



## WEEKLY ECONOMIC COMMENTARY

This Week's Economic Review and Outlook

February 2018

Weekly Economic Commentary | Week of February 26, 2018



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### **MARCH MADNESS FOR CENTRAL BANKS**

#### **KEY TAKEAWAYS**

- March brings several significant events that have the potential to be market movers.
- ECB, BOJ, BOE, and Federal Reserve meetings all take place this month.
- Inflation will continue to be closely watched for clues on future policy.

The month of March is generally eventful and provides us with multiple potential market-moving events to monitor. It has been a roller coaster of a year so far, with one of the strongest January returns ever for the S&P 500 Index, only to be followed by the fastest descent ever from record highs to a correction (nine days) in early February. As we turn the calendar to March, the days will get longer and a little warmer, and basketball brackets will be released. (Villanova and Xavier are fighting to finish first in the Big East; those two schools happen to be the alma maters of the two authors of this piece.)

To help investors cope with the distractions of March Madness and stay on top of the latest in the financial markets, we have created this quick guide to the [March 2018 market calendar](#), providing an overview of the key events.

LPL RESEARCH MARCH 2018 PREVIEW						
Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
25	26	27	28	1 Core PCE Deflator Personal Income ISM: Mfg.	2	3
4	5 ISM: Non-Mfg.	6 Durable Goods	7 Beige Book	8 ECB Meeting	9 Nonfarm Payrolls BOJ Meeting	10
11	12	13 NFIB Small Business Index CPI	14 PPI Retail Sales	15	16 Housing Starts JOLTS	17 St. Patrick's Day
18	19	20 //// Fed Meeting ////	21 1st Day of Spring	22 BOE Meeting Leading Indicators	23 Durable Goods	24
25	26	27 SEP/Case- Shiller Consumer Confidence	28 GDP (Q4 Final) Pending Home Sales	29 Core PCE Deflator	30	31

Source: LPL Research 02/26/18

### MARCH 8, 9, AND 22

#### ECB, BOJ, AND BOE MEETINGS

Major global central banks, including the European Central Bank (ECB), the Bank of Japan (BOJ), and the Bank of England (BOE), all meet in March, with the ECB up first on March 8. The ECB is expected to continue its current path of purchasing 30 billion euros of bonds per month and leave interest rates unchanged once again. The BOJ is also expected to stand pat on March 9, continuing to target a 0% 10-year yield, and potentially leaving rates unchanged. The BOE, which has been trying to balance rising inflation with perceived risks from the ongoing Brexit process, is not expected to hike rates this month, though markets are pricing in a 59% chance of a rate hike in May (according to Bloomberg). Brexit could come back to the forefront in the coming month, and potentially even drown out any BOE news, as the United Kingdom and the European Union work on their respective negotiation strategies ahead of a Brexit-focused European Council meeting March 22-23.

### MARCH 13

#### CPI

Inflation was a very popular word after the January jobs report showed a larger than expected uptick in wage inflation, with average hourly earnings rising 2.9% year over year, its highest level since 2009. This was followed up with the Consumer Price Index (CPI) for January surprising to the upside as well, with the CPI rising 0.5% month over month (versus a 0.3% consensus forecast), and core CPI, which excludes food and energy, rising 0.3% (versus 0.2% consensus). Year-over-year CPI and core CPI rose 2.1% and 1.8%, respectively, compared to consensus expectations of 1.9% and 1.7%.

The uptick in inflation has market participants worried that should price pressures continue to intensify, this could tip the scales toward four Federal Reserve (Fed) rate hikes this year, versus the three that are still widely anticipated.

Although the February CPI report will be closely watched for more inflationary clues, remember that one month does not mean it is a trend. We will likely need to see multiple months of higher inflation before we would expect a more aggressive Fed. Last, but perhaps most important, the latest core Personal Consumption Expenditures report, which is the Fed's preferred inflation measure, was still well below the Fed's 2% target at 1.5% year over year for December (the January report will come out on March 1, 2018).

## **MARCH 20-21**

### **FED MEETING**

The Fed's policymaking arm, the Federal Open Market Committee (FOMC), holds its second of eight meetings this year on March 20-21, 2018. At 2 p.m. ET on March 21, the FOMC will release its policy statement; updated forecasts on the economy, labor market, and inflation; and, a new set of "dot plots" (estimates for fed funds rate the end of 2018, 2019, 2020, and in the "long run"). The first of four post-FOMC meeting press conferences of the year will also take place at 2:30 p.m. ET on March 21.

Markets always watch FOMC meetings closely, but this one may see some extra scrutiny for a number of reasons:

- **New Fed chair.** It is Jay Powell's first meeting and press conference as Fed chair. Even though markets expect Powell to follow in Janet Yellen's footsteps, his messaging will probably be closely scrutinized for any signs of changes. Investors will get a sneak peek of his communication style earlier in the month though, as Powell is set to deliver his first semiannual monetary policy report (commonly referred to as Humphrey-Hawkins testimony) to Congress on February 28-March 1.
- **Possibility of another rate hike.** We continue to expect a 0.25% rate hike at the March meeting, which would increase the fed funds rate from a range of 1.25-1.50% to a range of 1.50-1.75%. Market expectations of a hike are also high, with fed funds futures markets currently pricing in an 87% chance of a 0.25% hike at the March meeting.
- **Reflections on January jobs report.** The Fed's economic projections and dot plots may give some insight into monetary policymakers' thoughts regarding the tick higher for wage growth and inflation in January. We continue to believe that the Fed needs to see a sustainable trend of rising inflation, not a single month's worth of data, to become markedly more aggressive; thus, we maintain our expectation for three hikes in 2018.

### **CONCLUSION**

We will keep an eye on major global central bank meetings this March Madness season. We do not anticipate surprises from the ECB, BOJ, and BOE, as we expect these central banks to leave policies unchanged. However, we are mindful that Brexit could return to the forefront ahead of the European Council meeting on March 22-23. Turning to inflation, the CPI and March 20-21 Fed meeting will also be important to watch for inflationary clues and future policy implications. As always, LPL Research will be here to guide you through potential market-moving events.

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### **INDEX DESCRIPTIONS**

*The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.*

*The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.*

*Personal consumption expenditures (PCE) is a measure of price changes in consumer goods and*

services released monthly by the Bureau of Economic Analysis (BEA). Personal consumption expenditures consist of the actual and imputed expenditures of households; the measure includes data pertaining to durables, nondurables, and services. It is essentially a measure of goods and services targeted toward individuals and consumed by individuals.

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