

Economic data published in the last week of July showed moderate U.S. economic growth in Q2, likely setting up more of the same for Q3, and keeping the Federal Reserve on track for the beginning of balance sheet reduction this fall.

Real gross domestic product growth increased to a moderate 2.6 percent annualized rate in the second quarter, after a revised 1.2 percent growth rate for the first quarter of 2017. As expected some of the quirky factors that held back GDP in Q1 reversed in Q2.

New orders for durables goods surged by 6.5 percent in June, on the back of a doubling of commercial aircraft orders for the month. The core measure of durable goods orders, non-defense capital goods excluding aircraft, eased slightly by 0.1 percent.

Initial claims for unemployment insurance increased by 10,000 to hit 244,000 for the week ending July 22. Continuing claims dropped by 13,000, to hit 1,964,000 for the week ending July 15. These are good numbers consistent with ongoing job growth.

The Employment Cost Index for June increased by 0.5 percent over the previous three-month period. For the 12 months ending in June compensation costs are up by 2.4 percent. This was a tame report, but it

does show that the rate of increase in both wages/salaries and benefits is climbing.

New home sales ticked up by 0.8 percent in June to a 610,000 unit annual rate. This was below the March peak of 638,000, but the trend looks positive.

Existing home sales eased by 1.8 percent in June, to a 5,520,000 unit annual rate. Over the past several months existing home sales again look range bound, near a 5.5 million unit pace.

The Case-Shiller U.S. National Home Price Index gained 0.2 percent in May, after seasonal adjustment, and was up 5.6 percent over the previous 12 months.

The Federal Open Market Committee voted on Wednesday to keep the fed funds rate range unchanged at 1.00 to 1.25 percent. The FOMC did not commit to a timetable, but the policy announcement was consistent with the widely held expectation that the Fed will begin balance sheet reduction this fall, possibly in October. We expect them to announce the starting date for balance sheet reduction at the next FOMC over September 19/20. We look for the next interest rate hike to come at the last FOMC meeting of this year, over December 12/13. However, weak inflation readings could delay the next rate hike.

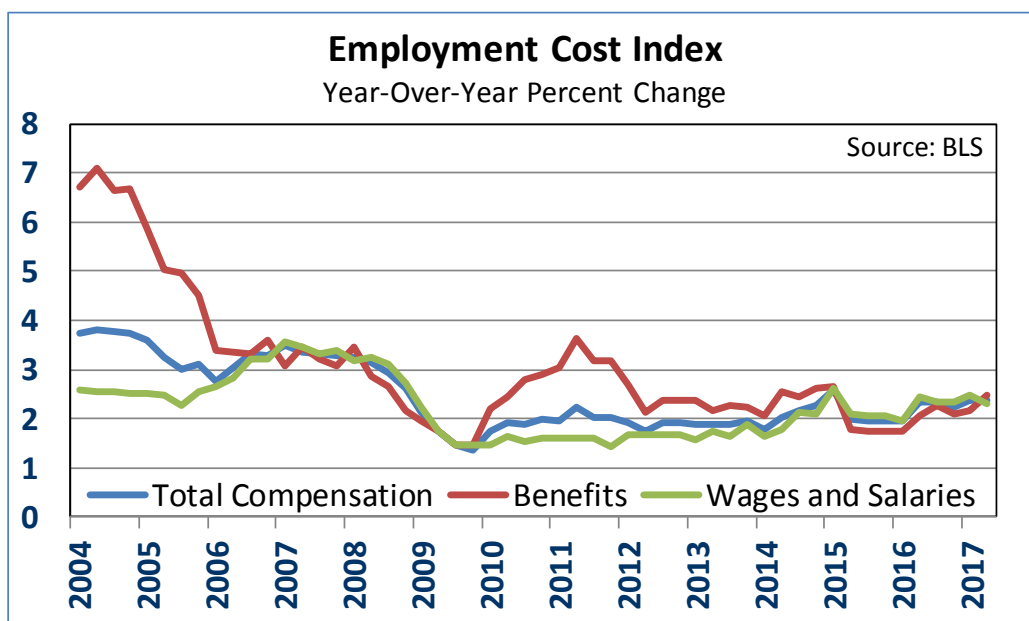
Survey	Last Actual	
<b>Fed Funds Rate (Effective)</b> <i>(after the FOMC meeting of 9/19-9/20)</i> 1.00 to 1.25 percent	<b>1.04 %</b> <b>(Jun)</b>	We expect the Fed to announce the start of balance sheet reduction at the September 19/20 FOMC meeting. We look for the next fed funds rate hike to come in December.
<b>June Personal Income (8/1, Tuesday)</b> Consensus: 0.4 percent	<b>0.4 %</b> <b>(May)</b>	<u>Up</u> by 0.3 percent. Supported by strong job growth in June.
<b>June Personal Spending (8/1, Tuesday)</b> Consensus: 0.1 percent	<b>0.1 %</b> <b>(May)</b>	<u>Up</u> by 0.2 percent. Vehicle sales were a drag in June, but nondurables and services will support an overall gain in spending.
<b>June Construction Spending (8/1, Tuesday)</b> Consensus: 0.5 percent	<b>0.0 %</b> <b>(May)</b>	<u>Up</u> by 0.5 percent. Residential construction firmed up in June.
<b>July Auto Sales (8/1, Tuesday)</b> Consensus: 16.8 mln	<b>16.5 mln</b> <b>(Jun)</b>	<u>Up</u> to a 16.8 million unit rate. Consumer confidence increased in July.

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Survey	Last Actual	Comerica Economics Commentary
<b>July ISM MFG Index</b> (8/1, Tuesday) Consensus: 56.4	<b>57.8</b> (Jun)	<u>Down</u> to 56.8. Still indicative of improving conditions for manufacturers.
<b>July ISM Non-MFG Index</b> (8/3, Thursday) Consensus: 56.9	<b>57.4</b> (Jun)	<u>Down</u> to 56.9. These would be solid numbers for both the ISM Manufacturing Index and the ISM Non-Manufacturing Index. Good news for Q3.
<b>June International Trade Gap</b> (8/4, Friday) Consensus: -\$45.6 ban	<b>-\$46.5 ban</b> (May)	<u>Narrowing</u> to -\$45 billion. The advance report on trade in goods shows improvement. The dollar is down from the late-2016 peak.
<b>July Nonfarm Payrolls</b> (8/4, Friday) Consensus: +180 k	<b>+222 k</b> (Jun)	<u>Up</u> by 175,000. A solid gain for this late in the business cycle.
<b>July Unemployment Rate</b> (8/4, Friday) Consensus: 4.3 percent	<b>4.4 %</b> (Jun)	<u>Down</u> to 4.3 percent. We expect it to fall further through the second half of this year.

## Chart of the Week



Prior to the juiced up economy of 2006-2007, total compensation was being pulled up by rapidly rising benefits. Both benefit and wage gains eased during and after the recession. Recently, both benefits and wages have increased moderately, with wages increasing a little faster. Fed policy makers will be watching this data to see if tight labor markets will cause employment costs to escalate.

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## July/August 2017

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
24 <b>EXISTING HOME SALES</b> <u>(this)</u> Apr 5,560 May 5,620 Jun 5,520	25 <b>CASE-SHILLER HPI COMP-20</b> <u>(SA)</u> Mar 198.5 Apr 198.1 May 198.4  Consumer Confidence Richmond Fed Survey FOMC Meeting	26 <b>NEW HOME SALES</b> <u>(this-SAAR)</u> Apr 577 May 605 Jun 610  FOMC Meeting	27 <b>ADV DURABLE GOODS</b> <u>Total Ex-Trans</u> Apr -0.8% -0.4% May -0.1% 0.6% Jun 6.5% 0.2%  <b>UNEMPLOYMENT CLAIMS</b> <u>(this)</u> Apr May Jun Jul 235 236 245 250 234 233 238 248 243 235 242 234 257 255 244 244 238  CFNAI Kansas City Fed Survey	28 <b>GROSS DOMESTIC PRODUCT</b> <u>Real GDP Price Index</u> '16Q4 1.8% 2.0% '17Q1 1.2% 2.0% '17Q2 2.6% 1.0%  U of M Consumer Sentiment (Final)
31  TX MFG Survey Pending Home Sales	August 1 <b>AUTO SALES</b> <u>(man-SAAR)</u> Apr 16.9 May 16.7 Jun 16.5  <b>INCOME and SPENDING</b> <u>Income Spending</u> Mar 0.2% 0.4% Apr 0.3% 0.4% May 0.4% 0.1%  <b>ISM MFG INDEX</b> Apr 54.8 May 54.9 Jun 57.8  <b>CONSTRUCTION SPENDING</b> Mar 0.3% Apr -0.7% May 0.0%	2  ADP Employment	3 <b>ISM NON-MFG INDEX</b> Apr 57.5 May 56.9 Jun 57.4	4 <b>TRADE BALANCE</b> <u>(ban)</u> Mar -\$45.3 Apr -\$47.6 May -\$46.5  <b>EMPLOYMENT REPORT</b> <u>U. Rate Jobs (this)</u> Apr 4.4% +207 May 4.3% +152 Jun 4.4% +222
7  Consumer Credit	8  NFIB JOLTS	9	10 <b>PRODUCER PRICE INDEX</b> <u>Total Core</u> Mar 0.5% 0.7% Apr 0.0% -0.1% Jun 0.1% 0.2%	11 <b>CONSUMER PRICE INDEX</b> <u>Total Core</u> Apr 0.2% 0.1% May -0.1% 0.1% Jun 0.0% 0.1%
14	15 <b>RETAIL SALES</b> <u>Total Ex-Autos</u> Apr 0.3% 0.3% May -0.1% -0.3% Jun -0.2% -0.2%  Empire State Survey Business Inventories	16 <b>HOUSING</b> <u>(this)</u> <u>Starts Permits</u> Apr 1,154 1,228 May 1,122 1,168 Jun 1,215 1,254  FOMC Minutes	17 <b>LEADING INDICATORS</b> Apr 0.2% May 0.2% Jun 0.6%  <b>IND PROD CAP UTIL</b> Apr 0.8% 76.4% May 0.1% 76.4% Jun 0.4% 76.6%  Philly Fed Survey	18  U of M Consumer Sentiment (Preliminary)