

April ISM MF Index, March Personal Income, Construction Spending

Indicators Support Stronger Outlook for Q2 GDP, Fed on Hold

- The ISM Manufacturing Index decreased to a still-positive 54.8 in April.
- U.S. Real Disposable Personal Income increased by 0.5 percent in March.
- The Personal Consumption Expenditure Price Index fell by 0.2 percent in March.
- After inflation, Real Consumer Spending increased by 0.3 percent in March.
- Construction Spending eased by 0.2 percent in March.
- No Fed rate hike this week.

Real GDP increased at a meager 0.7 percent annualized rate in the first quarter. Today's economic indicators are consistent with our expectations for strong growth in the current second quarter. Back-of-the-envelope calculations get us up to about 3.0 percent or better real GDP growth rate for the second quarter. This Friday we will begin our May U.S. Economic Update and take an in-depth look at GDP for Q2 and beyond. We expect to publish our May U.S. update early next week.

The ISM Manufacturing Index dipped from a strong 57.2 reading in March, to a still-positive 54.8 in April. Nine out of the 10 sub-indexes remain in expansion territory, including new orders, production and employment. Sixteen out of 18 industries reported growth. Only the apparel industry reported contraction in April. Anecdotal comments were positive. So even though auto manufacturing looks like it may have peaked for this cycle, in term of unit production, other manufacturing industries are still feeling a tailwind from improving U.S. and global conditions.

Weak consumer spending was the major reason that Q1 GDP growth was tepid. In the March income and spending data we see reasons to expect stronger consumer spending in Q2. Furthermore, we expect that the Q1 dip in auto sales will not be repeated in Q2 and that the weather-related drag on consumer spending in Q1 will abate. Real disposable personal income increased by 0.5 percent in March with the help of declining energy prices. The personal consumption expenditure price index fell by 0.2 percent in March as gasoline prices declined. Real consumer spending increased by a solid 0.3 percent for the month, even as nominal spending was unchanged. We are also looking for a rebound in payroll job growth in April to support consumer spending and overall Q2 GDP growth. The employment report will be released by the Bureau of Labor Statistics this Friday morning. We will have complete coverage.

Total construction spending eased by 0.2 percent in March. Private residential construction spending increased by 1.2 percent, driven by multifamily projects. Private nonresidential construction spending dipped by 1.3 percent as both office and commercial projects eased. Total public construction declined by 0.9 percent. Over the year ending in March, total public construction spending is down 6.5 percent. Here is where a new infrastructure program from the Trump Administration could result in a major turnaround.

The Federal Open Market Committee is meeting over this Tuesday and Wednesday to discuss the economy and monetary policy. We expect to see no changes to interest policy when the FOMC issues its policy announcement Wednesday afternoon. There might be some mention of the plans for balance sheet roll in the policy announcement, but plans have likely not yet been finalized and the policy statement is usually too brief to contain a detailed description of a complicated process. Instead the minutes of the May 2/3 FOMC meeting may yield more information about balance sheet reduction when they are made public on May 24. We expect the next fed funds rate range hike to come on June 14. The fed funds futures market shows a cumulative implied probability of about 66 percent for a rate hike on June 14.

Market Reaction: U.S. equity markets opened with gains. The yield on the 10-year Treasury bond is up to 2.31 percent. NYMEX crude is down to \$48.68/barrel. Natural gas futures are down to \$3.25/mmbtu.

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