

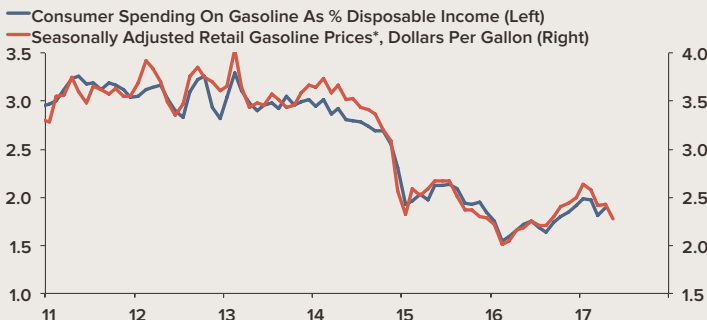
Not Just The Fed; Lots Of Data This Week

As we discussed in our Weekly Notes, we expect lower-than-expected inflation and unemployment recently to lead to mixed signals from the FOMC statement this week. However, we also expect another rate hike and no indication from the "dot plot" that officials have become more dovish, on balance. Indeed, we see a good chance that the median funds rate projection for the end of 2018 will be raised a little. The median 2017 projection will almost certainly remain intact.

This week's calendar is also packed with data. Most important will probably be the CPI and retail sales reports. Also of note—the PPI, the NFIB survey, two regional manufacturing surveys, industrial production, the homebuilder survey, starts, claims and the Michigan survey.

The headline CPI and retail sales data will likely be held down by weakness in the gasoline component. We forecast a flat reading for the overall CPI and a 0.1% decline for retail sales. However, we expect the core CPI to show reacceleration after two below-trend

Gasoline Prices Are Down, Especially After Seasonal Adjustment



HFE's Economic & Financial Forecasts

	Q/Q Annual Rate		Cal Avg Q4/Q4	
Real GDP (%ch)	2016 Q3*	3.5	2015 year*	2.6
	2016 Q4*	2.1	2016 year*	1.6
	2017 Q1	1.2	2017 year	2.2
	2017 Q2	3.0	2018 year	2.4
	Latest	17Q4	18Q2	18Q4
CPI (%ch y/y)	2.2	2.1	2.6	2.8
Core CPI	1.9	2.2	2.6	2.8
Unemployment (% level)	4.3	4.1	3.9	3.8
Interest Rates (% level, EOP)				
Fed Funds Target	0.75-1.0	1.375	1.625	2.375
10-Year Treasury	2.211	2.9	3.1	3.3
S&P 500 (EOP)	2429.4	2200	2150	2100

*Actual

Key Data Spotlight: June 13

	Period	Previous (-2)	Previous (-1)	New Data Cons	New Data HFE
NFIB Index	May	104.7	104.5	104.5	104.7
PPI Final Demand (%m/m)	May	-0.2	0.6	0.0	0.0
Core	May	0.3	0.3	0.1	0.2

readings. We expect at least a modest rise in retail sales excluding gasoline, keeping total real consumption on track for close to a 3% annual rate of increase in Q2.

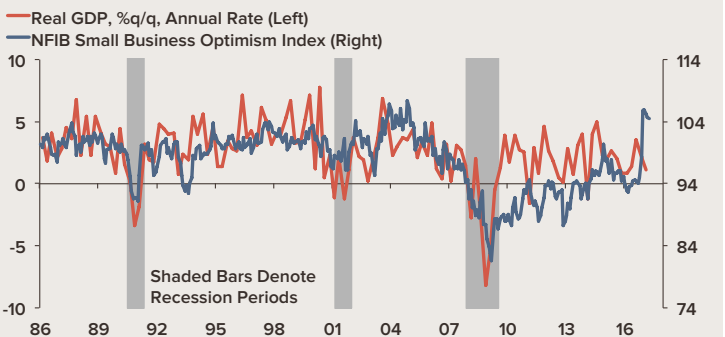
Weakening in gasoline prices will likely also hold down the PPI. More positively, we expect another strong reading for the NFIB small business optimism index. As of April, the NFIB index looked high enough to be consistent with a 5% trend in real GDP growth, as we illustrate in the chart below. Meanwhile, the two labor market components of the index have already been reported up in May: The hiring plans index rose two points to 18 and the net percentage of firms with hard-to-fill job openings rose one point to 34.

We expect this week's manufacturing data to be mixed, with the current activity index in the Empire State survey rebounding after a decline and the Philadelphia Fed index down after a surge. The May industrial production report will probably show a small decline in manufacturing output after a surge in April. Through the volatility, manufacturing output appears to be growing moderately at least.

Housing starts also appear to be trending up. They plunged in April, but we expect this week's report to show a rebound in May. We expect the housing market index in the homebuilder survey to stay fairly high in this week's early June report; at 70, the May reading was up from 61, on average, last year.

We expect claims to remain low this week. Last week's 245K reading was higher than the sub-240K numbers a few weeks ago, but it was in line with the 244K year-to-date average. The lack of an uptrend is consistent with May's slowing in payrolls mainly reflecting noise.

NFIB Index Looks High Enough For 5% GDP Growth



This Week In Brief

Note: “SS” prefix denotes Snapshot for these data.

Monday, June 12• **Treasury Budget (5)/14:00 EDT**

The **\$88.4B** deficit was close to the \$87.0B consensus.

Tuesday, June 13• **SS: NFIB Survey (5)/6:00 EDT**

Consensus: 104.5, following 104.5. HFE: 104.7. The index probably remained historically high.

• **SS: Producer Prices (5)/8:30 EDT**

Consensus: Headline 0.0%, core 0.1%. HFE: 0.0%, 0.2%. Lower energy prices likely held down the headline index.

• **Redbook Store Sales (6/10)/8:55 EDT****Wednesday, June 14**• **MBA Mortgage Applications (6/9)/7:00 EDT**• **SS: Consumer Prices (5)/8:30 EDT**

Consensus: Headline 0.0%, core 0.2%. HFE: 0.0%, 0.2%. Seasonally adjusted gasoline prices appear to have declined by almost 6% month over month. Core prices probably reaccelerated after two below-trend readings. We expect the 12-month change in core prices to be stable at 1.9%.

• **SS: Retail Sales (5)/8:30 EDT**

Consensus: Total 0.0%, ex-autos 0.2%, ex-autos & gas 0.3%, control 0.3%. HFE: -0.1%, -0.1%, 0.2%, 0.2%. Nominal sales were probably held down by lower gasoline prices. We forecast a modest gain in the control component.

• **Business Inventories (4r)/10:00 EDT**

Consensus: -0.2%. HFE: -0.2%.

• **SS: FOMC Announcement & Economic Projections/14:00 EDT**

A rate hike looks almost certain. The statement will probably send mixed signals after both inflation and unemployment were reported lower than expected. We do not expect any major changes to dot-plot projections, but the median for the end of 2018 could rise a little.

• **SS: Yellen Press Conference/14:30 EDT****Thursday, June 15**• **SS: Initial Jobless Claims (6/10)/8:30 EDT**

Consensus: 241K, following 245K. HFE: 245K. Claims continue to show no sign of an uptrend.

• **SS: Philly Fed Survey (6)/8:30 EDT**

Consensus: 25.0, following 38.8. HFE: 18.0. The May reading looked too high to be sustained.

• **Empire State Survey (6)/8:30 EDT**

Consensus: 5.0, following -1.0. HFE: 5.0. The details of the survey for May were not as weak as the headline index.

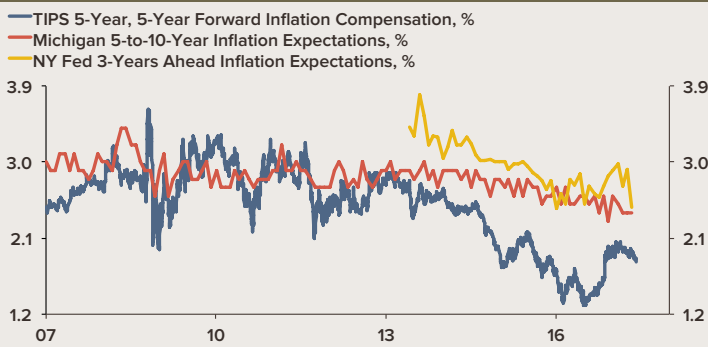
• **Import Prices (5)/8:30 EDT**

Consensus: -0.1%. HFE: -0.4%. Oil prices declined.

• **SS: Industrial Production (5)/9:15 EDT**

Consensus: Production 0.2%, capacity use 76.8%. HFE: 0.1%, 76.7%. Both total industrial production and manufacturing output probably slowed after strong gains in April.

We expect the Michigan sentiment index to remain high in the report for early June on Friday. The report will probably also continue to show fairly tame 5-to-10-years-ahead inflation expectations. The New York Fed's much newer 3-years-ahead series was suggesting a pick-up, in contrast to the Michigan data, but not anymore. The New York Fed measure fell to 2.5% in May from 2.9% in April; that measure averaged 2.6% in 2016.

New York Fed Inflation Expectations Series Fell In May

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This Week In Brief (Continued)**Thursday, June 15 (Continued)**• **SS: NAHB Survey (6)/10:00 EDT**

Consensus: 70, following 70. HFE: 70. The current 70 reading is up sharply from 61, on average, last year.

• **TIC Flows (4)/16:00 EDT****Friday, June 16**• **SS: Housing Starts (5)/8:30 EDT**

Consensus: Starts 1218K, following 1172K, permits 1250K, following 1220K. HFE: 1230K, 1250K. Starts probably bounced back after a decline. They have averaged a 1225K rate so far this year, up from 1177K in 2016.

• **SS: University of Michigan Sentiment (6p)/10:00 EDT**

Consensus: 97.1, after 97.1. HFE: 97.0. Confidence readings have generally remained high.

• **FRB Labor Market Conditions Index (5)/10:00 EDT (Probable)**

The release was delayed until after the communications black-out period for this week's FOMC meeting.

This Week's Funding

Mon	Announcement—4-week bills (June 13)
	Auction—3-month, 6-month bills
	Auction—3-year notes
	Auction—10-year notes
Tues	Auction—4-week bills
	Auction—30-year bonds
Thur	Announcement—3-month, 6-month bills (June 19)
	Announcement—1-year bills (June 20)
	Announcement—30-year TIPS (June 22)