Comerica Economic Weekly

Robert A. Dye, Ph.D. ■ Daniel Sanabria @Comerica_Econ

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The big story for the U.S. economy this week was the rebound in payroll job growth for March, following a very weak February gain. Other U.S. data was mixed, consistent with soft first quarter GDP growth.

U.S. payrolls expanded by a solid 196,000 in March. The weak February gain, initially reported at +20,000, was revised up to a still-weak +33,000. January payrolls were also revised up slightly. The unemployment rate held steady at 3.8 percent for the second month. Average hourly earnings increased modestly, up 4 cents for the month, and 3.2 percent over the previous 12 months. This is down slightly from the 3.4 percent year-over-year gain in earnings reported in February, but the trend in earnings still looks like it is increasing. The labor force participation rate eased to 63.0 percent, little changed over the past 12 months.

New orders for durable manufactured goods decreased by 1.6 percent in February, held down by volatile commercial aircraft orders. Boeing's recent problems may have an impact on that component.

The ISM Manufacturing Index for March increased to 55.3, from February's 54.2. This is a solid reading for the U.S. manufacturing index. Nine out of ten sub-indexes were above 50, including new orders, production and employment. Sixteen out of 18 industries said conditions improved in March. Apparel and paper products reported contraction. Anecdotal comments were positive. There was an interesting comment from a wood products company that talked about a backlog in home construction due to winter weather, which they expect to lead to a surge in business later this spring.

The ISM Non-manufacturing Purchasing Managers' Index eased to a still-solid 56.1 percent in March, after posting a strong 59.7 in February. Production, new orders and employment were all positive in March. Sixteen non-manufacturing industries reported expansion for the month. Only two, educational services and retail trade, reported contraction. Anecdotal comments were generally favorable. Another positive reading from this broad-based economic indicator is a good sign for the U.S. economy. Even though global manufacturing conditions have deteriorated, U.S. non-manufacturing businesses are still doing well.

Mortgage applications increased strongly for the week ending March 29 with gains in both purchase and refis. This was the fourth consecutive weekly increase in the total mortgage apps index. Purchase apps have been up for four consecutive weeks, gaining 3.4 percent for the week ending March 29. Refi apps are up for the third consecutive week, gaining 38.5 percent in the recent data. On a four-week moving-average basis, purchase apps are up 4 percent from a year ago, while refis are up 16.2 percent from a year ago. According to the Mortgage bankers Association the rate for a 30-year fixed-rate mortgage was down to 4.36 percent at the end of March.

Total construction spending increased by 1.0 percent in February, driven by strong public construction activity. Public projects increased by 3.6 percent for the month, with a 9.5 percent increase in highway and street spending. Private nonresidential construction spending dipped by 0.5 percent. Private residential construction spending increased by 0.7 percent in February as spending on new home construction increased.

The Fed will digest the news and remain "patient" at the upcoming FOMC meeting over April 30/May 1, leaving the fed funds rate range unchanged from the current 2.25-2.50 percent. We expect no other major announcements from the Fed in the near term.

Fed Funds Rate

Fed Funds Rate (Effective): After FOMC Meeting of 4/30-5/1

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 April 30/May 1, and stay on hold for the remainder of this year.

The Week Ahead

March Consumer Price Index (4/10*, Wednesday)*

Headline CPI was up 0.2 percent in February. Up by 0.3 percent in March, pushed up by higher energy prices. Consensus: 0.3 percent

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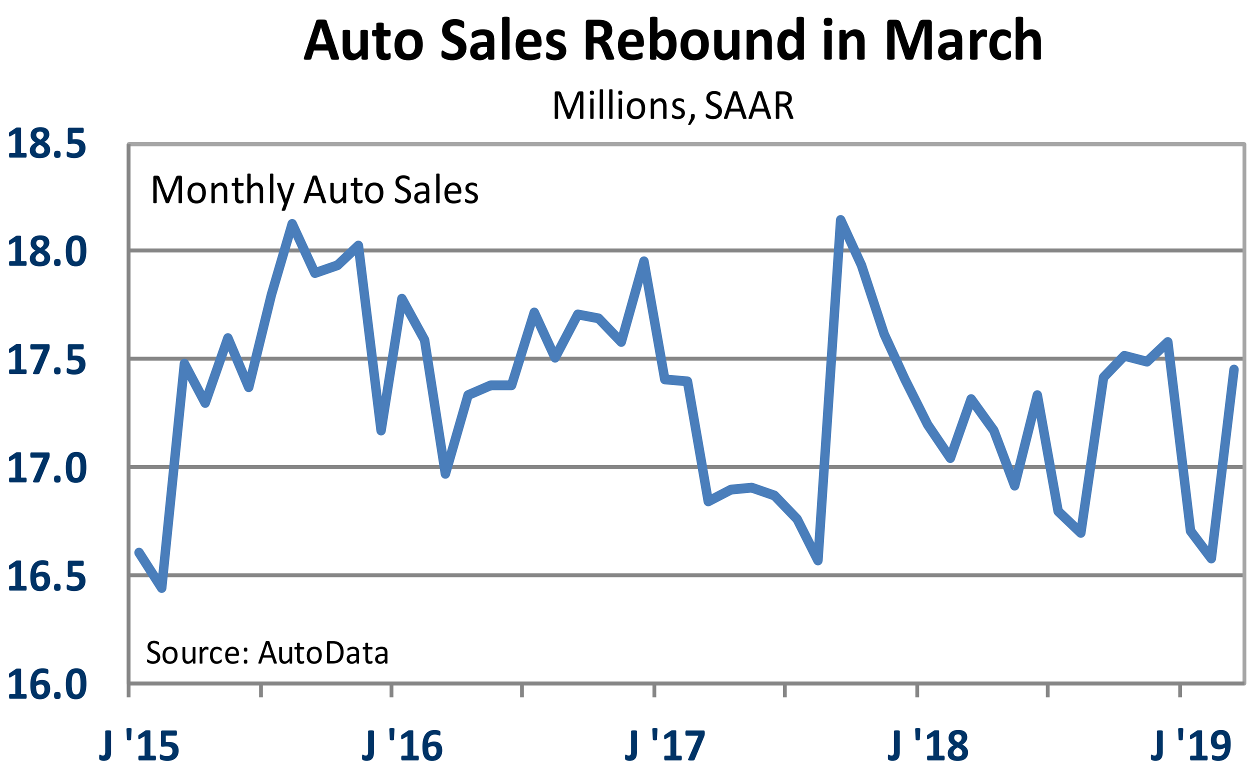
The Week Ahead, Continued

March CPI Index Ex. Food and Energy *(4/10, Wednesday)*
Core CPI was up 0.1 percent in February. Up by 0.2 percent in March, showing ongoing moderate inflation. Consensus: 0.2 percent

March Producer Price Index *(4/11, Thursday)*
Headline PPI was up 0.1 percent in February. Up by 0.4 percent in March, pushed by higher energy prices. Consensus: 0.3 percent

March PPI Ex. Food and Energy *(4/11, Thursday)*
Core PPI was up 0.1 percent in February. Up by 0.2 percent in March. Consensus: 0.2 percent

Chart of the Week



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