about the Fed’s analysis of risk factors for the U.S. economy and possibly some more insight into the wind down of the Fed’s balance sheet. But we do not expect to see any hints of a future policy shift in this set of minutes.

Total mortgage applications eased a bit in early April after a strong run through March. The Mortgage Bankers Association’s Composite Index for the week ending April 5 dropped by 5.6 percent as the refi index dipped by 11.4 percent. Refis surged through March as mortgage rates dropped, so a little give-back in early April is to be expected. Purchase apps were up by 0.5 percent in early April, posting their fifth consecutive weekly gain. On a four-week moving-average basis, refis are up 27.9 percent over the previous 12 months, while purchase apps are up 6.6 percent. According to the MBA, the rate for a 30-year fixed-rate mortgage firmed to 4.40 percent in early April. Both new and existing home sale surged in February. We expect to see strong sales numbers again in March and this will help home construction. However, we think that much of the cyclical demand for housing has already been spent out and there is a risk that the current opportunistic buying may be cannibalizing future demand.

Market Reaction: U.S. equity markets were mixed after the open. The 10-Year Treasury bond yield is down to 2.47 percent. NYMEX crude oil is up to $64.38/barrel. Natural gas futures are up to $2.71/mmbtu.



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