

Expectations for a fed funds rate hike at the upcoming May 2-3 Federal Open Market Committee meeting remain muted. According to the fed funds futures market, the implied probability of a 25 basis point rate hike on May 3 is just 6 percent. The FOMC's June 13-14 meeting *is in play* for a rate hike, with the implied probability up to about 62 percent.

The Fed's recent March 15 "dot plot" is consistent with two more 25 basis point rate hikes this year, for a total of three by year end. If we do have a June 14 rate hike, that will reinforce the cadence of one rate hike every other FOMC meeting, occurring on FOMC meetings that have a scheduled news conference. This cadence was established with the December 14, 2016 fed funds rate hike, followed by the March 15, 2017 rate hike.

This cadence is not set, but it shows that the Fed has some communication to do in order to establish expectations for the second half of the year since the cadence must change if they stick with only three rate hikes this year. Various Fed officials, including Chairwoman Janet Yellen, Vice-Chairman Stanley Fischer, and regional Fed presidents Williams, Evans, Rosengren, Dudley and Bullard all made comments this week. Their comments collectively suggest that there is an active debate within the Fed about what to do in the second half of 2017.

Inflation and inflation expectations figure large in that debate. The February income and spending data shows that a closely watched gauge of inflation, the personal consumption expenditure price index, increased by 0.1 percent in February after a large 0.4 percent gain in

January. The core PCE price index (excluding food and energy) gained 0.2 percent in February. Over the previous 12 months the headline PCE price index was up by 2.1 percent and the core PCE price index was up by 1.8 percent. So it is fair to say that inflation indicators are closing in on the Fed's near-2-percent target.

The recent swing in energy prices will factor into inflation indicators through the summer. WTI crude oil dipped below \$48 per barrel last week, hitting a daily average low of \$47.70 on March 23. Since then we have seen a rally in oil prices back up to just over \$50 per barrel. Higher oil prices would add to the pressure on broad inflation indicators, possibly tilting the Fed toward a total of 4 rate hikes this year. Weaker oil prices suggest the opposite, favoring just three rate hikes this year.

Also in the income and spending data for February we see that nominal income was up by 0.4 percent for the month, while inflation-adjusted after-tax income gained a moderate 0.2 percent. Consumers held on to their gains as inflation-adjusted spending fell by 0.1 percent in February, giving the personal saving rate its second straight monthly increase, hitting 5.6 percent. Consumer spending was weighed down by stable auto sales and by warm winter weather which held down spending on utilities.

Other economic data from this week was generally favorable. House prices remain strong (see graph next page). Unemployment insurance claims remain very low through March 25. Consumer confidence spiked in March according to the Conference Board which could factor into stronger than expected auto sales for the month.

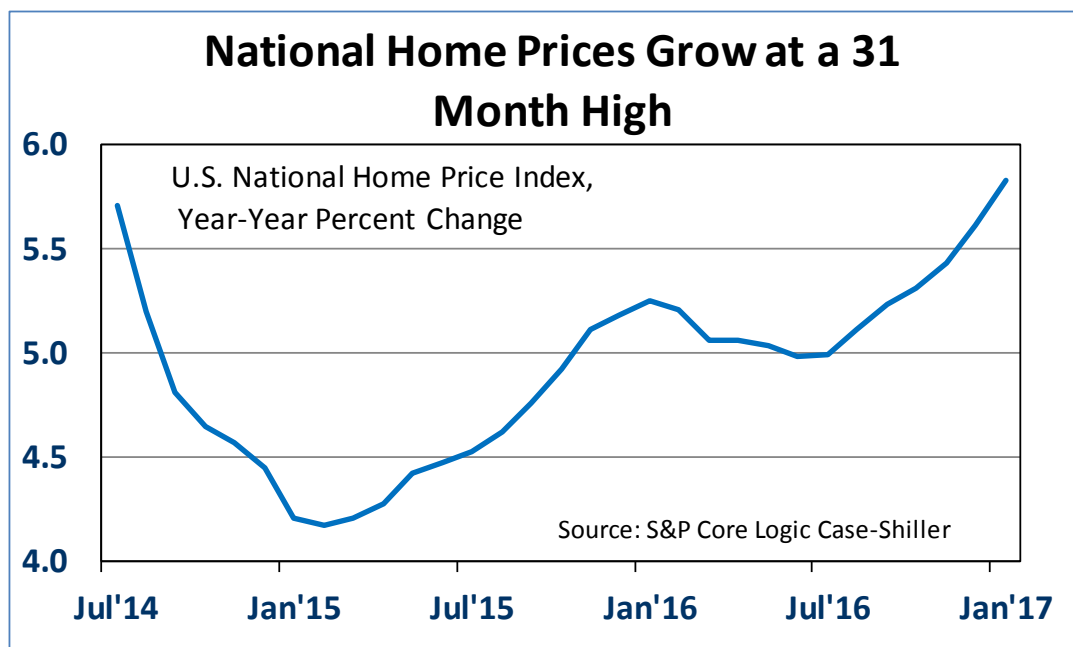
Survey	Last Actual	Comerica Economics Commentary
Fed Funds Rate (Effective) <i>(after the FOMC meeting of 5/2-5/3)</i>	0.66 % (Feb)	After increasing the fed funds rate range on March 15, the Fed will stand pat on May 3. We look for the next fed funds rate hike to come in June or July.
February Construction Spending (4/3, Monday) Consensus: 1.2 percent	-1.0 % (Jan)	<u>Up</u> by 1.0 percent. Housing starts were up in February and we expect to see a rebound in recently weak public construction.
March Auto Sales (4/3, Monday) Consensus: 17.4 mln	17.6 mln (Feb)	<u>Down</u> to 17.5 million unit rate. The major spike in consumer confidence in March puts us on the high side of consensus.
March ISM MFG Index (4/3, Monday) Consensus: 57.0	57.7 (Feb)	<u>Down</u> to 57.5. Still very positive. Regional manufacturing indicators remained strong through March.

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Survey	Last Actual	Comerica Economics Commentary
February International Trade Gap (4/4, Tuesday) Consensus: -\$46.5 bln	-\$48.5 bln (Jan)	<u>Narrows</u> to -\$45 bln. The advance report for trade in goods showed a \$4 billion narrowing in February. Services will mute the improvement in goods.
March ISM Non-MFG Index (4/5, Wednesday) Consensus: 57.0	57.6 (Feb)	<u>Down</u> to 57.0. Still good after a moderate gain in February.
March Nonfarm Payrolls (4/7, Friday) Consensus: +174 k	+235 k (Feb)	<u>Up</u> by 165,000. Recent strong gains points to a let down in March. We will take the under on consensus.
March Unemployment Rate (4/7, Friday) Consensus: 4.7 percent	4.7 % (Feb)	Unchanged at 4.7 percent. We look for moderate gains in both the civilian labor force and the household survey of employment.

Chart of the Week



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March/April 2017

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
27 TX MFG Survey	28 <u>CASE-SHILLER HPI COMP-20</u> (SA) Nov 192.0 Dec 193.8 Jan 195.5 Richmond Fed Survey Consumer Confidence	29 Pending Home Sales	30 <u>UNEMPLOYMENT CLAIMS</u> (ths) Dec Jan Feb Mar 251 245 237 252 251 241 248 246 265 252 247 261 258 250 227 258 241 <u>GROSS DOMESTIC PRODUCT</u> <u>Real GDP</u> <u>Price Index</u> '16Q2 1.4% 2.3% '16Q3 3.5% 1.4% '16Q4 2.1% 2.1%	31 <u>INCOME and SPENDING</u> <u>Income</u> <u>Spending</u> Dec 0.3% 0.6% Jan 0.5% 0.2% Feb 0.4% 0.1% U of M Consumer Sentiment (Final)
April 3 <u>AUTO SALES</u> (mln-SAAR) Dec 18.4 Jan 17.6 Feb 17.6 <u>ISM MFG INDEX</u> Dec 54.5 Jan 56.0 Feb 57.7 <u>CONSTRUCTION SPENDING</u> Nov 1.5% Dec 0.1% Jan -1.0%	4 <u>TRADE BALANCE</u> (bln) Nov -\$45.5 Dec -\$44.3 Jan -\$48.5	5 <u>ISM NON-MFG INDEX</u> Dec 56.6 Jan 56.5 Feb 57.6 ADP Employment FOMC Minutes	6	7 <u>EMPLOYMENT REPORT</u> <u>U. Rate</u> <u>Jobs (ths)</u> Dec 4.7% +155 Jan 4.8% +238 Feb 4.7% +235 Consumer Credit
10	11 NFIB JOLTS	12	13 <u>PRODUCER PRICE INDEX</u> <u>Total</u> <u>Core</u> Dec 0.2% 0.1% Jan 0.6% 0.2% Feb 0.3% 0.3% U of M Consumer Sentiment (Prelim)	14 <u>RETAIL SALES</u> <u>Total</u> <u>Ex-Autos</u> Dec 1.0% 0.4% Jan 0.6% 1.2% Feb 0.1% 0.2% <u>CONSUMER PRICE INDEX</u> <u>Total</u> <u>Core</u> Dec 0.3% 0.2% Jan 0.6% 0.3% Feb 0.1% 0.2% Business Inventories
17 Empire State Survey	18 <u>HOUSING</u> (ths) <u>Starts</u> <u>Permits</u> Dec 1,275 1,228 Jan 1,251 1,293 Feb 1,288 1,213 <u>IND PROD</u> <u>CAP UTIL</u> Dec 0.6% 75.6% Jan -0.1% 75.5% Feb 0.0% 75.4%	19 Beige Book	20 <u>LEADING INDICATORS</u> Dec 0.6% Jan 0.6% Feb 0.6%	21 <u>EXISTING HOME SALES</u> (ths) Dec 5,510 Jan 5,690 Feb 5,480