

After a Weak Start, U.S. Economy Set to Finish 2016 on a Stronger Note

The recent upward revision to Q3 real GDP growth, to 3.2 percent, is a look in the rear-view mirror, but it does suggest that the U.S. economy entered the soon-to-be-complete fourth quarter with more momentum than previously thought. Inventories remain a key factor in the GDP calculation. Inventory accumulation was strong in 2015 and supported a moderate 2.6 percent real GDP growth for the year. In 2016, inventory accumulation was much weaker. In fact in the second quarter of 2016, inventories declined by \$15 billion (nominal), the first decline in inventories since 2011Q3. Oil inventories were part of the story, as were manufactured goods. We expect U.S. oil stocks to continue to decline through 2017, but at a slower rate than they did this summer. Also, with firmer oil prices, and firming drilling activity, we expect that manufacturers who supported the oil and gas industry will have better control over their inventories in 2017 than they have for the past two years. In our U.S. forecast, inventories contribute positively to GDP growth from 2016Q3 through 2017Q4. This is a major assumption, and it could prove to be wrong, but if it is correct, it will result in above-potential GDP growth through 2017. There are several significant risks to our inventory outlook. U.S. crude oil inventories may fall through 2017 faster than expected. Lower oil prices could result in weaker-than-expected drilling activity. A strong dollar could stifle U.S. exports, as could the fallout from any challenges to existing trade deals. Finally, the auto sector is in play. We expect U.S. auto sales to gradually ease through 2017. If auto sales are worse than expected, auto-related manufacturers could reduce their inventories significantly.

Beyond GDP, other U.S. economic metrics improved late in the year. The ISM-Manufacturing Index increased from a mildly contractionary 49.4 in August, to a moderately positive 53.2 in November. Despite the concern about the strong dollar and adverse consequences of trade negotiations, U.S. manufacturers are finishing the year with some momentum. The ISM Non-Manufacturing Index is also showing more momentum, having increased from its August low of 51.4 to November's strong 57.2. Taken together, the two indexes are consistent with real GDP growth in the neighborhood of 3 percent or more in the fourth quarter.

Add a post-election stock market rally and rising consumer confidence into the mix and 2016 looks to end on a good note, which should carry over into early 2017. As the incoming Trump Administration launches its 100-day plan, we expect to see policy measures designed to boost economic growth, including some form of fiscal stimulus and corporate tax reform. These should help to sustain economic momentum through 2017. With stronger GDP growth and a widening federal deficit, inflation expectations should firm up through 2017. Oil markets will also factor into inflation expectations. The recent OPEC agreement to cut production is more marginal than radical, but it should support slightly higher prices. Stronger inflation, in turn, is an upside risk factor for our interest rate outlook. We continue to expect the Federal Reserve to increase the feds funds rate range by 25 basis points on December 14. We have maintained our call for two more interest rate hikes in 2017. However, we recognize that there is increasing upside risk to our interest rate forecast for 2017 and 2018, which needs to be balanced against the probability of recession in a late-cycle economy.

U.S. Economic Outlook, Summary

	2Q'16a	3Q'16a	4Q'16f	1Q'17f	2Q'17f	3Q'17f	4Q'17f	1Q'18f	2015a	2016f	2017f
Real GDP (Percent Change Annualized)	1.4	3.2	3.1	3.0	3.1	2.8	2.7	2.9	2.6	1.6	2.9
CPI (Percent Change Year-over-Year)	1.1	1.1	1.7	2.3	2.5	2.6	2.4	2.5	0.1	1.2	2.4
Payroll Jobs (Average Monthly Diff., Ths.)	150.7	209.1	169.2	176.0	172.9	167.3	159.7	157.1	231.3	187.2	169.0
Unemployment Rate (Percent)	4.9	4.9	4.7	4.7	4.7	4.7	4.7	4.7	5.3	4.8	4.7
Federal Funds Rate (Effective)	0.37	0.40	0.44	0.63	0.67	0.88	0.92	1.13	0.13	0.39	0.78
10-Yr. Treasury Rate	1.75	1.56	2.10	2.41	2.43	2.52	2.54	2.60	2.14	1.83	2.48

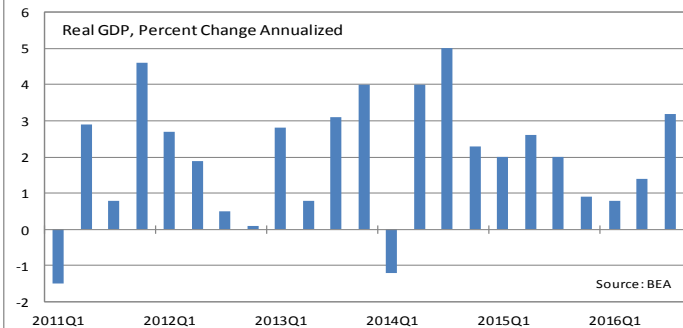
a = actual f = forecast

To subscribe to our publications or for questions, contact us at ComericaEcon@comerica.com. Archives are available at <http://www.comerica.com/economics>.

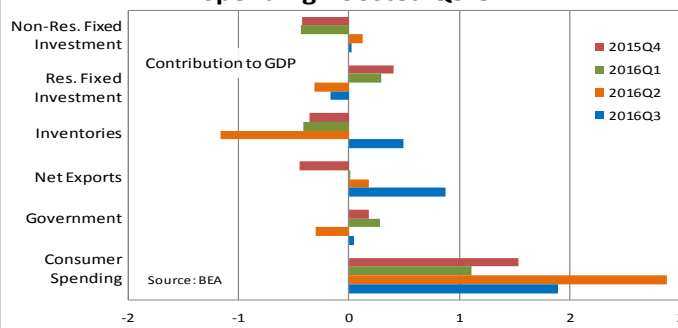
Follow us on Twitter: @Comerica_Econ.

The articles and opinions in this publication are for general information only, are subject to change, and are not intended to provide specific investment, legal, tax or other advice or recommendations. The information contained herein reflects the thoughts and opinions of the noted authors only, and such information does not necessarily reflect the thoughts and opinions of Comerica or its management team. We are not offering or soliciting any transaction based on this information. We suggest that you consult your attorney, accountant or tax or financial advisor with regard to your situation. Although information has been obtained from sources we believe to be reliable, neither the authors nor Comerica guarantee its accuracy, and such information may be incomplete or condensed. Neither the authors nor Comerica shall be liable for any typographical errors or incorrect data obtained from reliable sources or factual information.

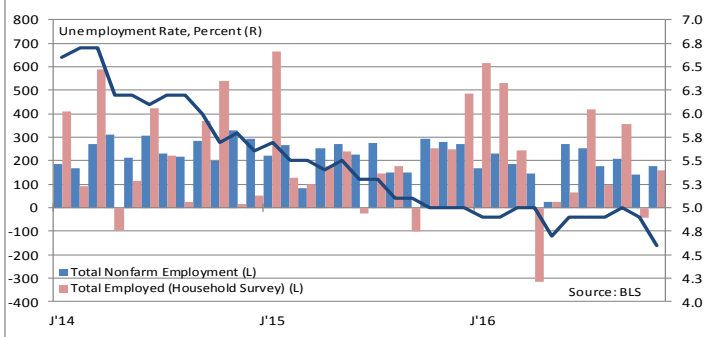
Q3 GDP Growth Up 3.2%



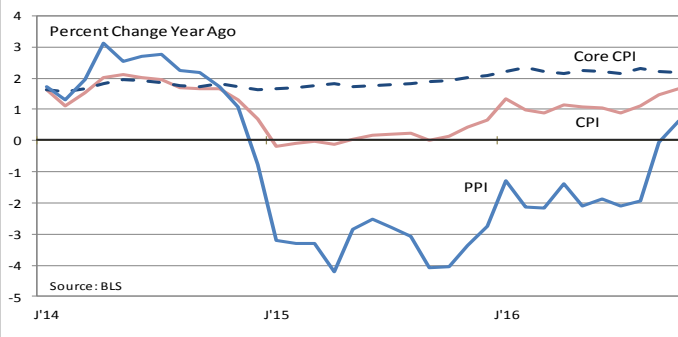
Inventories, Net Exports and Consumer Spending Boosted Q3 GDP



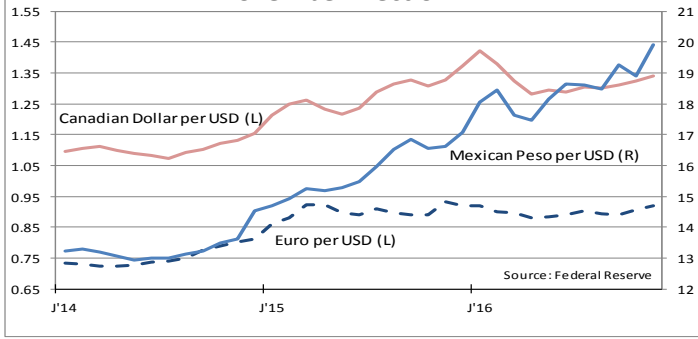
U.S. Added Net 178,000 Jobs in November



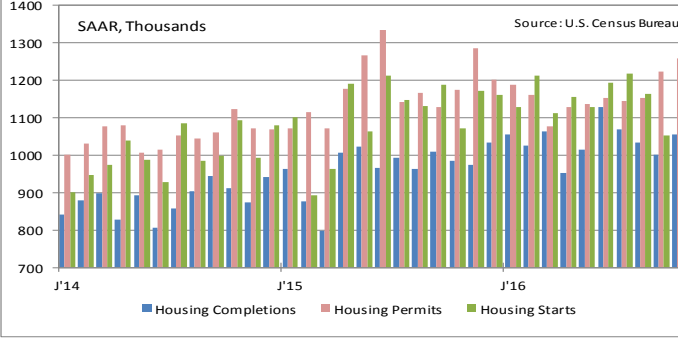
Inflation Heading Back to 2 Percent



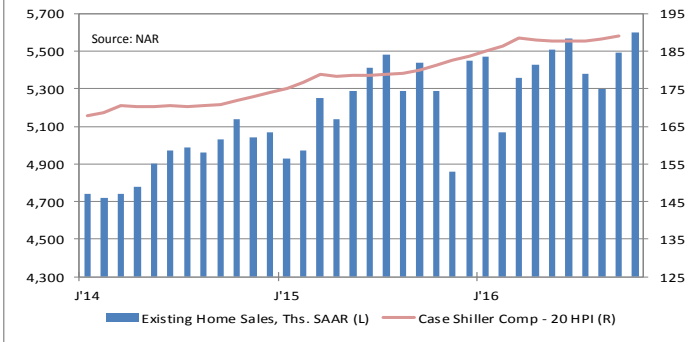
U.S. Dollar Strengthened on Trump November Election Win



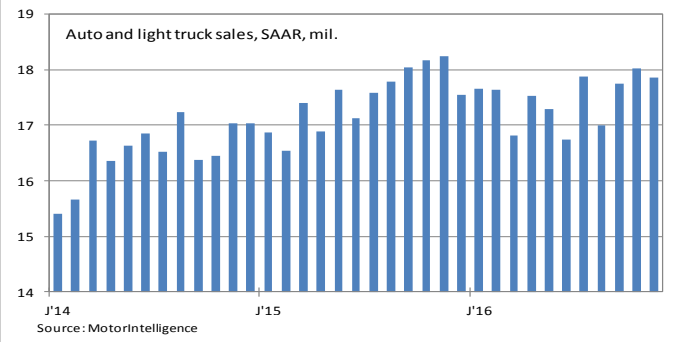
Housing Starts Rebounded in October



Existing Homes Sales Improved in October



Solid November Auto Sales at 17.9 mln



Subscribe to economics publications at: <http://www.comerica.com/econsubscribe>. Archives available at <http://www.comerica.com/economics>.

The articles and opinions in this publication are for general information only, are subject to change, and are not intended to provide specific investment, legal, tax or other advice or recommendations. The information contained herein reflects the thoughts and opinions of the noted authors only, and such information does not necessarily reflect the thoughts and opinions of Comerica or its management team. We are not offering or soliciting any transaction based on this information. We suggest that you consult your attorney, accountant or tax or financial advisor with regard to your situation. Although information has been obtained from sources we believe to be reliable, neither the authors nor Comerica guarantee its accuracy, and such information may be incomplete or condensed. Neither the authors nor Comerica shall be liable for any typographical errors or incorrect data obtained from reliable sources or factual information.

	2Q'16a	3Q'16a	4Q'16f	1Q'17f	2Q'17f	3Q'17f	4Q'17f	1Q'18f	2015a	2016f	2017f
Output											
Nominal GDP (Billions \$)	18450	18658	18884	19106	19346	19574	19799	20035	18037	18568	19456
Percent Change Annualized	3.7	4.6	4.9	4.8	5.1	4.8	4.7	4.9	3.7	2.9	4.8
Real GDP (Chained 2009 Billions \$)	16583	16713	16839	16964	17094	17211	17327	17449	16397	16665	17149
Percent Change Annualized	1.4	3.2	3.1	3.0	3.1	2.8	2.7	2.9	2.6	1.6	2.9
Pers. Consumption Expenditures	11485	11564	11646	11713	11775	11830	11884	11946	11215	11515	11800
Percent Change Annualized	4.3	2.8	2.9	2.3	2.2	1.9	1.8	2.1	3.2	2.7	2.5
Nonresidential Fixed Investment	2185	2186	2220	2253	2292	2330	2366	2401	2200	2193	2310
Percent Change Annualized	1.0	0.1	6.4	6.0	7.1	6.8	6.4	6.0	2.1	-0.3	5.4
Residential Investment	589	582	592	601	608	614	619	625	565	591	611
Percent Change Annualized	-7.8	-4.4	6.9	6.0	5.0	3.9	3.7	3.3	11.7	4.7	3.3
Change in Private Inventories	-10	8	17	31	44	54	58	60	84	14	47
Net Exports	-559	-521	-545	-555	-563	-570	-570	-566	-540	-548	-564
Government Expenditures	2901	2903	2916	2930	2945	2961	2977	2992	2884	2908	2953
Percent Change Annualized	-1.7	0.2	1.8	1.9	2.1	2.2	2.1	2.1	1.8	0.8	1.5
Industrial Prod. Index (2007=100)	103.9	104.4	104.3	104.4	104.6	105.0	105.3	105.6	105.2	104.2	104.8
Percent Change Annualized	-0.8	2.0	-0.5	0.2	1.1	1.3	1.2	1.2	0.3	-1.0	0.6
Capacity Utilization (Percent)	75.2	75.5	75.4	75.3	75.3	75.3	75.4	75.4	76.7	75.4	75.3
Prices											
CPI (1982-84=100)	239.4	240.4	242.1	243.5	245.3	246.6	247.8	249.5	237.0	239.9	245.8
Percent Change Annualized	2.5	1.6	2.8	2.4	3.0	2.1	2.0	2.8	0.1	1.2	2.4
PCE Price Index (2009=100)	110.5	110.9	111.5	112.2	113.0	113.6	114.1	114.9	109.5	110.7	113.2
Percent Change Annualized	2.0	1.4	2.3	2.4	2.9	2.0	2.0	2.6	0.3	1.1	2.3
GDP Price Index (2009=100)	111.3	111.7	112.2	112.7	113.2	113.8	114.4	114.9	110.0	111.4	113.5
Percent Change Annualized	2.3	1.4	1.9	1.8	2.0	2.0	2.0	2.0	1.1	1.3	1.9
Producer Price Index, Finished Goods	191.4	192.1	193.8	194.7	196.0	196.9	197.8	199.1	193.8	191.8	196.4
Percent Change Annualized	3.6	1.4	3.7	1.8	2.8	1.8	1.8	2.7	-3.3	-1.1	2.4
Crude Oil, WTI (\$/barrel)	44.9	45.1	48.5	50.0	55.0	55.0	55.0	60.0	48.9	42.9	53.8
Labor Markets											
Payroll Jobs (Average Monthly Diff., Ths.)	150.7	209.1	169.2	176.0	172.9	167.3	159.7	157.1	231.3	187.2	169.0
Unemployment Rate (Percent)	4.9	4.9	4.7	4.7	4.7	4.7	4.7	4.7	5.3	4.8	4.7
Average Weekly Hours, Prod. Works.	33.6	33.6	33.6	33.6	33.6	33.5	33.5	33.5	33.7	33.6	33.6
Population (Millions)	324.0	324.7	325.4	326.0	326.7	327.3	328.0	328.6	321.7	324.4	327.0
Percent Change Annualized	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Personal Income											
Average Hourly Earnings (\$)	21.49	21.63	21.73	21.88	22.04	22.22	22.40	22.60	21.04	21.55	22.14
Percent Change Annualized	2.4	2.7	1.8	2.8	3.1	3.3	3.3	3.6	2.1	2.4	2.7
Real Disp. Income (2009 Billions \$)	12647	12731	12812	12885	12930	13026	13130	13215	12343	12686	12993
Percent Change Annualized	2.9	2.7	2.6	2.3	1.4	3.0	3.2	2.6	3.5	2.8	2.4
Personal Saving Rate (Percent)	5.9	5.8	5.9	5.8	5.8	5.8	5.8	5.8	5.8	5.9	5.8
Housing											
Housing Starts (Ths., Ann. Rate)	1159	1145	1222	1217	1239	1257	1275	1291	1108	1170	1247
Ext. SF Home Sales (Ths., Ann Rate)	4870	4787	4874	4814	4862	4900	4932	4965	4627	4812	4877
New SF Home Sales (Ths., Ann Rate)	565	588	580	566	578	588	598	605	502	565	583
Case/Shiller HPI (Jan. 2000=100)	179.4	181.7	184.0	186.0	188.0	190.2	192.4	194.7	172.3	180.9	189.1
Year/Year Percent Change	5.0	5.2	4.5	4.2	4.8	4.7	4.6	4.7	4.6	5.0	4.6
Consumer											
Household Economic Stress Index	0.9	0.9	1.9	2.9	2.4	2.6	2.5	2.5	0.8	1.1	2.6
Auto Sales (Millions)	17.2	17.5	17.8	17.6	17.5	17.4	17.3	17.2	17.5	17.5	17.5
Interest Rates (percent per year)											
Federal Funds Rate (Effective)	0.37	0.40	0.44	0.63	0.67	0.88	0.92	1.13	0.13	0.39	0.78
Prime Rate	3.50	3.50	3.50	3.63	3.67	3.88	3.92	4.13	3.26	3.50	3.78
1-Month LIBOR	0.44	0.51	0.58	0.76	0.84	1.05	1.09	1.30	0.20	0.49	0.93
3-Month LIBOR	0.64	0.79	0.91	1.03	1.08	1.26	1.30	1.49	0.32	0.74	1.17
1-Yr. Treasury Rate	0.57	0.56	0.72	0.85	0.90	1.09	1.13	1.32	0.32	0.61	0.99
5-Yr. Treasury Rate	1.24	1.13	1.57	1.89	1.93	2.04	2.07	2.14	1.53	1.33	1.98
10-Yr. Treasury Rate	1.75	1.56	2.10	2.41	2.43	2.52	2.54	2.60	2.14	1.83	2.48
30-Year Fixed Rate Mortgage	3.59	3.45	3.75	4.12	4.17	4.28	4.31	4.36	3.85	3.63	4.22

a = actual f = forecast

December 5, 2016

Subscribe to economics publications at: <http://www.comerica.com/econsubscribe>. Archives available at <http://www.comerica.com/economics>.

The articles and opinions in this publication are for general information only, are subject to change, and are not intended to provide specific investment, legal, tax or other advice or recommendations. The information contained herein reflects the thoughts and opinions of the noted authors only, and such information does not necessarily reflect the thoughts and opinions of Comerica or its management team. We are not offering or soliciting any transaction based on this information. We suggest that you consult your attorney, accountant or tax or financial advisor with regard to your situation. Although information has been obtained from sources we believe to be reliable, neither the authors nor Comerica guarantee its accuracy, and such information may be incomplete or condensed. Neither the authors nor Comerica shall be liable for any typographical errors or incorrect data obtained from reliable sources or factual information.