

U.S. economic data this week showed stronger-than-expected inflation in April, ongoing positive labor market indicators, and positive news about U.S. consumers. Overall, the data were consistent with our expectation for improved GDP growth in Q2, after a weak Q1.

Upstream inflation was warmer than expected in April as the Producer Price Index for final demand registered a 0.5 percent month-to-month gain. Much of the increase in headline PPI came from final demand services which climbed by 0.4 percent in April. The energy price index also increased, rising by 0.8 percent in April, after falling by 2.9 percent in March. Over the 12 months ending in April, the Producer Price Index for final demand is up by 2.5 percent. Core PPI (final demand less food, energy and trade) was up 2.1 percent over the previous year.

The Import Price Index also increased by 0.5 percent in April. Higher imported fuel prices helped to drive the headline index higher. The dollar has been easing slightly relative to our trading partners' currencies this year, supporting import prices.

Downstream inflation was about as expected as the Consumer Price Index registered a 0.2 percent increase for April. Gains in energy prices were offset by lower prices for new and used vehicles, apparel and medical care commodities. Over the previous 12 months, headline CPI was up by 2.2 percent while core CPI (less food and energy) was up by 1.9 percent.

Oil prices firmed this week after the EIA said that U.S. inventories of crude oil dropped more than expected.

Initial claims for unemployment insurance dipped by 2,000 for the week ending May 6, to hit 236,000. Continuing claims were extremely low for the week ending April 29, falling by 61,000, to reach 1,918,000.

The Job Opening and Labor Turnover Survey for March showed that the job opening rate (per existing employee) ticked back up to 3.8 percent. It has been in a range close to 3.8 percent since mid-2015, indicating good potential for ongoing hiring. The hiring rate remained elevated at 3.6 percent. The quits rate also stayed

elevated at 2.1 percent, which is a positive economic metric indicating worker confidence in the job market.

Business inventories for March increased by 0.2 percent nominally. This feeds into the Q1 GDP calculation so it is not a first tier forward-looking indicator. However, it does show ongoing improvement in the inventory/sales ratio, compared with year-ago values. This is consistent with improving overall economic conditions.

Retail sales for April increased by 0.4 percent nominally. If we apply the 0.2 percent increase in the CPI for the month, that approximates a 0.2 percent increase in real consumer spending on durable and nondurable goods. Unit auto sales increased in April to a 16.9 million unit rate. This brought retail sales of autos and parts up by 0.8 percent. So despite the weak year-over-year comparisons showing a 3.0 percent drop in unit auto sales for April, the monthly numbers were positive, and supportive of Q2 GDP growth. Other components of retail sales were mixed. Furniture, food and clothing sales eased for the month. Building materials, drugstore, and sporting goods sales were up. Retail sales excluding autos increased by 0.4 percent in April.

The University of Michigan's Consumer Sentiment Index increased to 97.7 in early May. The index has eased slightly from its post-election surge, but it remains well elevated compared to its pre-election level. Despite the stronger PPI and import price numbers for April, consumer expectations about inflation were little changed.

According to the fed funds futures market, expectations that the next increase in the fed funds rate range would happen on June 14 eased a little, back to 74 percent. Charles Evans, President of the Federal Reserve Bank of Chicago, said today that there is downside risk to the expectation of two more rate hikes this year. Evans is known as a more dovish member of the FOMC. We expect to see more discussion from the Fed over the summer about its intentions for balance sheet reduction. We look for that process to begin either late this year or early next year.

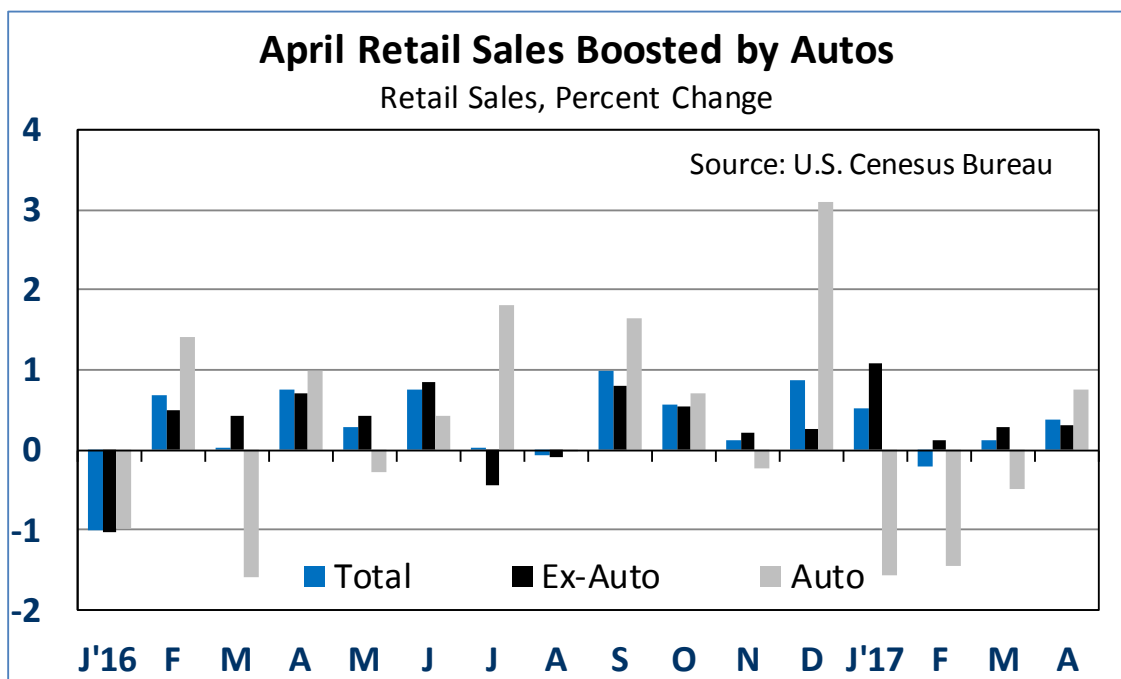
Survey	Last Actual	Comerica Economics Commentary
Fed Funds Rate (Effective) <i>(after the FOMC meeting of 6/13-6/14)</i>	0.90 % (Apr)	We expect to see a 25 basis point increase in the fed funds rate range announced on June 14.
April Housing Starts (5/16, Tuesday) Consensus: 1,250 k	1,215 k (Mar)	<u>Up</u> to a 1,265 k unit annual rate. More strength on the single-family side.

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Survey	Last Actual	Comerica Economics Commentary
April Housing Permits (5/16, Tuesday) Consensus: 1,270 k	1,260 k (Mar)	Up to a 1,270 k unit annual rate.
April Industrial Production (5/16, Tuesday) Consensus: 0.4 percent	0.5 % (Mar)	Up by 0.3 percent. Utility output was erratic over the winter due to weather. It still has room to increase after rebounding in March.
April Capacity Utilization (5/16, Tuesday) Consensus: 76.3 percent	76.1 % (Mar)	Up to a 76.4 percent rate.
April Leading Indicators (5/18, Thursday) Consensus: 0.3 percent	0.4 % (Mar)	Up by 0.3 percent. Manufacturing indicators should be supportive.

Chart of the Week



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May/June 2017

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY					
8	9	10	11	12					
	NFIB JOLTS		UNEMPLOYMENT CLAIMS <th>(ths)</th> Feb Mar Apr May 237 252 235 236 248 246 234 247 261 243 227 259 257 238 PRODUCER PRICE INDEX <th>Total Core</th> Feb 0.3% 0.3% Mar -0.1% 0.1% Apr 0.5% 0.7%	(ths)	Total Core	RETAIL SALES <th>Total Ex-Autos</th> Feb -0.2% 0.1% Mar 0.1% 0.3% Apr 0.4% 0.3% CONSUMER PRICE INDEX <th>Total Core</th> Feb 0.1% 0.2% Mar -0.3% -0.1% Apr 0.2% 0.1% U of M Consumer Sentiment (Prelim) Business Inventories	Total Ex-Autos	Total Core	
15	16	17	18	19					
Empire State Survey	HOUSING <th>(ths)</th> <th>Starts Permits</th> Jan 1,241 1,293 Feb 1,303 1,216 Mar 1,215 1,260 IND PROD CAP UTIL Jan -0.3% 75.7% Feb 0.1% 75.7% Mar 0.5% 76.1%	(ths)	Starts Permits		LEADING INDICATORS Jan 0.6% Feb 0.5% Mar 0.4% Philly Fed Survey				
22	23	24	25	26					
CFNAI	NEW HOME SALES <th>(ths-SAAR)</th> Jan 585 Feb 587 Mar 621	(ths-SAAR)	EXISTING HOME SALES <th>(ths)</th> Jan 5,690 Feb 5,470 Mar 5,710	(ths)	GROSS DOMESTIC PRODUCT <th>Real GDP Price Index</th> '16Q3 3.5% 1.4% '16Q4 2.1% 2.1% '17Q1 0.7% 2.3% ADV DURABLE GOODS <th>Total Ex-Transp</th> Jan 2.4% 0.3% Feb 2.3% 0.7% Mar 0.7% -0.2%	Real GDP Price Index	Total Ex-Transp		
	Richmond Fed Survey	FOMC Meeting Minutes	Kansas City Fed Survey						
29	30	31	June 1	2					
	INCOME and SPENDING <th>Income Spending</th> Jan 0.4% 0.2% Feb 0.3% 0.0% Mar 0.2% 0.0% CASE-SHILLER HPI COMP-20 <th>(SA)</th> Dec 193.7 Jan 195.4 Feb 196.7 TX MFG Survey Consumer Confidence	Income Spending	(SA)	AUTO SALES <th>(mIn-SAAR)</th> Feb 17.6 Mar 16.6 Apr 16.9 ISM MFG INDEX Feb 57.7 Mar 57.2 Apr 54.8 CONSTRUCTION SPENDING Jan 0.8% Feb 1.8% Mar -0.2% Beige Book Pending Home Sales	(mIn-SAAR)	EMPLOYMENT REPORT <th>U. Rate Jobs (ths)</th> Feb 4.7% +232 Mar 4.5% +79 Apr 4.4% +211 TRADE BALANCE <th>(bln)</th> Jan -\$48.2 Feb -\$43.8 Mar -\$43.7 Productivity ADP Employment	U. Rate Jobs (ths)	(bln)	