U.S. Economic Outlook August 2024

Comerica Bank

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Economic Outlook: B
Balance of Risks: ⟺

Job Growth Was Soft in July, Partly Due to Hurricane Beryl; Fed Set to Start Cutting Rates in September

The July jobs report was considerably weaker than expected. Employers added just 114,000 nonfarm payroll jobs, the unemployment rate rose to 4.3%, and average hourly earnings growth slowed to 3.6%. That gave July the highest unemployment rate and slowest wage growth since 2021. Other labor market data released after the jobs report emphasize how the job market is softening. The Bureau of Labor Statistics' annual preliminary benchmark revision revised down the level of employment in March 2024 by 818,000, implying that job growth in the 12 months through July was just 164,000, less than shown in the monthly report. And the mid-August release of state-level data on employment and unemployment showed that July's weakness wasn't just in Texas, where Hurricane Beryl was a huge disruption, but spread across a number of states on the East Coast, Midwest, and High Plains.

Importantly, the unemployment rate rose enough in July to trigger the "Sahm Rule." This is former Fed economist Claudia Sahm's observation that, in past periods when the unemployment rate's three-month moving average rose by half a percent or more relative to its low in the prior twelve months, the economy has already been in recession. However, temporary factors likely contributed to higher unemployment in July, like the impact of Hurricane Beryl and more jobseekers entering the labor market after the last few years' increase of immigration. Hopefully that means mid-2024 can be an exception to the Sahm Rule.

Another reason to think the Sahm Rule is a false alarm is that economic activity indicators point to continued growth in the third quarter. Retail sales rose solidly in July, helped by higher auto sales after the CDK hack. And in early August, initial jobless claims stabilized, hotel occupancy rates held steady, and a widely-followed survey of service-providing businesses indicated continued solid growth.

Even so, the triggering of the Sahm Rule makes the Fed likely to reduce interest rates faster over the next few quarters than the Fed's policymakers indicated in their June dot plot, which showed most of them thought only one or two quarter-percentage-point rate cuts would be appropriate before year-end. Comerica's August forecast anticipates for the Fed to cut the federal funds target by a quarter percentage point at each of the three remaining decisions scheduled this year (September, November, and December), up from two such cuts in our July forecast. The forecast anticipates another 1.25 percentage points of rate cuts in 2025. Lower interest rates will support a recovery of credit-sensitive economic activity this fall and winter, like existing home sales. That should help the unemployment rate stabilize and extend the economic expansion into 2025.

U.S. Economic Outlook, Summary

a = actual f = forecast	2Q'24p	3Q'24f	4Q'24f	1Q'25f	2Q'25f	3Q'25f	4Q'25f	2023a	2024f	2025f	2026f
Real GDP (*Percent Change Annualized*)	2.8	1.5	1.6	1.7	1.8	1.8	1.8	2.5	2.5	1.8	1.8
CPI (*Percent Change Year-over-Year*)	3.2	2.8	2.7	2.2	2.1	2.1	2.1	4.1	3.0	2.1	2.1
Payroll Jobs (*Average Monthly Diff., Ths.*)	199	165	180	180	190	190	190	245	200	187	188
Unemployment Rate (*Percent*)	4.0	4.2	4.3	4.3	4.3	4.2	4.2	3.6	4.1	4.2	4.0
Federal Funds Rate (*Period Average*)	5.33	5.28	4.91	4.33	4.03	3.78	3.53	5.02	5.21	3.92	2.92
10-Yr. Treasury Rate (*Period Average*)	4.44	4.33	4.25	3.82	3.71	3.45	3.07	3.96	4.30	3.51	3.26

a = actual p = preliminary f = forecast

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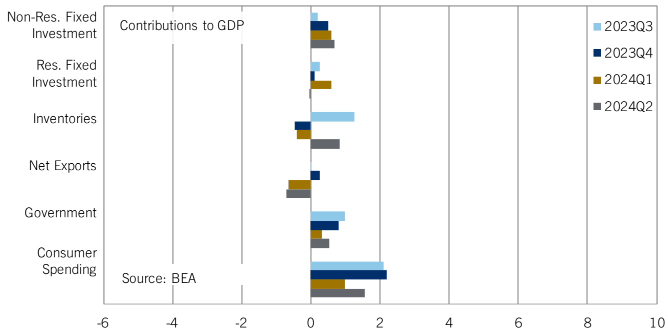
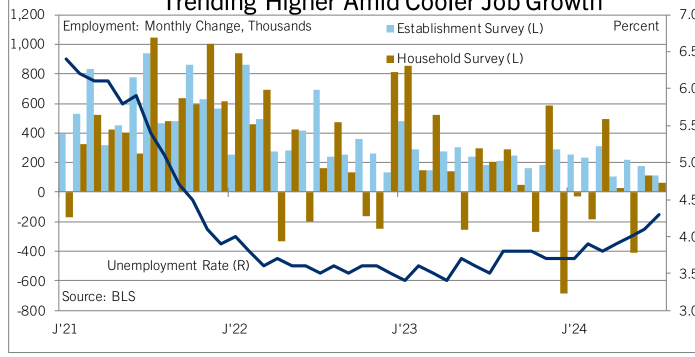
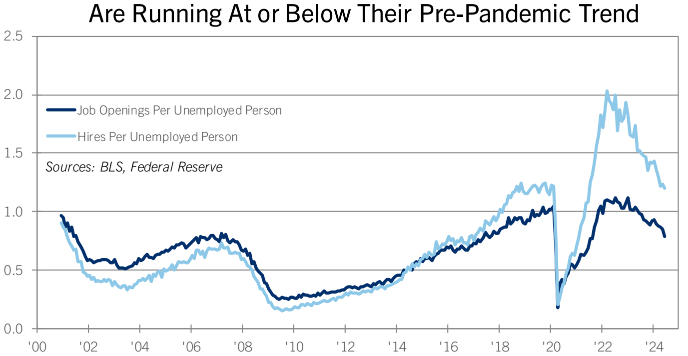
Resilient Consumer Spending and Accelerating Business Investment Fueled 2nd Quarter GDP



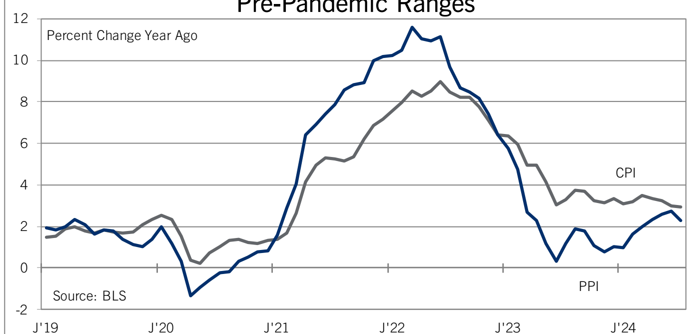
Despite Solid GDP Growth, Unemployment Rate Is Trending Higher Amid Cooler Job Growth



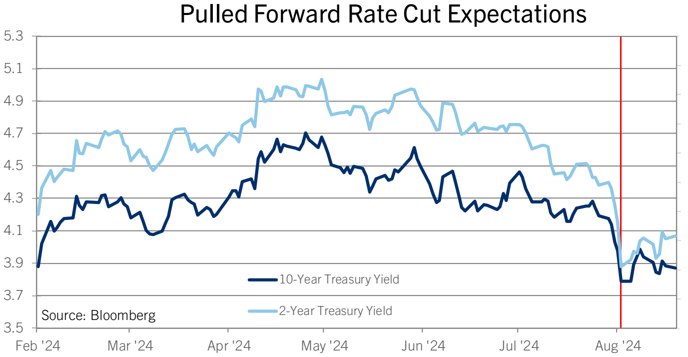
With More Jobseekers, Job Openings and Hiring Are Running At or Below Their Pre-Pandemic Trend



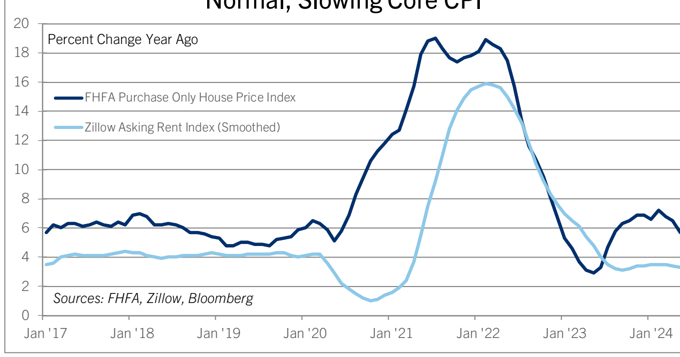
CPI and PPI Inflation Are Coming Back Into Their Pre-Pandemic Ranges



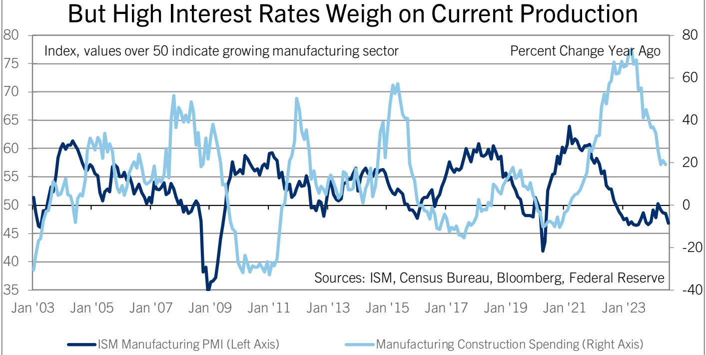
Interest Rates Fell After The Soft July Jobs Report Pulled Forward Rate Cut Expectations



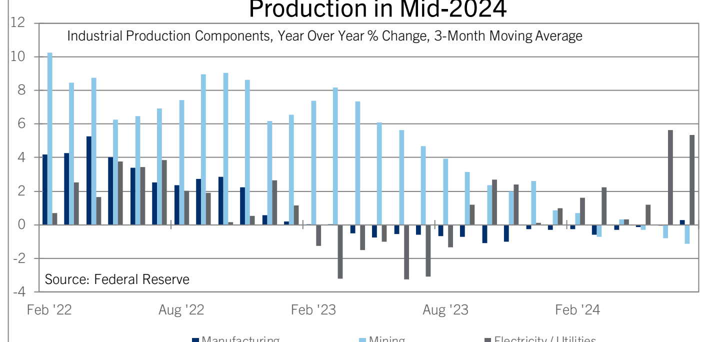
Increases of House Prices and Rents Are Back to Normal, Slowing Core CPI



Green Economy Incentives Fueling a Factory Building Boom, But High Interest Rates Weigh on Current Production



Mining Slowdown Is the Big Headwind to Industrial Production in Mid-2024



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	2Q'24a	3Q'24p	4Q'24f	1Q'25f	2Q'25f	3Q'25f	4Q'25f	2023a	2024f	2025f	2026f
Output											
Nominal GDP *(Billions $ Annualized Rate)*	28,629	28,878	29,136	29,406	29,694	29,977	30,264	27,361	28,728	29,835	30,981
Percent Change Annualized	*5.2*	*3.5*	*3.6*	*3.8*	*4.0*	*3.9*	*3.9*	*6.3*	*5.0*	*3.9*	*3.8*
Real GDP *(Chained 2017 Billions $ Annual Rate)*	22,919	23,003	23,091	23,188	23,295	23,398	23,505	22,377	22,943	23,347	23,763
Percent Change Annualized	*2.8*	*1.5*	*1.6*	*1.7*	*1.8*	*1.8*	*1.8*	*2.5*	*2.5*	*1.8*	*1.8*
Pers. Consumption Expenditures	15,733	15,783	15,830	15,877	15,928	15,975	16,030	15,426	15,747	15,952	16,166
Percent Change Annualized	*2.3*	*1.3*	*1.2*	*1.2*	*1.3*	*1.2*	*1.4*	*2.2*	*2.1*	*1.3*	*1.3*
Nonresidential Fixed Investment	3,394	3,420	3,449	3,478	3,513	3,550	3,584	3,272	3,403	3,531	3,670
Percent Change Annualized	*5.2*	*3.1*	*3.4*	*3.4*	*4.1*	*4.3*	*3.9*	*4.5*	*4.0*	*3.8*	*3.9*
Residential Investment	770	765	771	781	797	812	825	735	769	804	849
Percent Change Annualized	*-1.4*	*-2.4*	*3.3*	*5.2*	*8.3*	*8.2*	*6.2*	*-10.6*	*4.6*	*4.5*	*5.7*
Change in Private Inventories	71	68	62	68	69	63	66	44	57	66	71
Net Exports	-1,007	-1,007	-1,009	-1,019	-1,029	-1,030	-1,041	-928	-996	-1,029	-1,064
Government Expenditures	3,934	3,950	3,965	3,979	3,992	4,004	4,015	3,820	3,938	3,998	4,044
Percent Change Annualized	*3.1*	*1.7*	*1.5*	*1.4*	*1.3*	*1.2*	*1.2*	*4.1*	*3.1*	*1.5*	*1.2*
Industrial Prod. Index *(2007=100)*	103.3	102.9	103.1	103.6	104.0	104.4	104.9	102.9	102.9	104.2	106.1
Percent Change Annualized	*4.3*	*-1.5*	*1.0*	*1.7*	*1.7*	*1.7*	*1.7*	*0.2*	*0.0*	*1.3*	*1.8*
Capacity Utilization (Percent)	78.3	77.9	77.6	77.5	77.4	77.4	77.3	79.0	77.8	77.4	77.2
Prices											
CPI *(Year-Over-Year % Change)*	*3.2*	*2.8*	*2.7*	*2.2*	*2.1*	*2.1*	*2.1*	*4.1*	*3.0*	*2.1*	*2.1*
Core CPI *(Year-Over-Year % Change)*	*3.4*	*3.3*	*3.0*	*2.4*	*2.2*	*2.1*	*2.1*	*4.8*	*3.4*	*2.2*	*2.2*
PCE Price Index *(Year-Over-Year % Change)*	*2.6*	*2.4*	*2.5*	*2.2*	*2.1*	*2.1*	*2.1*	*3.7*	*2.5*	*2.1*	*2.0*
Core PCE Price Index *(Year-Over-Year % Change)*	*2.7*	*2.7*	*2.7*	*2.3*	*2.2*	*2.2*	*2.2*	*4.1*	*2.7*	*2.2*	*2.2*
GDP Price Index *(Year-Over-Year % Change)*	*2.6*	*2.3*	*2.4*	*2.1*	*2.1*	*2.1*	*2.1*	*3.6*	*2.4*	*2.1*	*2.1*
PPI, Final Demand *(Year-Over-Year % Change)*	*2.4*	*2.0*	*2.5*	*2.3*	*2.1*	*2.1*	*2.1*	*2.0*	*2.1*	*2.1*	*2.1*
Crude Oil, WTI *($/barrel)*	$82	$74	$76	$78	$80	$80	$81	$78	$77	$80	$81
Labor Markets											
Payroll Jobs *(Average Monthly Difference, Ths.)*	199	165	180	180	190	190	190	245	200	187	188
Unemployment Rate *(Percent)*	4.0	4.2	4.3	4.3	4.3	4.2	4.2	3.6	4.1	4.2	4.0
Labor Force Participation Rate *(%)*	62.6	62.7	62.8	62.9	62.9	63.0	63.0	62.6	62.7	62.9	63.0
Average Weekly Hours	34.3	34.2	34.3	34.3	34.3	34.3	34.3	34.4	34.3	34.3	34.3
Personal Income											
Average Hourly Earnings *($)*	34.87	35.13	35.39	35.67	35.95	36.22	36.49	33.72	35.00	36.08	37.17
Percent Change Annualized	*3.4*	*3.0*	*3.0*	*3.2*	*3.2*	*3.1*	*3.0*	*4.5*	*3.8*	*3.1*	*3.0*
Real Disp. Income *(2017 Billions $ Annualized)*	16,954	17,083	17,211	17,347	17,483	17,621	17,757	16,784	17,040	17,552	18,090
Percent Change Annualized	*1.0*	*3.1*	*3.0*	*3.2*	*3.2*	*3.2*	*3.1*	*4.1*	*1.5*	*3.0*	*3.1*
Personal Saving Rate *(Percent)*	3.5	3.7	3.9	4.1	4.3	4.5	4.7	4.5	3.7	4.4	5.0
Housing											
Housing Starts *(Ths., Annual Rate)*	1,348	1,355	1,367	1,378	1,390	1,401	1,413	1,421	1,369	1,395	1,448
Single-Family Housing Starts	1,006	1,011	1,021	1,029	1,037	1,045	1,053	949	1,025	1,041	1,079
Multifamily Housing Starts	342	343	346	349	353	356	359	473	344	354	368
Exst. SF Home Sales *(Ths., Annual Rate)*	3,657	3,555	3,577	3,646	3,719	3,777	3,832	3,674	3,646	3,743	3,953
New SF Home Sales (*Ths., Annual Rate*)	656	645	654	659	666	672	680	666	655	669	701
FHFA Purchase-Only HPI *(Annual % Change)*	*5.3*	*3.6*	*2.8*	*2.4*	*2.7*	*2.9*	*3.0*	*5.0*	*4.5*	*2.7*	*3.0*
Case/Shiller One-Family HPI *(Annual % Change)*	*5.0*	*3.4*	*2.5*	*2.2*	*2.9*	*3.2*	*3.2*	*2.4*	*4.3*	*2.8*	*3.1*
Consumer											
Retail & Food Service Sales *(Monthly Avg, Bns)*	703.8	704.9	707.2	709.4	712.4	714.6	717.5	692.5	704.0	713.5	724.9
Percent Change Annualized	*2.2*	*0.6*	*1.3*	*1.2*	*1.7*	*1.2*	*1.6*	*3.6*	*1.7*	*1.3*	*1.6*
Consumer Confidence® (Conference Board)	98.9	99.5	100.2	101.8	102.5	102.4	102.5	105.4	101.2	102.3	103.7
Car and Light Truck Sales *(Millions)*	15.9	16.1	16.3	16.5	16.7	16.8	16.9	15.6	16.0	16.7	17.3
Financial Indicators (Period Average)											
Federal Funds Rate (Effective)	5.33	5.28	4.91	4.33	4.03	3.78	3.53	5.02	5.21	3.92	2.92
Prime Rate	8.50	8.45	8.08	7.50	7.20	6.95	6.70	8.19	8.38	7.09	6.09
1-Month Term SOFR	5.33	5.29	4.92	4.35	4.07	3.82	3.57	5.09	5.22	3.95	2.96
3-Month Term SOFR	5.33	5.19	4.78	4.23	3.94	3.70	3.39	5.16	5.16	3.82	2.84
1-Yr. Treasury Rate	5.14	4.83	4.44	3.85	3.51	3.17	2.78	5.08	4.83	3.33	2.65
5-Yr. Treasury Rate	4.46	4.26	4.19	3.68	3.42	3.11	2.69	4.06	4.26	3.22	2.79
10-Yr. Treasury Rate	4.44	4.33	4.25	3.82	3.71	3.45	3.07	3.96	4.30	3.51	3.26
30-Yr. Fixed Rate Mortgage	6.99	6.75	6.48	5.91	5.63	5.24	4.78	6.80	6.74	5.39	4.96
Corporate Profits After Tax *(Billions $ Annualized)*	3,226	3,272	3,312	3,352	3,385	3,417	3,450	2,975	3,244	3,401	3,533
Percent Change Annualized	*7.5*	*5.8*	*5.0*	*5.0*	*4.0*	*3.8*	*3.9*	*-0.2*	*9.1*	*4.8*	*3.9*

a = actual p = preliminary f = forecast *August 22, 2024*

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