

## Jay Powell Takes the Helm at the Fed as U.S. Economy Enjoys a Tailwind

U.S. economic momentum was good through 2017 and may be better in 2018. Real GDP growth increased through the first three quarters of 2017, reaching a 3.2 percent annualized rate in 2017Q3. Real GDP growth then eased a little in 2017Q4, to a 2.6 percent annualized rate. Three key factors that pushed and pulled on GDP growth in 2017Q4 may be reversing themselves in 2018Q1, and this could lead to a stronger growth in the current first quarter. Real consumer spending was a positive in 2017Q4 as consumers, many from hurricane ravaged Texas and Florida, bought new cars and trucks. We expect the push from consumer spending on durable goods will ease significantly in 2018Q1. We have already seen unit auto sales throttle down from a 17.9 million unit rate last December, to a 17.2 million unit rate in January. Auto sales could ease further in the months ahead. However, even as consumer spending was strong in Q4, adding to GDP growth, both inventories and net trade were weak, together pulling nearly 2 percentage points off of Q4 real GDP growth. Those two key levers could reverse in early 2018, pushing real GDP growth in 2018Q1 back above 3 percent despite the drag from cooler auto sales. Average real GDP growth for 2017Q4 and 2018Q1 could push back above 3 percent, expending the run of solid GDP growth from 2017 into 2018.

Jay Powell was sworn in on February 5th as the new Chairman of the Federal Reserve. His comments after the ceremony were brief but positive, highlighting the current strength of the U.S. economy and of the U.S. financial system. The Powell Fed faces the challenge of appropriately communicating and executing Federal Reserve interest rate strategy at a time when inflation-related metrics are sending mixed signals. The January employment report showed that wages are warming up. Higher wages tend to put pressure on corporations to increase their prices, stoking higher inflation. However, the Fed's favored measure of inflation, the trimmed mean PCE price index, has been running consistently below the Fed's symmetric near-2-percent inflation target for the past several years.

The Powell Fed is also expected to increase the amount of maturing assets that it will allow to roll off the balancing sheet, in line with the schedule announced last summer. This will put marginal upward pressure on interest rates along with the push from an increasing fed funds rate.

Powell's first meeting as Chairman of the Federal Open Market Committee, scheduled over March 20/21, will be an interesting one. Financial markets currently expect another fed funds rate hike on March 21, to a range of 1.5-1.75 percent. The fed funds futures market shows that the implied probability of a March 21 rate hike is about 78 percent. The Fed's last dot plot, from December 13, 2017, is consistent with three rate hikes in 2018. This could result in a pattern of a rate hike every other FOMC meeting, March, June and September, and then a pause at the end of the year. The cumulative implied probability of a second rate hike on June 13 now stands at a fairly high 60 percent. The cumulative implied probability of a third rate hike on September 26 stands at a not-insignificant 39 percent.

However, if the Fed is concerned about increasing inflation and increasing inflationary pressure coming from higher wages, it may not make sense to raise rates three times in 2018 and then pause for four months, from the end of September through the end of January, before raising rates again in January 2019. So, we look forward to seeing the new version of the Fed's dot plot on March 21 to see if it gets steeper than the last dot plot from December 2017. A steeper dot plot could imply a total of four rate hikes in 2018 and not three. It could also imply a higher peak value for the fed funds rate in this business cycle.

### U.S. Economic Outlook, Summary

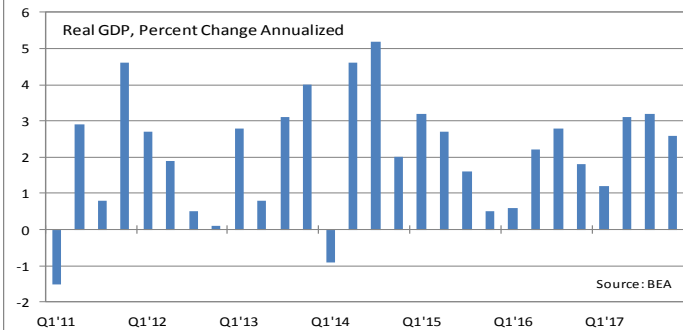
	3Q'17a	4Q'17a	1Q'18f	2Q'18f	3Q'18f	4Q'18f	1Q'19f	2017a	2018f	2019f
Real GDP (Percent Change Annualized)	3.2	2.6	3.5	2.8	2.8	2.6	2.4	2.3	3.0	2.5
CPI (Percent Change Year-over-Year)	2.0	2.1	1.7	2.3	2.3	1.9	2.0	2.1	2.1	2.0
Payroll Jobs (Average Monthly Diff., Ths.)	184.3	183.8	171.7	165.4	156.9	143.2	138.6	181.0	159.3	151.0
Unemployment Rate (Percent)	4.3	4.1	4.1	4.0	4.0	3.9	3.9	4.3	4.0	3.8
Federal Funds Rate (Effective)	1.15	1.20	1.43	1.67	1.91	2.13	2.17	1.00	1.79	2.53
10-Yr. Treasury Rate	2.24	2.37	2.77	2.93	3.00	3.14	3.13	2.33	2.96	3.45

**a = actual f = forecast**

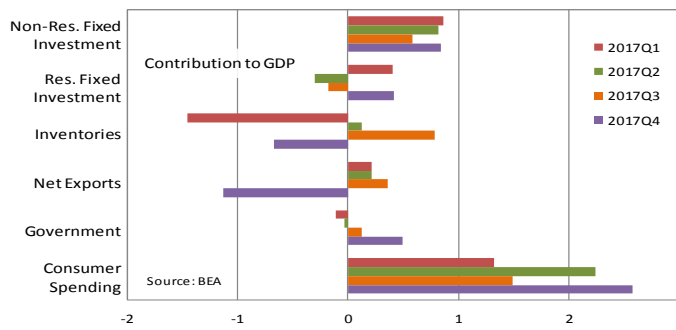
To subscribe to our publications or for questions, contact us at [ComericaEcon@comerica.com](mailto:ComericaEcon@comerica.com). Archives are available at <http://www.comerica.com/insights>. Follow us on Twitter: @Comerica\_Econ.

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.

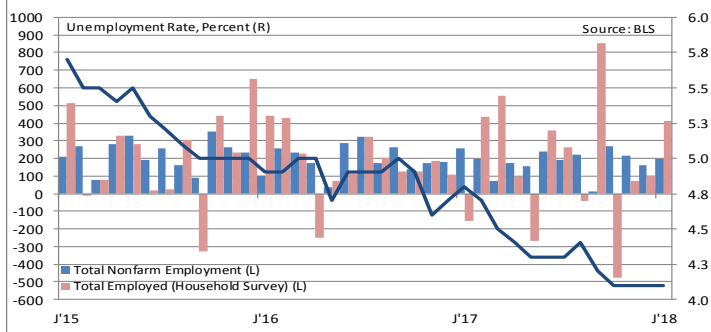
### Q4 GDP 1st Estimate at 2.6%



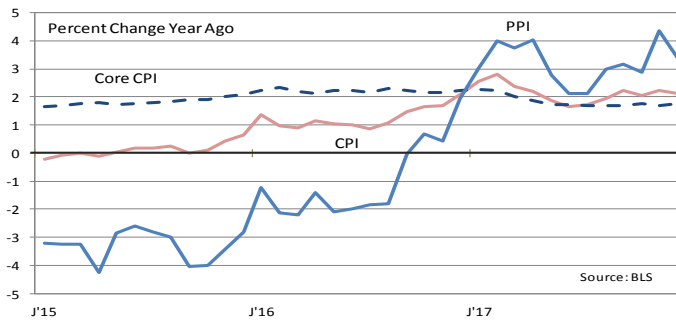
### Q4 GDP Dragged by Imports and Inventories



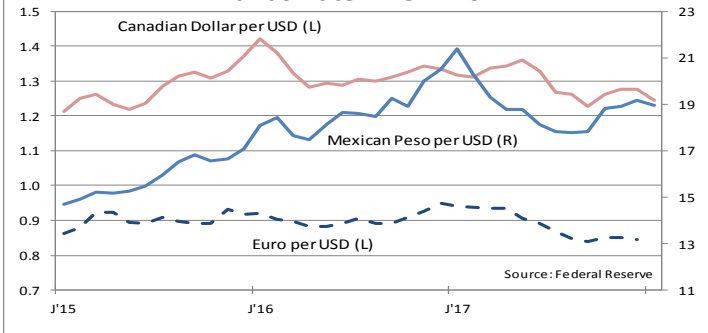
### January Payrolls Up by 200,000



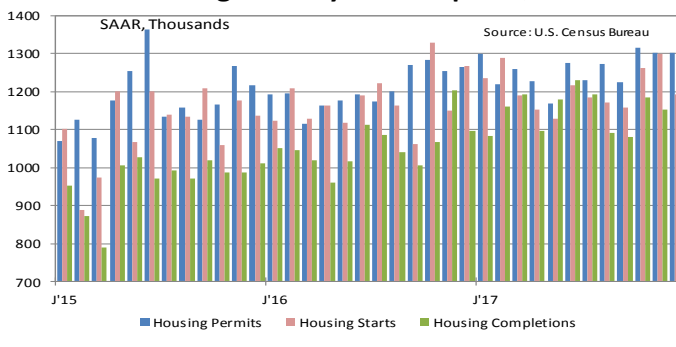
### Dec. Inflation Held by Lower Energy Prices



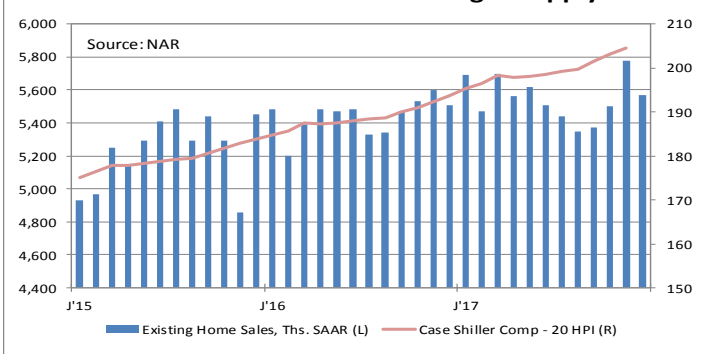
### Mexican Peso Weakens as US Sees Third Fed Funds Rate Hike in 2017



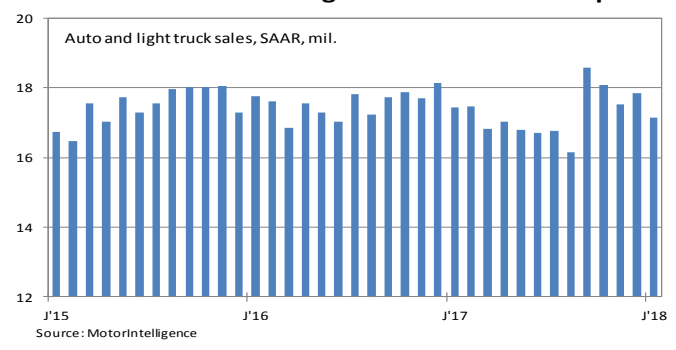
### Single-Family Starts Dip in Q4



### Home Prices Advance With Tight Supply



### Auto Sales Easing After Hurricane Bump



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.

	3Q'17a	4Q'17a	1Q'18f	2Q'18f	3Q'18f	4Q'18f	1Q'19f	2Q'19f	2017a	2018f	2019f
<b>Output</b>											
Nominal GDP (Billions \$)	19501	19739	20003	20244	20481	20709	20932	21159	19387	20359	21272
<b>Percent Change Annualized</b>	<b>5.3</b>	<b>5.0</b>	<b>5.5</b>	<b>4.9</b>	<b>4.8</b>	<b>4.5</b>	<b>4.4</b>	<b>4.4</b>	<b>4.1</b>	<b>5.0</b>	<b>4.5</b>
Real GDP (Chained 2009 Billions \$)	17164	17272	17421	17542	17664	17777	17883	17993	17093	17601	18045
<b>Percent Change Annualized</b>	<b>3.2</b>	<b>2.6</b>	<b>3.5</b>	<b>2.8</b>	<b>2.8</b>	<b>2.6</b>	<b>2.4</b>	<b>2.5</b>	<b>2.3</b>	<b>3.0</b>	<b>2.5</b>
Pers. Consumption Expenditures	11917	12028	12063	12120	12182	12247	12312	12377	11889	12153	12408
<b>Percent Change Annualized</b>	<b>2.2</b>	<b>3.8</b>	<b>1.2</b>	<b>1.9</b>	<b>2.1</b>	<b>2.1</b>	<b>2.1</b>	<b>2.1</b>	<b>2.7</b>	<b>2.2</b>	<b>2.1</b>
Nonresidential Fixed Investment	2327	2366	2409	2448	2485	2520	2553	2585	2314	2465	2599
<b>Percent Change Annualized</b>	<b>4.7</b>	<b>6.8</b>	<b>7.5</b>	<b>6.6</b>	<b>6.2</b>	<b>5.8</b>	<b>5.3</b>	<b>5.1</b>	<b>4.7</b>	<b>6.5</b>	<b>5.4</b>
Residential Investment	587	603	612	619	625	631	635	639	597	622	641
<b>Percent Change Annualized</b>	<b>-4.7</b>	<b>11.6</b>	<b>5.8</b>	<b>4.7</b>	<b>4.1</b>	<b>3.5</b>	<b>3.0</b>	<b>2.7</b>	<b>1.7</b>	<b>4.0</b>	<b>3.2</b>
Change in Private Inventories	39	9	32	46	60	60	60	60	14	49	60
Net Exports	-598	-653	-619	-620	-624	-625	-628	-628	-622	-622	-627
Government Expenditures	2900	2921	2925	2932	2938	2945	2953	2960	2903	2935	2964
<b>Percent Change Annualized</b>	<b>0.7</b>	<b>3.0</b>	<b>0.5</b>	<b>0.9</b>	<b>0.8</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>0.1</b>	<b>1.1</b>	<b>1.0</b>
Industrial Prod. Index (2007=100)	104.8	106.9	105.4	105.7	105.8	106.0	106.0	106.0	105.1	105.7	106.0
<b>Percent Change Annualized</b>	<b>-1.3</b>	<b>8.2</b>	<b>-5.6</b>	<b>1.4</b>	<b>0.3</b>	<b>0.6</b>	<b>0.2</b>	<b>0.0</b>	<b>2.0</b>	<b>0.6</b>	<b>0.2</b>
Capacity Utilization (Percent)	76.2	77.5	76.8	76.8	76.9	76.9	76.8	76.8	76.5	76.9	76.7
<b>Prices</b>											
CPI (1982-84=100)	245.2	247.4	248.4	249.6	250.9	252.1	253.3	254.6	245.2	250.2	255.2
<b>Percent Change Annualized</b>	<b>2.0</b>	<b>3.7</b>	<b>1.6</b>	<b>2.1</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.1</b>	<b>2.1</b>	<b>2.0</b>
PCE Price Index (2009=100)	112.7	113.5	114.0	114.5	115.1	115.7	116.3	116.8	112.7	114.8	117.1
<b>Percent Change Annualized</b>	<b>1.5</b>	<b>2.8</b>	<b>1.7</b>	<b>2.1</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>1.7</b>	<b>1.9</b>	<b>2.0</b>
GDP Price Index (2009=100)	113.6	114.3	114.9	115.4	116.0	116.6	117.1	117.7	113.4	115.7	118.0
<b>Percent Change Annualized</b>	<b>2.1</b>	<b>2.4</b>	<b>2.0</b>	<b>2.1</b>	<b>1.9</b>	<b>2.0</b>	<b>1.9</b>	<b>2.0</b>	<b>1.8</b>	<b>2.0</b>	<b>2.0</b>
Producer Price Index, Finished Goods	197.5	200.7	201.6	202.4	203.5	204.5	205.5	206.6	198.1	203.0	207.1
<b>Percent Change Annualized</b>	<b>0.8</b>	<b>6.6</b>	<b>1.7</b>	<b>1.8</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.1</b>	<b>3.2</b>	<b>2.5</b>	<b>2.0</b>
Crude Oil, WTI (\$/barrel)	51.0	51.0	63.0	60.0	60.0	62.0	62.0	62.0	50.8	61.3	62.0
<b>Labor Markets</b>											
Payroll Jobs (Average Monthly Diff., Ths.)	184.3	183.8	171.7	165.4	156.9	143.2	138.6	132.4	181.0	159.3	151.0
Unemployment Rate (Percent)	4.3	4.1	4.1	4.0	4.0	3.9	3.9	3.8	4.3	4.0	3.8
Average Weekly Hours, Prod. Works.	33.6	33.7	33.6	33.6	33.6	33.6	33.5	33.5	33.7	33.6	33.5
Population (Millions)	326.4	327.0	327.7	328.3	329.0	329.7	330.3	331.0	326.0	328.7	331.3
<b>Percent Change Annualized</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.7</b>	<b>0.8</b>	<b>0.8</b>
<b>Personal Income</b>											
Average Hourly Earnings (\$)	22.12	22.24	22.38	22.52	22.68	22.84	23.01	23.18	22.05	22.61	23.27
<b>Percent Change Annualized</b>	<b>2.6</b>	<b>2.1</b>	<b>2.5</b>	<b>2.6</b>	<b>2.9</b>	<b>2.9</b>	<b>3.0</b>	<b>2.9</b>	<b>2.3</b>	<b>2.5</b>	<b>2.9</b>
Real Disp. Income (2009 Billions \$)	12782	12818	12894	12973	13056	13136	13218	13298	12761	13015	13339
<b>Percent Change Annualized</b>	<b>0.5</b>	<b>1.1</b>	<b>2.4</b>	<b>2.5</b>	<b>2.6</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>	<b>1.2</b>	<b>2.0</b>	<b>2.5</b>
Personal Saving Rate (Percent)	3.3	2.6	2.4	2.5	2.5	2.5	2.5	2.5	3.4	2.5	2.5
<b>Housing</b>											
Housing Starts (Ths., Ann. Rate)	1172	1251	1269	1277	1283	1290	1297	1304	1207	1280	1308
Ext. SF Home Sales (Ths., Ann Rate)	4783	4973	5007	5042	5068	5090	5111	5129	4920	5052	5135
New SF Home Sales (Ths., Ann Rate)	587	638	646	652	656	660	664	667	612	654	669
Case/Shiller HPI (Jan. 2000=100)	192.5	196.4	199.7	203.0	206.3	209.7	213.1	216.5	191.7	204.7	218.2
<b>Year/Year Percent Change</b>	<b>5.9</b>	<b>6.1</b>	<b>6.2</b>	<b>6.9</b>	<b>7.2</b>	<b>6.8</b>	<b>6.7</b>	<b>6.6</b>	<b>5.9</b>	<b>6.8</b>	<b>6.6</b>
<b>Consumer</b>											
Household Economic Stress Index	0.3	0.1	-0.4	-0.5	-0.8	-0.9	-0.8	-0.8	0.6	-0.7	-0.8
Auto Sales (Millions)	17.2	17.8	17.1	16.6	16.5	16.4	16.3	16.2	17.3	16.7	16.1
<b>Interest Rates (percent per year)</b>											
Federal Funds Rate (Effective)	1.15	1.20	1.43	1.67	1.91	2.13	2.17	2.42	1.00	1.79	2.53
Prime Rate	4.25	4.30	4.53	4.77	5.01	5.23	5.27	5.52	4.10	4.89	5.63
1-Month LIBOR	1.23	1.34	1.61	1.84	2.08	2.30	2.34	2.59	1.11	1.96	2.70
3-Month LIBOR	1.31	1.47	1.81	2.08	2.30	2.48	2.50	2.74	1.26	2.17	2.85
1-Yr. Treasury Rate	1.24	1.55	1.88	2.03	2.17	2.35	2.36	2.59	1.20	2.11	2.70
5-Yr. Treasury Rate	1.82	2.07	2.53	2.72	2.80	2.94	2.93	3.15	1.91	2.75	3.25
10-Yr. Treasury Rate	2.24	2.37	2.77	2.93	3.00	3.14	3.13	3.35	2.33	2.96	3.45
30-Year Fixed Rate Mortgage	3.88	3.92	4.15	4.19	4.20	4.30	4.27	4.48	3.99	4.21	4.58

a = actual f = forecast

February 6, 2018

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.