ECONOMIC UPDATE
REGIONS
March 16, 2016

Housing Starts, CPI, Industrial Production: Core CPI Stands Out In A Deluge Of Data

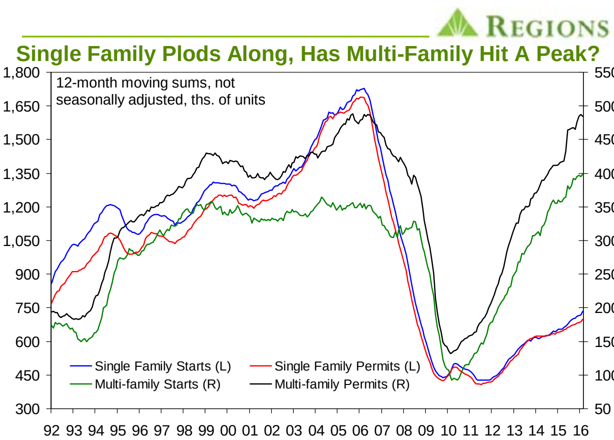
- Total housing starts rose to an annual rate of 1.178 million units; total housing permits fell to an annual rate of 1.167 million units.
- The total CPI fell 0.2 percent and the core CPI rose 0.3 percent, for year-over-year increases of 1.0 percent and 2.3 percent, respectively.
- Total industrial production fell 0.5 percent while output in the manufacturing sector rose by 0.2 percent.

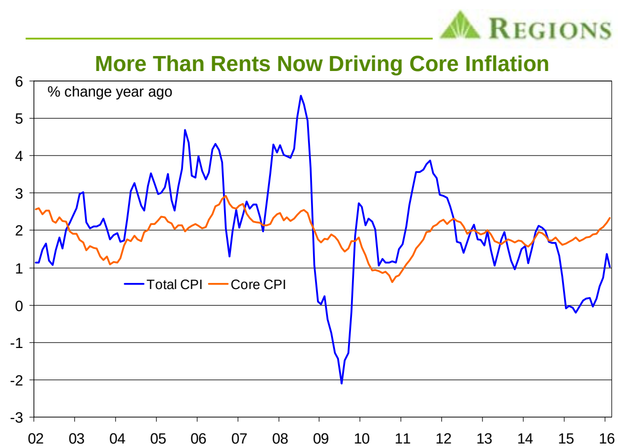
This is how economists know the karma gods are toying with them – after a week of nothing, in terms of top-tier data releases, not only is this week flooded with them but today we get three in 45 minutes ahead of this afternoon's FOMC meeting. Of all of this morning's numbers, the core CPI will catch the FOMC's attention more than any of the others.

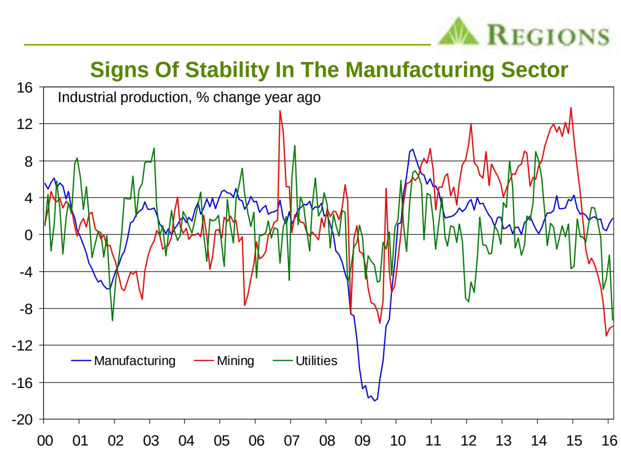
Housing Starts: Total housing starts rose to an annualized rate of 1.178 million units, ahead of expectations, while total housing permits fell to an annualized rate of 1.167 million units. Single family starts jumped to 822,000 units (annualized), an uncharacteristically large jump amidst what has been a trend of slow, steady improvement. Multi-family starts were basically flat, at an annualized rate of 356,000 units. On the permit side, single family permits rose modestly and multi-family family permits slipped to their lowest monthly rate since September. Multi-family starts fell sharply in the Northeast while rising in the three other broad Census regions, while single family starts rose in the Midwest and (sharply) in the West, were flat in the South, and fell in the Northeast. As our regular readers know, we put far more stock in the 12-month moving sum of the not seasonally adjusted data than we do the seasonally adjusted annualized headline numbers as the reliable gauge of underlying trends. On this basis, the multi-family segment is showing signs of having topped out. Aside from the data from the Northeast having been clouded by issues pertaining to tax credits, total permits seem to be losing momentum judging by patterns in the unadjusted data. To be sure, it's early and the multi-family data are inherently volatile, but nonetheless with permits having slowed and starts having been listless over recent months, this is clearly worth watching. By contrast, the single family segment is poised for further, steady improvement.

CPI: The total CPI fell by 0.2 percent in February while the core CPI posted a second consecutive 0.3 percent increase. This leaves the total CPI up 1.0 percent and the core CPI up 2.3 percent year-on-year. We had expected the total CPI to fall by 0.3 percent and the core CPI to rise just 0.1 percent. Our call was based on a 13.0 percent drop in gasoline prices and paybacks for what were some outsized increases in January, specifically health care, apparel, and lodging. Well, we got the 13 percent decline in gasoline prices, but apparel prices rose 1.6 percent in February on top of the 0.6 percent increase in January, medical costs posted a second straight 0.5 percent increase, and lodging costs rose 0.9 percent. As such, both the total and core CPI came in ahead of our expectations. The jump in apparel costs was broad based across the various components, as to medical costs prescription drug costs rose sharply and health insurance premiums posted a second straight monthly increase of better than 1.0 percent. One item which especially caught our attention was core goods prices rising on an over-the-year basis, albeit only slightly, for the first time since March 2013. We'd say that with declines in prices for furniture, electronics, and recreational goods in February extending underlying trends, it is still too soon to declare core goods deflation gone for good. Still, the fastest rate of core CPI inflation since May 2012 will no doubt catch the attention of the markets and, more significantly, the FOMC.

Industrial Production: Total industrial production fell a larger than expected 0.5 percent in February, as output in the mining and utilities sectors fell more sharply than anticipated while manufacturing output rose modestly, in line with expectations. Declining output in the mining sector reflects cutbacks in energy production, which will continue for some time to come. More encouragingly, there is more to the 0.2 percent increase in factory output than meets the eye, as output of industrial machinery and computer & electronic products, key components of core capital goods, rose sharply after months of weakness. Of course, we'd be the first to say don't make too much out of any one month's data point, but along with firming of the ISM data on new orders this is another sign the factory sector is at least stabilizing. The factory sector remains awash with unused capacity, which is indicative of what remains elevated slack in the broader economy, but there are at least reasons to hope the worst is past for the manufacturing sector.







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