

A Big Cut in September Kicked Off the Rate-Reduction Cycle; Hiring in Credit-Intensive Industries Is Set to Rebound as Rates Fall

The Fed cut the federal funds target by half a percentage point at the September 18 decision, more aggressive than expected when they previously met in July. The Fed also signaled plans to cut rates by another half percent before year-end, with additional easing in 2025. Their pivot is a reaction to recent data showing the job market and inflation cooling more than expected. The July and August jobs reports were soft, and the preliminary benchmark revision of March 2024 payrolls (released in mid-August) reduced job growth between March 2023 and March 2024 by 818,000. Incorporating these data, job growth in the year through August averaged 157,000 per month, down considerably from 218,000 per month in the year through June, according to the (now revised) data available during the Fed’s July meeting.

In addition, the unemployment rate’s increase in July and August triggered the Sahm Rule. This is former Fed economist Claudia Sahm’s observation that when the unemployment rate’s 3-month moving average exceeds its 12-month low by half a percentage point or more, the economy has historically been in recession. Mid-2024 is likely an exception to the Sahm Rule, since increased immigration is fueling a burst of labor force growth (it’s hard to measure exactly how large this is, since the BLS’s household survey struggles to measure employment among recently-arrived immigrants). Even so, the Fed likely finds the Sahm Rule’s message persuasive: The job market is trending in the wrong direction. The Fed wants to break that trend and has good prospects for achieving that goal: Lower interest rates are likely to fuel a rebound of hiring in credit-intensive industries like housing, manufacturing, and retailing of big-ticket consumer products like cars, furniture, and appliances.

Inflation is slowing to near the Fed’s 2% target. A big part of the recent dip in inflation is due to lower energy prices. Despite OPEC supply restraint and geopolitical risks, U.S. production is strong and global energy demand is sluggish. Core inflation is a bit higher than total inflation, but core inflation, too, seems likely to slow further. Downward pressure on prices of durable goods like new and used autos persists, and the slower increases of house price indexes and rents on new residential leases in 2024 is expected to cool housing costs as measured by the PCE and CPI indexes in 2025. Comerica’s September forecast anticipates the Fed making quarter percentage point rate cuts at the November, December, January, and March decisions. The Fed is forecast to then switch to quarterly rate cuts for the rest of next year, reducing the target rate to a range of 3.00% to 3.25% by the end of 2025. The Fed could cut faster than this if the economy weakens materially, or slower if the large fiscal deficit (currently around 6% of GDP) or wars in oil-exporting regions cause inflation to rebound.

U.S. Economic Outlook, Summary

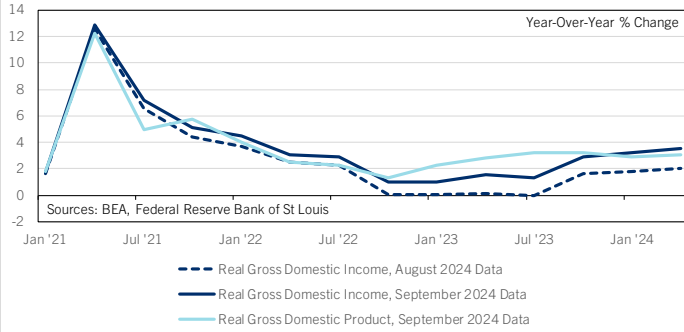
<i>a = actual f = forecast</i>	2Q'24a	3Q'24p	4Q'24f	1Q'25f	2Q'25f	3Q'25f	4Q'25f	2023a	2024f	2025f	2026f
Real GDP (Percent Change Annualized)	3.0	2.1	2.0	2.0	2.0	2.0	2.1	2.5	2.7	2.1	2.1
CPI (Percent Change Year-over-Year)	3.2	2.6	2.5	2.1	2.0	2.1	2.1	4.1	2.9	2.1	1.9
Payroll Jobs (Average Monthly Diff., Ths.)	192	118	125	130	145	152	158	245	173	147	152
Unemployment Rate (Percent)	4.0	4.2	4.3	4.3	4.3	4.2	4.2	3.6	4.1	4.3	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

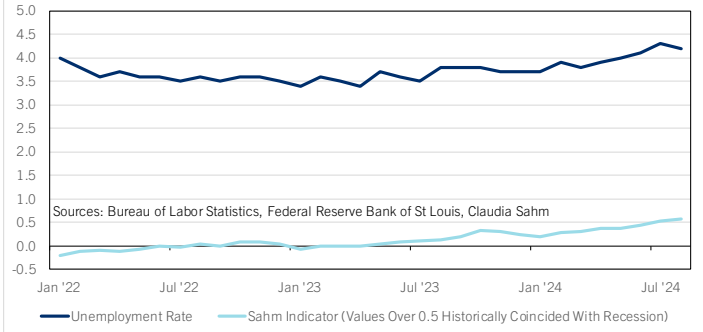
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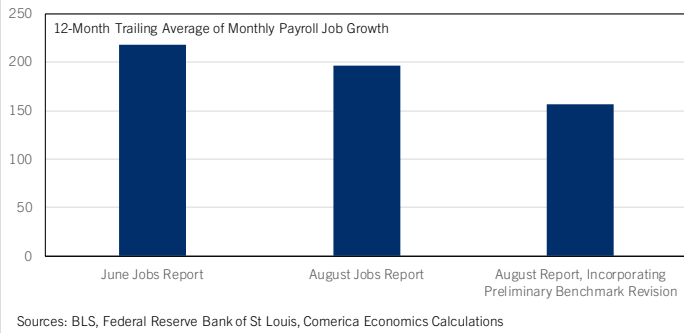
Recent Upward Revisions to Gross Domestic Income Reinforce GDP's Message of Solid Growth in 2024



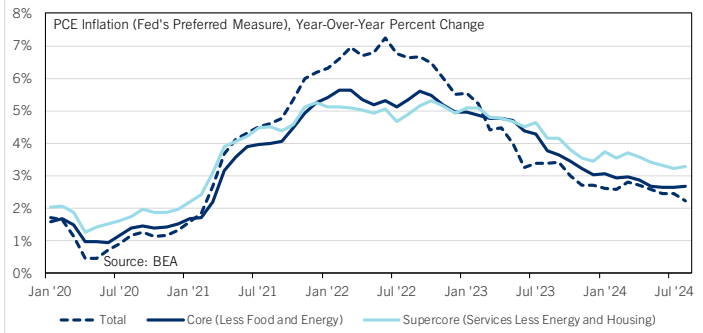
Unemployment Is Still Relatively Low, But Its Steady March Higher Will Worry the Fed



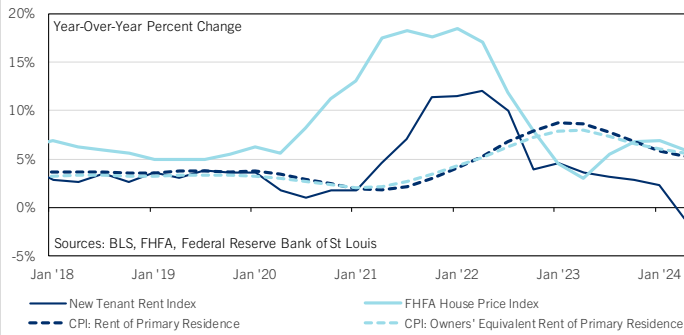
The Jobs Data Cooled Considerably Between the July and September Fed Decisions



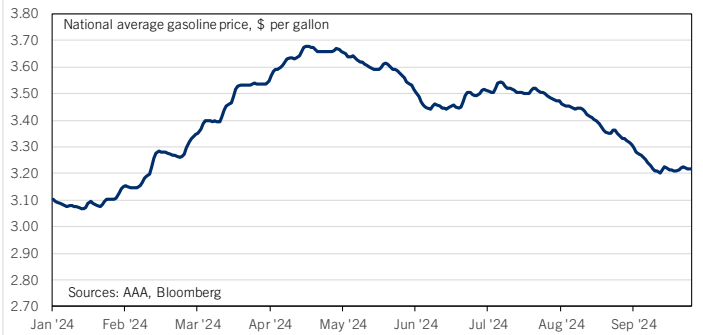
Inflation Slowed to Near Fed's Target in August, Though Core Inflation Still Points to a Higher Trend



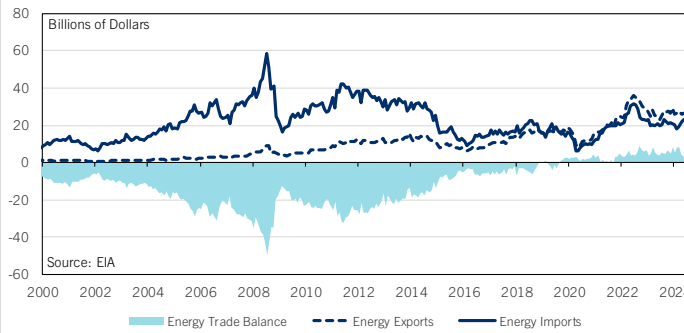
Leading Indicators of CPI Shelter Components Point to Slower Core Inflation in 2025



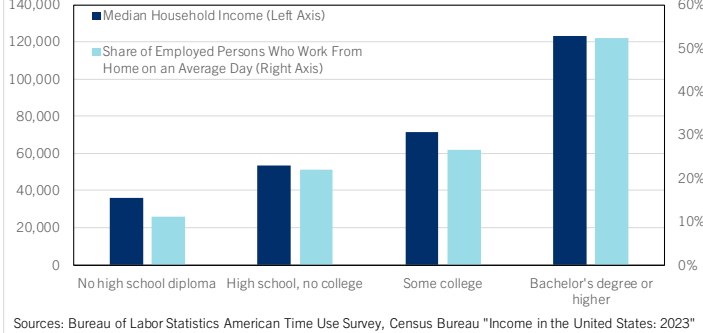
Gas Prices Fell Again in September, Pointing to More Cool Inflation Data Ahead



Massive Structural Change to the Economy Since 2019 as the U.S. Becomes an Energy Net Exporter



The More You Make, The More Likely You Are To Work Remotely, Supporting Housing Demand for Years to Come



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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)	28,652	28,935	29,219	29,520	29,825	30,127	30,431	27,361	28,769	29,976	31,197
<i>Percent Change Annualized</i>	5.5	4.0	4.0	4.2	4.2	4.1	4.1	6.3	5.1	4.2	4.1
Real GDP (Chained 2017 Billions \$ Annual Rate)	22,925	23,044	23,156	23,272	23,386	23,502	23,622	22,377	22,971	23,445	23,927
<i>Percent Change Annualized</i>	3.0	2.1	2.0	2.0	2.0	2.0	2.1	2.5	2.7	2.1	2.1
Pers. Consumption Expenditures	15,755	15,846	15,929	15,988	16,043	16,105	16,175	15,426	15,793	16,078	16,365
<i>Percent Change Annualized</i>	2.9	2.3	2.1	1.5	1.4	1.5	1.8	2.2	2.4	1.8	1.8
Nonresidential Fixed Investment	3,389	3,423	3,460	3,495	3,534	3,576	3,616	3,272	3,406	3,555	3,721
<i>Percent Change Annualized</i>	4.6	4.1	4.4	4.1	4.5	4.8	4.6	4.5	4.1	4.4	4.7
Residential Investment	768	758	762	777	794	807	813	735	765	798	817
<i>Percent Change Annualized</i>	-2.0	-5.0	1.8	8.2	8.9	6.8	3.1	-10.6	4.1	4.2	2.5
Change in Private Inventories	69	75	73	75	73	62	66	44	61	69	75
Net Exports	-1,010	-1,028	-1,053	-1,065	-1,072	-1,072	-1,083	-928	-1,013	-1,073	-1,115
Government Expenditures	3,930	3,946	3,961	3,976	3,989	4,000	4,011	3,820	3,935	3,994	4,039
<i>Percent Change Annualized</i>	2.7	1.7	1.5	1.5	1.3	1.1	1.1	4.1	3.0	1.5	1.1
Industrial Prod. Index (2007=100)	103.0	103.1	103.4	103.7	104.1	104.5	105.0	102.9	102.9	104.3	106.6
<i>Percent Change Annualized</i>	2.9	0.5	1.0	1.3	1.4	1.7	1.8	0.2	0.1	1.4	2.1
Capacity Utilization (Percent)	78.1	77.8	77.6	77.4	77.3	77.2	77.2	79.0	77.8	77.3	77.3
Prices											
CPI (Year-Over-Year % Change)	3.2	2.6	2.5	2.1	2.0	2.1	2.1	4.1	2.9	2.1	1.9
Core CPI (Year-Over-Year % Change)	3.4	3.2	2.9	2.4	2.2	2.2	2.2	4.8	3.3	2.3	2.1
PCE Price Index (Year-Over-Year % Change)	2.6	2.2	2.3	2.1	2.1	2.3	2.2	3.7	2.4	2.2	1.9
Core PCE Price Index (Year-Over-Year % Change)	2.6	2.6	2.6	2.3	2.2	2.3	2.3	4.1	2.7	2.3	2.1
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	2.0
PPI, Final Demand (Year-Over-Year % Change)	2.5	1.8	2.3	2.1	1.9	2.1	2.2	2.0	2.0	2.1	2.1
Crude Oil, WTI (\$/barrel)	\$82	\$70	\$72	\$75	\$78	\$78	\$79	\$78	\$75	\$77	\$79
Labor Markets											
Payroll Jobs (Average Monthly Difference, Ths.)	192	118	125	130	145	152	158	245	173	147	152
Unemployment Rate (Percent)	4.0	4.2	4.3	4.3	4.3	4.2	4.2	3.6	4.1	4.3	4.0
Labor Force Participation Rate (%)	62.6	62.7	62.8	62.8	62.8	62.9	62.8	62.6	62.7	62.8	62.8
Average Weekly Hours	34.3	34.3	34.3	34.3	34.3	34.4	34.3	34.4	34.3	34.4	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
<i>Percent Change Annualized</i>	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)	16,956	17,088	17,190	17,289	17,393	17,516	17,637	16,784	17,036	17,459	17,944
<i>Percent Change Annualized</i>	1.0	3.1	2.4	2.3	2.4	2.9	2.8	4.1	1.5	2.5	2.8
Personal Saving Rate (Percent)	3.3	3.3	3.5	3.7	3.9	4.1	4.3	4.5	3.5	4.0	4.7
Housing											
Housing Starts (Ths., Annual Rate)	1,340	1,301	1,345	1,362	1,371	1,375	1,384	1,421	1,348	1,373	1,404
Single-Family Housing Starts	1,004	920	927	931	936	940	944	949	978	938	953
Multifamily Housing Starts	336	381	418	430	435	435	440	473	370	435	451
Exst. SF Home Sales (Ths., Annual Rate)	3,657	3,565	3,605	3,673	3,729	3,757	3,756	3,674	3,656	3,729	3,888
New SF Home Sales (Ths., Annual Rate)	690	749	759	763	767	771	774	666	715	769	784
FHFA Purchase-Only HPI (Annual % Change)	5.7	4.5	3.8	3.5	3.3	3.0	2.7	5.0	5.2	3.1	2.3
Case/Shiller One-Family HPI (Annual % Change)	5.9	4.7	3.9	3.6	3.3	2.9	2.6	2.5	5.2	3.1	2.1
Consumer											
Retail & Food Service Sales (Monthly Avg, Bns)	703.1	710.8	715.4	718.9	721.9	724.2	726.9	692.5	707.3	723.0	735.2
<i>Percent Change Annualized</i>	1.8	4.5	2.6	1.9	1.7	1.3	1.5	3.6	2.1	2.2	1.7
Consumer Confidence* (Conference Board)	98.9	102.8	104.8	105.8	105.9	105.3	105.4	105.4	103.2	105.6	106.6
Car and Light Truck Sales (Millions)	15.9	15.5	15.9	16.2	16.4	16.5	16.7	15.6	15.7	16.5	17.2
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)	3,229	3,274	3,314	3,351	3,386	3,420	3,457	2,975	3,246	3,404	3,548
<i>Percent Change Annualized</i>	7.9	5.7	5.0	4.5	4.2	4.1	4.4	-0.2	9.1	4.8	4.3

a = actual p = preliminary f = forecast

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