Comerica Economic Alert

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Feb. Consumer Prices, Retail Sales, Jan. Biz. Inventories, March NAHB and NY Fed

Nothing in Today's Data Stops the Fed from Announcing a Rate Hike This Afternoon

- The February Consumer Price Index increased by 0.1 percent.
- Core CPI increased by 0.2 percent, and was up 2.2 percent over the previous 12 months.
- Retail Sales increased by a weak 0.1 percent in February.

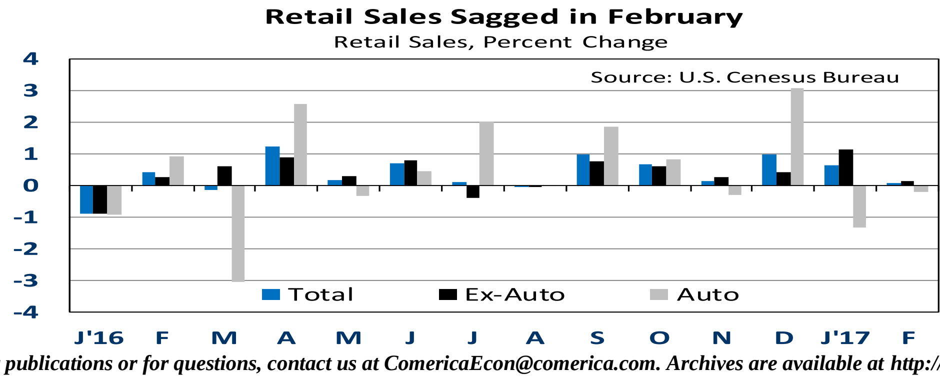
Overall consumer prices increased by 0.1 percent in February, a little more than expected given the small drop in energy prices. Over the 12 months ending in February, the headline CPI was up by 2.7 percent. The year-over-year growth rate is elevated primarily as a result of the very weak oil prices this time last year. We expect the year-over-year change in the CPI to moderate through this summer as the energy price effect ends. The energy price index fell by 1.0 percent in February, but remains up by 15.2 percent over the previous 12 months. Consumer energy prices will also likely be a drag on headline CPI in March given the large drop in crude oil prices this month. The core CPI (all items less food and energy) increased by 0.2 percent in February, about as expected, supported by housing and transportation services (air fares).

Retail sales for February were weak, as expected, gaining just 0.1 percent. We knew that retail sales of automobiles would be close to neutral as unit auto sales were little changed at a 17.6 million unit rate in February. The dollar value of auto sales declined by 0.2 percent for the month. Gasoline stations also saw weaker sales, which we can blame on slightly lower gasoline prices. However, other categories of sales were also soft. Electronics and appliance store sales fell by 2.8 percent. Clothing store sales were down by 0.5 percent, likely hurt by warm weather. Sporting goods dipped by 0.4 percent. Income tax returns were light early in the return season and this is also a culprit in soft retail sales for February. We expect to see a mixed retail picture in March. Solid job gains plus strong consumer confidence are positives. Income tax returns are catching up to the normal pace so that should be a positive also. However, stagnant auto sales and lower gasoline prices will likely be negatives.

Business inventories increased by 0.3 percent in January, suggesting that inventories will provide support to headline GDP for the first quarter of 2017. The overall inventory-to-sales ratio is trending down, which is a good sign, after trending up through 2015. According to the National Association of Home Builders, builder confidence jumped to a 12-year high in March, adding support to our positive outlook for housing starts and new home sales. The survey tracks builder confidence for newly-built single-family homes. The Federal Reserve Bank of New York's Empire State Manufacturing Survey ticked down slightly, but showed ongoing improvement in area manufacturing conditions in March.

We continue to place a very high probability on the likelihood of a fed funds rate hike this afternoon, to be announced at 1 p.m. Central Time. We expect the fed funds rate range to increase to 0.75-to-1.00 percent. We look forward to the new "dot plot" and economic projections of FOMC members, as well as the post-meeting press conference by FOMC chairwoman Janet Yellen.

Market Reaction: Equity markets opened with gains. The 10-Year Treasury bond yield is down to 2.57 percent. NYMEX crude oil is up to $48.43/barrel. Natural gas futures are up to $3.02/mmbtu.



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