

It's Complicated...

U.S. economic data are indicative of a somewhat nuanced U.S. economy. GDP growth in the first quarter of 2019 was much stronger than we anticipated, however, some of the underlying data was weak. April job growth was also stronger than expected, yet two major indexes capturing much of the U.S. economy declined in April.

Real GDP increased at a 3.2 percent annualized rate in Q1. Three out of the last four quarters have posted real GDP growth above 3.0 percent, buoyed by the tax reform of early 2018. When we look at the components of Q1 GDP, the message is more complicated. Several important components of GDP were weak in Q1. Real consumer spending was soft, increasing at a 1.2 percent annualized rate, well below the 3.3 percent average of the previous three quarters. Real business fixed investment (excluding inventories) increased at a modest 2.7 percent annualized rate, the second weakest expansion in that category over the last nine quarters. Real residential investment continued to slide, contracting at a 2.8 percent annualized rate. Residential investment has declined for five consecutive quarters. Real federal government spending, which was very strong from 2017Q4 through 2018Q3, was unchanged in 2019Q1.

The components that pushed headline Q1 GDP stronger than expected in Q1 all showed unsustainable growth. The U.S. international trade gap narrowed considerably in Q1, adding just over 1 percentage point to headline real GDP growth. Trade flows have been very lumpy recently as companies schedule shipments with one eye on the timing of new tariffs. Even with an unratified trade deal in place for Canada and Mexico, and a U.S.-China trade deal imminent, U.S. trade faces the twin headwinds of a strong dollar and a softer global economy. We expect the trade gap to revert to being a small drag on U.S. GDP very soon. Inventory accumulation added about 0.7 percentage points to headline real GDP growth in Q1. Inventories have been building up strongly over the last three quarters. Boeing's recent problems have added to inventory accumulation. Automakers are also building their inventories in anticipation of a potential contract dispute with the UAW later this year. We expect inventory accumulation to flip from a positive for GDP back to a negative soon. Finally, real state and local government spending was unusually strong in Q1, increasing at an unsustainable 3.9 percent annualized rate.

Most labor-related data looks strong after payroll job growth faltered in February. U.S. payrolls increased by just 56,000 net new jobs in February, the weakest monthly gain since September 2017. March payrolls bounced back, showing a solid 189,000 job gain. April payrolls surged, up 263,000, while the unemployment rate fell to 3.6 percent, the lowest rate since December 1969.

Both the ISM Manufacturing Index and the ISM Non-Manufacturing Index declined in April and have been on a declining trend since late 2018. Fortunately, both indexes remained above 50 in April, indicating improving conditions. However, the pace of improvement for these broad-reaching indexes has clearly cooled.

Separating the transitory from the fundamental is a key challenge in this complex economic environment. Adding to the complexity is the challenge facing the Federal Reserve. How the Fed executes monetary policy and how it thinks about inflation are both in question by monetary policy theorists. Inflation has been cooler than expected. The core-PCE price index showed a 1.6 percent year-over-year gain in March, and has been running below the Fed's 2 percent target since last August. We still expect the fed to keep the fed funds rate range unchanged at 2.25-2.50 percent through the remainder of this year.

U.S. Economic Outlook, Summary

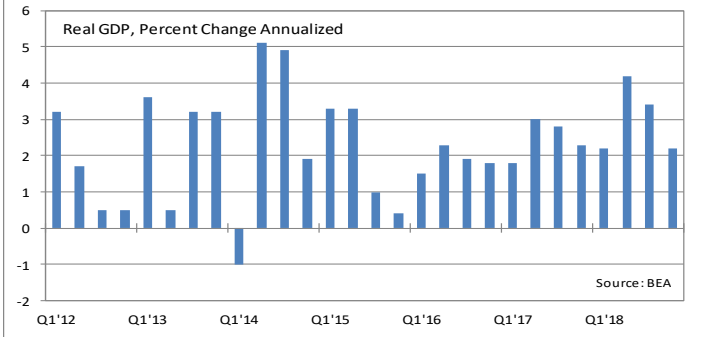
<i>a = actual f = forecast</i>	4Q'18a	1Q'19a	2Q'19f	3Q'19f	4Q'19f	1Q'20f	2Q'20f	3Q'20f	2018a	2019f	2020f
Real GDP (Percent Change Annualized)	2.2	3.2	1.6	2.4	2.5	2.6	2.5	2.4	2.9	2.6	2.4
CPI (Percent Change Year-over-Year)	2.6	2.2	1.6	1.9	1.9	2.0	2.3	2.0	2.1	2.4	1.9
Payroll Jobs (Average Monthly Diff., Ths.)	216.4	209.7	218.9	180.9	164.8	163.8	156.5	146.2	221.0	193.6	150.3
Unemployment Rate (Percent)	3.8	3.9	3.7	3.6	3.5	3.5	3.4	3.4	3.9	3.7	3.4
Federal Funds Rate (Effective)	2.22	2.40	2.39	2.38	2.38	2.38	2.38	2.38	1.83	2.39	2.38
10-Yr. Treasury Rate	3.03	2.65	2.53	2.61	2.70	2.75	2.79	2.81	2.91	2.62	2.79

Risk of Recession Outlook

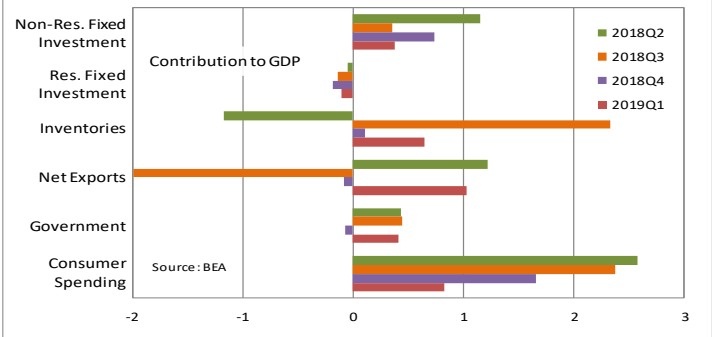
Probability of Recession (in the next)	6 months	12 months	24 months	36 months
April 2019	20%	33%	52%	60%

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.

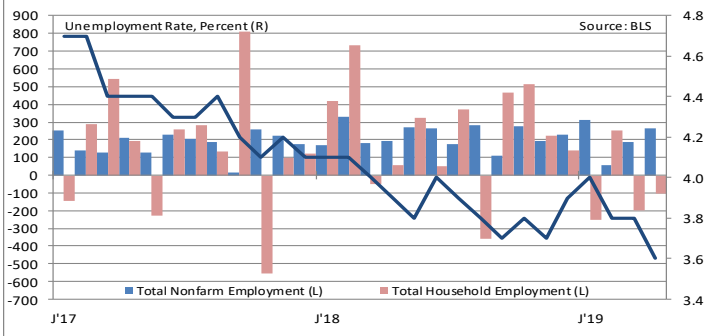
Q1 GDP Estimate at 3.2%



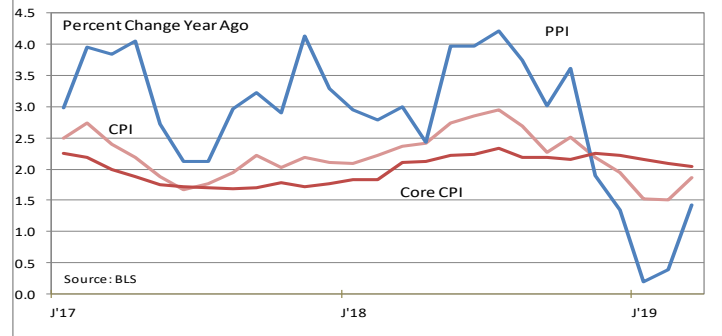
Trade and Inventories Boost Q1 GDP



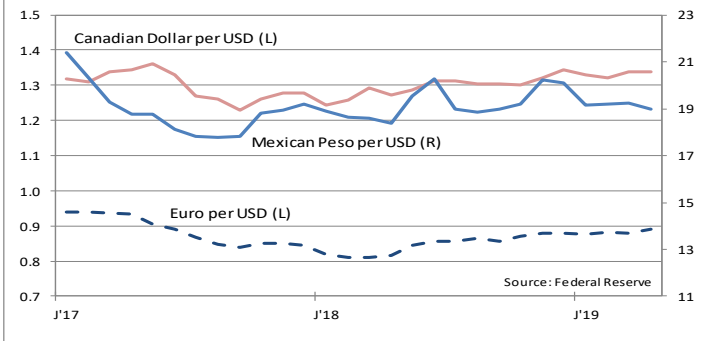
U.S. Added a Net 263,000 Jobs in April



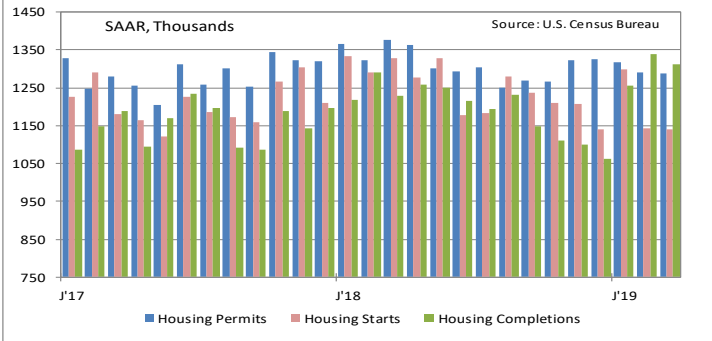
Inflation Shows No Signs of Overheating



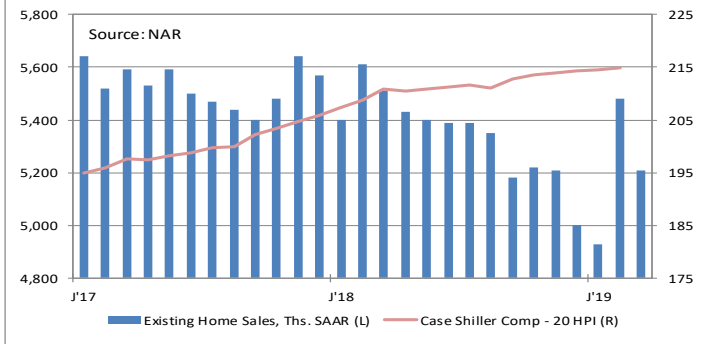
U.S. Dollar Strengthened Against the Euro



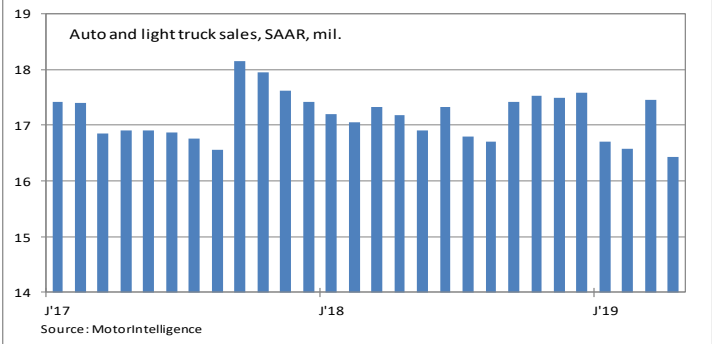
Housing Starts Little Changed in March



Existing Home Sales Slow in March



Auto Sales Slow to a 16.4 Million Unit 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.

	4Q'18a	1Q'19a	2Q'19f	3Q'19f	4Q'19f	1Q'20f	2Q'20f	3Q'20f	2018a	2019f	2020f
Output											
Nominal GDP (Billions \$)	20865	21063	21236	21464	21702	21951	22196	22437	20494	21366	22315
Percent Change Annualized	4.1	3.8	3.3	4.4	4.5	4.7	4.5	4.4	5.2	4.3	4.4
Real GDP (Chained 2012 Billions \$)	18765	18912	18985	19099	19218	19344	19465	19580	18566	19054	19520
Percent Change Annualized	2.2	3.2	1.6	2.4	2.5	2.6	2.5	2.4	2.9	2.6	2.4
Pers. Consumption Expenditures	13032	13071	13163	13248	13328	13407	13480	13549	12888	13202	13514
Percent Change Annualized	2.5	1.2	2.8	2.6	2.4	2.4	2.2	2.1	2.6	2.4	2.4
Nonresidential Fixed Investment	2763	2782	2822	2868	2911	2952	2990	3027	2714	2846	3008
Percent Change Annualized	5.4	2.7	5.8	6.7	6.3	5.8	5.2	5.0	6.9	4.9	5.7
Residential Investment	600	596	606	605	605	605	606	607	609	603	606
Percent Change Annualized	-4.7	-2.8	6.5	-0.1	-0.5	0.3	0.4	0.8	-0.3	-1.0	0.6
Change in Private Inventories	97	128	77	60	60	60	60	60	45	81	60
Net Exports	-956	-899	-921	-929	-945	-953	-957	-961	-912	-924	-960
Government Expenditures	3189	3208	3212	3221	3233	3246	3259	3271	3176	3218	3265
Percent Change Annualized	-0.4	2.4	0.6	1.0	1.5	1.6	1.6	1.6	1.5	1.3	1.4
Industrial Prod. Index (2007=100)	110.3	110.3	110.9	111.6	112.2	112.9	113.5	114.0	108.6	111.2	113.7
Percent Change Annualized	4.0	-0.3	2.4	2.4	2.4	2.3	2.2	1.9	4.0	2.5	2.2
Capacity Utilization (Percent)	79.5	79.0	79.1	79.4	79.7	79.9	80.1	80.2	78.7	79.3	80.1
Prices											
CPI (1982-84=100)	252.8	253.3	255.3	256.6	257.8	259.1	260.4	261.7	251.1	255.8	261.0
Percent Change Annualized	1.5	0.9	3.2	2.0	2.0	2.0	2.0	2.0	2.4	1.9	2.1
PCE Price Index (2012=100)	108.9	109.0	109.7	110.2	110.8	111.3	111.9	112.4	108.2	109.9	112.1
Percent Change Annualized	1.5	0.6	2.4	2.0	2.0	2.0	2.0	2.0	2.0	1.6	2.0
GDP Price Index (2012=100)	111.1	111.4	111.9	112.4	113.0	113.5	114.1	114.7	110.3	112.2	114.4
Percent Change Annualized	1.7	0.9	1.8	2.0	2.0	2.0	2.0	2.0	2.2	1.7	2.0
PPI, Final Demand (Nov. 2009=100)	117.4	117.4	118.1	118.7	119.3	119.9	120.5	121.1	116.2	118.4	120.8
Percent Change Annualized	2.9	0.1	2.4	2.2	2.0	2.0	2.0	2.0	2.3	2.5	2.1
Crude Oil, WTI (\$/barrel)	59.4	54.6	62.0	62.0	62.0	62.0	62.0	62.0	65.0	60.1	62.0
Labor Markets											
Payroll Jobs (Average Monthly Diff., Ths.)	216.4	209.7	218.9	180.9	164.8	163.8	156.5	146.2	221.0	193.6	150.3
Unemployment Rate (Percent)	3.8	3.9	3.7	3.6	3.5	3.5	3.4	3.4	3.9	3.7	3.4
Average Weekly Hours	34.5	34.5	34.5	34.5	34.5	34.4	34.5	34.5	34.5	34.5	34.5
Population (Millions)	328.3	328.9	329.5	330.1	330.7	331.3	331.9	332.5	327.5	329.8	332.2
Percent Change Annualized	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.6	0.7	0.7
Personal Income											
Average Hourly Earnings (\$)	27.44	27.64	27.84	28.05	28.27	28.48	28.69	28.90	27.10	27.95	28.80
Percent Change Annualized	3.3	3.0	2.9	3.0	3.2	3.0	2.9	3.0	3.0	3.1	3.0
Real Disp. Income (2012 Billions \$)	14527	14612	14702	14799	14895	14986	15070	15155	14351	14752	15113
Percent Change Annualized	4.3	2.4	2.5	2.7	2.6	2.5	2.3	2.3	2.9	2.8	2.4
Personal Saving Rate (Percent)	6.8	7.0	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.9	6.8
Housing											
Housing Starts (Ths., Ann. Rate)	1185	1193	1194	1195	1197	1197	1197	1197	1249	1195	1197
Exst. SF Home Sales (Ths., Ann Rate)	4567	4647	4670	4640	4635	4627	4627	4622	4742	4648	4625
New SF Home Sales (Ths., Ann Rate)	575	660	648	648	649	648	649	649	617	651	649
Case/Shiller HPI (Jan. 2000=100)	205.9	207.8	209.9	212.0	214.3	216.7	219.0	221.5	202.7	211.0	220.3
Year/Year Percent Change	4.9	4.1	4.0	4.1	4.1	4.2	4.4	4.4	5.8	4.1	4.4
Consumer											
Household Economic Stress Index	1.1	1.3	1.7	1.4	1.4	1.5	1.0	0.9	0.5	1.5	1.1
Auto Sales (Millions)	17.5	16.9	16.8	16.7	16.5	16.5	16.4	16.3	17.2	16.7	16.4
Interest Rates (Percent)											
Federal Funds Rate (Effective)	2.22	2.40	2.39	2.38	2.38	2.38	2.38	2.38	1.83	2.39	2.38
Prime Rate	5.28	5.50	5.49	5.48	5.48	5.48	5.48	5.48	4.90	5.49	5.48
1-Month LIBOR	2.35	2.50	2.48	2.48	2.49	2.49	2.49	2.49	2.02	2.49	2.49
3-Month LIBOR	2.63	2.69	2.59	2.63	2.63	2.63	2.62	2.62	2.31	2.63	2.62
1-Yr. Treasury Rate	2.67	2.54	2.44	2.52	2.59	2.62	2.64	2.65	2.33	2.52	2.64
5-Yr. Treasury Rate	2.88	2.47	2.34	2.46	2.56	2.61	2.65	2.67	2.75	2.46	2.65
10-Yr. Treasury Rate	3.03	2.65	2.53	2.61	2.70	2.75	2.79	2.81	2.91	2.62	2.79
30-Yr. Fixed Rate Mortgage	4.78	4.37	4.17	4.27	4.32	4.32	4.33	4.35	4.54	4.28	4.34

a = actual f = forecast

May 6, 2019

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.