

## **The Week in Review**

In the minutes of the May Federal Open Market Committee (FOMC) meeting, Fed policymakers were split about the need for more rate hikes this year. “Several” participants believed no further tightening would be needed if the economy evolves as they expect, while “some” expect inflation to return to their target at an unacceptably slow pace, necessitating further rate hikes. “Many” FOMC members thought they need to at least retain the option of more hikes, and participants “generally” were uncertain about how much more hiking is necessary. Split votes are increasingly likely at FOMC meetings in the rest of this year.

FOMC members said growth was “modest” in the first quarter; this week, the second estimate of real GDP was revised up to 1.3% annualized growth from 1.1% in the first estimate, but real gross domestic income—which in theory equals real GDP but is measured from alternative data sources—fell an annualized 2.3%. FOMC participants believe that demand pulled forward from later in the year supported consumer spending in the first quarter, a headwind to growth near-term. They see the labor market as exceptionally tight, despite some cooling of job openings and labor turnover. They acknowledge that inflation is unacceptably high and worry that core goods inflation is not slowing as fast as expected, despite the unsnarling of supply chains. They also note that services inflation, excluding housing, shows few signs of slowing recently.

Fed decisionmakers believe that the recent tightening of credit conditions is likely to affect economic activity, employment, and inflation, but are highly uncertain about how large the impact will be. Going forward, indicators of credit conditions have increased potential to sway the interest rate outlook. This includes the Senior Loan Officer Opinion Survey, borrowing-related questions in the New York Fed’s Survey of Consumer Expectations, and related sections of the National Federation of Independent Business’s monthly survey of small businesses.

## **Preview of the Week Ahead**

The May jobs report will likely show job growth slowed from April; the three-month moving average of payroll growth has been trending down steadily since the second half of 2021. Job openings likely fell again in April, too, but not all labor market releases are expected to be weaker: Comerica forecasts for layoff announcements to come down for a second month and for jobless claims to be steady.

Important for the Fed, the employment cost index (ECI) and unit labor costs for the first quarter of 2023 will likely be revised lower due to downward revisions in compensation and upward revisions to GDP published this week. The May FOMC minutes mention that the ECI is a driver of the Fed staff’s forecast of core non-shelter services inflation; a downward revision would likely lower the staff’s core inflation forecast (Though FOMC members may not care; several have said they are putting less weight on staff forecasts after they missed inflation’s surge in 2021 and 2022). Average hourly earnings will likely rise slower in monthly terms than in April, but with the same year-ago growth due to changing base comparisons.

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	<b>Economic Indicator</b>	<b>Prior Release</b>	<b>Consensus Forecast</b>	<b>Comerica Forecast</b>
Mon 05/29	Memorial Day Holiday	--	--	--
Tue 05/30	FHFA House Price Index (Mar)	0.5% M/M 4.0% Y/Y	0.3% M/M --	0.2% M/M 2.9% Y/Y
	S&P/Case-Shiller 20-City Home Price Index (Mar)	0.1% M/M 0.4% Y/Y	-0.1% M/M --	0.1% M/M -1.6% Y/Y
	Conference Board Consumer Confidence Index® (May)	101.3	99.8	101.5
	Dallas Fed Manufacturing Business Index (May)	-23.4	--	-18.0
Wed 05/31	Job Openings, Total Nonfarm (Apr)	9.590 million	--	9.040 million
	Dallas Fed Services Business Index (May)	-14.4	--	-10.0
	Federal Reserve Beige Book (Economic Survey)	N/A	N/A	N/A
Thu 06/01	ADP Estimate of Private Payroll Growth (May)	296,000	160,000	160,000
	Challenger Job Cuts (May)	66,995 176% Y/Y	-- --	45,000 117% Y/Y
	Nonfarm Productivity (QoQ Seasonally-Adjusted Annual Rate/SAAR, 1 <sup>st</sup> Quarter of 2023)	-2.7%	-2.7%	-2.4%
	Unit Labor Costs (QoQ SAAR) (Q1)	6.3%	6.3%	4.6%
	Construction Spending (Apr)	0.3% M/M	0.2% M/M	0.2% M/M
	ISM Manufacturing PMI (May)	47.1	47.0	47.1
	Initial Jobless Claims (Week of 5/27)	229,000	--	225,000
	Continuing Jobless Claims (Week of 5/20)	1,794,000	--	1,800,000
Motor Vehicle Sales (May SAAR)	15.91 million	15.30 million	15.90 million	

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	<b>Economic Indicator</b>	<b>Prior Release</b>	<b>Consensus Forecast</b>	<b>Comerica Forecast</b>
Fri 06/02	Nonfarm Payrolls (May)	253,000	180,000	175,000
	Unemployment Rate (May)	3.4%	3.5%	3.5%
	Labor Force Participation Rate (May)	62.6%	--	62.6%
	Average Weekly Hours (May)	34.4	34.4	34.4
	Average Hourly Earnings (May)	0.5% M/M 4.4% Y/Y	0.3% M/M 4.3% Y/Y	0.3% M/M 4.4% Y/Y

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