New York • London • Boston
DECISION ECONOMICS, INC.
Information for Decisions™
New York: 212 884 9440
London: 011 44 20 7959 3045
Boston: 617 994 0500

The Morning Briefing

Friday, April 17, 2015
06:00 EDT; 11:00 BST
Allen Sinai, Chief Global Economist

FRIDAY BRIEFING POINTS – Andrew Wroblewski, London/Andrew Husby, New York/Francisco Larios, Miami

United States: CPI—Trend Restored? March consumer prices will be monitored for stable core readings, data important from a Fed perspective.

Canada: Inflation and Retail Sales. March inflation will give a more accurate picture of the track of energy prices, and February retail sales will be the second-to-last major indicator before the February GDP release.

U.S. DATA AND EVENTS OUTLOOK – Andrew Husby, New York

Today brings March consumer prices, at 08:30 EDT/13:30 BST, and the U of M Consumer Sentiment Index, and March leading indicators, at 10:00 EDT/15:00 BST.

Forecasts:

Consumer Prices (March):

Total: Consensus and DE: +0.3%.

Ex-Food-and-Energy: Consensus: +0.2%; DE: +0.1%.

U of M Consumer Sentiment (April, prelim.): Consensus: +0.9 points to 93.9; DE: +1.0 points.

Leading Indicators (March): Consensus: +0.3%; DE: +0.4%.

CPI—More Hints of Attaining 2% Trend?

After sharp declines of 0.3%, 0.3%, and 0.7% from November through January, February showed a reassuring 0.2% gain as gasoline prices stabilized. The core ex-food-and-energy index averaged 0.2% (benefitting from upward rounding) in the first two months of 2015, after 0.1% in the final two months of 2014—also reassuring that underlying price pressures are beginning to stabilize.

Still, energy price and dollar pass-through are still likely to weigh on run rates. Expectations point to another solid headline result on gasoline prices gains (Consensus and DE: +0.3%), while the core may post near-0.2% for a third month.

Year-over-year rates may pick up slightly, to 0.1% y/y on the headline (from 0.0%), and steady on the core ex-food-and-energy at 1.7%. As an early read, import prices fell more than expected in March, indicative of ongoing dollar pressure as ex-fuels prices fell 1.9% y/y, after -1.2% in February.

In a running sense, even DE's below-consensus 0.1% core expectation would put the 3m annualized change in consumer prices at 1.8%, quickest since July 2014. The Fed-favored PCE price index is running at a softer rate, and a similar m/m result there would only boost the core 3m annualized rate to 1.4%, from sub-1%.

It will still take several months of on-trend indications on prices to convince the balance of Fed officials an earlier rate hike is warranted, DE still favoring September, over June. One problem with an earlier liftoff is that the Fed will only have CPI and PCE inflation data through April, when the Committee meets in mid-June.

WESTERN HEMISPHERE ANALYSIS

UNITED STATES – Andrew Husby, New York

Delayed Rebound for Housing Starts?

March housing starts missed expectations of a strong rebound, rising just 2% (Consensus: +15.9%, to 1.040 million; DE: +20.4%) from a prior-month level revised up by 1.2%. February starts were down 15.3%, but the most weather-impacted regions did see large bounces in March. Softness reflected further settling-back in the West and South after reasonably strong performance of late.

Q2 may then benefit at the expense of Q1 construction activity, though perceptions of strength will remain diminished for the moment given lack of momentum in the largest regions.

Data details

Single-family starts rose 4.4% (after February -15.2%), while multis fell 2.5% (February -15.5%). The hardest weather-hit Northeast and Midwest regions did see strong performance, starts up 115% in the firmer (after February -56.9%) and 31.3% in the latter (after February -33.%).

Softness was a result of sluggish performance in the West (-19.3%) and South (-3.5%). In the former, three consecutive declines still only take the level of starts to the low end of a 2yr range after strong year-end 2014. For the latter the current result remains a bit above the 2014 average, the pace of new building still moving only gradually higher in recent years.

A strong April NAHB Housing Market index suggests rebound is delayed, not denied, supported by lower mortgage rates, tight supply, employment that has picked up over time. Working in the other direction, expectations of stronger housing market growth will remain subdued given constrained traditional first time buyers' ability and willingness to take on mortgage debt remains limited at the moment.

Claims On Trend, Favorable Continuing Claims

Initial claims disappointed general expectations as well, rising 12,000 (Consensus: -1,000, to 280,000; DE: +14,000) from a prior-month level revised up by 1,000. Still, this comes after a series of stronger-than-expected reports in recent weeks, one what leaves a sub-300,000 trend intact over the past seven months. Late February and early March saw elevated levels on normal seasonal adjustment difficulties and weather, quickly reversed by quarter-end.

Normal turn-of-quarter volatility and the timing of the Easter holiday likely played roles, limiting downside indications from this report. The 4-week average remains steady at 283,000 this week.
Continuing claims lend credence to underlying strength, down 40,000 in the third week of the payroll April survey month, and a massive 145,000 cumulative decline since the March report. That suggests renewed hiring under the surface as layoffs remain at low levels, a positive sign for a rebound in April payrolls.

WESTERN EUROPE – Andrew Wroblewski, London

EUROZONE – Inflation Less Negative. Matching the flash numbers, final data for March confirmed that HICP inflation turned less negative at -0.1% Y/Y, the smallest of what is now a run of four successive negative outcomes. The more detailed break-down which comes with final estimate confirmed that that a less sharp drop in energy costs was the main cause. Notably, the core rate dropped back a notch to 0.6%, possibly dampened by lower clothing costs after mild weather had undermined prices.

Notably, services inflation (perhaps a better guide to domestic price pressures) edged back down to 1.0%, broadly where it has been for the last year!

OTHER WESTERN EUROPE

UNITED KINGDOM – Solid Labor Market Signals Continue. Despite providing yet another very solid picture of the labor market, wage growth eased slightly further. Even so, the jobless rate edged down to 5.6%, ie still the lowest since mid-2008, in spite of higher participation rates as the employment-rate hit a fresh record-high.

Regardless, claimant count unemployment fell further and by 20 700, suggesting some slowing in the rate of fall, although the jobless rate on this basis fell to a fresh cycle-low of 2.3%. The growth in actual employment numbers, however, rose further, also more indicative of continued solid growth in full-time employee working (up to 2.8% Y/Y). Furthermore, there were also even better signs regarding vacancies (a record-high), while the rate of redundancies was little-changed.

Lower Bonuses Ease Wage Growth

Elsewhere, average earnings growth slowed from 1.9% Y/Y in January, back to 1.8% in the three months to February, both clearly above the latest CPI inflation reading, albeit the slowing in the last few months a result of a drop back in bonus payments. Indeed, the ex-bonus wage picked up to 1.8%, but with the annualized pace over the last three month a very solid 3.6%

DE View: The fact that underlying average earnings are picking up may be seen as the main feature of this report, especially as the latest jobless rate is in line with BoE thinking. Regardless, the solid overall labor market will be seen supporting already very-solid consumer spending with the BoE concern being that the pick-up in wage growth is not being matched by any clear sign of a recovery in productivity, thereby hinting at more upside surprises regarding unit wage costs, the later having jumped to 2.2% Y/Y at the end of 2014!

SWITZERLAND – Weaker Retail Sales Growth. Real retail sales, adjusted for working days, fell by 2.7% Y/Y in February, a clearer swing to the negative from the January 0.5% drop. This lower Y/Y rate came on the back of a second successive seasonally adjusted M/M fall. Meanwhile, Y/Y growth in nominal working-day adjusted sales worsened too, with the implied sales deflator more negative at -1.4% Y/Y.

ASIA-PACIFIC– Andrew Wroblewski, Jack Stokes, London

SINGAPORE – Exports Surge. Seasonally adjusted non-oil export growth rose sharply in March by 23.0% M/M after falling by 9.4% in February. Export growth also rose significantly in year-on-year terms and by 18.5%, after falling by 9.7% in the previous month, the highest in three years. The breakdown revealed a significant pick-up in electronic product export growth (10.4% Y/Y from -12.5%) and also in non-electronic product export growth (21.6% from -8.5%).

Notably, the sharp increase seen in export growth this month is a reflection of a surge in pharmaceutical product export growth (+65.9%) and computer export growth (+123.0% Y/Y) and may not be a trend continued into coming months.