

Fed Likely on Hold in November as Mideast War and Strike Uncertainties Roil the Outlook

The economy faces a complex mix of upside and downside risks. Principally among downside risks, the Israel-Hamas War threatens to interrupt Mideast energy exports, spurring a new global inflationary shock. In addition, the UAW and actors’ strikes, the possibility of a federal government shutdown, and the restart of student loan payments are incremental negatives with uncertain impacts. The longer strikes continue or the government shuts down, the more the economy will slow. Comerica’s October forecast assumes the UAW strike ends by the end of October, the SAG-AFTRA strike ends in the fourth quarter, and the government shuts down for no more than a few weeks this quarter, causing slower growth around the turn of the year but not an outright contraction of real GDP.

At the same time, business cycle fundamentals are becoming more supportive of a continued expansion. Job growth remains resilient, incomes are outpacing inflation, and housing prices are stabilizing and adding to household wealth and spending power. Core CPI has moderated to the lowest in two years as slower increases in house prices and rents translate to less pressure on household budgets, and as car dealers and retailers of other durable consumer goods roll out discounts. U.S. energy companies delivered an upside surprise to the outlook in early October, too, when domestic oil production rose to a new record high. Higher U.S. gasoline inventories are countering the effect of political risk in the energy market and keeping gasoline prices lower in October than in August or September. And investment in new manufacturing facilities is booming as companies take advantage of big federal subsidies for the renewable energy supply chain.

The minutes of the Fed’s September Open Market Committee meeting signal that the committee plans to “proceed carefully” near-term, since interest rates are already pushing down multifamily housing starts and slowing other capital-intensive activities. The Federal Reserve will likely hold the federal funds target steady at their next decision November 1. Another rate hike is still possible around the turn of the year if a combination of Mideast turmoil, strikes, or other events delivers another upside shock to prices. But it is a close call, and many FOMC members are talking about holding rates steady instead of making a last increase of the cycle. Either way, the Fed is likely to pivot to interest rate cuts in mid-2024 as core inflation and wage growth continue to moderate.

Long-term interest rates continue to rise, with the 10-year Treasury note yield up in October to the highest since 2007. There are a number of upward pressures on long rates: A big federal budget deficit; a clearer path for the economy to return to low inflation without a recession, supporting a less inverted yield curve; and perhaps foreign central banks selling dollar-denominated reserve assets to bolster their currencies. These upward pressures will likely persist into 2024, keeping long-term Treasury yields and mortgage rates relatively high.

U.S. Economic Outlook, Summary

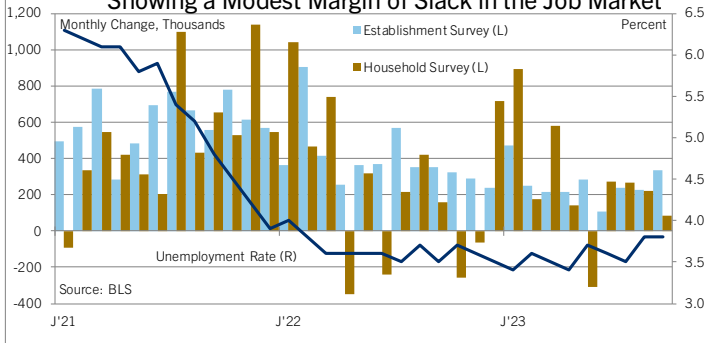
<i>a = actual f = forecast</i>	1Q'23a	2Q'23a	3Q'23p	4Q'23f	1Q'24f	2Q'24f	3Q'24f	2022a	2023f	2024f	2025f
Real GDP (Percent Change Annualized)	2.2	2.1	2.9	0.7	0.5	1.1	1.2	1.9	2.1	1.1	1.2
CPI (Percent Change Year-over-Year)	5.8	4.1	3.6	3.3	3.1	3.0	2.7	8.0	4.2	2.8	2.2
Payroll Jobs (Average Monthly Diff., Ths.)	322	222	221	124	61	141	160	427	222	129	158
Unemployment Rate (Percent)	3.5	3.6	3.7	3.9	4.1	4.2	4.3	3.6	3.7	4.3	4.4
Federal Funds Rate (Period Average)	5.07	5.26	5.46	5.63	5.58	5.33	0.00	1.68	5.06	5.41	3.92
10-Yr. Treasury Rate (Period Average)	3.59	4.15	4.81	4.74	4.44	4.22	0.00	2.95	4.05	4.32	3.35

a = actual p = preliminary f = forecast

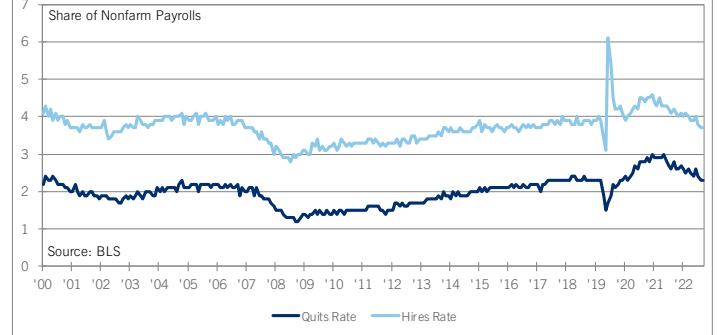
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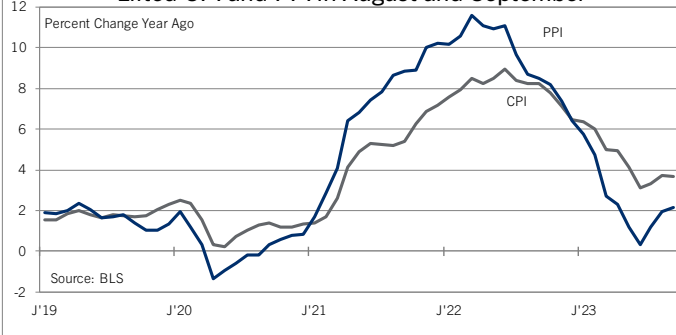
Job Growth Solid as Unemployment Edges Up, Showing a Modest Margin of Slack in the Job Market



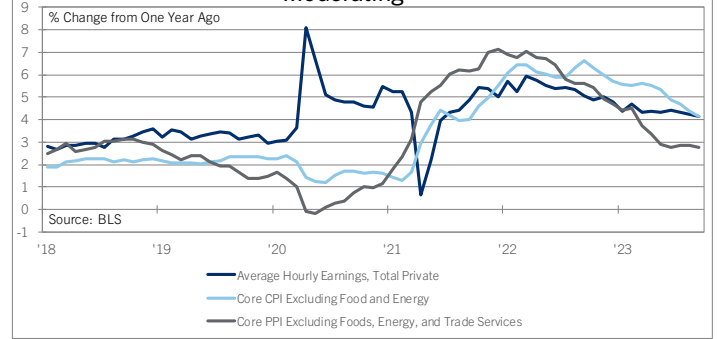
Quits and Hires Rates Are Back to Pre-Pandemic Norms



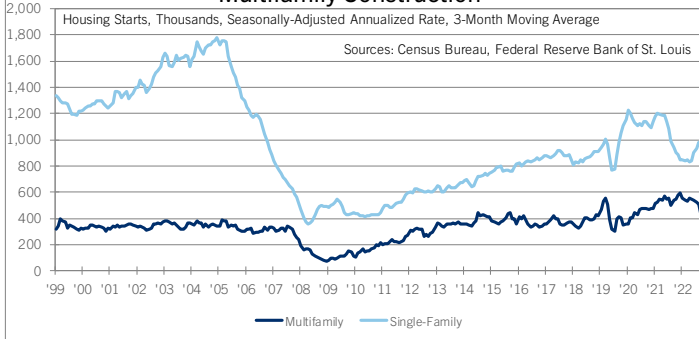
Energy Prices, Less Favorable Base Comparisons Lifted CPI and PPI in August and September



Core Inflation and Wage Price Pressures Are Moderating



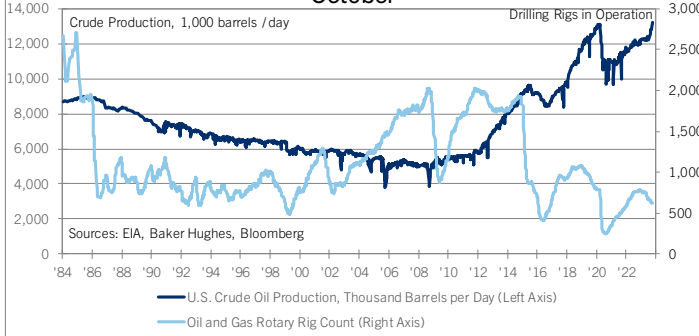
High Interest Rates Are Taking the Wind Out of Multifamily Construction



Investment in Manufacturing Facilities Is Surging on Subsidies for the Renewable Energy Supply Chain



Crude Oil Production Hit a Record High in Early October



Lower Gasoline Prices Will Likely Slow the CPI's Increase in October



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	1Q'23a	2Q'23a	3Q'23p	4Q'23f	1Q'24f	2Q'24f	3Q'24f	2022a	2023f	2024f	2025f
Output											
Nominal GDP (Billions \$ Annualized Rate)	26,814	27,063	27,466	27,725	27,929	28,153	28,379	25,744	27,267	28,259	29,171
Percent Change Annualized	6.3	3.8	6.1	3.8	3.0	3.2	3.3	9.1	5.9	3.6	3.2
Real GDP (Chained 2017 Billions \$ Annual Rate)	22,112	22,225	22,386	22,425	22,455	22,514	22,581	21,822	22,287	22,543	22,809
Percent Change Annualized	2.2	2.1	2.9	0.7	0.5	1.1	1.2	1.9	2.1	1.1	1.2
Pers. Consumption Expenditures	15,313	15,344	15,476	15,518	15,483	15,485	15,497	15,091	15,413	15,497	15,609
Percent Change Annualized	3.8	0.8	3.5	1.1	-0.9	0.1	0.3	2.5	2.1	0.5	0.7
Nonresidential Fixed Investment	3,214	3,273	3,279	3,268	3,248	3,223	3,217	3,132	3,259	3,226	3,249
Percent Change Annualized	5.7	7.4	0.8	-1.3	-2.5	-3.0	-0.8	5.2	4.1	-1.0	0.7
Residential Investment	731	727	724	721	729	743	753	823	726	746	774
Percent Change Annualized	-5.3	-2.2	-1.6	-1.7	4.5	7.7	5.7	-9.0	-11.8	2.8	3.7
Change in Private Inventories	27	15	19	-9	3	23	35	128	13	23	78
Net Exports	-935	-928	-926	-901	-843	-806	-776	-1,051	-923	-800	-787
Government Expenditures	3,759	3,790	3,808	3,822	3,830	3,840	3,848	3,670	3,795	3,844	3,878
Percent Change Annualized	4.8	3.3	2.0	1.5	0.8	1.0	0.8	-0.9	3.4	1.3	0.9
Industrial Prod. Index (2007=100)	102.6	102.8	102.3	102.0	101.8	101.7	102.1	102.6	102.4	102.1	105.3
Percent Change Annualized	-0.3	0.7	-1.7	-1.3	-1.0	0.0	1.4	3.4	-0.2	-0.3	3.1
Capacity Utilization (Percent)	79.6	79.4	79.5	79.0	78.4	78.0	77.8	80.3	79.4	78.1	78.7
Prices											
CPI (1982-84=100)	301.3	303.4	306.0	308.5	310.7	312.5	314.2	292.6	304.8	313.3	320.2
Year-Over-Year Percent Change	5.8	4.1	3.6	3.3	3.1	3.0	2.7	8.0	4.2	2.8	2.2
PCE Price Index (2012=100)	119.3	120.0	120.8	121.6	122.2	122.8	123.4	116.0	120.5	123.1	125.5
Year-Over-Year Percent Change	5.0	3.9	3.4	3.0	2.5	2.3	2.2	6.5	3.8	2.2	1.9
GDP Price Index (2017=100)	121.3	121.8	122.7	123.7	124.4	125.1	125.8	118.0	122.4	125.4	128.0
Year-Over-Year Percent Change	5.3	3.5	3.2	3.0	2.6	2.7	2.5	7.1	3.7	2.5	2.1
PPI, Final Demand (Nov. 2009=100)	141.1	140.7	142.4	143.4	144.4	145.3	146.1	138.7	141.9	145.7	148.6
Year-Over-Year Percent Change	4.4	1.3	1.8	1.8	2.3	3.3	2.6	9.5	2.3	2.6	2.0
Crude Oil, WTI (\$/barrel)	\$76	\$74	\$82	\$88	\$88	\$89	\$90	\$95	\$80	\$89	\$90
Labor Markets											
Payroll Jobs (Average Monthly Difference, Ths.)	322	222	221	124	61	141	160	427	222	129	158
Unemployment Rate (Percent)	3.5	3.6	3.7	3.9	4.1	4.2	4.3	3.6	3.7	4.3	4.4
Labor Force Participation Rate (%)	62.5	62.6	62.7	62.6	62.7	62.8	62.9	62.2	62.6	62.8	63.1
Average Weekly Hours	34.5	34.4	34.4	34.4	34.3	34.3	34.3	34.6	34.4	34.3	34.3
Personal Income											
Average Hourly Earnings (\$)	33.11	33.46	33.81	34.12	34.42	34.72	35.00	32.25	33.62	34.85	36.04
Percent Change Annualized	3.9	4.3	4.2	3.8	3.6	3.5	3.3	5.3	4.3	3.7	3.4
Real Disp. Income (2017 Billions \$ Annualized)	16,663	16,808	16,926	17,002	17,053	17,129	17,195	16,117	16,849	17,159	17,443
Percent Change Annualized	10.8	3.5	2.8	1.8	1.2	1.8	1.6	-6.0	4.5	1.8	1.7
Personal Saving Rate (Percent)	4.8	5.1	4.5	4.5	5.2	5.7	6.1	3.3	4.7	5.9	6.7
Housing											
Housing Starts (Ths., Annual Rate)	1,385	1,450	1,382	1,377	1,386	1,385	1,390	1,551	1,399	1,394	1,444
Exst. SF Home Sales (Ths., Annual Rate)	3,893	3,810	3,600	3,614	3,630	3,647	3,665	4,530	3,729	3,650	3,703
New SF Home Sales (Ths., Annual Rate)	638	691	705	711	715	718	722	637	686	720	746
Case/Shiller One-Family HPI (1/2000=100)	297.5	302.5	304.7	305.2	305.7	306.3	307.0	298.5	302.5	306.7	309.5
Year/Year Percent Change	2.2	-0.2	1.0	2.3	2.7	1.2	0.8	14.8	1.3	1.4	0.9
Consumer											
Consumer Confidence® (Conference Board)	104.5	105.4	108.6	104.2	107.4	109.0	106.6	104.5	105.7	107.6	108.5
Car and Light Truck Sales (Millions)	15.2	15.9	15.8	15.9	15.9	16.3	16.4	13.9	15.7	16.3	16.5
Retail & Food Service Sales (Monthly Avg, Bns)	687.4	688.1	684.3	686.5	677.9	673.3	668.9	672.6	686.6	671.9	667.7
Percent Change Annualized	4.5	0.4	-2.2	1.3	-4.9	-2.7	-2.6	9.7	2.1	-2.1	-0.6
Financial Indicators (Period Average)											
Federal Funds Rate, % (Effective)	4.52	5.07	5.26	5.46	5.63	5.58	5.33	1.68	5.06	5.41	3.92
Prime Rate, %	7.69	8.16	8.43	8.63	8.80	8.75	8.50	4.85	8.23	8.58	7.09
1-Month BSBY, %	4.58	5.16	5.34	5.47	5.63	5.59	5.33	1.80	5.14	5.41	3.92
3-Month Term SOFR, %	4.78	5.13	5.37	5.38	5.49	5.40	5.19	2.18	5.16	5.23	3.75
1-Yr. Treasury Rate, %	4.77	4.94	5.39	5.49	5.37	5.07	4.79	2.79	5.15	4.88	3.31
5-Yr. Treasury Rate, %	3.80	3.69	4.31	4.86	4.75	4.41	4.15	3.00	4.17	4.27	3.19
10-Yr. Treasury Rate, %	3.65	3.59	4.15	4.81	4.74	4.44	4.22	2.95	4.05	4.32	3.35
30-Yr. Fixed Rate Mortgage, %	6.36	6.49	7.04	7.51	7.32	6.77	6.51	5.33	6.85	6.69	5.58
Corporate Profits After Tax (Billions \$ Annualized)	2,850	2,881	2,903	2,921	2,937	2,950	2,963	2,981	2,911	2,977	3,123
Percent Change Annualized	-20.0	4.4	3.1	2.6	2.1	1.9	1.7	4.8	-2.3	2.3	4.9

a = actual p = preliminary f = forecast

October 18, 2023

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