Inflation Under Control, But Data Still Weak

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Last week was a busy one for economic data. But the week ahead will be slower, consisting of housing reports and the regular meeting of the Fed.

Last week's news

On Monday, the retail sales report was released. The headline index rebounded from December's surprising 1.6-percent drop (downwardly revised from a 1.2-percent initial figure) to a 0.2-percent gain for January. The core index, which excludes autos, recovered a bit more. It went from a downwardly revised 2.1-percent drop in December to a 0.9-percent gain in January. Much of the December decline appeared to be due to decreased income and confidence during the government shutdown, so the reversal is reasonable. But even with the rebound, the data suggests we may well see slower growth in the first quarter.

On Tuesday, the consumer prices report was released. The headline index, which includes energy and food, rose by 0.2 percent for February, as expected. This was up from a flat result in January, taking the annual rate down to 1.5 percent. A drop in the price of gasoline was offset by an increase in natural gas prices. The core index, which excludes food and energy, came in below expectations. Here, we saw a 0.1-percent gain for February, down from 0.2 percent in January, while the annual figure declined to 2.1 percent. Based on these results, inflation remains under control, which will likely keep the Fed patient on interest rates.

On Wednesday, the producer prices report also showed moderate inflation. The headline index rose by less than expected, from a 0.1-percent decline in January to a 0.1-percent increase in February. The annual rate declined as expected, from 2 percent to 1.9 percent on base effects. Core prices also rose by less than expected on a monthly basis, down from an increase of 0.3 percent in January to a 0.1-percent gain in February; the annual figure declined to 2.5 percent from 2.6 percent.

Also on Wednesday, the durable goods orders report did better than expected. The headline index went up by 0.4 percent in January after a 1.2-percent gain in December, against an expected 0.4-percent decline on a drop in aircraft orders. But the core index, which excludes transportation and is a better economic indicator, disappointed. It dropped from an upwardly revised 0.3-percent gain in December to a 0.1-percent decline in January, likely due to slower business investment growth.

On Friday, the industrial production report also disappointed after a very weak January. Growth declined by an upwardly revised 0.4 percent in January, largely on reduced manufacturing output. But it rose by only 0.1 percent in February, less than the expected 0.4-percent rebound. The gain was due almost entirely to weather, as colder-than-normal temperatures drove utility output higher. Manufacturing also was weak. Although the 0.9-percent decline in January was revised up to a 0.5-percent decline, this was more than offset by a further 0.4-percent decline in February, well below the expected 0.5-percent rise. Manufacturing appears to have been particularly affected by slowing global demand.

Finally, also on Friday, the initial release of the University of Michigan consumer confidence index rebounded by more than expected, from 93.8 in February to 97.8 in March. The government shutdown was responsible for much of the recent decline, reportedly, so its end seems to have helped the index bounce back. Lower gas prices and the stock market recovery also provided support.

What to look forward to

On Monday, the National Association of Home Builders released its industry survey. It stayed steady at 62, reflecting continued moderate confidence in the homebuilding market. With interest rates declining, affordability has improved, which makes such continued confidence reasonable.

On Wednesday, the regular meeting of the Federal Open Market Committee will conclude with the release of the policy announcement and a press conference with Fed Chair Jerome Powell. Expectations are for the Fed to hold steady on interest rates, but the focus will be on whether and how the future projections for economic growth and rate changes have shifted. Weak inflation data from last week, as well as slowing economic growth in the first quarter, support expectations that the Fed will dial back its projections and that rate increases will remain on hold.

On Friday, the existing home sales report is expected to increase from $4.9 million to $5.1 million in sales on an annualized basis. Such an improvement would indicate that the housing market is stabilizing after a slowdown. This result would be consistent with the rise in affordability and would be a positive economic indicator.

Thanks for reading and have a great week!

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