Comerica Economic Weekly

Comerica Bank

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Recent U.S. economic data continues to look more positive after a winter "soft patch."

First quarter real GDP growth came in much stronger than expected at a 3.2 percent annualized growth rate. Our concerns about weak consumer spending and soft investment numbers were justified. However, inventories, trade and state and local government spending were all positives. So we will call the Q1 GDP report mixed with a positive headline.

Weak retail spending over the winter was a major concern for Q1 GDP growth. Real consumer spending increased by just 1.2 percent in Q1 and added just 0.82 percentage points to overall GDP. This was the weakest push from consumers since the first quarter of 2018. Nonresidential fixed investment was modest, increasing at a 2.7 percent annualized rate in Q1, and adding about 0.38 percent to real GDP growth for the quarter. Residential investment contracted for the fifth consecutive quarter, falling at a 2.8 percent annualized rate. This subtracted 0.11 percent from the headline growth rate in Q1.

Inventory accumulation was very strong in Q1, up by $128 billion ($2012) after strong gains in 2018Q3 and Q4. Inventories accounted for 0.65 percent of the 3.2 percent total growth rate for the economy in Q1. The strong push from inventories cannot continue indefinitely. It will eventually be followed by an inventory drawdown which will subtract significantly from GDP growth.

The U.S. international trade gap narrowed in the first quarter, adding about 1.03 percentage points to headline GDP growth.

Federal government spending was unchanged in Q1. However, state and local government spending was very strong, increasing at an unsustainable 3.9 percent annualized rate. In total, government spending added 0.41 percent to headline GDP.

Nominal personal income increased by only 0.1 percent in March. After adjusting for taxes and inflation, real disposable personal income fell by 0.2 percent. This is the third consecutive month of flat-to-down real DPI. Real consumer spending jumped by 0.7 percent in March.

Home sales were mixed in March as existing home sales fell while new home sales increased.

Existing home sales fell by 4.9 percent in March, to a 5,210,000 unit annual rate. This is still above the sales rates for December and January. The inventory of unsold existing homes increased to a still tight 3.9 months' worth. The median price of an existing home was up by 3.8 percent in March over the previous 12 months according to the National Association of Realtors.

New home sales increased by 4.5 percent in March, to a 692,000 unit annual rate. This is the strongest monthly sales rate since November 2017. Sales of new homes increased across three of the four census regions in March. New home sales declined in the Northeast. The months' supply of new homes for sales fell to 6.0 in March, down from 7.4 months' worth in December.

Initial claims for unemployment insurance increased by 37,000 for the week ending April 20, to hit 230,000. This is still a very low level, but it is a note worthy weekly increase. Continuing claims increased by 1,000 for the week ending April 13, to hit 1,655,000.

We expect to see no changes in monetary policy as a result of the Federal Open Market Committee meeting over Tuesday and Wednesday. We expect the Fed to remain in a holding pattern, leaving interest rates unchanged for the rest of this year.

Fed Funds Rate

Fed Funds Rate (Effective): After FOMC Meeting of 4/30-5/1

We expect the Fed to keep the fed funds rate range unchanged at 2.25-2.50 percent at the next Federal Open Market Committee meeting over April 30/May 1, and stay on hold for the remainder of this year.

The Week Ahead

February Case-Shiller 20-City *(4/30, Tuesday)*

The January Case-Shiller 20-City home price index was up 3.5 percent. House price growth was slower through the winter. Up at a 2.9 percent year-over-year rate in February. Consensus: 2.9 percent

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The Week Ahead, Continued

March Construction Spending *(5/1, Wednesday)*
February construction spending increased 1.0 percent. Unchanged in March. Total housing starts were flat in March. Consensus: 0.3 percent

April ISM Manufacturing Index *(5/1, Wednesday)*
The March ISM Manufacturing Index Improved to 55.3. Down to 55.0. Manufacturing indicators remain positive. Consensus: 55.0

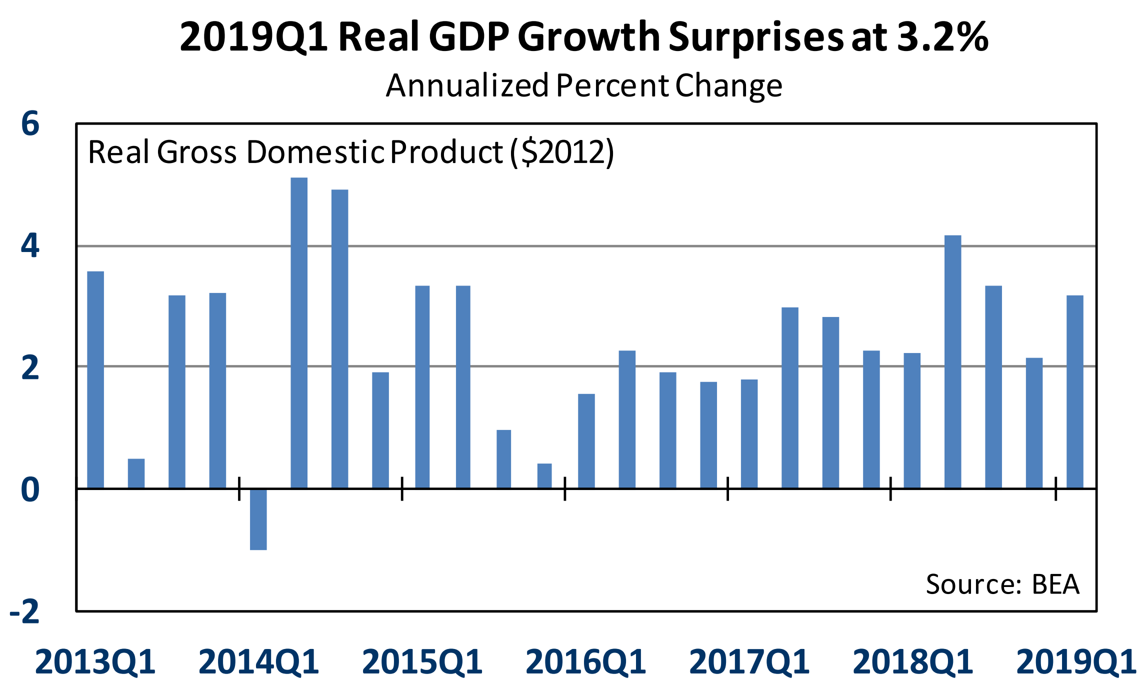
April Auto Sales *(5/1, Wednesday)*
March auto sales increased to a 17.5 million unit annual rate. Down to a 16.8 million unit rate in April. Easing after a stronger-than-expected March. Consensus: 17.0 million unit rate

April ISM Non-Manufacturing Index *(5/3, Friday)*
The March ISM Non-Manufacturing Index slowed to 56.1. Up to 57.1 in April. Consensus: 57.3

April Nonfarm Payrolls *(5/3, Friday)*
March nonfarm payrolls increased by 196k. Up by 170,000 in April. UI claims increased in April, suggesting that hiring was softer. Consensus: +185k

April Unemployment Rate *(5/3, Friday)*
The March unemployment rate held steady at 3.8 percent. April stays at 3.8 percent. Consensus: 3.8 percent

Chart of the Week



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