



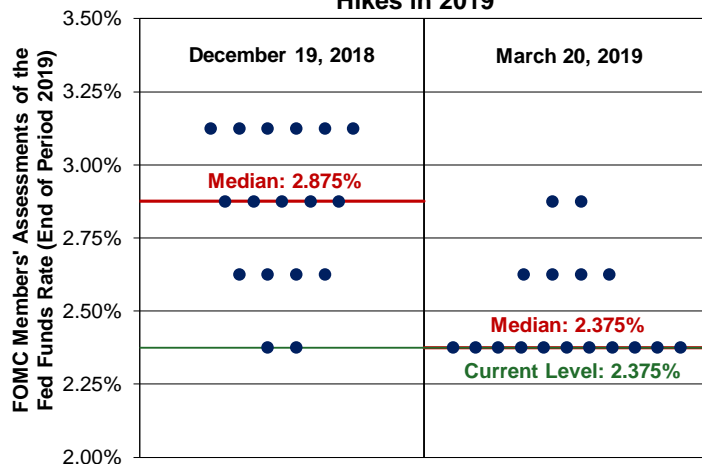
Weekly Note – March 22, 2019

### Economics: Fed’s Dot Plot Implies No Hikes in 2019

The meeting of the Federal Open Market Committee (FOMC) took center stage this week with updates from the post-meeting statement, new economic projections, and Chair Powell’s press briefing. The Fed maintained the federal funds rate at a range of 2.25 percent to 2.50 percent, as universally expected. The post-meeting statement emphasized strong economic fundamentals but slower growth of household spending and business fixed investment this quarter. Compared to the December forecast, the Fed’s new projections showed slower economic growth this year of 2.1 percent, softer inflation, and higher unemployment. During the press conference, Powell admitted that the Fed has not “convincingly achieved [its] 2 percent [inflation] mandate in a symmetrical way.” Also notable was the Fed’s continued dovish shift as the dot plot, which shows FOMC members’ federal funds rate projections, moved down to imply zero rate increases in 2019, versus the median projection implying two hikes in December. While Powell highlighted that the dots are not how the Fed communicates policy changes, it should be noted 11 out of 17 members predicted no hikes, compared with just 2 members in December. The Committee also announced a plan to end the runoff of its \$4 trillion portfolio, which began in October 2017. Starting in May, the Fed will slow the runoff of assets and cease the reduction entirely in September when it predicts the balance sheet size will be “a bit above \$3.5 trillion.” After that, the Fed will continue to allow mortgage holdings to mature and reinvest in Treasury securities. In other news, the manufacturing sector had a disappointing headline to start the first quarter as factory shipments declined for the fourth straight month in January and orders ticked up only slightly, falling short of expectations and failing to recover from large declines in October and November of last year. However, core capital goods orders and shipments both held the gains registered in the advanced durable goods report, keeping the near-term outlook for business equipment investment positive. In February, the Conference Board Leading Economic Index (LEI), a gauge of the economic outlook over the next three to six months, registered the first gain in five months, driven by accommodative financial conditions and a rebound in stock prices. Despite the rise, growth in the LEI has slowed over the past six months, suggesting that while the economy will continue to expand, the pace of growth is decelerating. Finally, initial claims for unemployment fell last week, but stayed within the range of 220,000 to 230,000 seen over the past month.

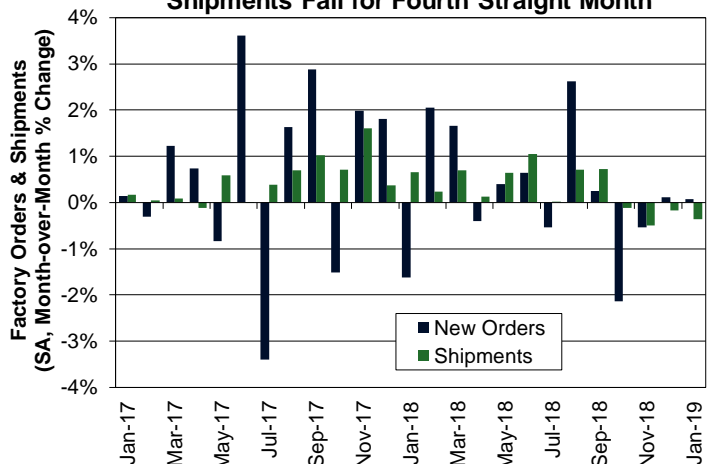
- **Factory orders** edged up 0.1 percent in January and factory shipments declined 0.4 percent, according to the Census Bureau. Nondurable goods orders, the new piece of data in the report, dropped 0.2 percent.
- **The Conference Board Leading Economic Index** increased 0.2 percent in February following no change in January and a 0.1 percent decline in December. Six of the ten components added to the index and two were neutral. Average weekly manufacturing hours and initial claims for unemployment insurance dragged on the index.
- **Initial claims for unemployment insurance** fell 9,000 to 221,000 in the week ending March 16, according to the Department of Labor. The four-week moving average rose by 1,000 to 225,000.

#### FOMC Members Make a Dovish Shift to No Hikes in 2019



Source: Federal Reserve

#### Manufacturing Sector Seems Weak as Factory Shipments Fall for Fourth Straight Month



Source: Census Bureau

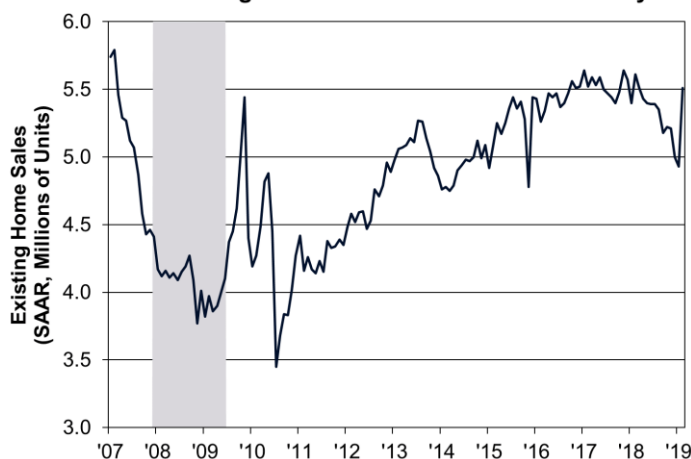


# Housing: Existing Home Sales Surge

In a positive week for housing, existing home sales rebounded, mortgage rates continued to decline, and home builder confidence remained steady. In February, existing home sales posted the largest monthly increase since December 2015, driven entirely by the rebound in single-family home sales, sending total sales to the highest level in a year. However, on an annual basis, home sales fell for the sixth straight month. Home sales rose in every region except the Northeast, where sales were flat. In the press release, the National Association of REALTORS® credited the jump to “lower mortgage rates, more inventory, rising income, and higher consumer confidence.” Nearly one-third of sales in February went to first-time homebuyers, suggesting that improved affordability conditions have incited some people to get into the housing market for the first time. Despite the robust home sales, it remains likely residential investment will drag on growth this quarter. The outlook for the spring selling season remains positive as mortgage applications are on track to increase in March and mortgage rates continue to decline. Mortgage applications rose for the second straight week last week, with refinance applications driving the growth and reaching a two-month high. While purchase applications only edged up, they managed to reach the highest level in over a month. According to Freddie Mac, the average yield on 30-year fixed-rate mortgages fell this week for the second consecutive week, dropping 3 basis points to 4.28 percent, the lowest rate since the beginning of February 2018, and 66 basis points below the 7-year high reached in November 2018. The continued decline in rates should help spur the housing market, especially as home price appreciation continues to slow. From builders’ perspectives, conditions in March remained similar to the prior month as a measure of homebuilder confidence was flat during the month, remaining at the highest level since October 2018. Both the components gauging present sales and expected sales over the next six months improved. However, builders continue to face challenges. According to the special questions in the National Association of Home Builders’ January survey, builders cited the cost and availability of labor, building material prices, and the cost and availability of developed lots as the top three problems they expect to face in 2019.

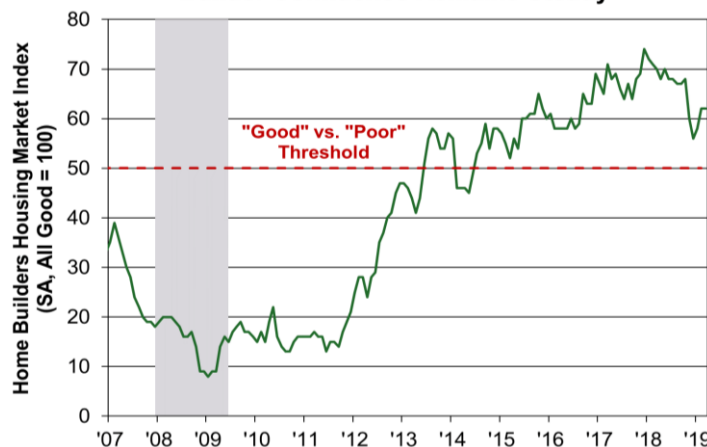
- **Existing home sales** spiked 11.8 percent in February to a seasonally-adjusted annualized rate of 5.51 million sales, according to the National Association of REALTORS®. The median price for existing homes grew to \$249,500, 3.6 percent above the February 2018 level. Single-family sales rose 13.3 percent from January to 4.94 million but fell 1.8 percent from a year ago. Existing condo/co-op sales were unchanged from January at 570,000. The months’ supply increased one-tenth from a year ago to 3.5, while inventories grew 3.2 percent annually to 1.63 million.
- **The National Association of Home Builders/Wells Fargo Housing Market Index**, a gauge of homebuilder confidence, remained constant at 62 in March. Any reading above 50 indicates more builders view conditions as good than poor. The Midwest was the only region to see a decline. The current sales conditions component rose 2 points to 68, while the expected sales component increased 3 points to 71. The component gauging foot traffic of perspective buyers decreased 4 points to 44.
- **Mortgage applications** increased by 1.6 percent for the week ending March 15, according to the Mortgage Bankers Association. Refinance applications increased 3.5 percent and purchase applications ticked up 0.3 percent. The survey’s average 30-year fixed mortgage rate fell 9 basis points to 4.55 percent.

Existing Home Sales Rebound in February



Source: National Association of REALTORS®

Builder Confidence Remains Steady



Source: National Association of Home Builders

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 March 22, 2019



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