

Lots of data, lots of Fed speak, lots of commentary from the Trump Administration. We think that the net result will be positive for the U.S. economy, but it does give us a flashback to the Great Recession when uncertainty was high. For a discussion of economic uncertainty, please see page 2.

Janet Yellen delivered her semiannual testimony to House and Senate committees this week. Her monetary policy comments were somewhat hawkish. She said that “waiting too long to remove accommodation (raising interest rates) would be unwise...” Moreover, that line was echoed this week by Dallas Fed President Kaplan, Richmond Fed President Lacker and Boston Fed President Rosengren. We view this as a strong signal from the Fed that interest rates will be rising soon. By the end of this week, the implied probabilities from the fed funds futures market had shifted forward. The cumulative implied odds of a March 15 fed funds rate hike are now 18 percent. May 3 gets 44.1 percent. June 14 gets 67.4 percent. This distribution still feels too low. We would add about 10 percent to the odds for each meeting.

Along with monetary policy uncertainty, we are also in a period of fiscal policy uncertainty. Two major fiscal initiatives from the Trump Administration have yet to be defined: infrastructure spending and tax reform. We believe that both initiatives will result in positives for the U.S. economy, but scaling, timing and applying those positives to an economic forecast are still impossible. The final form of fiscal stimulus and tax reform will undoubtedly be different from the starting point, evolving as legislation works its way through Congress this summer.

Retail sales for January were stronger than expected, showing ongoing strength in most categories of consumer spending. Total retail sales increased by 0.4

percent, boosted by higher gasoline prices, which ramped up sales at service stations by 2.3 percent for the month. Hiring, wage growth, increasing consumer confidence, higher house prices and a climbing stock market are all positives for consumer spending this spring.

Inflation data showed the impact of higher energy prices. Both the Producer Price index and the Consumer Price index were hotter than expected in January. The Headline PPI gained 0.6 percent for the month, as did the headline CPI.

Industrial production fell by 0.3 percent in January, weighed down by a reset in utility output, which has been lurching due to weather. Manufacturing output was up by 0.2 percent for the second month in a row. Mining output gained 2.8 percent in January, reflecting higher rig counts and more oil drilling activity.

Housing starts dipped by 2.6 percent in January. Single-family starts rebounded from their December dip, up 1.9 percent in January. Multifamily starts went the other way, falling by 7.9 percent after surging in December. Forward-looking permits increased by 4.6 percent in January to a 1,285,000 unit annual rate as multifamily permits rebounded from a December slump.

Initial claims for unemployment insurance increased by 5,000 for the week ending February 11, to hit 239,000. Continuing claims eased, down by 3,000 to hit 2,076,000 for the week ending February 4. These are very good numbers that show tight labor market conditions.

The Conference Board’s Leading Economic Index increased by 0.6 percent in January. This was the strongest monthly increase since June 2015. The Coincident Index and the Lagging Index were also positive.

Small business optimism remained strong in February according to the NFIB.

Survey	Last Actual	Comerica Economics Commentary
<b>Fed Funds Rate (Effective)</b> <i>(after the FOMC meeting of 3/14-3/15)</i>	<b>0.66 %</b> <b>(Jan)</b>	Commentary from Fed officials this week, including Janet Yellen, have pulled rate hike expectations forward. March, May or June are all in play.
<b>January Existing Home Sales (2/22, Wednesday)</b> Consensus: 5,550 k	<b>5,490 k</b> <b>(Dec)</b>	Up to a 5,575 k unit annual rate. Rebounding from a December dip. Mortgage apps for purchase were slightly positive for the month.
<b>January New Home Sales (2/24, Friday)</b> Consensus: 575 k	<b>536 k</b> <b>(Dec)</b>	Up to a 565 k unit annual rate. Same as for existing homes sales.

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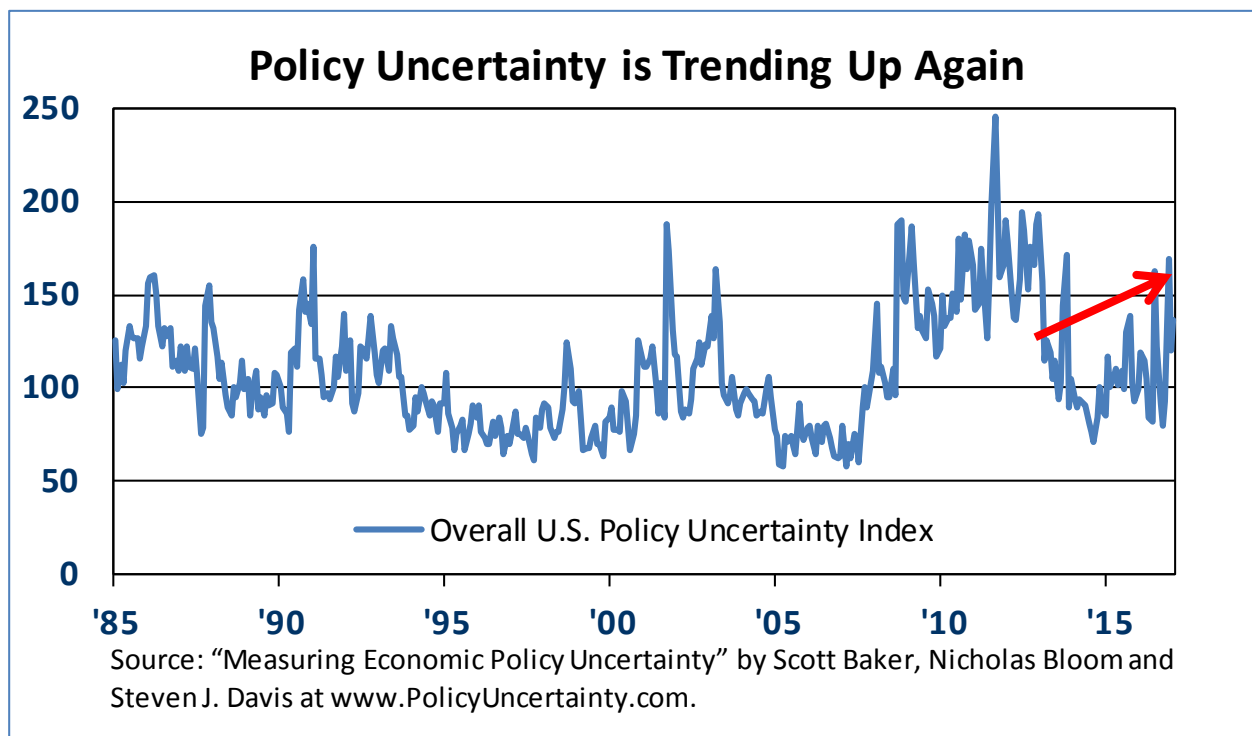
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**SPECIAL COMMENTARY:**

Remember the Economic Policy Uncertainty Index? The index combines three measures of policy-related economic uncertainty. The first component is based on a search of 10 large newspapers for coverage of policy-related economic uncertainty. The second component is based on changes to the federal tax code as compiled by the Congressional Budget Office. The third component is based on the dispersion of forecasts in the Federal Reserve Bank of Philadelphia's Survey of Professional Forecasters. The Economic Policy Uncertainty Index was useful during the dark days of the Great Recession as a way of gauging the paralyzing effects of heightened uncertainty in an economic downturn. Now, even though the U.S. economy is gaining momentum, the Economic Policy Uncertainty Index is again elevated, as the Trump

Administration contemplates changes to trade policy, immigration policy, the tax code and fiscal policy. In addition to the uncertainty emanating from Washington, economic forecasters are working to incorporate growing evidence of global economic deflation into their forecasts. Finally, U.S. monetary policy is at a crossroads as the snail pace of monetary tightening that we saw over 2015 and 2016 begins to accelerate this year. It all makes for an uncertain environment. The good news is that it is a different kind of uncertainty than we experienced through the Great Recession. The sky is not falling, but the atmosphere is changing. We think that economic outcomes will generally be positive, but big changes will create winners and losers and unintended consequences.

## Chart of the Week



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## February/March 2017

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