Fed Expected to Hold Rates Steady This Week

Comerica Bank

Real GDP Likely Picked Up in 2nd Quarter on Continued AI Boom and Resilient Consumer Spending

Bill Adams, Chief U.S. Economist

The Week Ahead

The Federal Open Market Committee is expected to hold the federal funds target range steady at 3.50% to 3.75% at this week's decision. This would mark the fifth consecutive meeting with no change since the Fed last cut in December 2025. Financial markets will likely focus on the Committee's assessment of core inflation, since the Fed ended forward guidance after Kevin Warsh became Chair. The policy statement will likely lay out another mixed picture of inflation's drivers. On the one hand, good news from relatively tame house prices and rent increases, and from the dissipating impact of 2025's tariff hikes. On the other, bad news from rebounding energy prices as disruptions to Mideast and Russian exports resurface; new tariffs; AI-related pressure on electronics prices; and labor supply bottlenecks pushing up prices of services like home health care and nursing care. If the Committee or Chair Warsh offer even an inkling of guidance, they likely will indicate that the decision between holding rates steady or hiking in September will be data dependent.

Real GDP growth is forecast to pick up in the advance (first) estimate for the second quarter of 2026, supported by strong nonresidential fixed investment—reflecting the AI boom—and resilient consumer spending. The trade deficit likely widened, weighing on growth. The Fed's preferred measure of inflation likely slowed in June on lower energy prices and cooler core inflation. Don't expect markets to take much comfort from these data; July's rebound in energy prices will deliver another setback to the next batch of inflation reports.

Personal income is forecast to post a solid monthly gain in June and to grow a notch faster in real terms. Personal spending is also forecast to rise, but a little slower than income, which should nudge the saving rate up from a multi-year low in April and May.

Last Week in Review

U.S. energy prices rose in the past two weeks as the Mideast and Russia-Ukraine wars aggravated supply disruptions. WTI and Brent crude hovered around $90 and $100 per barrel last week, respectively. The national average price of unleaded at the pump returned above $4 per gallon, and diesel is back near $5.25. Futures prices for wholesale gas and diesel reached their highest levels since the spring, pointing to further retail increases ahead. Gasoline will likely add to seasonally adjusted CPI and PCE inflation in July, because prices typically decline on an unadjusted basis during the month.

New home sales rose 1.6% in June to a better-than-expected 628,000 annualized units from an upwardly revised 618,000 in May. Sales are still down 5.2% in the year to date. The median sale price of a new home fell 2.7% from a year earlier in June. The median floorplan of new homes completed in the first quarter rose 0.9% on the year, implying a slightly larger drop in prices per square foot. New home listings were equivalent to 9.3 months' supply at June's pace of sales, well above the 6.0-month average over the last 30 years.

The S&P Global Services PMI rose to an eight-month high in the July preliminary release on strong consumer demand during the World Cup and Independence Day holiday. The manufacturing PMI slipped to a four-month low. Service-providing businesses reported the fastest selling price increases in nearly four years.

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Date	Economic Release	Prior Release	Consensus Forecast	Comerica Forecast
7/27	Durable Goods Orders (Jun Preliminary)	-4.5% M/M	1.8% M/M	3.0% M/M
	Orders, Core Durable Goods Excl. Transport (Jun Preliminary)	1.4% M/M	0.8% M/M	0.6% M/M
	Orders, Core Nondefense Capital Goods Excl. Aircraft (Jun Preliminary)	1.4% M/M	0.8% M/M	0.7% M/M
	Shipments, Core Nondef Cap Goods Excl Air (Jun Preliminary)	0.1% M/M	0.4% M/M	1.0% M/M
	Dallas Fed Manufacturing Activity (Jul)	0.0	—	5.0
7/28	ADP Weekly Employment Change, 1,000s (Week of 7/11)	16.5	—	18.0
	Goods Trade Balance, $ Billions (Jun Advance)	-$105.9 bn	-$100.6 bn	-$93.0 bn
	Retail Inventories (Jun)	0.6% M/M	—	0.2% M/M
	Wholesale Inventories (Jun Preliminary)	0.1% M/M	—	-0.3% M/M
	FHFA House Price Index (May)	-0.1% M/M	—	0.0% M/M
	S&P Cotality Case-Shiller 20-City HPI (May)	-0.0% M/M 1.1% Y/Y	— —	0.0% M/M 1.4% Y/Y
	S&P Cotality Case-Shiller US HPI (May)	0.8% Y/Y	—	1.0% Y/Y
	Conference Board Consumer Confidence Index (Jul)	91.2	92.3	91.0
	Conference Board Consumer Present Situation (Jul)	116.4	118.9	116.5
	Conference Board Consumer Expectations (Jul)	74.4	74.0	74.1
7/29	FOMC Target Rate (Jul 29)	3.50%-3.75%	3.50%-3.75%	3.50%-3.75%
7/30	Personal Income (Jun)	0.7% M/M	0.3% M/M	0.4% M/M
	Personal Consumption Expenditures (PCE, Jun)	0.7% M/M	0.4% M/M	0.3% M/M
	Real PCE (Jun)	0.3% M/M	0.2% M/M	0.4% M/M
	PCE Price Index (Jun)	0.4% M/M 4.1% Y/Y	-0.1% M/M 3.7% Y/Y	-0.1% M/M 3.7% Y/Y
	Core PCE Price Index Excluding Food and Energy (Jun)	0.3% M/M 3.4% Y/Y	0.2% M/M 3.3% Y/Y	0.1% M/M 3.2% Y/Y
	Initial Jobless Claims, 1,000s (Week of 7/25)	187	201	208
	Continuing Claims, 1,000s (Week of 7/18)	1,796	1,800	1,805
	Real GDP, Annualized (2nd Quarter Advance)	2.1% Q/Q	2.3% Q/Q	2.4% Q/Q
	Personal Consumption, Annualized (2nd Quarter Advance)	0.5% Q/Q	2.3% Q/Q	2.3% Q/Q
	GDP Price Index, Annualized (2nd Quarter Advance)	3.6% Q/Q	3.8% Q/Q	3.6% Q/Q
	Core PCE Price Index, Annualized (2nd Quarter Advance)	4.4% Q/Q	3.5% Q/Q	3.4% Q/Q
7/31	Employment Cost Index, Not Annualized (2nd Quarter)	0.9%	0.8%	0.7%
	University of Michigan Consumer Sentiment Indicator (Jul Final)	54.4	54.0	53.5
	U of Mich: Consumer Current Conditions (Jul Final)	54.9	—	54.0
	U of Mich: Consumer Expectations (Jul Final)	54.0	—	53.0
	U of Mich: Consumer 1-Year Inflation Expectations (Jul Final)	4.2%	—	4.3%
	U of Mich: Consumer 5-10 Year Inflation Expectations (Jul Final)	3.3%	—	3.3%