

Economic Growth Slowed in the First Half of 2024 But Doesn't Look Like Recession; Fed Likely to Cut Interest Rates in September and December

Economic growth held in low gear in the second quarter of 2024 after a slow first quarter. Many Americans received smaller tax refunds this spring after stock market gains in 2023 increased bills for capital gains tax. That weighed on sales of used cars and other durable goods this spring. Housing starts fell in the second quarter, especially multifamily starts. And low- and moderate-income consumers reined in discretionary spending in response to cost of living pressures, a headwind to the restaurant industry and retailers targeting the mass-market.

At the same time, affluent households spent openhandedly on travel, entertainment, and other experiences, lifting foot traffic at airport security checkpoints to the highest since the pandemic. Considering this mix of headwinds and tailwinds, real GDP likely registered an increase of below 2% annualized in the second quarter of 2024 after 1.4% annualized in the first, both down from the second half of 2023's 3.8% annualized growth.

The labor market cooled further amid this more measured output growth. Nonfarm payrolls rose 177,000 per month in the second quarter, the slowest increase since the spring of 2020. The unemployment rate rose to 4.1% in June, the highest since late 2021. And average hourly earnings growth in June tied for the slowest year-over-year increase since mid-2021. The red-hot job market of late 2021 through early 2023 is a thing of the past.

Most important for the Fed, inflation moved toward the Fed's target in the second quarter after running hot in the first quarter. Annual CPI inflation slowed to 3.0% in June and tied for the lowest since the first half of 2021, while core CPI excluding food and energy at 3.3% was outright the lowest since then. The Fed is pleased to see inflation coming down. With the economy growing in low gear, they are less concerned about domestic wage-price effects fueling a rebound in inflation.

The Fed thinks the time to start cutting interest rates is getting close, but they are not convinced it is here quite yet. Comerica forecasts for the Fed to hold the federal funds target unchanged at their July 31 decision, then cut it a quarter percentage point at the following decision September 18. A second cut before year-end is likely at the December 18 decision. Comerica's forecast anticipates quarterly rate cuts continuing in 2025. The Fed slowed the pace of balance sheet run-off to a monthly limit of \$60 billion in June, down from \$95 billion previously, and will likely end balance sheet run-off in the first half of 2025 when the balance sheet falls to between \$6.6 trillion and \$6.9 trillion dollars, down from \$7.3 trillion in mid-2024.

U.S. Economic Outlook, Summary

<i>a = actual f = forecast</i>	4Q'23a	1Q'24a	2Q'24p	3Q'24f	4Q'24f	1Q'25f	2Q'25f	2023a	2024f	2025f	2026f
Real GDP (Percent Change Annualized)	3.4	1.4	1.4	1.5	1.5	1.6	1.7	2.5	2.3	1.6	1.8
CPI (Percent Change Year-over-Year)	3.2	3.2	3.2	3.0	2.8	2.4	2.3	4.1	3.1	2.3	2.2
Payroll Jobs (Average Monthly Diff., Ths.)	206	257	202	175	160	151	150	245	199	152	153
Unemployment Rate (Percent)	3.7	3.8	4.0	4.1	4.1	4.1	4.1	3.6	4.0	4.1	4.1
Federal Funds Rate (Period Average)	5.33	5.33	5.33	5.28	5.03	4.78	4.53	5.02	5.24	4.41	3.02
10-Yr. Treasury Rate (Period Average)	4.44	4.16	4.44	4.36	4.38	4.28	4.20	3.96	4.34	4.00	3.34

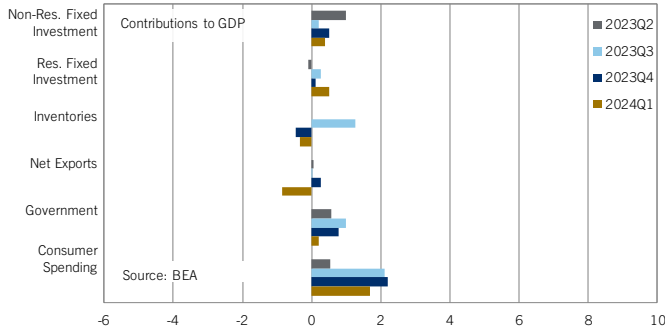
a = actual p = preliminary f = forecast

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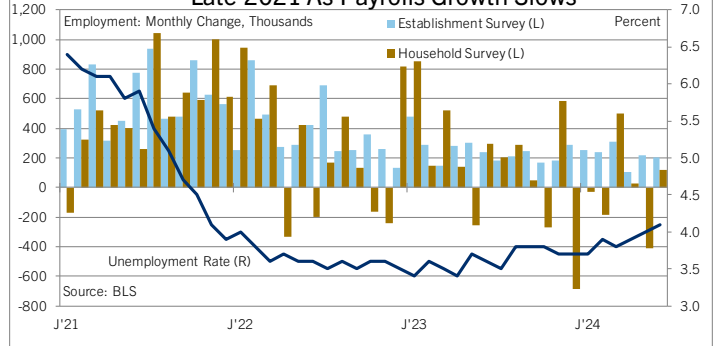
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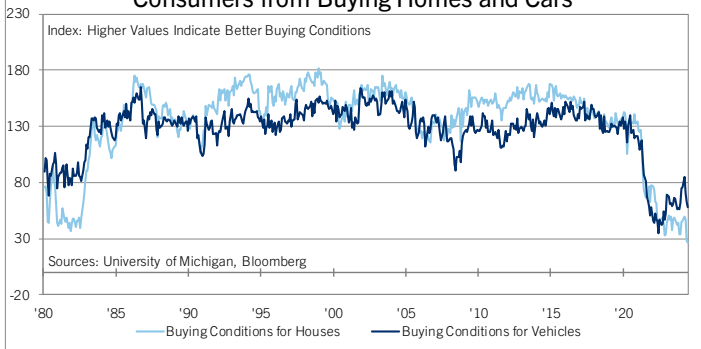
Headwinds From Government Spending And The Trade Deficit Slowed 1st Quarter Real GDP



Unemployment Rate Back Up To The Highest Since Late 2021 As Payrolls Growth Slows



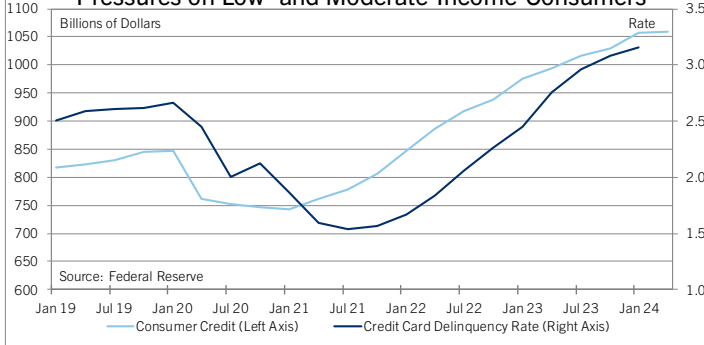
High Prices and Interest Rates Are Discouraging Consumers from Buying Homes and Cars



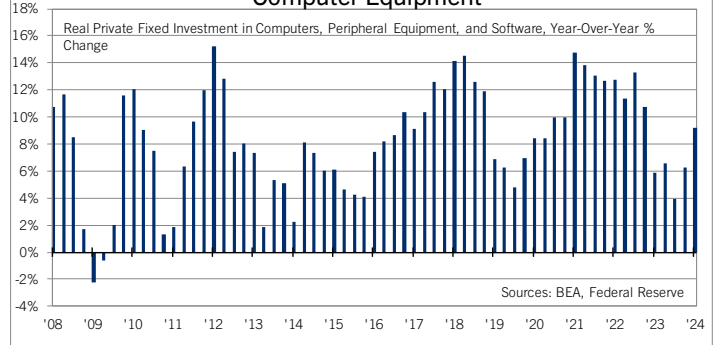
Affluent Consumers Are Still Spending Open-Handedly on Travel and Experiences



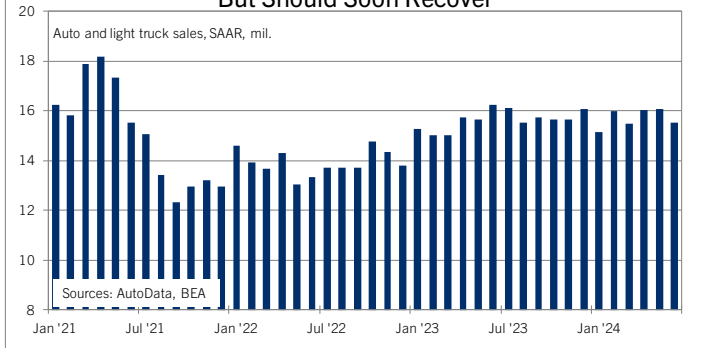
Credit Growth Is Slowing and Delinquencies Rising Amid Pressures on Low- and Moderate-Income Consumers



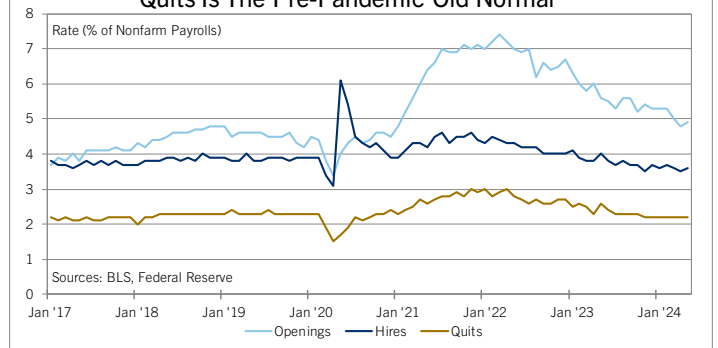
AI Is Fueling A Rebound of Spending on Software and Computer Equipment



Auto Sales Dipped In June During The CDK Hack But Should Soon Recover



The New Normal For Job Openings, Hires, and Quits Is The Pre-Pandemic Old Normal



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	4Q'23a	1Q'24a	2Q'24p	3Q'24f	4Q'24f	1Q'25f	2Q'25f	2023a	2024f	2025f	2026f
Output											
Nominal GDP (Billions \$ Annualized Rate)	27,957	28,269	28,547	28,806	29,060	29,327	29,601	27,361	28,670	29,742	30,887
Percent Change Annualized	5.1	4.5	4.0	3.7	3.6	3.7	3.8	6.3	4.8	3.7	3.9
Real GDP (Chained 2017 Billions \$ Annual Rate)	22,679	22,759	22,840	22,924	23,011	23,102	23,198	22,377	22,883	23,248	23,662
Percent Change Annualized	3.4	1.4	1.4	1.5	1.5	1.6	1.7	2.5	2.3	1.6	1.8
Pers. Consumption Expenditures	15,587	15,643	15,705	15,744	15,786	15,837	15,886	15,426	15,719	15,916	16,141
Percent Change Annualized	3.3	1.5	1.6	1.0	1.1	1.3	1.2	2.2	1.9	1.3	1.4
Nonresidential Fixed Investment	3,315	3,351	3,364	3,375	3,395	3,417	3,442	3,272	3,371	3,456	3,574
Percent Change Annualized	3.7	4.4	1.6	1.3	2.4	2.6	2.9	4.5	3.1	2.5	3.4
Residential Investment	744	772	782	789	794	799	803	735	784	805	821
Percent Change Annualized	2.8	16.0	5.2	3.5	2.9	2.1	2.1	-10.6	6.7	2.6	2.0
Change in Private Inventories	55	29	41	51	50	55	60	44	43	56	64
Net Exports	-919	-960	-990	-987	-979	-980	-977	-928	-979	-973	-960
Government Expenditures	3,887	3,904	3,918	3,932	3,945	3,955	3,964	3,820	3,925	3,968	4,001
Percent Change Annualized	4.6	1.8	1.4	1.4	1.3	1.1	0.9	4.1	2.7	1.1	0.8
Industrial Prod. Index (2007=100)	102.7	102.3	102.9	103.4	103.6	103.9	104.1	102.8	103.0	104.4	105.9
Percent Change Annualized	-2.0	-1.7	2.5	1.9	0.9	1.0	1.1	0.2	0.2	1.3	1.5
Capacity Utilization (Percent)	78.8	78.2	78.1	78.1	77.9	77.7	77.6	79.3	78.1	77.6	77.2
Prices											
CPI (Year-Over-Year % Change)	3.2	3.2	3.2	3.0	2.8	2.4	2.3	4.1	3.1	2.3	2.2
PCE Price Index (Year-Over-Year % Change)	2.8	2.6	2.5	2.4	2.4	2.1	2.1	3.7	2.5	2.1	2.1
Core PCE Price Index (Year-Over-Year % Change)	3.2	2.9	2.6	2.6	2.6	2.3	2.2	4.1	2.7	2.2	2.0
GDP Price Index (Year-Over-Year % Change)	2.6	2.4	2.6	2.4	2.5	2.2	2.1	3.6	2.5	2.1	2.1
PPI, Final Demand (Year-Over-Year % Change)	1.0	1.5	2.2	1.7	2.1	1.9	1.9	2.0	1.9	1.9	2.1
Crude Oil, WTI (\$/barrel)	\$79	\$77	\$81	\$82	\$82	\$82	\$82	\$78	\$81	\$82	\$83
Labor Markets											
Payroll Jobs (Average Monthly Difference, Ths.)	206	257	202	175	160	151	150	245	199	152	153
Unemployment Rate (Percent)	3.7	3.8	4.0	4.1	4.1	4.1	4.1	3.6	4.0	4.1	4.1
Labor Force Participation Rate (%)	62.7	62.6	62.6	62.6	62.6	62.6	62.7	62.6	62.6	62.7	62.9
Average Weekly Hours	34.4	34.3	34.3	34.3	34.3	34.3	34.2	34.4	34.3	34.2	34.2
Personal Income											
Average Hourly Earnings (\$)	34.22	34.59	34.88	35.17	35.44	35.71	35.99	33.72	35.02	36.14	37.33
Percent Change Annualized	3.6	4.3	3.5	3.3	3.1	3.1	3.2	4.5	3.9	3.2	3.3
Real Disp. Income (2017 Billions \$ Annualized)	16,856	16,912	17,018	17,133	17,253	17,352	17,463	16,784	17,079	17,519	17,987
Percent Change Annualized	0.9	1.3	2.5	2.7	2.8	2.3	2.6	4.1	1.8	2.6	2.7
Personal Saving Rate (Percent)	3.7	3.7	3.9	4.1	4.3	4.5	4.7	4.5	4.0	4.8	5.4
Housing											
Housing Starts (Ths., Annual Rate)	1,481	1,407	1,311	1,318	1,324	1,330	1,338	1,421	1,340	1,341	1,364
Single-Family Housing Starts	1,060	1,062	986	992	998	1,004	1,008	949	1,010	1,009	1,022
Multifamily Housing Starts	421	345	325	325	326	327	330	473	330	331	343
Exst. SF Home Sales (Ths., Annual Rate)	3,473	3,797	3,725	3,750	3,774	3,802	3,831	3,674	3,761	3,845	3,960
New SF Home Sales (Ths., Annual Rate)	646	664	643	647	651	654	658	666	651	659	674
Case/Shiller One-Family HPI (Annual % Change)	5.2	6.4	5.9	4.6	3.8	3.4	3.3	2.4	5.1	3.3	2.9
Consumer											
Retail & Food Service Sales (Monthly Avg, Bns)	701.3	700.0	703.9	704.8	705.8	708.7	711.0	692.4	703.6	713.0	726.4
Percent Change Annualized	3.3	-0.8	2.3	0.5	0.6	1.7	1.3	3.6	1.6	1.3	1.9
Consumer Confidence* (Conference Board)	102.7	106.3	99.7	101.0	101.3	103.6	104.9	105.4	102.1	103.2	102.3
Car and Light Truck Sales (Millions)	15.8	15.5	15.9	15.8	15.8	16.0	16.2	15.6	15.8	16.3	16.8
Financial Indicators (Period Average)											
Federal Funds Rate, % (Effective)	5.33	5.33	5.33	5.28	5.03	4.78	4.53	5.02	5.24	4.41	3.02
Prime Rate, %	8.50	8.50	8.50	8.45	8.20	7.95	7.70	8.19	8.41	7.58	6.19
1-Month BSBY, %	5.40	5.37	5.35	5.32	5.12	--	--	5.12	5.31	--	--
3-Month Term SOFR, %	5.38	5.32	5.33	5.22	4.94	4.72	4.46	5.16	5.20	4.32	2.95
1-Yr. Treasury Rate, %	5.22	4.90	5.14	4.96	4.66	4.37	4.06	5.08	4.91	3.86	2.76
5-Yr. Treasury Rate, %	4.42	4.12	4.46	4.40	4.41	4.21	3.98	4.06	4.35	3.77	2.91
10-Yr. Treasury Rate, %	4.44	4.16	4.44	4.36	4.38	4.28	4.20	3.96	4.34	4.00	3.34
30-Yr. Fixed Rate Mortgage, %	7.29	6.75	7.00	6.96	6.87	6.68	6.47	6.80	6.89	6.20	5.12
Corporate Profits After Tax (Billions \$ Annualized)	3,096	3,168	3,210	3,243	3,281	3,315	3,345	2,975	3,225	3,358	3,468
Percent Change Annualized	10.8	9.6	5.4	4.1	4.8	4.2	3.7	-0.2	8.4	4.1	3.3

a = actual p = preliminary f = forecast

July 17, 2024

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