Economic highlights from the week ending on March 26, 2021

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Recent economic data have been somewhat disappointing. Severe winter weather across many parts of the US last month (particularly the massive storm in Texas), has been at least partially to blame for some of the weakness. The Industrial Production report for February was much weaker than expected, as the Texas power shutdown had a significant impact on manufacturing production in the month. We suspect weather also contributed to the unexpected decline in durable goods orders in February. Severe weather was likely a hindrance to consumer spending last month as well. The February retail sales report showed a larger than expected decline across a broad range of categories. We believe the timing of federal stimulus was also a factor in the February retail sales decline, with many households receiving direct payments in early January and then again in March. Meanwhile, rising mortgage rates seem to be letting some of the steam out of the housing market. According to a Freddie Mac US mortgage market survey, US 30-year fixed home mortgage rates have increased about 50 basis points from their bottom in early January 2021, to about 3.17%. However, this remains lower than the average 30-year fixed mortgage rate at this time last year of 3.50%. Existing home sales declined 6.6% in February and new home sales fell 18.2% in the month. We believe tight inventory and firm pricing has also been a headwind for home sales in recent months. Overall, while much of the recent economic data have surprised to the downside, we believe some of the factors are temporary and we believe the underlying trajectory of the economy remains quite favorable.

According to the third estimate, the fourth-quarter 2020 US gross domestic product (GDP) growth was 4.3% (slightly above the prior estimate of 4.1%). Forward-looking estimates for GDP growth also continue to trend higher. The Bloomberg consensus estimate for the current quarter (Q1 2021) GDP growth is now 4.8%, and growth is expected to accelerate to an annualized pace of 6.9% in the second quarter. For the full year 2021, the consensus estimate for US GDP growth is now 5.7% (up from an estimate of 3.9% at the beginning of this year), which would be the strongest pace of year-over-year growth since 1984.

Next Week

Case-Shiller HPI, FHFA HPI, Consumer Confidence, Pending Home Sales, ISM Manufacturing, Construction Spending, Employment