

Economic data this week are again consistent with a moderate rebound in U.S. GDP growth for the second quarter. The first estimate of Q2 GDP is due out on July 28.

Payroll employment increased by a strong 222,000 net jobs for the month. The civilian labor force showed even stronger growth, increasing by 361,000 workers for the month. This brought the unemployment rate up inconsequentially to 4.4 percent. The temporary increase in the unemployment rate is not a sign of a cooling labor market. We expect that that labor market will continue to tighten through the second half of this year. The average workweek inched up by one tenth of an hour to 34.5. Average hourly earnings increased moderately by 4 cents, or 0.2 percent.

Initial claims for unemployment insurance increased by 4,000 for the week ending July 1, to hit 248,000, staying in the very low range where they have been since the first of the year. Continuing claims gained 11,000 for the week ending June 24, to hit 1,956,000, still a very low number.

The ISM Non-Manufacturing Index increased from a positive 56.9 in May, to a strong 57.4 in June. All 10 sub-indexes were above 50, indicating improving conditions. The ISM Manufacturing Index also improved in June, climbing to 57.8, indicating strong and improving conditions in the manufacturing sector. Together, these two indexes cover a significant portion of the U.S. economy.

The U.S. international trade gap narrowed by \$1.1 billion in May, to reach -\$46.5 billion. Exports increased by \$0.9 billion, while imports edged down by \$0.2 billion. The average inflation-adjusted balance of

trade in goods for April and May was a little above the first quarter average. This suggests that trade may be a modest drag on Q2 GDP growth.

Auto sales for June eased to a 16.5 million unit rate, the lowest sales rate since October 2014. The June data was not terrible, but it feeds the growing consensus that we are past peak auto for this business cycle.

Construction spending was steady in May. Declines in private residential and private non-residential projects were offset by gains in public projects.

Oil prices climbed in late June, but gave back ground in early July to hit \$45 per barrel Friday morning. The U.S. drilling rig count leveled out in late June reflecting a growing expectation for "lower for longer" oil prices.

The Federal Reserve released the minutes of the June 13/14 Federal Open Market Committee meeting. The Fed minutes showed ongoing, but general, discussion about the timing of balance sheet roll-off. The minutes reinforced the consensus view that the Fed will take a pause on rate hikes until the end of this year. The next significant development is expected to be a September 20 announcement of the start of balance sheet reduction. We expect balance sheet reduction to begin in early October. The dollar amount of maturing assets not reinvested will start out low and then gradually increase over the following year.

According to the fed funds futures market, there is only a 3 percent probability of a rate hike on July 26. September 20 stays low at 14 percent. November 1 barely climbs to 15 percent. The implied probability of a December 13 rate hike jumps to about 59 percent.

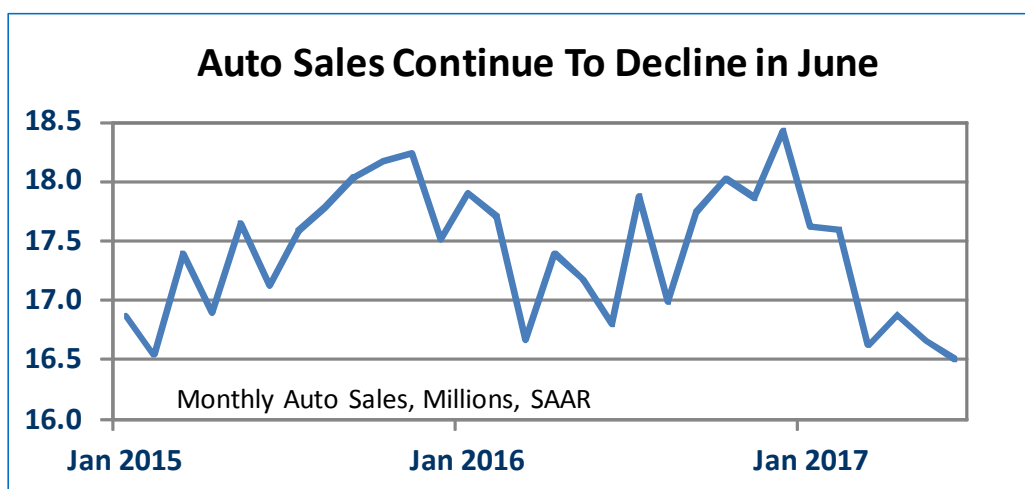
Survey	Last Actual	
Fed Funds Rate (Effective) <i>(after the FOMC meeting of 7/25-7/26)</i> 1.00 to 1.25 percent	0.91 % (May)	No rate hike on July 26. We expect the Fed to announce the start of balance sheet reduction at the September 19/20 FOMC meeting. We look for the next fed funds rate hike to come in December.
June PPI (7/13, Thursday) Consensus: 0.0 percent	0.0 % (May)	<u>Unchanged</u> . Held down by lower oil prices.
June PPI Ex-Food, Energy & Trade (7/13, Thursday) Consensus: 0.2 percent	-0.1 % (May)	<u>Up</u> by 0.2 percent. Core inflation is still alive and well.

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Survey	Last Actual	Comerica Economics Commentary
June Retail Sales (7/14, Friday) Consensus: 0.2 percent	-0.3 % (May)	<u>Up</u> by 0.2 percent. Held down by low energy prices and declining auto sales.
June Retail Sales Ex-Auto (7/14, Friday) Consensus: 0.2 percent	-0.3 % (May)	<u>Up</u> by 0.2 percent.
June CPI (7/14, Friday) Consensus: 0.1 percent	-0.1 % (May)	<u>Up</u> by 0.1 percent. Gasoline prices approached \$2 per gallon in some areas.
June CPI Ex. Food & Energy (7/14, Friday) Consensus: 0.2 percent	0.1 % (May)	<u>Up</u> by 0.2 percent.
June Industrial Production (7/14, Friday) Consensus: 0.3 percent	0.0 % (May)	<u>Up</u> by 0.2 percent. Held down by declining auto production.
June Capacity Utilization (7/14, Friday) Consensus: 76.8 percent	76.6 % (May)	<u>Up</u> to 76.8 percent.

Chart of the Week



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July 2017

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY																																													
<p>3</p> <p>AUTO SALES (mIn-SAAR)</p> <p>Apr 16.9 May 16.7 Jun 16.5</p> <p>ISM MFG INDEX</p> <p>Apr 54.8 May 54.9 Jun 57.8</p> <p>CONSTRUCTION SPENDING</p> <p>Mar 1.1% Apr -1.4% May 0.0%</p>	<p>4</p>	<p>5</p>	<p>6</p> <p>TRADE BALANCE (bln)</p> <p>Mar -\$45.3 Apr -\$47.6 May -\$46.5</p> <p>ISM NON-MFG INDEX</p> <p>Apr 57.5 May 56.9 Jun 57.4</p> <p>UNEMPLOYMENT CLAIMS (ths)</p> <table> <thead> <tr> <th>Apr</th> <th>May</th> <th>Jun</th> <th>Jul</th> </tr> </thead> <tbody> <tr> <td>235</td> <td>236</td> <td>245</td> <td>248</td> </tr> <tr> <td>234</td> <td>233</td> <td>238</td> <td></td> </tr> <tr> <td>243</td> <td>235</td> <td>242</td> <td></td> </tr> <tr> <td>257</td> <td>255</td> <td>244</td> <td></td> </tr> <tr> <td>238</td> <td></td> <td></td> <td></td> </tr> </tbody> </table>	Apr	May	Jun	Jul	235	236	245	248	234	233	238		243	235	242		257	255	244		238				<p>7</p> <p>EMPLOYMENT REPORT</p> <table> <thead> <tr> <th></th> <th>U. Rate</th> <th>Jobs (ths)</th> </tr> </thead> <tbody> <tr> <td>Apr</td> <td>4.4%</td> <td>+207</td> </tr> <tr> <td>May</td> <td>4.3%</td> <td>+152</td> </tr> <tr> <td>Jun</td> <td>4.4%</td> <td>+222</td> </tr> </tbody> </table>		U. Rate	Jobs (ths)	Apr	4.4%	+207	May	4.3%	+152	Jun	4.4%	+222									
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<p>24</p> <p>EXISTING HOME SALES (ths)</p> <p>Mar 5,700 Apr 5,560 May 5,620</p>	<p>25</p> <p>CASE-SHILLER HPI COMP-20 (SA)</p> <p>Feb 196.8 Mar 197.9 Apr 198.4</p>	<p>26</p> <p>NEW HOME SALES (ths-SAAR)</p> <p>Mar 644 Apr 593 May 610</p>	<p>27</p> <p>ADV DURABLE GOODS</p> <table> <thead> <tr> <th></th> <th>Total</th> <th>Ex-Transp</th> </tr> </thead> <tbody> <tr> <td>Mar</td> <td>2.4%</td> <td>0.9%</td> </tr> <tr> <td>Apr</td> <td>-0.9%</td> <td>-0.5%</td> </tr> <tr> <td>May</td> <td>-1.1%</td> <td>0.1%</td> </tr> </tbody> </table>		Total	Ex-Transp	Mar	2.4%	0.9%	Apr	-0.9%	-0.5%	May	-1.1%	0.1%	<p>28</p> <p>GROSS DOMESTIC PRODUCT</p> <table> <thead> <tr> <th></th> <th>Real GDP</th> <th>Price Index</th> </tr> </thead> <tbody> <tr> <td>'16Q3</td> <td>3.5%</td> <td>1.4%</td> </tr> <tr> <td>'16Q4</td> <td>2.1%</td> <td>2.1%</td> </tr> <tr> <td>'17Q1</td> <td>1.4%</td> <td>2.4%</td> </tr> </tbody> </table> <p>U of M Consumer Sentiment (Final)</p>		Real GDP	Price Index	'16Q3	3.5%	1.4%	'16Q4	2.1%	2.1%	'17Q1	1.4%	2.4%																					
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