

Economic data this week are again consistent with a moderate rebound in U.S. GDP growth for the nearly complete second quarter. First quarter real GDP growth was revised up slightly to a modest 1.4 percent annualized rate. This is still a disappointing growth rate, but the third estimate of real GDP growth for Q1 has now doubled from the 0.7 percent growth of the first estimate.

Consumer spending added just 0.75 percentage points to Q1 real GDP growth. Warm winter weather was a factor, as was the inevitable decline in auto sales from the late-2016 peak. Business fixed investment was good, supported by the increase in oil drilling activity, adding 1.23 percent points to growth. Residential fixed investment was weaker, adding only 0.48 percentage points. Inventories were a big drag, pulling Q1 real GDP growth down by 1.11 percentage points. Net exports were a small positive in Q1, adding 0.23 percentage points. Government spending was another drag, subtracting 0.16 percentage points from Q1 real GDP growth.

We expect to see more support from consumer spending, inventories and government spending in Q2. The first estimate of second quarter gross domestic product is due out on July 28. We look for a moderate uptick in real GDP growth for Q2 to about 2.5 percent.

The income and consumer spending report for May is consistent with our expectations for increased real GDP growth in Q2. With the drop in energy prices in May, the personal consumption expenditure prices index fell by 0.1 percent. This means that the 0.4 percent nominal income growth for May translates into a solid 0.6 percent increase in real disposable income for

the month. Real consumer spending increased by 0.1 percent in May. The April and May consumer spending numbers are consistent with a 2.5 to 3 percent growth rate for real consumer spending in Q2. This aligns with our estimate of 2.5 real GDP growth for Q2.

The Conference Board's Consumer Confidence Index for June increased moderately to 118.9. Consumer confidence was trending up well before the November presidential election, then it spiked after the election. Consumer confidence has eroded in subsequent months, but it remains well into positive territory.

The Case-Shiller U.S. National Home Price Index was up by 5.5 percent for the year ending in April, below expectations. Fifteen of the 20 cities in the Case-Shiller 20-City Index showed price gains for the month, but Boston, Cleveland, San Francisco, Tampa and Washington did not. We expect tight inventories to keep upward pressure on house prices in most major markets.

New orders for durable goods decreased by 1.1 percent in May, weighed down by declining orders for both commercial and defense aircraft. Core orders, defense capital goods excluding aircraft, eased back by just 0.2 percent. New orders are an important leading indicator for the manufacturing sector, but they do not factor directly into the GDP calculation. The shipments data in the same report do factor into GDP through inventories and investment numbers. Shipments of durable goods increased by 0.8 percent nominally in May.

Initial claims for unemployment insurance increased inconsequentially by 2,000, to hit 244,000 for the week ending June 24. Continuing claims also ticked up slightly, gaining 6,000 for the week ending June 17, to reach 1,948,000.

Survey	Last Actual	
Fed Funds Rate (Effective) <i>(after the FOMC meeting of 7/25-7/26)</i> 1.00 to 1.25 percent	0.91 % (May)	No rate hike in July. We expect the Fed to announce the start of balance sheet reduction at the September 19/20 FOMC meeting. We look for the next fed funds rate hike to come in December.
June Auto Sales (7/3, Monday) Consensus: 16.5 mln	16.7 mln (May)	<u>Down</u> to a 16.5 million unit rate. We are past peak auto for this business cycle.
May Construction Spending (7/3, Monday) Consensus: 0.2 percent	-1.4 % (Apr)	<u>Up</u> by 0.3 percent. Held down by sluggish residential construction.

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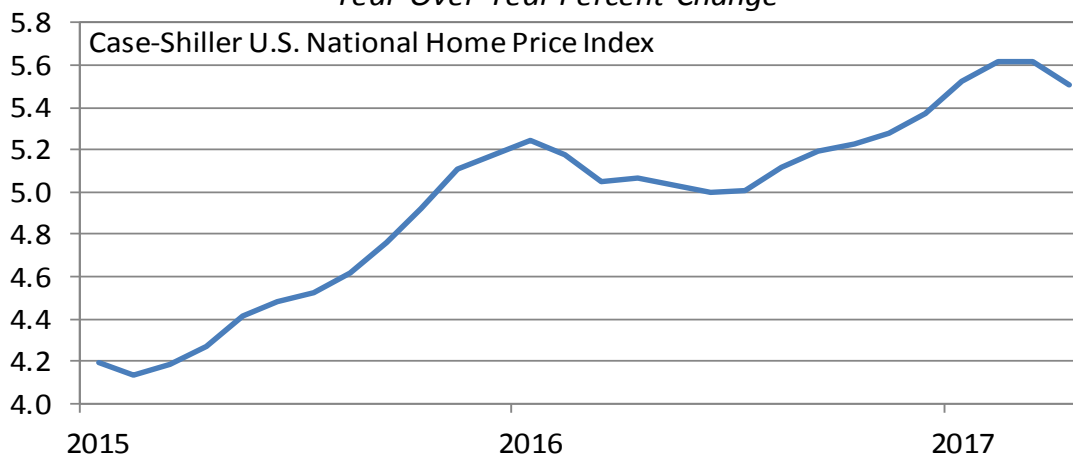
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Survey	Last Actual	Comerica Economics Commentary
June ISM MFG Index (7/3, Monday) Consensus: 55.0	54.9 (May)	<u>Down</u> to 54.5. The Dallas Fed's Texas manufacturing index eased in June.
June ISM Non-MFG Index (7/6, Thursday) Consensus: 56.5	56.9 (May)	<u>Down</u> to 56.5. Sluggish residential construction and less retail employment as stores close.
May International Trade Gap (7/6, Thursday) Consensus: -\$46.2 bln	-\$47.6 bln (Apr)	<u>Narrowing</u> to \$46.0 billion. Trade may be a small positive for Q2 GDP.
June Nonfarm Payrolls (7/7, Friday) Consensus: +177 k	+138 k (May)	<u>Up</u> by 180,000 jobs. Bouncing back from soft employment reports in March and May.
June Unemployment Rate (7/7, Friday) Consensus: 4.3 percent	4.3 % (May)	<u>Unchanged</u> at 4.3 percent.

Chart of the Week

Home Prices Continue to Rise

Year-Over-Year Percent Change



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June/July 2017

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY																																																																		
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