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MONDAY ECONOMIC REPORT

The Federal Reserve Signals 50-Basis-Point Hike at May Meeting

By Chad Moutray – April 11, 2022

The Weekly Toplines

- In the minutes to the Federal Open Market Committee's March 15–16 meeting, participants were determined to deal with inflation in the U.S. economy. While many members were prepared to increase the federal funds rate by 50 basis points at that meeting, the Russian invasion in Ukraine posed new uncertainties to the outlook, with the FOMC eventually opting to increase rates by just 25 basis points, now ranging from 25 to 50 basis points.

- Nonetheless, the Federal Reserve seemed positioned to do more at an upcoming meeting, including the next one on May 3–4. From the minutes: "Many participants noted that one or more 50 basis point increases in the target range could be appropriate at future meetings, particularly if inflation pressures remained elevated or intensified."

- Recent speeches from Chair Pro Tempore Jerome H. Powell and Gov. Lael Brainard (who is awaiting confirmation as vice chair), as well as the FOMC's economic projections, lend further credence to a 50-basis-point hike at the May meeting, with aggressive increases also coming later this year. Those projections predict a federal funds target of 175 to 200 basis points at year's end.

- Bond markets have taken note, with yields soaring last week. For a sign of the real impact of this on everyday Americans, the average 30-year fixed-rate mortgage for the week of March 31 was 4.67%, according to Freddie Mac, the highest since the week of Dec. 6, 2018. These rates are likely to move even higher over the coming weeks.

- Meanwhile, new orders for manufactured goods pulled back 0.5% from a record $544.7 billion in January to $542.0 billion in February. These data were pulled lower by declines in sales for motor vehicles and nondefense aircraft. Excluding transportation equipment, manufacturing orders rose 0.4% to a record $459.2 billion in February.

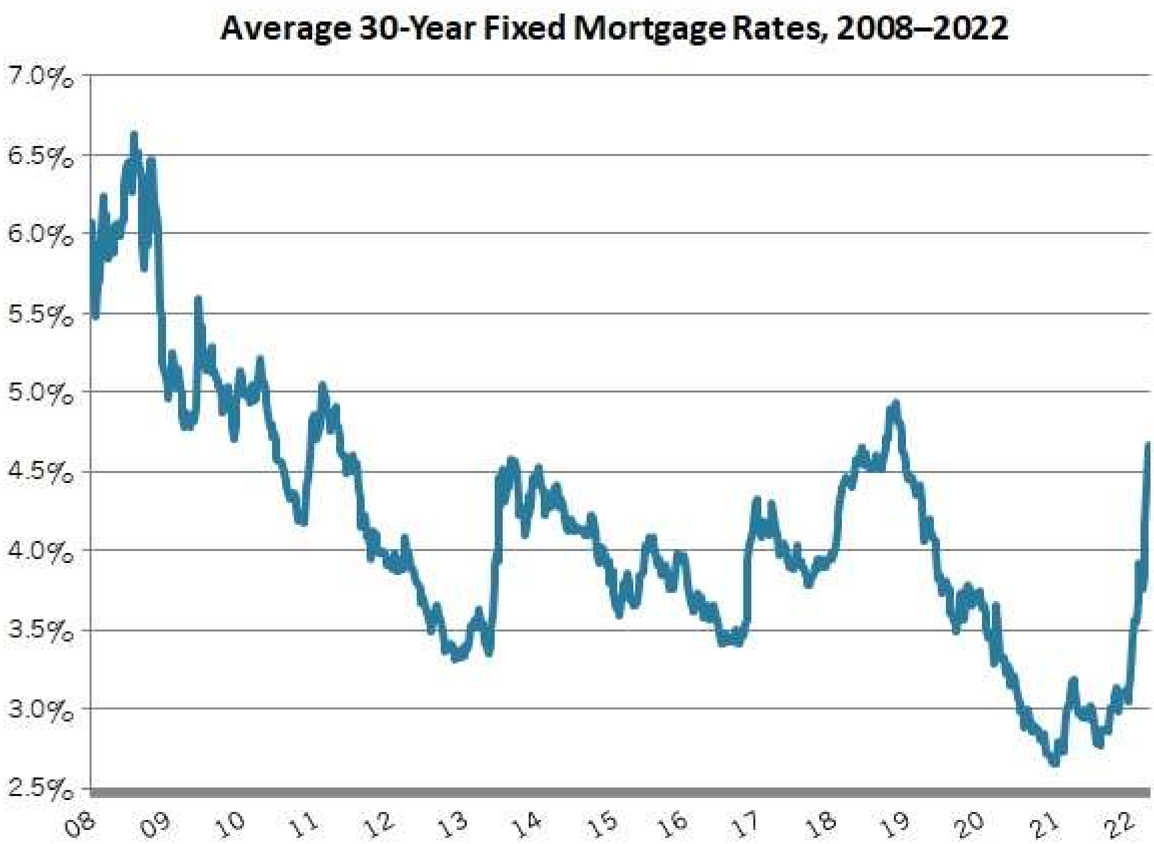
- Despite lingering supply chain, workforce and pricing pressures, the manufacturing sector has proved quite resilient over the past year. New factory orders have soared 12.6% year-over-year, or 13.4% with transportation equipment excluded.

- Factory shipments increased 0.6% to $541.0 billion in February, an all-time high. On a year-to-date basis, factory shipments have risen 13.7%, a very strong figure.

- The U.S. trade deficit inched down from a record $89.23 billion in January to $89.19 billion in February. The data continue to be skewed by supply chain disruptions, the chip shortage and higher costs for petroleum. The goods trade deficit pulled back from an all-time high, down from $108.60 billion to $107.47 billion.

- Goods imports have jumped to new heights, rising from $264.59 billion to $266.25 billion, with growth in imports outpacing the gain in goods exports, which increased from $155.98 billion to $158.78 billion. Goods exports were just shy of October's record high ($159.02 billion).

- Lastly, the week ending April 2 saw 166,000 initial unemployment claims, the lowest level since the week ending Nov. 30, 1968.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, April 4
Factory Orders and Shipments

Tuesday, April 5
International Trade Report

Wednesday, April 6
None

Thursday, April 7
Consumer Credit
Weekly Initial Unemployment Claims

This Week's Indicators:

Monday, April 11
None

Tuesday, April 12
Consumer Price Index
NFIB Small Business Survey

Wednesday, April 13
Producer Price Index

Thursday, April 14
Retail Sales
University of Michigan Consumer Sentiment

Friday, April 8
None

Weekly Initial Unemployment Claims

Friday, April 15
Industrial Production
New York Fed Manufacturing Survey
State Employment Report

Deeper Dive

- **Consumer Credit:** U.S. consumer credit outstanding jumped 11.3% at the annual rate in February, up from 2.4% in January. Revolving credit, which includes credit cards and other credit lines, soared 20.7% in February. As such, Americans dramatically increased their willingness to take on new debt at the beginning of the year, which could result in increased spending. Indeed, revolving credit has risen 9.7% over the past 12 months, a very solid reading.

  Meanwhile, nonrevolving credit, which includes auto and student loans, increased 8.4% in February, strengthening from the 1.9% gain in January. On a year-over-year basis, nonrevolving credit has increased 5.6%. Overall, U.S. consumer credit outstanding has risen 6.5% over the past 12 months, the strongest year-over-year reading since February 2017, or in five years.

- **Factory Orders and Shipments:** New orders for manufactured goods pulled back 0.5% from a record $544.7 billion in January to $542.0 billion in February. Durable goods fell 2.1% in February, but nondurable goods rose 1.2% for the month. Transportation equipment dropped 5.3% in February, with reduced demand for motor vehicles and parts (down 0.6%) and nondefense aircraft and parts (down 30.4%), the latter of which can be highly volatile from month to month. Excluding transportation equipment, manufacturing orders rose 0.4% from $457.3 billion in January to a record $459.2 billion in February, but with durable goods orders excluding transportation down 0.6% for the month.

Despite lingering supply chain, workforce and pricing pressures, the manufacturing sector has proved quite resilient over the past year. New factory orders have soared 12.6% year-over-year, or 13.4% with transportation equipment excluded.

At the same time, new orders for core capital goods (or nondefense capital goods excluding aircraft)—a proxy for capital spending in the U.S. economy—declined 0.2% from a record $80.3 billion in January to $80.1 billion in February. Still, core capital goods orders increased by a solid 11.0% over the past 12 months.

Meanwhile, factory shipments increased 0.6% from $537.9 billion in January to $541.0 billion in February, an all-time high. On a year-to-date basis, factory shipments have risen 13.7%, a very strong figure, or 14.4% with transportation equipment excluded. In addition, core capital goods shipments increased 0.3% from $79.3 billion in January to a record $79.6 billion in February, with 12.5% growth over the past 12 months.

- **International Trade Report:** The U.S. trade deficit inched down from a record $89.23 billion in January to $89.19 billion in February. The data continue to be skewed by supply chain disruptions, the chip shortage and higher costs for petroleum. The goods trade deficit pulled back from an all-time high, down from $108.60 billion to $107.47 billion. Goods imports have jumped to new heights, rising from $264.59 billion to $266.25 billion, with growth in imports outpacing the gain in goods exports, which increased from $155.98 billion to $158.78 billion. Goods exports were just shy of October's record high ($159.02 billion). At the same time, the service-sector trade surplus dropped from $19.37 billion to $18.29 billion, a four-month low.

  In February, goods exports were boosted by strength in industrial supplies and materials (up $1.72 billion, a new record), consumer goods (up $1.27 billion) and foods, feeds and beverages (up $652 million), offsetting declines for non-automotive capital goods (down $698 million) and automotive vehicles, parts and engines (down $289 million). Meanwhile, goods imports rose on increases for industrial supplies and materials (up $3.37 billion), non-automotive capital goods (up $942 million), consumer goods (up $523 million) and other goods (up $505 million). Those gains were enough to outweigh sizable decreases in goods imports for automotive vehicles, parts and engines (down $3.23 billion) and foods, feeds and beverages (down $507 million).

  U.S.-manufactured goods exports totaled $186.87 billion through January and February, using non-seasonally adjusted data, soaring 15.95% from $161.17 billion in the first two months of 2021. Likewise, manufactured goods imports grew 18.31% year to date from $350.25 billion in 2021 to $414.39 billion in 2022.

- **Weekly Initial Unemployment Claims:** The week ending April 2 saw 166,000 initial unemployment claims, down from 171,000 for the week ending March 26 and the lowest level since the week ending Nov. 30, 1968. At the same time, the week ending March 26 saw 1,523,000 continuing claims, up from 1,506,000 for the week ending March 19. Note that the data for the past four years reflect a new seasonal adjustment. Overall, these data continue to reflect a labor market that has improved significantly across the past year.

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