

U.S. data was mixed this week. Q1 GDP growth was tepid, but March new home sales were strong.

2017Q1 real GDP registered a sluggish 0.7 percent annualized growth rate, about as expected. Personal consumption expenditures increased at a very low 0.3 percent annualized rate due to falling car sales and warm weather. Good news came from business fixed investment which increased at a strong 9.4 percent annual rate. Residential fixed investment was also strong, increasing at a 13.7 percent annualized rate.

Sales of new single-family homes increased in March by 5.8 percent, hitting a 621,000 unit annual rate, continuing their upward trend.

The Employment Cost index for March showed a 0.8 percent month-over-month increase in compensation for civilian workers. This continued an increasing trend visible since early 2013. Tight labor market conditions are driving wages up.

Initial claims for unemployment insurance increased by 14,000 for the week ending April 22, to reach 257,000. Initial claims are showing a little volatility now on a week-to-week basis, but the longer-term trend still looks very favorable. Continuing claims for the week ending April 15 gained 10,000 to hit 1,988,000, still exceptionally low, below the two million mark.

New orders for durable manufactured goods increased by 0.7 percent in March, the third consecutive

solid monthly gain. In March, new orders were supported by another increase in commercial aircraft orders and by rebounding defense aircraft orders. The core measure of durable goods orders, nondefense capital goods excluding aircraft, increased by 0.2 percent in March, after similar gains in January and February.

Both fiscal and monetary policy levers are in play in Washington D.C.

The Trump Administration unveiled the broad contours of their tax reform agenda on Wednesday. The initial proposal for personal taxes would reduce brackets from seven to three, with base rates of 10 percent, 25 percent and 35 percent. Trump wants to lower the corporate tax rate from 35 percent to 15 percent and shift to a territorial system where U.S. companies only pay taxes on income related to the U.S. This was just the opening public position for the Trump Administration. What emerges from Congress, hopefully before the end of this year, may be a different story.

The Federal Open Market Committee will meet over this coming Tuesday and Wednesday to discuss the economy and monetary policy. We expect the Fed to leave interest rates unchanged next week, and then to raise the fed funds rate range by 25 basis points on June 14. We also look for more communication about the timing, phasing and mechanics of balance sheet reduction over the course of the summer.

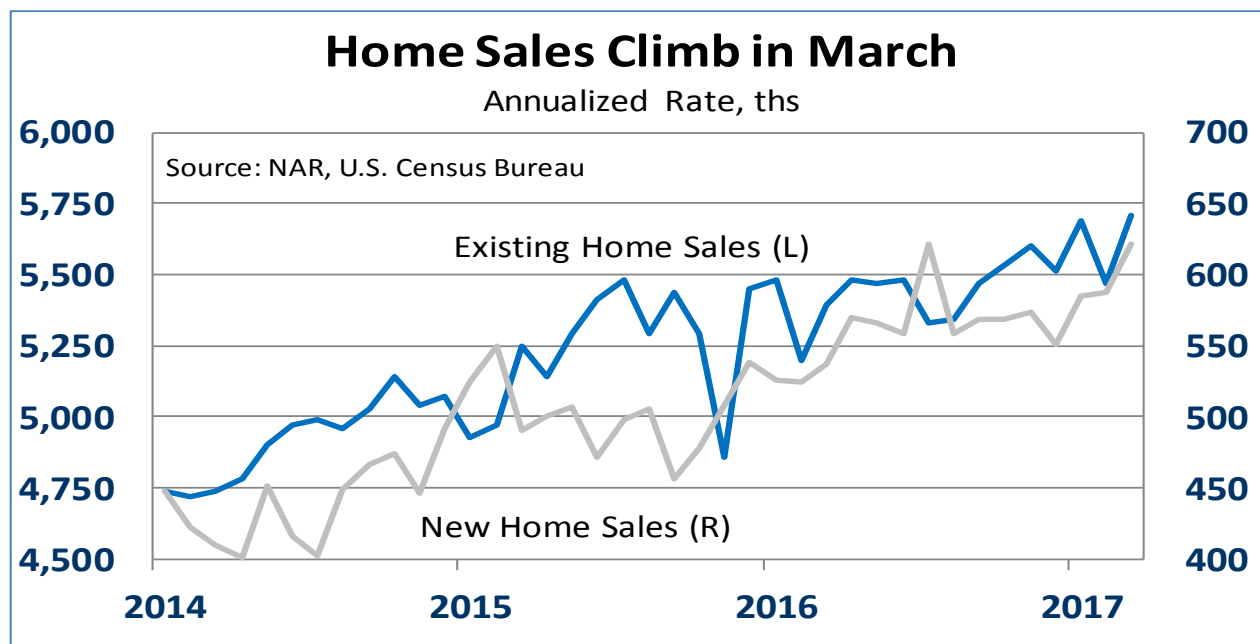
| Survey | Last Actual | Comerica Economics Commentary |
|---|-------------------------------|---|
| Fed Funds Rate (Effective) <i>(after the FOMC meeting of 5/2-5/3)</i> | 0.79 % (Mar) | After increasing the fed funds rate range on March 15, the Fed will stand pat on May 3. |
| March Personal Income (5/1, Monday) Consensus: 0.3 percent | 0.4 % (Feb) | <u>Up</u> by 0.2 percent. As implied by the Q1 GDP report. Payroll job growth was weak in March, but compensation was up. |
| March Personal Spending (5/1, Monday) Consensus: 0.2 percent | 0.1 % (Feb) | <u>Up</u> by 0.1 percent. As implied by the Q1 GDP report. Warm weather kept household spending down. |
| March Construction Spending (5/1, Monday) Consensus: 0.4 percent | 0.8 % (Feb) | <u>Up</u> by 0.4 percent. |
| April ISM MFG Index (5/1, Monday) Consensus: 56.5 | 57.2 (Mar) | <u>Down</u> to 56.5. Still positive. |

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| Survey | Last Actual | Comerica Economics Commentary |
|--|-----------------------------|--|
| April Auto Sales (5/2, Tuesday) Consensus: 17.2 mln | 16.6 mln (Mar) | <u>Up</u> to a 17.4 million unit rate. Bouncing back after a the early 2017 dip, but still below the very strong year-end 2016 pace. |
| April ISM Non-MFG Index (5/3, Wednesday) Consensus: 55.9 | 55.2 (Mar) | <u>Up</u> to 56.0. We expect this to be a positive indicator for Q2 GDP. |
| March International Trade Gap (5/4, Thursday) Consensus: -\$44.9 bln | -\$43.6 bln (Feb) | <u>Widens</u> to -\$47.8 bln. As implied by the Q1 GDP report. |
| April Nonfarm Payrolls (5/5, Friday) Consensus: +193 k | +98 k (Mar) | <u>Up</u> by 200,000 jobs. Bouncing back after a weak March report. |
| April Unemployment Rate (5/5, Friday) Consensus: 4.6 percent | 4.5 % (Mar) | <u>Up</u> to 4.6 percent. An inconsequential uptick after the surprise large drop in March. |

Chart of the Week



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April/May 2017

| MONDAY | TUESDAY | WEDNESDAY | THURSDAY | FRIDAY |
|---|---|--|---|--|
| 24 | 25 | 26 | 27 | 28 |
| | <u>CASE-SHILLER HPI COMP-20</u> <u>(SA)</u> Dec 193.7 Jan 195.4 Feb 196.7 <u>NEW HOME SALES</u> <u>(ths-SAAR)</u> Jan 585 Feb 587 Mar 621 | | <u>UNEMPLOYMENT CLAIMS</u> <u>(ths)</u> Jan Feb Mar Apr 245 237 252 235 241 248 246 234 252 247 261 243 250 227 259 257 <u>ADV DURABLE GOODS</u> <u>Total Ex-Transp</u> Jan 2.4% 0.3% Feb 2.3% 0.7% Mar 0.7% -0.2% | <u>GROSS DOMESTIC PRODUCT</u> <u>Real GDP Price Index</u> '16Q3 3.5% 1.4% '16Q4 2.1% 2.1% '17Q1 0.7% 2.3% |
| CFNAI TX MFG Survey | Richmond Fed Survey Consumer Confidence | | Pending Home Sales Kansas City Fed Survey | U of M Consumer Sentiment (Final) |
| May 1 | 2 | 3 | 4 | 5 |
| <u>INCOME and SPENDING</u> <u>Income Spending</u> Dec 0.3% 0.6% Jan 0.5% 0.2% Feb 0.4% 0.1% <u>ISM MFG INDEX</u> Jan 56.0 Feb 57.7 Mar 57.2 <u>CONSTRUCTION SPENDING</u> Dec -0.2% Jan -0.4% Feb 0.8% | <u>AUTO SALES</u> <u>(mln-SAAR)</u> Jan 17.6 Feb 17.6 Mar 16.6 | <u>ISM NON-MFG INDEX</u> Jan 56.5 Feb 57.6 Mar 55.2 | <u>TRADE BALANCE</u> <u>(bln)</u> Dec -\$44.3 Jan -\$48.2 Feb -\$43.6 | <u>EMPLOYMENT REPORT</u> <u>U. Rate Jobs (ths)</u> Jan 4.8% +216 Feb 4.7% +219 Mar 4.5% +98 |
| | FOMC Meeting | ADP Employment FOMC Meeting | Productivity | Consumer Credit |
| 8 | 9 | 10 | 11 | 12 |
| | | | <u>PRODUCER PRICE INDEX</u> <u>Total Core</u> Jan 0.6% 0.2% Feb 0.3% 0.3% Mar -0.1% 0.1% | <u>RETAIL SALES</u> <u>Total Ex-Autos</u> Jan 0.5% 1.1% Feb -0.3% 0.0% Mar -0.2% 0.0% <u>CONSUMER PRICE INDEX</u> <u>Total Core</u> Jan 0.6% 0.3% Feb 0.1% 0.2% Mar -0.3% -0.1% |
| | NFIB JOLTS | | | U of M Consumer Sentiment (Prelim) Business Inventories |
| 15 | 16 | 17 | 18 | 19 |
| | <u>HOUSING</u> <u>(ths)</u> <u>Starts Permits</u> Jan 1,241 1,293 Feb 1,303 1,216 Mar 1,215 1,260 <u>IND PROD CAP UTIL</u> Jan -0.3% 75.7% Feb 0.1% 75.7% Mar 0.5% 76.1% | | <u>LEADING INDICATORS</u> Jan 0.6% Feb 0.5% Mar 0.4% | |
| Empire State Survey | | | Philly Fed Survey | |