

U.S. economic indicators were positive this week, showing a strong expansion of the U.S. economy in Q1, which sets us up for robust overall growth in 2021.

Real GDP increased at a 6.4 percent annual rate in Q1. Real consumer spending increased at a fiscal-stimulus-fueled 10.7 percent annualized rate. Business fixed investment increased at a 9.9 percent rate. This is a solid number but not huge, suggesting that there is upside potential for BFI in the remainder of this year. Residential investment increased at a 10.8 percent annual rate in Q1. Real inventories fell by \$85.5 billion in Q1, subtracting 2.6 percent from headline GDP growth. The international trade deficit also widened in Q1, subtracting 0.9 percent from headline GDP growth. Federal government spending surged in Q1, increasing at a 13.9 percent annual rate. State and local government spending turned the corner, increasing at a 1.7 percent annual rate after declining for three consecutive quarters.

Nominal personal income climbed by 21.1 percent in March, due in large part to the new round of direct federal payments to households. Transfer payments increased at a \$4 trillion annual rate in March. Wages and salaries grew by \$102 billion for the month. The increase in income pushed the savings rate from a strong 13.9 percent in February to a very high 27.6 percent in March. Nominal consumer spending was up a more modest, yet still strong, 4.2 percent. The headline Personal Consumption Expenditure Price Index increased by 0.5 percent in March and was up 2.3 percent from a year ago. The core PCE Price Index gained 0.4 percent in March and was up 1.8 percent from a year ago.

The Conference Board's U.S. Consumer Confidence Index increased strongly for the second month in April, supportive of ongoing gains to consumer spending.

New orders for durable goods increased by 0.5

percent in March. Headline orders were held down by a 46.9 percent drop in the always-volatile commercial aircraft segment. Core new orders (nondefense capital goods excluding aircraft) gained 0.9 percent in March.

Initial claims for unemployment insurance fell by 13,000 for the week ending April 24, to hit 553,000, extending the downside breakout that began in early April. Continuing claims for the week ending April 17 increased by 9,000, to hit 3,660,000. The total number of claims in all benefit programs for the week ending April 10 was 16,559,276, a drop of 845,874 from the previous week.

The Case-Shiller U.S. National Home Price Index for February was up 12.0 percent over the previous 12 months. Amongst the 20 cities tracked in the Case-Shiller Index, Phoenix posted the strongest year-over-year gains at 17.4 percent.

Mortgage apps for purchase dipped by 4.8 percent for the week of April 23, after increasing by 5.7 percent the week before. On a four week moving average basis, purchase apps were up 49.4 percent when compared to the same period last year, when social mitigation policy was most strict nationwide.

Yesterday, the Federal Reserve voted to keep the fed funds rate at the zero lower bound and they maintained their asset purchase program. We look forward to reading the minutes of their meeting in a couple weeks to learn about their views on inflation.

The Biden Administration proposed an approximately \$2 trillion social spending bill in addition to its nearly \$2 trillion infrastructure proposal. Both plans have a long way to go through Congress before we see their final outlines, if passed. Both plans are coupled with proposed tax increases focused on businesses and wealthy households. Together the two spending represent a significant expansion of the role of the federal government.

## Fed Funds Rate

### Fed Funds Rate (Effective): After FOMC Meeting of 6/15-6/16

We expect the Federal Reserve to keep the fed funds rate range unchanged near zero at the next Federal Open Market Committee meeting over June 15/16. The new Dot Plot will be interesting.

## The Week Ahead

### April Auto Sales (5/3, Monday)

March auto sales increased to a 17.8 million unit annual rate. Down to a 17.5 million unit rate in April. A slight pullback after the March rebound. Consensus: 17.5 million unit rate

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**The Week Ahead, Continued****March Construction Spending (5/3, Monday)**

February construction spending decreased by 0.8 percent. Up by 1.6 percent in March. New residential construction rebounded after inclement weather slowed activity in February. Consensus: 1.8 percent

**April ISM Manufacturing Index (5/3, Monday)**

The ISM Manufacturing Index increased to 64.7 in March. Up to 65.0 in April. Some supply constraints to persist in the near term. Consensus: 65.1

**March International Trade Gap (5/4, Tuesday)**

The U.S. trade gap widened in February to -\$71.1 billion. Widening to -\$74.6 billion in March. The trade gap for goods widened for the month. Consensus: -\$71.7 billion.

**April ISM Services Index (5/5, Wednesday)**

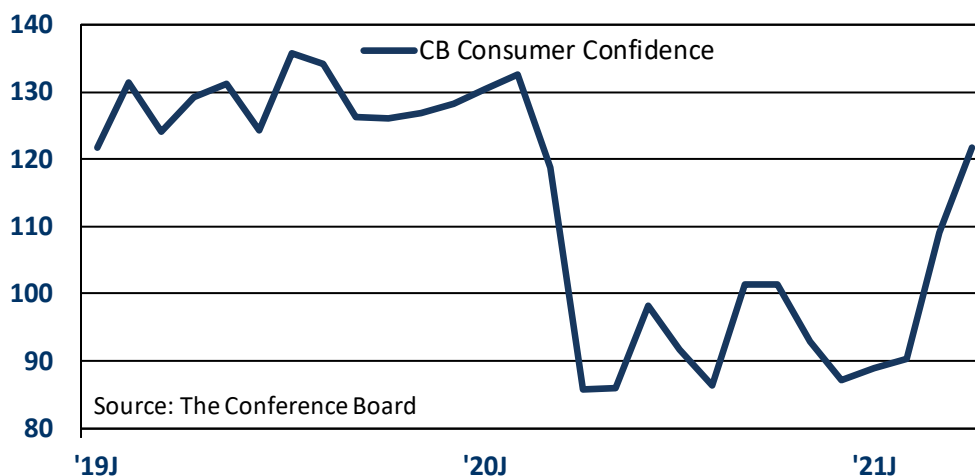
The ISM Services Index increased to 63.7 in March. Up to 64.0 in April. Regional economies continue to reopen. Consensus: 64.1

**April Nonfarm Payrolls (5/7, Friday)**

March nonfarm payrolls increased by 916k. Up by 850k in April. Consensus: 900k

**April Unemployment Rate (5/7, Friday)**

The unemployment rate decreased to 6.0 percent in March. Down to 5.8 percent in April. Consensus: 5.8 percent

**Chart of the Week****Consumer Confidence Improved in April**

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