Economic highlights from the week ending on November 17, 2017

Economic data were generally in line or somewhat better than expected this week, helping to pave the way for a potential rate hike at the upcoming December 12-13 Federal Open Market Committee meeting. Housing starts were stronger than expected in October and the housing market index increased in November, reflecting a strong level of optimism among home builders. Industrial Production was also stronger than expected in October and Capacity Utilization rose to the highest level since March 2015. Retail sales were roughly in line with expectations in October, up 4.6% on a year-over-year basis. Meanwhile, the core Consumer Price Index (CPI) less food and energy was up 1.8% year-over-year in October, up from 1.7% in September. Although inflation continues to run below the Fed's 2.0% target, the October uptick in Core CPI may be enough to convince policymakers that another near-term rate hike is appropriate. The dollar index (DXY) has also weakened this month, likely driven by concerns about the outlook for tax reform, which policymakers may view as an attractive window of opportunity for further removing accommodation. Nevertheless, the outlook for tax reform remains uncertain and there will be a few key data points released in the coming weeks (the Personal Consumption Expenditures index, and the November employment report) that will impact the Fed's next policy decision. Fed policymakers provided some conflicting public comments this week about whether or not a rate hike next month would be appropriate. If the Fed does move forward with a hike next month we would be surprised if there isn't at least one dissenting vote, given the flatness of the Treasury yield curve, the lack of meaningful wage growth, and below-target inflation.

Next Week

Leading Indicators, Chicago Fed National Activity Index, Existing Home Sales, Durable Goods, Consumer Sentiment, FOMC Minutes

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