MORNING BRIEFING
March 20, 2023

Other People's Money

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Executive Summary: Will SVB be the financial domino that sets off an economy-wide credit crunch that leads to a recession? Maybe not given the Fed's intervention; but if so, we don't see another Great Financial Crisis. … Why have banking crises been a recurring cause of US recessions anyway? The crux of the problem is that bankers tend to take excessive risks because it's not their own money on the line and the government has their backs. … Also, we take close looks at: how Fed tightening has eroded the value of banks' bond portfolios, the SVB blame game, and SVB's economic ripple effects. … And: Dr. Ed reviews "Living" (+).

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Banking Crisis I: The Latest One. The March 17 *WSJ* featured an *article* by Jon Hilsenrath titled "Bank Failures, Like Earlier Shocks, Raise Odds of Recession." We aren't raising our recession odds just yet, but we may have to do so if we see signs that the Fed's efforts to stabilize the current banking crisis aren't working.

During the week ended March 10, Silicon Valley Bank (SVB) experienced a crippling bank run as uninsured depositors fled the bank. To prevent a contagion of bank runs, the Fed announced in a Sunday, March 12, *press release* that a "new Bank Term Funding Program (BTFP), offering loans of up to one year in length to banks, savings associations, credit unions, and other eligible depository institutions pledging US Treasuries, agency debt and mortgage-backed securities, and other qualifying assets as collateral. These assets will be valued at par. The BTFP will be an additional source of liquidity against high-quality securities, eliminating an institution's need to quickly sell those securities in times of stress."

The press release was titled "Federal Reserve Board announces it will make available additional funding to eligible depository institutions to help assure banks have the ability to meet the needs of all their depositors." A week ago, Melissa and I concluded that the Fed had in effect guaranteed 100% of deposits to 100% of depositors. That should stop a contagion of bank runs by uninsured depositors.

However, we all still remember the Great Financial Crisis (GFC) and how the financial dominoes fell rapidly one after another. The current banking crisis isn't likely to be as wrenching as the GFC. However, it could cause a recession if it triggers an economy-wide credit crunch. Whether it will is the question we're grappling with currently. Is SVB the initial financial domino—i.e., financial crisis resulting from tightening monetary policy—that precipitates a credit crunch and a recession? Or has the Fed's intervention significantly reduced that risk?

The inverted yield curve has been forecasting a repeat of the chain of events that lead from tightening monetary policy to economic downturns (*Fig. 1*). The spread between the 10-year and 2-year Treasury yields has tended to invert before recessions and to start ascending again just before or during recessions (*Fig. 2*). It has been increasingly inverted since the July 8 week of 2022.

This time may be different than the GFC in many ways; but the result might still be a credit crunch if creditors hunker down and continue to tighten their lending standards, as they started to do at the end of last year (*Fig. 3*). The bankers' lending standards have especially tightened for commercial real estate loans (*Fig. 4*). However, as we've noted previously, there's no sign of a credit crunch in the weekly bank loan data through the March 8 week (*Fig. 5*). It rose to a new record high that week, but that was just before SVB hit the fan.

Banking Crisis II: Now & Then. Banking crises have been a recurring cause of recessions in the US. There have been five in recent history: the Penn Central (1970), Franklin National (1974), Continental Illinois (1984), the subprime lending meltdown (2007), and now SVB (2023) (*Fig. 6*).

The intrinsic problem with banks is that, as financial intermediaries, they manage other people's money (OPM). Unlike most businesses, banks' liabilities consist mostly of OPM. During economic booms, this leads them to take on too much risk. After all, bankers aren't putting their own money in jeopardy. They do have some skin in the game, of course, as stockholders. During good times, that emboldens them to take on more risk because the leverage provided by OPM increases the upside returns. And during such times, the downside risks tend to be mostly ignored because the upside is so enticing and it's mostly OPM that's at risk anyway.

So in this way, OPM sets the stage for banks' eventual busts, which occur when their excesses become widely recognized.

To protect the public, the government provides deposit insurance, which currently stands at $250,000 per deposit account. The insurance money is provided by a fee on banks collected by the Federal Deposit Insurance Corporation (FDIC). In effect, the insurance is a government-sponsored subsidy for the bankers, allowing them to hold onto their insured deposits even as they take on excessive risk. The insurance might ostensibly seem as though it would maintain financial stability; but it also promotes instability by allowing bankers freer risk-taking reign.

Moreover, during good economic times, depositors tend to get careless and deposit much more in their accounts than what is insured by the FDIC. Then during banking crises, those who aren't fully insured may have a collective OMG moment when they realize simultaneously that their money is at serious risk.

That's what happened at SVB during the week ended March 10. About 90% of the bank's deposits were not insured. FDIC data show that since Q3-2009, insured deposits of all financial intermediaries rose 64% from $4.5 trillion to $7.4 trillion during Q2-2022 (*Fig. 7*). Over that same period, uninsured deposits rose 275% from $2.8 trillion to $10.5 trillion. Over this period, uninsured deposits increased from 39% of total deposits to 59% (*Fig. 8*). The Fed may have succeeded in stopping a contagion of bank runs by uninsured depositors.

However, depositors, whether insured or uninsured, still may move their funds out of the banks to money market securities, especially Treasury bills since their yields have soared over the past year as the Fed raised the federal funds rate by 450bps from 0.00%-0.25% to 4.50%-4.75%. Prior to financial deregulation during the 1980s, the Fed imposed ceilings on deposit rates under Regulation Q. So whenever money market interest rates rose above those ceilings, banks would experience disintermediation, forcing them to cut their lending. The resulting credit crunch would cause a recession.

This time, there are no ceilings. To avert disintermediation, the bankers are forced to raise their deposit rates to compete with money market rates. However, that squeezes their interest margin since they can't raise the rates on their outstanding loans and fixed-income securities.

Banking Crisis III: AFS vs HTM. In addition to squeezing their interest margins, the value of bond portfolios held by banks has been slammed as the Fed has tightened monetary policy. During the March 8 week, the banks held $4.3 trillion in US Treasury and agency securities and $1.1 trillion in other securities (*Fig. 9*).

The FDIC estimated that the banks had losses of $600 billion on those securities. Most of them are categorized as held-to-maturity (HTM) rather than available-for-sale (AFS) securities. Consider the following based on CPA Michael Holdren's "*Rising Rates and Considerations for Held-to-Maturity Classification*":

(1) *Available for sale.* According to Accounting Standards Codification (ASC) 320-10-35, debt securities classified as AFS are required to be measured and reported at fair value. The resulting unrealized gains or losses are excluded from earnings and reported in other comprehensive income until realized. As a result, the unrealized losses noted depress the book capital levels.

With the implementation of revised Basel III capital rules on the March 31, 2015 call report, banks were allowed to opt out of including accumulated comprehensive income (AOCI) as a component of common equity tier 1 capital. As such, unrealized losses, which are a component of AOCI, are excluded from regulatory capital calculations.

If an AFS security is sold, then the gain/loss is reported on the income statement.

(2) *Held to maturity.* When securities are reclassified as HTM from AFS, they must be held to maturity. They cannot be sold. The unrealized gain or loss is determined at the date of transfer and remains a component of equity. As market rates change and unrealized loss positions adjust, the institution may not be able to take advantage of strategic opportunities by repositioning HTM securities.

HTM securities are those securities that are expected to be held to maturity. They are reported on the balance sheet at cost—not at fair value. Any gain/loss on their sale is reported on the income statement, and so is any gain/loss if they are held to maturity.

(See also "*Available for Sale? Understanding Bank Securities Portfolios*," Liberty Street Economics, February 11, 2015.)

Banking Crisis IV: Banking on the Fed. Our message to the Fed: Hold off on any further rate hikes. Financial conditions might have tightened significantly since the end of last week, as evidenced by the jump in borrowing at the discount window during the March 15 week (*Fig. 10*). In the past, Fed monetary tightening cycles always ended when the result was a financial crisis that rapidly morphed into an economy-wide credit crunch. The SVB debacle may or may not be the current cycle's breaking point, but taking the foot off the monetary brakes for a while would be prudent.

Meanwhile, the blame game has started. The left is blaming President Donald Trump for deregulating the regional banks during 2018. The right blames corporate wokeness.

The Fed is already starting to be attacked for its failure to regulate and supervise SVB. The March 17 *issue* of the *New York Post* included an op-ed titled “Why woke ’Frisco Fed chief missed Silicon Valley Bank’s warning signs.” The author is Paul Sperry, the former Washington bureau chief for *Investor’s Business Daily*. He charges that San Francisco Fed Chief Mary Daly was too busy “pushing woke agendas to regulate rogue banks like SVB, the second-biggest bank failure on record.” He observes that Greg Becker, the chief executive who presided over collapsed SVB sat on the SF Fed’s board. “It was one big happy woke family.”

It’s interesting to note that in the Fed’s latest *Financial Stability Report*, dated November 2022, the word “disintermediation” is not mentioned once. Nor are the large losses incurred by banks in their bond portfolios. In other words, the Fed didn’t see this banking crisis coming.

Banking Crisis V: From Rolling to *Roiling* Recession? The US economy has been experiencing a rolling recession since early last year. The question now is whether it just rolled into the banking industry, thus making an economy-wide recession inevitable since banks provide some of the credit necessary to finance economic activity.

We aren’t ready to conclude that. Interest rates have plummeted in recent days as a result of the banking crisis, which we think will be contained by the Fed’s response to the SVB debacle. Lower mortgage rates could end the single-family housing recession, which has been underway since early last year. Multi-family housing construction should remain strong. Lower rates could also boost auto sales.

Consumer spending remains resilient thanks to the tight labor market, with wages starting to rise faster than prices. Consumers have been spending on services and may be starting to spend more on goods again. Capital spending is getting a boost from onshoring and lots of fiscal spending on infrastructure, new semiconductor plants, and green new deals.

Movie. “Living” (+) (*link*) is about the meaning of life, especially when one finds out that life is short, i.e., lasting just another six months due to a terminal illness. That’s the fate of Mr. Williams, a civil servant played by Bill Nighy. At first, he tries living a new friend’s idea of a good life—involving a wild nightlife—but he’s just not into it. Instead, he finds solace by overseeing the building of a playground as a legacy for the next generation. The world would be a much better place if we all lived to make a better world for our children and grandchildren. Instead, we are racking up bigger debts to accommodate our current needs at the expense of future generations. Greta: Climate change is just one of many messes we are leaving you to deal with.

Calendars

US: Mon: None. **Tues:** Existing Home Sales 4.18mu; API Weekly Crude Oil Inventories. (Bloomberg estimates)

Global: Mon: Eurozone Trade Balance -€12.5b; Germany PPI -0.5%m/m/14.5%y/y; Buba Monthly Report; Lagarde. **Tues:** Germany ZEW Economic Sentiment 16.4; Canada CPI 0.6%m/m/5.4%y/y; Lagarde; Enria. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): The US MSCI index rose 1.4% last week and moved back out of a bear market into a 19.5% correction from its record high on December 27, 2021. The US MSCI ranked fourth of the 48 global stock markets that we follow in a week when just eight of the 48 countries rose in US dollar terms. The AC World ex-US index fell 2.3% for its sixth weekly drop in seven weeks, and was back in a bear market at 20.9% below its June 15, 2021 record high. Nearly all regions fell w/w, but EM Asia was the best regional performer with a 1.0% gain, ahead of BIC (0.1%). EM Eastern Europe (-7.6) was the worst performing region last week, followed by EMEA (-5.6), EM Latin America (-5.1), EMU (-4.4), and EAFE (-3.2). Korea was the best-performing country last week, with a gain of 2.4%, followed by China (1.9), Singapore (1.5), the United States (1.4), and Taiwan (1.1). Among the 27 countries that underperformed the AC World ex-US MSCI last week, the 14.6% decline for Colombia was the biggest, followed by Austria (-11.5), Egypt (-10.3), Hungary (-9.9), and Chile (-9.5). Looking at 2023's performance so far, the US MSCI is up 2.2% as its ytd ranking improved to 17/48 from 28th a week earlier. The AC World ex-US's ytd gain of 1.1% is now underperforming the US again, with 21/48 countries and half of the regions in positive territory. EMU is the best performer ytd, with a gain of 5.8%, followed by EAFE (2.2). The regional laggards so far in 2023: EMEA (-6.0), EM Eastern Europe (-3.7), BIC (-3.4), EM Latin America (-2.7), and EM Asia (0.8). This year's best ytd country performers: the Czech Republic (23.7), Ireland (13.3), Taiwan (11.3), Mexico (10.3), and

Greece (10.1). Here are the worst-performing countries of the year so far: Colombia (-23.5), Pakistan (-21.1), Norway (-13.3), Egypt (11.2), and South Africa (-8.9).

S&P 500/400/600 Performance (*link*): Just one of these indexes rose last week on the heels of their biggest weekly declines in nine months a week earlier. LargeCap rose 1.4% w/w, better than the 3.2% and 3.3% declines for MidCap and SmallCap. By Friday's close, SmallCap had dropped into a deeper bear market, MidCap had fallen further into correction territory, and LargeCap had pulled back from a deep correction. LargeCap finished the week at 18.3% below its record high on January 3, 2022, MidCap at 18.4% below its record high on November 16, 2021, and SmallCap at 22.7% below its November 8, 2021 record high. Eleven of the 33 LargeCap and SMidCap sectors moved higher for the week compared to none rising a week earlier. LargeCap Communication Services was the best performer with a gain of 6.9%, ahead of LargeCap Tech (5.7), LargeCap Utilities (3.9), and SmallCap Utilities (2.8). Among the worst performers for the week were SmallCap Energy (-10.9), MidCap Energy (-8.7), MidCap Financials (-7.9), LargeCap Energy (-7.0), and SmallCap Financials (-6.6). Looking at performances so far in 2023, LargeCap's 2.0% gain is now leading those of SmallCap (-2.0) and MidCap (-2.3), as 12 of the 33 sectors are higher ytd. The top sector performers in 2023: LargeCap Tech (15.1), LargeCap Communication Services (14.6), LargeCap Consumer Discretionary (9.2), SmallCap Consumer Discretionary (7.6), and MidCap Tech (6.9). Here are 2023's biggest laggards: SmallCap Energy (-15.8), MidCap Energy (-15.8), LargeCap Energy (-13.0), MidCap Financials (-12.7), and SmallCap Financials (-12.7).

S&P 500 Sectors and Industries Performance (*link*): Seven of the 11 S&P 500 sectors rose last week, and four outperformed the composite index's 1.4% gain. That compares to a 4.5% decline for the S&P 500 a week earlier, when all 11 sectors fell and six outperformed the index. Communication Services was the best performer with a gain of 6.9%, followed by Tech (5.7%), Utilities (3.9), and Consumer Discretionary (2.4). Energy was the worst performer with a 7.0% decline, followed by Financials (-6.1), Materials (-3.5), Industrials (-2.5), Real Estate (0.1), Consumer Staples (1.3), and Health Care (1.3). Looking at 2023's performance so far, the S&P 500 is up 2.0% ytd with just three sectors outperforming the index and three higher for the year. The best ytd performers: Tech (15.1), Communication Services (14.6), and Consumer Discretionary (9.2). These are 2023's worst performers: Energy (-13.0), Financials (-10.0), Health Care (-7.7), Utilities (-5.7), Consumer Staples (-3.7), Materials (-3.2), Real Estate (-2.6), and Industrials (-2.0).

S&P 500 Technical Indicators (*link*): The S&P 500 rose 1.4% last week and improved relative to its 50-day moving average (50-dma) and 200-day moving average (200-dma).

However, the index was below its 50-dma for a second week after trading above in seven of prior eight weeks, and was below its 200-dma for a second week after being above for eight weeks. That had been the index's longest positive 200-dma streak since January 2021, when it had been above its 200-dma for 81 straight weeks through February 2021. The S&P 500's 50-dma improved to 2.4% below its 50-dma from a 20-week low of 3.6% below its falling 50-dma a week earlier. That compares to a four-month low of 10.6% below at the end of September, a 23-month high of 8.7% above the index's rising 50-dma in early August, and a 27-month low of 11.1% below its falling 50-dma in mid-June. The index had been mostly trading above its 50-dma from late April 2020 to early April 2022; in June 2020, it was 11.7% above, which was the highest since its record high of 14.0% in May 2009. That compares to 27.7% below on March 23, 2020—its lowest reading since it was 29.7% below on Black Monday, October 19, 1987. The price index closed Friday at a nine-week low of 0.3% below its now rising 200-dma, up from 1.8% below its falling 200-dma a week earlier; that compares to a 13-month high of 5.1% above in early February. The 200-dma has moved higher in just five of the past 44 weeks. The S&P 500 is well above its 26-month low of 17.1% below its falling 200-dma in mid-June and compares to 10.8% above its rising 200-dma in November 2021. That also compares to 17.0% above in December 2020, which was the highest since November 2009 and up from the 26.6% below registered during the Great Virus Crisis on March 23, 2020—the lowest reading since March 2009. At its worst levels of the Great Financial Crisis, the S&P 500 index was 25.5% below its 50-dma on October 10, 2008 and 39.6% below its 200-dma on November 11, 2008.

S&P 500 Sectors Technical Indicators (*link*): Two of the 11 S&P 500 sectors are trading above their 50-dmas, up from one sector above a week earlier. Communication Services turned positive w/w and joined Tech as the only sectors trading above their 50-dmas. Three sectors have a rising 50-dma, down from five a week earlier, as Industrials' and Materials' 50-dmas turned down w/w and left these only three sectors still in the rising 50-dma club: Communication Services, Consumer Discretionary, and Tech. Looking at the more stable longer-term 200-dmas, three sectors remain above that measure in the latest week: Communication Services, Industrials, and Tech. The rising 200-dma club has four members now, up from one a week earlier, as Industrials was joined in the latest week by Consumer Staples, Health Care, and Tech.

US Economic Indicators

Leading Indicators (*link*): The Leading Economic Indicators (LEI) index fell for the 11th straight month in February, down 0.3% m/m and 6.5% over the period to the lowest level since February 2021. While the leading index continues to point to recession, the US economy continues to expand, with coincident indicators reaching yet another record high. In February, eight of the 10 components of the LEI recorded negative or flat contributions. Consumer expectations (-0.24ppt) was the biggest negative contributor, followed by the ISM new orders diffusion index (-0.19). Labor indicators—the average workweek (-0.12) and jobless claims (-0.04)—were also a drag on the LEI, as were the interest rate spread (-0.10) and the leading credit index (-0.06). Building permits (+0.39) and stock prices (+0.12) contributed positively to the LEI, with real consumer goods orders (+0.01) and real core capital goods (+0.02) showing little change. The report noted: "[T]he most recent financial turmoil in the US banking sector is not reflected in the LEI data but could have a negative impact on the outlook if it persists."

Coincident Indicators (*link*): The Coincident Economic Indicators (CEI) index rose for the seventh time in eight months, up 0.1% in February and 1.6% over the period to a new record high. Three of the four components of the CEI rose in February: 1) *Payroll employment* (+0.07ppt) in February outperformed expectations, and revisions showed only modest downward revisions to January and December payroll gains, with the former remaining above 500,000. February payrolls climbed 311,000 (vs 225,000 expected), following a 504,000 gain (from 517,000) in January and a 239,000 gain (from 260,000) in December, for a net loss over the period of 34,000. Payroll employment has recovered 24.9 million jobs since bottoming in April 2020, moving above its pre-pandemic level by 3.0 million. 2) *Real personal income less transfer payments* (+0.07) increased for the eighth successive month, by 0.2% in February and 2.6% over the period, to a new record high, after contracting 1.2% during the first half of 2022. 3) *Real manufacturing & trade sales* (+0.03) climbed for the third month by 0.2% in February and 1.9% over the period and is only fractionally below January 2022's record high. 4) *Industrial production* (-0.04) in February's CEI report showed output fell 0.2% after no change January, while the latest industrial production data, reported on Friday morning, showed a stronger picture—with headline production flat in February and up 0.3% in January.

Consumer Sentiment Index (*link*): Consumer sentiment fell in mid-March for the first time four months, though the report noted that "the decrease was already fully realized prior to the failure of Silicon Valley Bank," with roughly 85% of the interviews already completed. *Overall consumer sentiment* dipped 3.6 points in mid-March to 63.4, after climbing 10.2 points the prior three months, remaining 4.0 points above last March. The March decline was concentrated among lower income, less educated, and younger consumers, as well as consumers with the upper third of stock holdings. The *present situation component* dropped 4.3 points to 66.4 in mid-March, following a three-month gain of 11.9 points, while the *expectations component* fell 3.2 points to 61.5, after a three-month increase of 9.1 points. Meanwhile, the *one-year expected inflation rate* slowed from 4.1% in February to 3.8% this month, the lowest since April 2021, though remains well above its 2.3%-3.0% range recorded during the two years prior to the pandemic. It peaked at 5.4% last March and April. The *five-year expected inflation rate* slipped to 2.8% from 2.9% during each of the prior three months—falling below the narrow 2.9%-3.1% range for only the second time in 20 months—and remains elevated relative to the 2.2%-2.6% range posted in the two years pre-pandemic. According to the report, "With ongoing turbulence in the financial sector and uncertainty over the Fed's possible policy response, inflation expectations are likely to be volatile in the months ahead."

Regional M-PMIs (*link*): Two Fed districts (New York and Philadelphia) have reported on *manufacturing activity* for March and show activity contracted for the eighth successive month, at a faster rate than in February, deteriorating to -23.9 from -15.0. Activity in the New York (to –24.6 from -5.8) region contracted at quadruple January's pace, while the Philadelphia (-23.2 from -24.3) region's decline virtually matched February's sharp drop. *New orders* (-24.9 from -10.7) fell for the 10th month, dropping at more than double February's pace, with billings in both the New York (-21.7 from –7.8) and Philadelphia (-28.2 from -13.6) regions contracting at a faster pace. *Employment* (-10.2 from -0.8) fell at the fastest pace since May 2020, as hirings in the Philadelphia (-10.3 from 5.1) area swung from positive to negative, while New York (-10.1 from -6.6) factories cut jobs at a faster rate. Looking at *prices-paid* indexes, the New York (41.9 from 45.0) area saw price pressures ease in March, after a tightening in February from January's 26-month low of 33.0, while Philadelphia's (23.5 from 26.5) slowed after blipping up in February from January's 29-month low. The former was at a record high of 86.4 in April 2022, while the latter was at a recent high of 83.6 in November 2021. Prices-received indexes were mixed: New York's *prices-received* measure eased to 22.9 in March after climbing from a two-year low of 18.8 in January to 28.4 in February; it was at a record high of 56.1 in March 2022. The Philadelphia measure moved down for the second month to 7.9 in March from 14.9 and 29.9 during February and January, respectively; it was at a record high of 65.8 in November 2021.

Industrial Production (*link*): Output in February was in line with consensus expectations, while January production was stronger than first reported. *Headline* production was flat last month, following an upwardly revised 0.3% increase in January—first reported as no change—which followed a 2.0% drop the final three months of 2022. February production was only 1.8% below last September's record high. By industry group, *utilities* output increased 0.5% in February after unusually warm weather in January triggered a 10.1%

drop, while *manufacturing* production ticked up 0.1% following a 1.3% rebound in January—after sinking 2.8% during the two months through December. Within manufacturing, output of motor vehicles contracted for the third time in four months, by 0.3% in February and 2.4% over the period. *Mining* production fell for the fourth time in five months, by 0.6% in February and 2.4% over the period. By market group: *business equipment* production declined for the third time in four months, edging down 0.1% in February and falling 2.0% over the period, though remains around recent highs. Transit equipment production dropped for the fourth successive month, by 2.1% in February and 5.6% over the period, while production of industrial & other equipment contracted for the third time in four months by a total of 1.6%. Meanwhile, production of information processing equipment rebounded 3.1% during the first two months of this year after sliding 2.8% the final three months of last year. *Consumer goods* production ticked up 0.1% in February after falling 1.2% during the three months through January, and is down 2.4% from last April's cyclical high. Consumer durable goods production has declined during seven of the past 10 months since reaching a new record high last April, down 4.3% over the period, while consumer nondurable goods production is down 1.7% over the period, though did tick up 0.3% last month.

Capacity Utilization (*link*): The *headline* capacity utilization rate was unchanged at 78.0% in February, after posting a modest gain in January; it fell from 79.9% last September to a 15-month low of 77.9% by December. February's rate was 1.6ppts below its long-run (1972-2022) average. The *manufacturing* utilization fell for the third time in four months, from 79.1% in October to 77.6% last month. February's rate is 0.6ppt below its long-term average. Meanwhile, the *utilities* rate in February was little changed at 68.9% after plunging 7.9pts in January to 68.7%—its lowest percentage on record and substantially below its long-run average. The capacity utilization rate for mining fell for the fourth time in five months, from 89.9% in September to 87.3% by February, and was a percentage point above its long-term average.

Housing Starts & Building Permits (*link*): Both housing starts and building permits bounced back in February, with the former posting its first gain in six months. *Housing starts* rebounded 9.8% last month to 1.450mu (saar) after a five-month slide of 12.4%, led by a 24.0% increase in volatile *multi-family* starts to 620,000 units (saar), after a 7.1% gain and a 23.7% loss the prior two months. The *single-family* measure continued to bounce around recent lows, climbing 1.1% to 830,000 (saar) last month after falling 6.8% and rising 9.2% the prior two months. *Building permits* soared 13.8% in March to 1.524mu (saar) after little change in February; permits sank 14.5% during the final three months of 2022. *Multi-family permits* increased for the third successive month in February, soaring 21.1% m/m and 31.1% over the period to 747,000 units (saar), while *single-family permits* shot up 7.6% last month to 777,000 units (saar) after an 11-month plunge of 40.0%. During February, *housing under construction* totaled 1.691mu, holding near November's record high of 1.711mu, while *completions* rose 12.2% to 1.557mu—the highest since March 2007. Homebuilders' confidence increased for the third straight month in March, climbing 13 points over the period, to 44, after sliding 53 points during the 12 months ending December 2022 to 31—which was the lowest since mid-2021 (excluding a drop to 30 at the height of the pandemic). Over the three-month period, the current sales (+13 to 49) component posted the biggest gain, followed by future sales (+12 points to 47) and traffic of prospective home buyers (+11 to 31).

Import Prices (*link*): Import prices sank for the seventh time in eight months in February, posting its first annual decline since December 2020, falling 1.1% y/y last month and down from the recent peak of 13.0% during March 2022. Import prices slipped 0.1% in February and 5.0% since reaching a new record high last June. *Fuel prices* fell for the eighth month, by 4.9% in February and 34.0% over the period, with the yearly rate 11.2% below a year ago; the rate was as high as 130.1% in April 2021. *Nonpetroleum import prices* slipped 0.4% in February after a two-month gain of 1.2%; these prices had dropped 2.2% during the seven months through November. The yearly rate slowed to 0.2%, down from last March's peak 8.1%. Here's the yearly rate in import prices for several industries from their recent respective peak rates: industrial supplies, which includes fuels & lubricants (to -11.2% from 130.1%); foods, feeds & beverages (2.0 from 15.7); capital goods (2.3 from 4.2); and consumer goods ex autos (0.3 from 3.2).

Global Economic Indicators

Eurozone CPI (*link*): The final headline CPI rate for February slowed for the fourth month to 8.5% y/y, after accelerating to a record-high 10.6% in October. For perspective, the rate was as low as -0.3% at the end of 2020. Looking at the main components, once again *energy* posted the largest gain, though eased for the fourth month in February to 13.7% from 41.5% in October; it was at a record high of 44.3% last March. The rate for *food, alcohol & tobacco* soared to a record-high 15.0% in February—accelerating steadily from June 2021's 0.5%—while the rate for *non-energy industrial goods* accelerated to a new record high of 6.8%. The *services'* rate climbed to 4.8% y/y in February—the highest since October 1993—from 4.4% in both January and December and 4.2% in November. Of the *top four Eurozone economies*, rates in both Italy (9.8% y/y) and Germany (9.3) were above the Eurozone's rate of 8.5%, while rates in France (7.3) and Spain (6.0) were below.

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