Economic News
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UNITED STATES

Housing starts rebound but industrial output retreats

HIGHLIGHTS

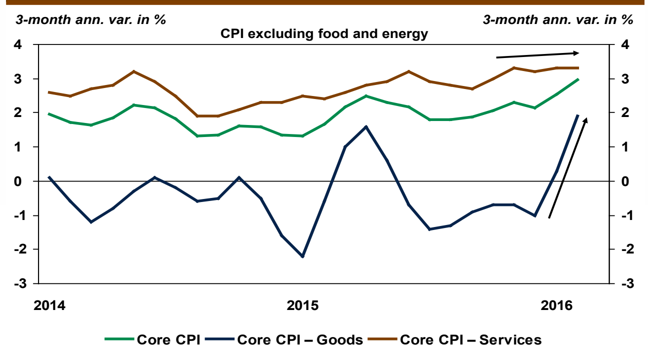
- February's housing starts jumped to an annualized 1,178,000 units from January's 1,120,000, gaining 5.2% on the heels of a 3.4% pullback. The increase in housing starts stems more from single-family homes (+7.2%) than multi-unit housing (+2.4%). Building permits fell 3.1%, going from 1,204,000 to 1,167,000 units.
- Industrial output declined 0.5% in February after increasing 0.8% in January. Manufacturing production advanced 0.2%. Mining sector activity fell 1.4%. Energy production contracted 4.0%. The industrial capacity utilization rate went from 77.1% to 76.7%.
- The consumer price index (CPI) fell 0.2% in February; it was flat in January. The drop mainly stems from energy prices, which tumbled 6.0%, the biggest decline since January 2015. Excluding food and energy, the core CPI went up 0.3% for the second month in a row. The total CPI's annual change fell from 1.4% to 1.0%, while core inflation accelerated slightly, rising from 2.2% to 2.3%.

COMMENTS

We had been waiting for homebuilding to rebound for several months. For the first time since September, housing starts finally reached the same level as building permits. Homebuilding should maintain a slight uptrend.

The tumble taken by industrial output was expected, with February's temperatures once again above normal. The retreat by energy production was inevitable; it is the worst contraction since 2007. The concern now is that the decline will also show up in February's real consumption of services. The resource extraction sector was also at risk, given the relapse in oil prices. Oil and gas drilling fell 15.6% in February and is down 59.7% over the last year. The good news is that, for the first time since April 2015, manufacturing has advanced for two months in a row. Among other things, there are solid increases in machinery and electric and electronic goods.

The core CPI's recent acceleration primarily comes from goods prices



CPI: consumer price index
Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

Rather than the dip by the CPI, the focus is on the recent acceleration by core inflation. This is the first time since the summer of 2011 that monthly CPI growth excluding food and energy is showing an average of 0.3% over two months. For services, price growth remains fairly strong, but the core CPI's recent strength primarily comes from goods. Particularly noteworthy is February's 1.6% increase in clothing prices. The downside pressure from the U.S. dollar's rise may be starting to ease.

Implications: After some disappointing months, improved housing starts and the stabilization in manufacturing are encouraging. Some Federal Reserve (Fed) leaders may even want to respond to the surge in core inflation. However, a second Fed key interest rate increase is not expected at today's meeting.

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