

Debts and Taxes

The globally synchronized economic expansion will continue through year-end 2017. U.S. real GDP grew at a 3.0 percent annualized rate in the third quarter of 2017, or 0.7 percent quarter-over-quarter. The European Union increased real GDP by a similar 0.6 percent quarter-over-quarter in Q3. China claims 6.8 percent real GDP growth in Q3 on a year-over-year basis, roughly consistent with a strong 1.7 percent growth quarter-over-quarter. Japan is expecting about 0.5 percent quarter-over-quarter real GDP growth for Q3. Commodity countries are doing better as commodity prices increase. As the global expansion continues, so does concern about debt accumulation, which is both a symptom and a cause of the current benign economic environment. Rising debt levels in Asia have drawn warnings from global economic institutions, including the World Bank and the International Monetary Fund.

Accompanying the synchronized global expansion, there is a synchronized monetary policy normalization. The U.S. Federal Reserve looks all but certain to raise the benchmark fed funds rate range again on December 13. It has begun the process of reversing the substantial crisis-driven increase in its balance sheet. We expect the Powell Fed to raise rates again in 2018. The Bank of England just raised its benchmark bank rate for the first time in a decade, while the European Central Bank will reduce its asset purchases in January, but have not yet proposed a tapering strategy.

For most developed countries, including in the U.S., inflation remains weaker than expected. Oil prices have firmed recently, but remain well below earlier expectations. In the U.S., tighter labor markets are expected to lead to further wage gains, potentially stoking more inflation later. But the global forces of disinflation and outright deflation remain strong. Among these are lower population growth, better agricultural production, globalized trade, ever-cheaper computing power and the ever-increasing zero marginal cost economy.

The U.S. awaits tax reform. The House of Representatives bill is now in the hands of the Senate, which will use the reconciliation process to try to pass something before the end of this year. There has already been pushback on limiting the mortgage interest deduction and eliminating the state and local tax deduction. Some experts warn that the proposed 20 percent corporate tax rate is too low and will destabilize the federal budget deficit, potentially making our federal debt unsustainable. We believe that the Senate will be under enormous pressure to do *something* and that the final tax bill will retain the broad contours of the House plan. Failure of tax reform could result in a reset of current high business and consumer confidence.

An infrastructure bill for 2018 remains on the Trump Administration's wish list. The final infrastructure bill will be dependent on tax reform. We expect to see something featuring public-private partnerships and possibly asset sales.

U.S. Economic Outlook, Summary

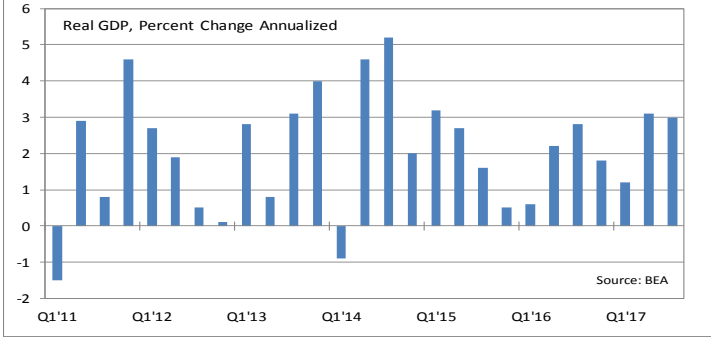
	2Q'17a	3Q'17a	4Q'17f	1Q'18f	2Q'18f	3Q'18f	4Q'18f	1Q'19f	2016a	2017f	2018f
Real GDP (Percent Change Annualized)	3.1	3.0	3.1	2.9	2.9	2.6	2.7	2.6	1.5	2.3	2.9
CPI (Percent Change Year-over-Year)	1.9	2.0	1.8	1.6	2.2	2.2	2.1	2.0	1.3	2.1	2.0
Payroll Jobs (Average Monthly Diff., Ths.)	161.4	157.0	204.4	164.3	149.4	147.9	144.4	132.6	194.3	176.2	151.5
Unemployment Rate (Percent)	4.4	4.3	4.2	4.1	4.1	4.1	4.0	4.0	4.9	4.4	4.1
Federal Funds Rate (Effective)	0.95	1.15	1.18	1.38	1.42	1.63	1.67	1.88	0.40	1.00	1.53
10-Yr. Treasury Rate	2.26	2.24	2.39	2.59	2.66	2.88	2.93	3.15	1.84	2.33	2.76

a = actual f = forecast

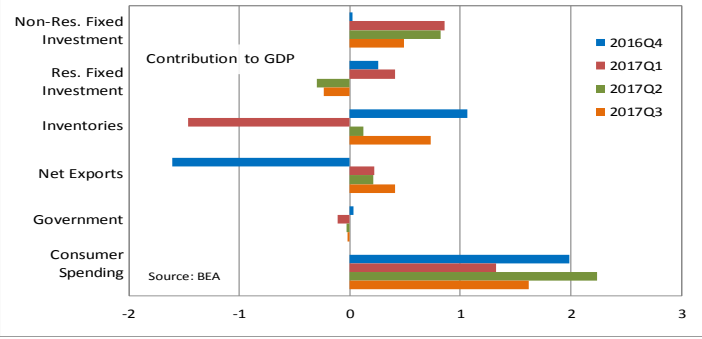
To subscribe to our publications or for questions, contact us at ComericaEcon@comerica.com. Archives are available at <http://www.comerica.com/insights>. Follow us on Twitter: @Comerica_Econ.

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.

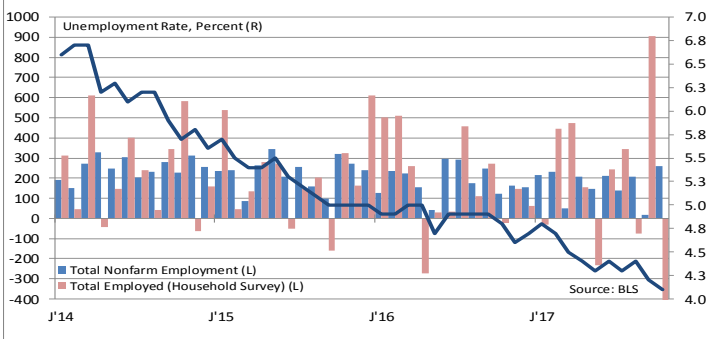
Q3 GDP 1st Estimate at 3.0%



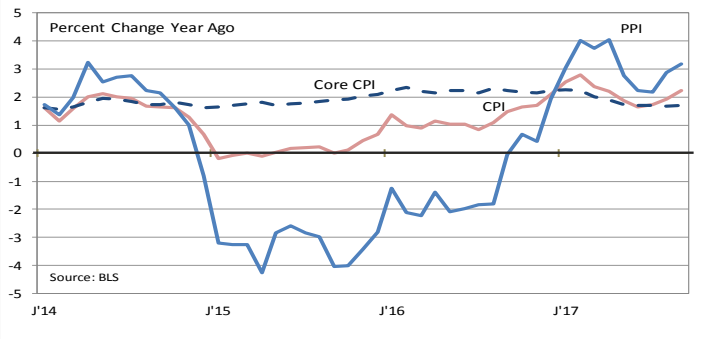
Q3 GDP Bolstered by Consumer Spending and Inventories



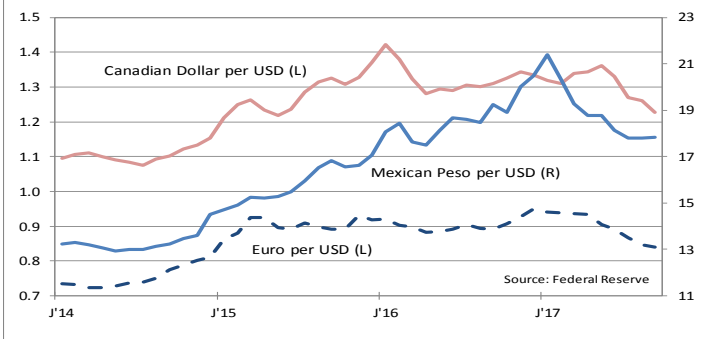
U. Rate Down to 4.1 Percent in October



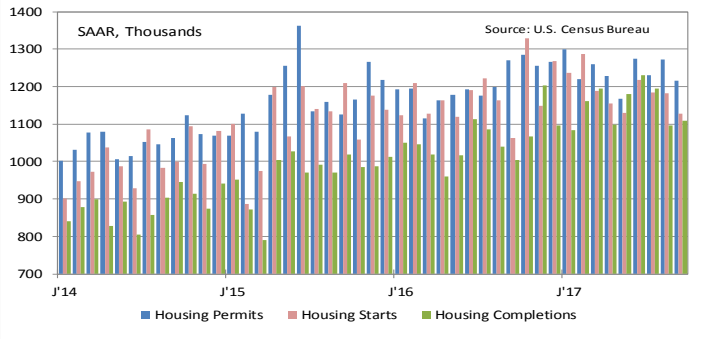
September Inflation Measures Up on Energy



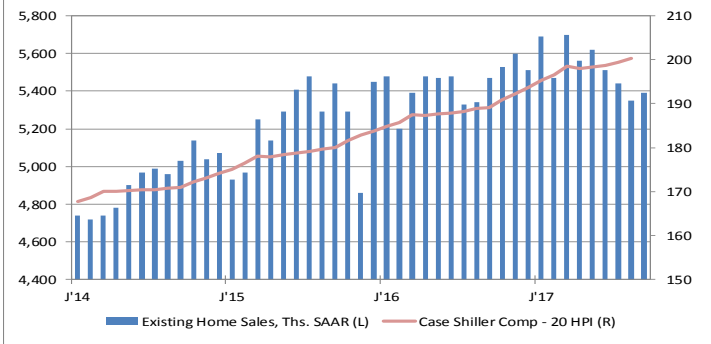
US Dollar Easing Through 2017



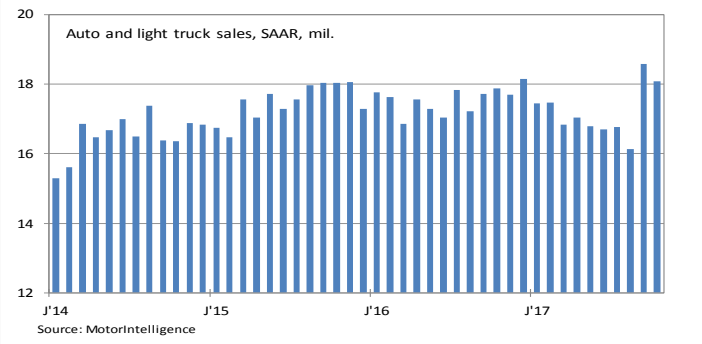
Multifamily Weighs on Housing Starts



Slump Continues for Existing Home Sales



Oct. Auto Sales High at 18.1 Mln Rate



Subscribe to economics publications and view available archive at <http://www.comerica.com/insights>.

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'17a	3Q'17a	4Q'17f	1Q'18f	2Q'18f	3Q'18f	4Q'18f	1Q'19f	2016a	2017f	2018f
Output											
Nominal GDP (Billions \$)	19250	19495	19736	19977	20219	20449	20681	20913	18624	19385	20332
Percent Change Annualized	4.1	5.2	5.0	5.0	4.9	4.6	4.6	4.6	2.8	4.1	4.9
Real GDP (Chained 2009 Billions \$)	17031	17157	17288	17413	17540	17654	17770	17884	16716	17095	17594
Percent Change Annualized	3.1	3.0	3.1	2.9	2.9	2.6	2.7	2.6	1.5	2.3	2.9
Pers. Consumption Expenditures	11853	11922	11997	12060	12126	12192	12258	12324	11572	11883	12159
Percent Change Annualized	3.3	2.4	2.5	2.1	2.2	2.2	2.2	2.2	2.7	2.7	2.3
Nonresidential Fixed Investment	2301	2323	2357	2394	2427	2458	2489	2519	2210	2311	2442
Percent Change Annualized	6.7	3.9	6.0	6.5	5.7	5.2	5.1	4.8	-0.6	4.5	5.7
Residential Investment	594	585	598	608	615	621	627	631	587	596	618
Percent Change Annualized	-7.3	-6.0	8.9	6.9	5.1	4.0	3.4	3.2	5.5	1.4	3.7
Change in Private Inventories	5	36	35	40	50	50	50	50	33	19	47
Net Exports	-614	-595	-597	-597	-597	-596	-594	-589	-586	-607	-596
Government Expenditures	2895	2894	2906	2915	2926	2936	2947	2957	2900	2898	2931
Percent Change Annualized	-0.2	-0.1	1.6	1.3	1.4	1.4	1.5	1.3	0.8	-0.1	1.1
Industrial Prod. Index (2007=100)	105.1	104.7	105.0	105.3	105.6	105.7	105.9	106.0	103.1	104.6	105.6
Percent Change Annualized	5.6	-1.5	1.3	1.1	0.9	0.6	0.5	0.4	-1.2	1.5	1.0
Capacity Utilization (Percent)	76.6	76.1	76.0	76.0	76.1	76.2	76.3	76.2	75.7	76.1	76.2
Prices											
CPI (1982-84=100)	243.9	245.2	246.6	248.1	249.3	250.6	251.8	253.0	240.0	244.9	249.9
Percent Change Annualized	-0.3	2.0	2.4	2.4	2.0	2.0	2.0	2.0	1.3	2.1	2.0
PCE Price Index (2009=100)	112.3	112.7	113.3	113.9	114.4	115.0	115.6	116.1	110.8	112.6	114.7
Percent Change Annualized	0.3	1.5	2.0	2.2	2.0	2.0	2.0	2.0	1.2	1.6	1.9
GDP Price Index (2009=100)	113.0	113.6	114.2	114.8	115.3	115.9	116.5	117.0	111.4	113.4	115.6
Percent Change Annualized	1.0	2.2	1.9	2.1	2.0	2.0	2.0	1.9	1.3	1.8	2.0
Producer Price Index, Finished Goods	197.2	197.5	199.0	200.2	201.1	202.1	203.2	204.1	191.9	197.6	201.7
Percent Change Annualized	0.7	0.6	3.0	2.4	2.0	2.0	2.0	2.0	-1.0	3.0	2.0
Crude Oil, WTI (\$/barrel)	51.0	51.0	53.0	55.0	55.0	55.0	55.0	55.0	43.1	51.3	55.0
Labor Markets											
Payroll Jobs (Average Monthly Diff., Ths.)	161.4	157.0	204.4	164.3	149.4	147.9	144.4	132.6	194.3	176.2	151.5
Unemployment Rate (Percent)	4.4	4.3	4.2	4.1	4.1	4.1	4.0	4.0	4.9	4.4	4.1
Average Weekly Hours, Prod. Works.	33.7	33.6	33.6	33.6	33.6	33.6	33.5	33.5	33.6	33.6	33.6
Population (Millions)	325.8	326.4	327.1	327.7	328.4	329.0	329.7	330.3	323.5	326.1	328.7
Percent Change Annualized	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.7	0.8	0.8
Personal Income											
Average Hourly Earnings (\$)	21.99	22.15	22.31	22.48	22.65	22.83	23.00	23.18	21.56	22.08	22.74
Percent Change Annualized	2.4	2.9	2.9	3.1	3.0	3.2	3.1	3.1	2.5	2.4	3.0
Real Disp. Income (2009 Billions \$)	12783	12800	12933	13037	13138	13241	13342	13445	12608	12799	13189
Percent Change Annualized	3.3	0.6	4.2	3.2	3.2	3.2	3.1	3.1	1.4	1.5	3.1
Personal Saving Rate (Percent)	3.8	3.4	3.2	3.2	3.2	3.2	3.2	3.2	4.9	3.6	3.2
Housing											
Housing Starts (Ths., Ann. Rate)	1167	1165	1164	1172	1180	1187	1193	1199	1177	1183	1183
Ext. SF Home Sales (Ths., Ann Rate)	4930	4790	4901	4944	4976	5006	5035	5058	4828	4904	4990
New SF Home Sales (Ths., Ann Rate)	605	603	618	622	626	629	632	635	561	611	627
Case/Shiller HPI (Jan. 2000=100)	190.0	192.6	195.6	198.6	201.6	204.6	207.5	210.4	181.1	191.6	203.1
Year/Year Percent Change	5.8	6.0	5.7	5.6	6.1	6.2	6.1	6.0	5.1	5.8	6.0
Consumer											
Household Economic Stress Index	0.5	0.3	0.3	0.2	0.2	0.1	0.0	0.0	1.0	0.7	0.1
Auto Sales (Millions)	16.8	17.2	17.4	17.2	16.9	16.5	16.0	15.6	17.5	17.2	16.7
Interest Rates (percent per year)											
Federal Funds Rate (Effective)	0.95	1.15	1.18	1.38	1.42	1.63	1.67	1.88	0.40	1.00	1.53
Prime Rate	4.04	4.25	4.28	4.48	4.52	4.73	4.77	4.98	3.51	4.09	4.63
1-Month LIBOR	1.06	1.23	1.29	1.52	1.57	1.78	1.82	2.03	0.50	1.10	1.67
3-Month LIBOR	1.20	1.31	1.42	1.62	1.66	1.90	1.93	2.13	0.74	1.25	1.78
1-Yr. Treasury Rate	1.12	1.24	1.47	1.63	1.61	1.80	1.83	2.03	0.61	1.18	1.72
5-Yr. Treasury Rate	1.81	1.82	2.03	2.19	2.23	2.45	2.50	2.72	1.34	1.90	2.34
10-Yr. Treasury Rate	2.26	2.24	2.39	2.59	2.66	2.88	2.93	3.15	1.84	2.33	2.76
30-Year Fixed Rate Mortgage	3.99	3.88	3.97	4.23	4.34	4.59	4.65	4.87	3.65	4.00	4.45

a = actual f = forecast

November 6, 2017

Subscribe to economics publications and view available archive at <http://www.comerica.com/insights>.

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.