Daiwa Capital Markets

U.S. Economic Comment

- Credit flows: a new focus for market participants
- A farewell note

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The Banking System: Perhaps Settling

Labor market indicators had moved to the top of the list of factors driving financial markets, but they will have to yield some ground to figures on credit flows through the banking system. Tighter lending standards and a reduction in credit flows suddenly represent the most salient risk to the current expansion.

The latest readings from the Fed's balance sheet offered mild encouragement. Lending through the Fed's new credit facility picked up in the latest week (table, Bank Term Funding Program), but the volume of activity through the discount window (primary credit) fell by approximately the same amount. Perhaps some banks simply shifted from one facility to the other. Even if different banks were involved, the steady reading in the combined programs indicated no net deterioration in the latest week. Lending to Silicon Valley Bank and Signature Bank picked up (see Other Credit Extensions in the table), but authorities seem to have these situations under control.

The volume of repurchase agreements with foreign and international monetary authorities (FIMA) exploded in the latest week, jumping to $60 billion from zero. The Fed established this lending program during the pandemic, and it was not used extensively at that time. Most weeks in 2020 and early 2021 showed transactions amounting to $1.0 billion, with the heaviest week totaling $1.4 billion. The facility was last utilized in March 2021, then running a zero balance for approximately two years. The surge in the latest week might suggest notable banking problems outside the U.S., but more likely, the Fed lending to a foreign official institution was tied to the sale of Credit Suisse to UBS, and this problem now seems contained.

Calm conditions abroad also were suggested by the volume currency swaps with foreign central banks. Transactions totaling $0.6 billion on March 22 were among the firmest of the past few years, but this volume was a pittance relative to that in active periods (totals close to $450 billion during the worst of the pandemic and a peak of more than $580 billion during the financial crisis).

These clues to banking developments from the Fed suggest that conditions are settling, but the real test for the economy will involve the volume of loans written by commercial banks in the weeks and months ahead.

Even before the emergence of problems at Silicon Valley Bank and Signature Bank, lending standards and volumes seemed to be changing. The quarterly survey of senior loan officers conducted by the Federal Reserve show that net tightening of standards began in the second half of last year and continued into the first quarter (chart; next page, left).

Federal Reserve Balance Sheet Items*

	March 22	March 15	March 8
		$ billions	
Bank Term Funding Program	53.7	11.9	0.0
Primary Credit	110.2	152.9	4.6
Other Credit Extensions	179.8	142.8	0.0
Foreign Official (FIMA Repo Facility)	60.0	0.0	0.0
Central Bank Liquidity Swaps	0.6	0.5	0.4

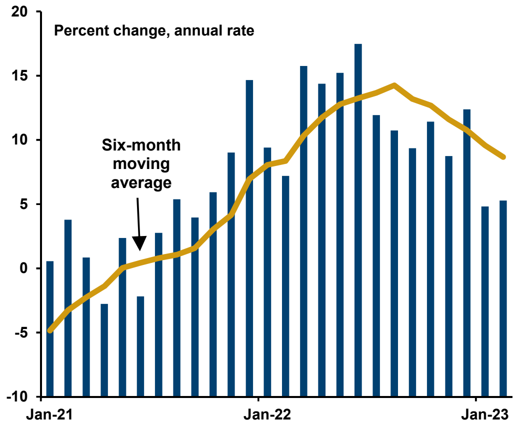
** The Bank Term Funding Program is the new facility established by the Fed on March 12 to help banks cope with deposit withdrawals; Primary Credit involves loans to commercial banks through the discount window; Other Credit Extensions are loans to the bridge banks established by the FDIC with the takeovers of Silicon Valley Bank and Signature Bank; FIMA Repos are collateralized loans to foreign and international monetary authorities.*

Sources: Federal Reserve Board via Haver Analytics

Loan volumes also have shifted gears. Commercial banks were active in the first half of last year, but loan growth started to slow in the second half (chart, right). The easing has been more pronounced in the business sector, as the growth of commercial and industrial loans has eased from an annual rate of more than 16 percent in the first half of last year to only 5.6 percent in the past six months, including a decline in February. Consumer loans grew almost 14 percent in 2022-H1, and they have advanced at an annual rate of 6.9 percent in the past six months.

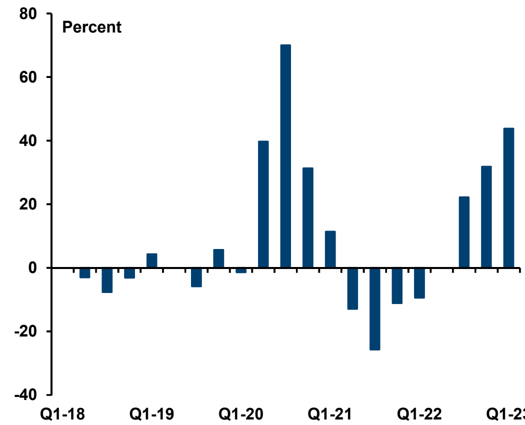
Weekly banking statistics published by the Fed show that lending revived in the first two weeks of March despite the uncertainty generated by bank closures. Commercial and industrial loans, which fell in February, have recouped all of the lost ground and are now above the January average. Consumer lending remained on a respectable growth track. We are encouraged by these results, but we also would not rush to conclusions, as it is too soon to expect changes in lending strategies associated with recent uncertainties to be evident in the data. These figures should be monitored closely in the weeks and months ahead.

Total Loans and Leases in Bank Credit



Source: Federal Reserve Board via Haver Analytics

Net Tightening in Lending Standards to Small Businesses*



** The share of banks tightening standards less the share easing standards.*
Source: Federal Reserve Board via Haver Analytics

Swan Song

This is my last weekly newsletter. I began writing these in 1987, and I estimate that I have written approximately 1,600 Economic Comments. That's enough, and thus I am retiring as of March 31. Larry Werther, my assistant for the past 17 years, will be taking over, and he will be aided by Brendan Stuart, a new Daiwa hire. Larry will be changing the format of the newsletter and experimenting with different options; it will evolve over time.

Many kind individuals have asked about my plans. I have lots of ideas, but no decisions. I will look into teaching economics (very part time) at local colleges, but I am more interested in other things. Partly because of family health history, I hope to do volunteer work at a nearby heart rehab center; I also plan to work with the rescue squad in my town. My lack of medical training might be a problem for both of these activities, but I'll learn. I'll do some sports. Bicycling was my main interest in my middle-age years, and I hope to get close to my old form. I plan to play regularly at a par-3 golf course in my town, and I'll occasionally venture onto a regular course. I'm looking forward to spending more time with my 6-year-old grandson, who seems destined for either Major League Baseball or the PGA tour.

Others have asked about my most memorable experiences. Periods of turmoil come to mind. For me, the most notable occurred on June 2, 1987 -- my second day on the job. President Reagan announced that Paul Volcker had declined an offer for a third term and Alan Greenspan would be the new Fed Chair. Market participants loved Volcker and didn't know much about Greenspan. Traders and investors reacted badly, and as a Wall Street rookie, I was lost. I had only slightly more experience a few months later when the stock market crashed on October 19. Given the current tumult in the banking system, I feel like I'm leaving just like I entered -- engulfed (and lost?) in turmoil.

Other memories involve my interaction with colleagues and clients. I was able to form numerous good relationships and I made many close friends. I especially value the cultural exchange I had with my Japanese co-workers. Also, I will forever remember various Daiwa-sponsored seminars and conferences where I joined in presentations and social gatherings with well-known academic economists and former policymakers and legislators. Rubbing shoulders with each one was a thrill, but one stood out from all the others: sharing a platform with Paul Volcker.

I am deeply grateful for these experiences, and I am saddened to leave, but it's time for a new chapter. To friends and associates, please keep in touch: mmoran18@me.com.

(Swan Song – interesting term. I knew it meant a final performance, but I had no idea of its origin. So, I did a final bit of research. Swans are quiet animals; they don't make many sounds during their lives. However, when close to death, they emit a loud and pleasing "song." I don't like the association with death. Let's pretend that swans also sing just before retirement.)

Mike Moran

Review

Week of March 20, 2023	Actual	Consensus	Comments
Existing Home Sales (February)	**4.58 Million (+14.5%)**	**4.20 Million (+5.0%)**	The advance in existing home sales in February reversed a portion of the plunge in the previous 12 months (cumulative decline of 36.9%), but the sales pace of 4.58 million (annual rate) was still in the low end of the long-term range. The latest result was comparable to readings following the housing bust in the mid-2000s and to those when the economy first emerged from COVID-related lockdowns. The inventory situation remained tight in February, as the jump in sales nudged the months' supply of homes available for sale 0.3 month lower to 2.6 months, a reading in the low end of the historical range.
Current Account (2022-Q4)	**-$206.8 Billion ($12.2 Billion Narrower Deficit)**	**-$213.7 Billion ($3.4 Billion Narrower Deficit)**	A modest decline in the trade deficit was joined by net improvement in income flows, leaving a noticeable improvement in the current account deficit in the fourth quarter of last year. The shortfall in Q4 translated to 3.2% of GDP, narrower than the reading of 3.4% in Q3 and the recent high of 4.5% in Q1, but outside the range of -1.8% to -2.5% in the two years leading up to the pandemic.
New Home Sales (February)	**0.640 Million (+1.1%)**	**0.650 Million (-3.1%)**	The increase in new home sales in February, while respectable when viewed in isolation, occurred from downwardly revised readings in the prior three months. Sales of new homes had shown signs of stirring in response to a dip in mortgage rates, but much of the recent pickup in sales was revised away and the latest reading was still well shy of what would be considered firm (it was in the lower end of the range in the years preceding the pandemic). The inventory situation of homebuilders, which is elevated relative to historical norms, contrasts to that in the market for existing homes. The months' supply of homes available for sale dipped 0.1 month to 8.2 months in February, off the recent peak of 10.1 months in September of last year, but high by historical standards.
Durable Goods Orders (February)	**-1.0%**	**0.2%**	Although new orders for durable goods fell sharply for the second consecutive month, much of the weakness in early 2023 reflected downside volatility in the aircraft component. Aircraft orders fell 8.1% in the latest month after a drop of 45.9% in January (civilian and defense combined), but bookings had previously jumped above underlying trends, including a burst of 105.7% in nondefense aircraft orders in December. Orders excluding transportation were flat in February and have tilted lower on balance since last summer. New orders for nondefense capital goods excluding aircraft, which give good insight into capital spending plans by businesses, rose 0.2% in February from downwardly revised results in the prior month. Bookings of nondefense capital goods ex. air are little changed since last fall.

Sources: National Association of Realtors; Bureau of Economic Analysis; U.S. Census Bureau; Consensus forecasts are from Bloomberg

Preview

Week of March 27, 2023	Projected	Comments
International Trade in Goods (February) (Tuesday)	**-$90.0 Billion ($1.1 Billion Narrower Deficit)**	Both exports and imports in January broke from the declining trends seen during much of last year. The surprising strength in January raises the prospect of cooling in February, with a larger correction in imports leading to a narrowing in the monthly trade deficit.
Consumer Confidence (March) (Tuesday)	**101.0 (-1.8%)**	Uncertainty about the economic outlook spurred by recent bank failures could lead to a second consecutive month of deterioration in consumer confidence. If the forecast proves accurate, slippage in February and March would leave the measure 3.3% below the average from last year and equal to the pandemic-affected average in 2020.
Revised GDP (Q4) (Thursday)	**2.7% (Unrevised)**	Available information suggests that the third (final) tally of Q4 GDP growth is likely to be close to the second estimate, with modestly firmer consumer spending offsetting a downward adjustment to inventory investment. Shifts in most areas are usually modest in the third estimate. New information on gross domestic income (GDI), an alternate measure of growth, and aggregate corporate profits will be published with the final Q4 GDP report.
Personal Income, Consumption, Core Price Index (February) (Friday)	**0.2%, 0.2%, 0.4%**	Underwhelming results for hours worked and average hourly earnings suggest a modest increase in wages and salaries in February after a jump in the prior month. Other components of income could be firmer, as rental income is likely to remain on its recent path and elevated interest rates could boost interest income. On the spending side, an easing in sales of motor vehicles suggests a decline in outlays for durable goods, and a pause in retail activity after a burst in January suggests a dip in outlays for nondurable items. Service spending has been well maintained and could nudge total outlays into positive territory. Results for the CPI suggest sharp increases in the personal consumption expenditure price indexes.

Source: Forecasts provided by Daiwa Capital Markets America

Economic Indicators

March/April 2023

Monday	Tuesday	Wednesday	Thursday	Friday
20	21	22	23	24
	EXISTING HOME SALES Dec 4.030 million Jan 4.000 million Feb 4.580 million **FOMC (FIRST DAY)**	**FOMC ANNOUNCEMENT**	**UNEMP. CLAIMS** Initial / Continuing (millions) Feb 25 0.190 1.713 Mar 4 0.212 1.680 Mar 11 0.192 1.694 Mar 18 0.191 N/A **CURRENT ACCOUNT** 22-Q2 -$237.2 bill. 22-Q3 -$219.0 bill. 22-Q4 -$206.8 bill. **CHICAGO FED NATIONAL ACTIVITY INDEX** Monthly / 3-Mo. Avg. Dec -0.44 -0.38 Jan 0.23 -0.27 Feb -0.19 -0.13 **NEW HOME SALES** Dec 0.622 million Jan 0.633 million Feb 0.640 million	**DURABLE GOODS ORDERS** Dec 5.1% Jan -5.0% Feb -1.0%
27	28	29	30	31
	INTERNATIONAL TRADE IN GOODS (8:30) Dec -$89.9 billion Jan -$91.1 billion **Feb -$90.0 billion** **ADVANCE INVENTORIES (8:30)** Wholesale / Retail Dec 0.1% 0.4% Jan -0.4% 0.2% Feb -- -- **FHFA HOME PRICE INDEX (9:00)** Nov -0.1% Dec -0.1% Jan -- **S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX (9:00)** Nov -0.5% Dec -0.5% Jan -- **CONFERENCE BOARD CONSUMER CONFIDENCE (10:00)** Jan 106.0 Feb 102.9 **Mar 101.0**	**PENDING HOME SALES (10:00)** Dec 1.1% Jan 8.1% Feb --	**UNEMPLOYMENT CLAIMS (8:30)** **REVISED Q4 GDP (8:30)** GDP / Chained Price 22-Q3 3.2% 4.4% 22-Q4(p) 2.7% 3.9% **22-Q4(r) 2.7% 3.9%**	**PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX (8:30)** Inc. / Cons. / Core Dec 0.3% -0.1% 0.4% Jan 0.6% 1.8% 0.6% **Feb 0.2% 0.2% 0.4%** **MNI CHICAGO BUSINESS BAROMETER (9:45)** Index / Prices Jan 44.3 72.5 Feb 43.6 65.3 Mar -- -- **REVISED CONSUMER SENTIMENT (10:00)** Jan 64.9 Feb 67.0 Mar(p) 63.4
3	4	5	6	7
ISM MFG INDEX **CONSTRUCTION** **VEHICLE SALES**	**FACTORY ORDERS** **JOLTS DATA**	**ADP EMPLOYMENT** **TRADE BALANCE** **ISM SERVICES INDEX**	**UNEMP. CLAIMS**	**EMPLOYMENT REPORT** ***GOOD FRIDAY***
10	11	12	13	14
WHOLESALE TRADE **CONSUMER CREDIT**	**NFIB SMALL BUSINESS OPTIMISM INDEX**	**CPI** **FOMC MINUTES** **FEDERAL BUDGET**	**UNEMP. CLAIMS** **PPI**	**IMPORT/EXPORT PRICES** **RETAIL SALES** **IP & CAP-U** **BUSINESS INVENTORIES** **CONSUMER SENTIMENT**

Forecasts in Bold. (p) = preliminary (2nd estimate of GDP); (r) = revised (3rd estimate of GDP)

Treasury Financing

March/April 2023

Monday	Tuesday	Wednesday	Thursday	Friday
20	21	22	23	24
AUCTION RESULTS: Rate / Cover 13-week bills 4.675% 2.41 26-week bills 4.620% 2.87	**AUCTION RESULTS:** Rate / Cover 52-week bills 4.390% 2.85 20-yr bonds 3.909% 2.53 **ANNOUNCE:** $60 billion 4-week bills for auction on Mar 23 $50 billion 8-week bills for auction on Mar 23 $36 billion 17-week bills for auction on Mar 22 **SETTLE:** $60 billion 4-week bills $50 billion 8-week bills $36 billion 17-week bills	**AUCTION RESULTS:** Rate / Cover 17-week bills 4.805 % 2.61	**AUCTION RESULTS:** Rate / Cover 4-week bills 4.150% 2.54 8-week bills 4.400% 2.97 10-year TIPS 1.182% 2.28 **ANNOUNCE:** $30 billion 7-day CMB for auction on Mar 28 $45 billion 17-day CMB for auction on Mar 28 $105 billion 13-,26-week bills for auction on Mar 27 $42 billion 2-year notes for auction on Mar 27 $43 billion 5-year notes for on auction on Mar 28 $35 billion 7-year notes for auction on Mar 29 $22 billion 2-year FRN for auction on Mar 29 **SETTLE:** $105 billion 13-,26-wk bills $34 billion 52-week bills	
27	28	29	30	31
AUCTION: $105 billion 13-,26-week bills $42 billion 2-year notes	**AUCTION:** $30 billion 7-day CMB $45 billion 17-day CMB $43 billion 5-year notes **ANNOUNCE:** $60 billion* 4-week bills for auction on Mar 30 $50 billion* 8-week bills for auction on Mar 30 $36 billion* 17-week bills for auction on Mar 29 **SETTLE:** $60 billion 4-week bills $50 billion 8-week bills $36 billion 17-week bills	**AUCTION:** $36 billion* 17-week bills $22 billion 2-year FRN $35 billion 7-year notes	**AUCTION:** $60 billion* 4-week bills $50 billion* 8-week bills **ANNOUNCE:** $105 billion* 13-,26-week bills for auction on Apr 3 **SETTLE:** $30 billion 7-day CMB $105 billion 13-,26-week bills	**SETTLE:** $45 billion 17-day CMB $15 billion 10-year TIPS $12 billion 20-year bonds $42 billion 2-year notes $43 billion 5-year notes $35 billion 7-year notes $22 billion 2-year FRN
3	4	5	6	7
AUCTION: $105 billion* 13-,26 week bills	**AUCTION:** $60 billion* 4-week bills for auction on Apr 6 $50 billion* 8-week bills for auction on Apr 6 $36 billion* 17-week bills for auction on Apr 5 **SETTLE:** $60 billion* 4-week bills $50 billion* 8-week bills $36 billion* 17-week bills	**AUCTION:** $36 billion* 17-week bills	**AUCTION:** $60 billion* 4-week bills $50 billion* 8-week bills **ANNOUNCE:** $105 billion* 13-,26-week bills for auction on Apr 10 $40 billion* 3-year notes for auction on Apr 11 $32 billion* 10-year notes for auction on Apr 12 $18 billion* 30-year bonds for auction on Apr 13 **SETTLE:** $105 billion* 13-,26-wk bills	***GOOD FRIDAY***
10	11	12	13	14
AUCTION: $105 billion* 13-,26 week bills	**AUCTION:** $40 billion* 3-year notes **ANNOUNCE:** $60 billion* 4-week bills for auction on Apr 13 $50 billion* 8-week bills for auction on Apr 13 $36 billion* 17-week bills for auction on Apr 12 **SETTLE:** $60 billion* 4-week bills $50 billion* 8-week bills $36 billion* 17-week bills	**AUCTION:** $36 billion* 17-week bills $32 billion* 10-year notes	**AUCTION:** $60 billion* 4-week bills $50 billion* 8-week bills $18 billion* 30-year bonds **ANNOUNCE:** $105 billion* 13-,26-week bills for auction on Apr 17 $34 billion* 52-week bills for auction on Apr 18 $12 billion* 20-year bonds for auction on Apr 19 $21 billion* 5-year TIPS for auction on Apr 20 **SETTLE:** $105 billion* 13-,26-wk bills	

**Estimate*