

2020: The Year Ahead

The path of the U.S. economy through 2020 will be shaped by monetary policy, hiring and business investment. Through the first half of 2020, Federal Reserve monetary policy will be very predictable. At the end of 2019, Fed Chairman Jay Powell and other Fed officials reinforced the idea that the Fed is in “pause” mode. The pause came after a series of three 25 basis point interest rate cuts through the middle of 2019. The last time the Fed followed a similar pattern was in the 1990s, when the pause lasted for about two and a half years, allowing for one small adjustment. Now we see in the most recent dot plot from December, that most Fed officials expect to keep the fed funds rate unchanged through 2020. Jay Powell has set a moderately high bar for any future policy changes. According to Powell, the Fed will maintain the current level of the fed funds rate until their outlook “materially” changes. The Fed’s dot plot for 2021 shows that the majority of Fed officials believe that their next move will be to increase the fed funds rate once in 2021.

We can generalize the forces on the Fed to say that they face two different challenges over the next few years. On the one hand, they face the challenge of cooler U.S. economic performance (likely accompanied by some financial market volatility). On the other hand, they face the challenge of controlling inflation, which is still below the 2 percent target. The Fed’s dot plot for 2021, consistent with one fed funds rate hike, implies that the Fed believes that economic performance will be reasonably good, and that inflation pressures will increase.

However, looking at the fed funds futures market, the majority of interest rate speculators assume the opposite. The futures market shows that most speculators believe that the Fed will decrease the fed funds rate by at least 25 basis points by the end of 2020. This implies that most speculators believe downside economic risk is the dominant factor.

We agree with that assessment of risks. We are maintaining our forecast of one 25 basis point cut to the fed funds rate this year, coming at the June 9/10 Federal Open Market Committee meeting. We believe that downside risk factors from both within the U.S. and internationally, will keep the U.S. economy subdued this year. The FOMC meetings in June and July will give the Fed the opportunity to make an adjustment to the fed funds rate before the heart of the election campaign season later this fall. Barring a strong event, the Fed will likely leave policy unchanged at their September 15/16 meeting. The FOMC meeting over November 4/5 comes immediately after election day on Tuesday November 3. Any Fed action on November 5 will be interpreted through a political lens, which they would like to avoid.

We also expect hiring to cool gradually through 2020. This is fundamentally important to the U.S. economy because, through 2019, the consumer sector was the strength of the economy. Job creation is the foundation of consumer sector strength. The Bureau of Labor Statistics has already warned that employment data historical revisions, which they will publish on February 7, will show a net downward adjustment of about a half a million workers through 2018 and into early 2019. The adjustment is expected to show that job creation stepped down through 2018 and into 2019. We expect that trend to continue through 2020. To monitor the potential for cooler hiring, we will be following three key indicators, unemployment insurance claims, the hiring rate and layoff announcements.

Business investment was weak in 2019. Trade policy disruption, recession risk, the GM/UAW strike, reduced oil drilling and weaker international conditions were negative factors last year. Over the year ending in 2019Q3, real business fixed investment increased by only 1.4 percent. The good news is that trade policy risk appears to be reduced in 2020. Partially because of that, recession risk is also reduced in 2020. GM’s labor issues are resolved, but Boeing’s issues are getting worse. The decline in the drilling rig count through 2019 appears to be levelling out. Europe is still weak, but China looks firmer in early 2020. We look for real BFI to improve modestly this year, expanding by 3.0 percent for the year ending in 2020Q4. This is still a somewhat subdued growth rate, consistent with ongoing downside risk factors.

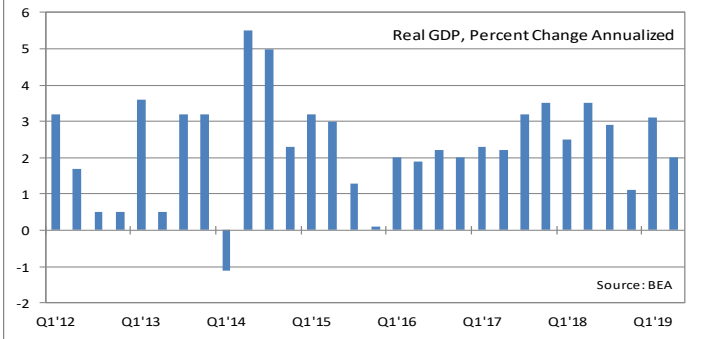
U.S. Economic Outlook, Summary

<i>a = actual f = forecast</i>	2Q'19a	3Q'19a	4Q'19f	1Q'20f	2Q'20f	3Q'20f	4Q'20f	1Q'21f	2018a	2019f	2020f
Real GDP (Percent Change Annualized)	2.0	2.1	1.6	2.0	2.3	2.5	2.1	2.1	2.9	2.3	2.1
CPI (Percent Change Year-over-Year)	1.8	1.8	2.0	2.5	2.2	2.3	2.1	2.0	2.4	1.8	2.3
Payroll Jobs (Average Monthly Diff., Ths.)	145.8	171.9	190.9	158.2	278.9	-23.0	111.4	86.2	221.0	174.4	131.4
Unemployment Rate (Percent)	3.6	3.6	3.5	3.4	3.4	3.5	3.5	3.5	3.9	3.7	3.4
Federal Funds Rate (Effective)	2.40	2.19	1.64	1.63	1.59	1.38	1.38	1.38	1.83	2.16	1.49
10-Yr. Treasury Rate	2.33	1.80	1.79	1.87	1.94	1.82	1.88	1.94	2.91	2.14	1.88

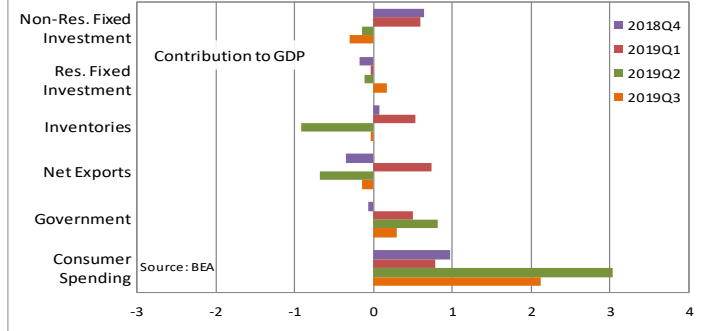
Risk of Recession Outlook

Probability of Recession (in the next)	6 months	12 months	24 months	36 months
December 2019	18%	35%	45%	55%

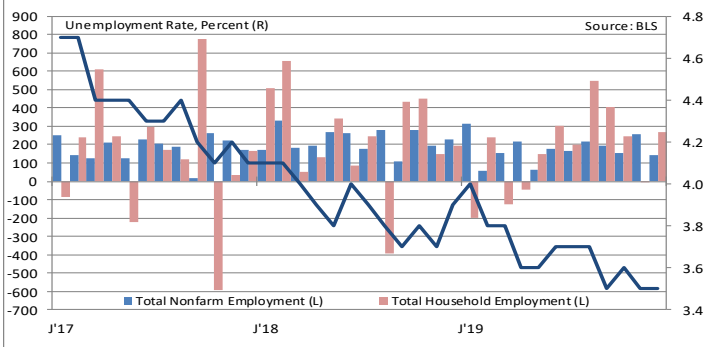
Q3 Real GDP Growth at 2.0%



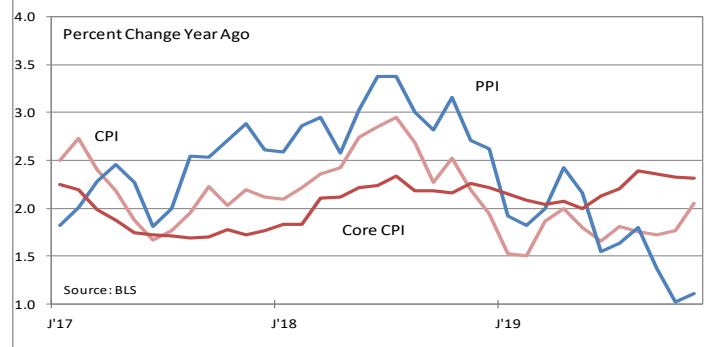
Consumer Spending Was a Key Support for Q3 GDP



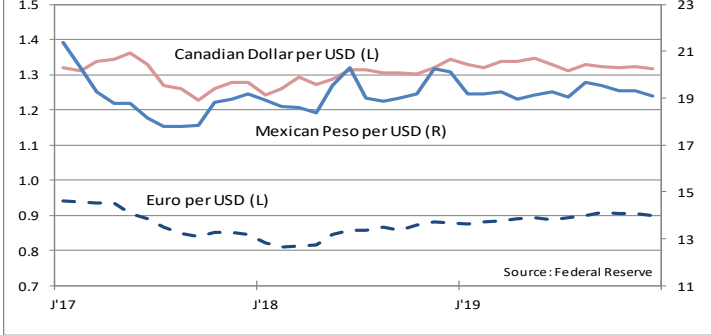
U.S. Adds 145,000 Jobs in December



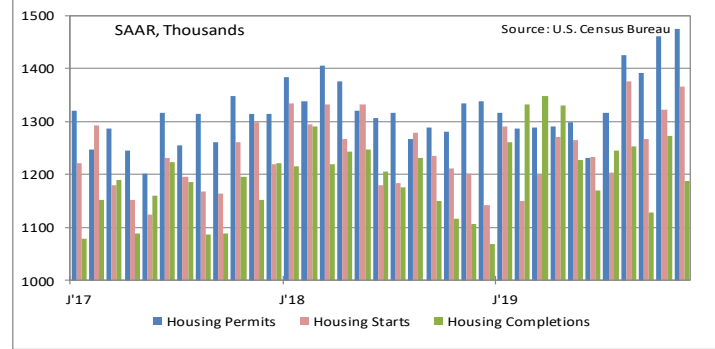
Core Consumer Inflation Stabilizes



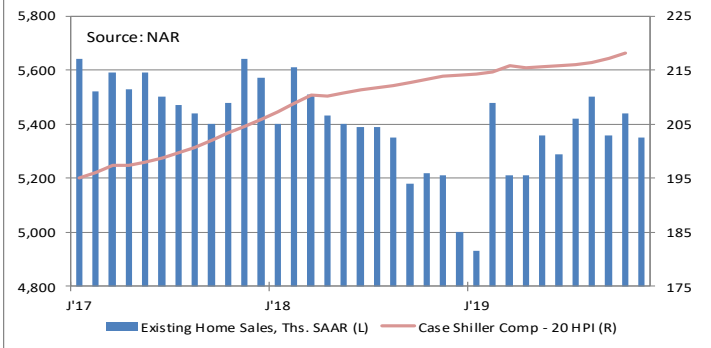
Dollar Holds Steady Against Major Trading Partners at End of 2019



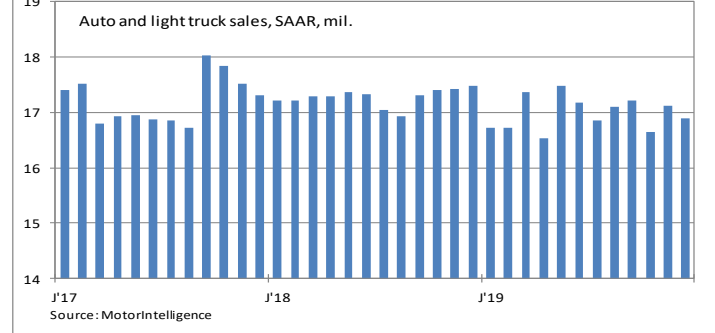
Res. Construction Improved in 2019H2



Existing Home Sales Moderate in November



December Auto Sales Ease to a 16.9 Million SAAR



To receive our publications via email, use the following link: [Comerica Economics Publications](#). 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.

	2Q'19a	3Q'19a	4Q'19f	1Q'20f	2Q'20f	3Q'20f	4Q'20f	1Q'21f	2018a	2019f	2020f
Output											
Nominal GDP (Billions \$)	21340	21543	21736	21955	22187	22433	22659	22891	20580	21429	22308
Percent Change Annualized	4.7	3.8	3.6	4.1	4.3	4.5	4.1	4.2	5.4	4.1	4.1
Real GDP (Chained 2012 Billions \$)	19022	19121	19198	19296	19405	19525	19625	19729	18638	19067	19463
Percent Change Annualized	2.0	2.1	1.6	2.0	2.3	2.5	2.1	2.1	2.9	2.3	2.1
Pers. Consumption Expenditures	13250	13353	13416	13484	13557	13626	13688	13760	12945	13281	13589
Percent Change Annualized	4.6	3.1	1.9	2.0	2.2	2.0	1.8	2.1	3.0	2.6	2.3
Nonresidential Fixed Investment	2759	2743	2761	2775	2795	2820	2844	2867	2692	2757	2809
Percent Change Annualized	-1.0	-2.3	2.7	2.0	3.0	3.6	3.4	3.3	6.4	2.4	1.9
Residential Investment	587	594	600	605	609	611	613	614	603	593	609
Percent Change Annualized	-3.0	4.6	4.6	3.2	2.6	1.4	1.1	0.8	-1.5	-1.6	2.8
Change in Private Inventories	69	69	40	34	36	48	49	49	48	74	42
Net Exports	-981	-990	-983	-978	-980	-982	-981	-987	-920	-974	-980
Government Expenditures	3297	3310	3321	3334	3346	3358	3370	3383	3224	3297	3352
Percent Change Annualized	4.8	1.7	1.3	1.5	1.4	1.5	1.5	1.5	1.7	2.3	1.7
Industrial Prod. Index (2007=100)	109.2	109.5	108.8	107.6	107.6	108.0	108.0	108.0	108.6	109.3	107.8
Percent Change Annualized	-2.3	1.2	-2.6	-4.1	-0.2	1.4	0.1	-0.1	3.9	0.7	-1.4
Capacity Utilization (Percent)	77.8	77.6	77.0	76.3	75.9	75.9	75.8	75.6	78.7	77.8	76.0
Prices											
CPI (1982-84=100)	255.1	256.3	257.9	259.5	260.8	262.1	263.3	264.7	251.1	255.7	261.4
Percent Change Annualized	2.9	1.8	2.5	2.6	2.0	2.0	1.9	2.0	2.4	1.8	2.3
PCE Price Index (2012=100)	109.5	109.9	110.4	111.0	111.5	112.1	112.6	113.2	108.1	109.7	111.8
Percent Change Annualized	2.4	1.5	1.8	2.1	1.9	2.0	2.0	2.0	2.1	1.4	1.9
GDP Price Index (2012=100)	112.2	112.7	113.2	113.8	114.4	115.0	115.5	116.1	110.4	112.4	114.7
Percent Change Annualized	2.4	1.8	2.0	2.0	2.0	2.0	2.0	2.0	2.4	1.8	2.0
PPI, Final Demand (Nov. 2009=100)	118.3	118.4	119.0	119.5	120.1	120.8	121.4	122.0	116.3	118.3	120.4
Percent Change Annualized	3.6	0.2	2.0	1.8	2.1	2.1	2.0	2.0	2.3	2.2	1.5
Crude Oil, WTI (\$/barrel)	59.9	56.4	56.7	60.0	60.0	58.0	58.0	58.0	65.0	56.9	59.0
Labor Markets											
Payroll Jobs (Average Monthly Diff., Ths.)	145.8	171.9	190.9	158.2	278.9	-23.0	111.4	86.2	221.0	174.4	131.4
Unemployment Rate (Percent)	3.6	3.6	3.5	3.4	3.4	3.5	3.5	3.5	3.9	3.7	3.4
Average Weekly Hours	34.4	34.4	34.3	34.4	34.3	34.2	34.2	34.2	34.5	34.4	34.3
Population (Millions)	328.2	328.8	329.4	330.0	330.6	331.2	331.8	332.4	326.9	328.5	330.9
Percent Change Annualized	0.5	0.6	0.7	0.8	0.8	0.7	0.7	0.7	0.5	0.5	0.7
Personal Income											
Average Hourly Earnings (\$)	27.83	28.07	28.27	28.46	28.66	28.89	29.13	29.38	27.10	27.95	28.78
Percent Change Annualized	2.7	3.6	2.8	2.7	2.8	3.3	3.3	3.5	3.0	3.2	3.0
Real Disp. Income (2012 Billions \$)	14934	15043	15136	15223	15353	15418	15519	15614	14556	14998	15378
Percent Change Annualized	1.5	2.9	2.5	2.3	3.5	1.7	2.7	2.5	4.0	3.0	2.5
Personal Saving Rate (Percent)	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.7	8.0	7.9
Housing											
Housing Starts (Ths., Ann. Rate)	1256	1282	1338	1349	1353	1360	1361	1359	1250	1272	1356
Exst. SF Home Sales (Ths., Ann Rate)	4700	4840	4823	4832	4837	4830	4823	4818	4742	4752	4830
New SF Home Sales (Ths., Ann Rate)	661	699	715	718	720	722	723	723	615	686	721
Case/Shiller HPI (Jan. 2000=100)	208.7	210.2	212.3	214.3	216.3	218.3	220.4	222.5	202.6	209.6	217.3
Year/Year Percent Change	3.4	3.2	3.2	3.4	3.7	3.9	3.8	3.8	5.8	3.4	3.7
Consumer											
Household Economic Stress Index	2.0	2.2	2.4	2.4	2.0	1.8	1.8	1.7	0.5	2.0	2.0
Auto Sales (Millions)	17.1	17.1	16.9	16.7	16.6	16.4	16.2	16.1	17.3	17.0	16.5
Interest Rates (Percent)											
Federal Funds Rate (Effective)	2.40	2.19	1.64	1.63	1.59	1.38	1.38	1.38	1.83	2.16	1.49
Prime Rate	5.50	5.30	4.83	4.73	4.69	4.48	4.48	4.48	4.90	5.28	4.59
1-Month LIBOR	2.44	2.17	1.79	1.71	1.69	1.49	1.49	1.49	2.02	2.23	1.59
3-Month LIBOR	2.51	2.19	1.93	1.87	1.85	1.66	1.66	1.64	2.31	2.33	1.76
1-Yr. Treasury Rate	2.25	1.84	1.58	1.58	1.63	1.50	1.55	1.58	2.33	2.05	1.56
5-Yr. Treasury Rate	2.12	1.63	1.62	1.69	1.78	1.66	1.72	1.74	2.75	1.96	1.71
10-Yr. Treasury Rate	2.33	1.80	1.79	1.87	1.94	1.82	1.88	1.94	2.91	2.14	1.88
30-Yr. Fixed Rate Mortgage	4.01	3.66	3.70	3.67	3.66	3.48	3.48	3.50	4.54	3.93	3.57

a = actual f = forecast

January 13, 2020

To receive our publications via email, use the following link: [Comerica Economics Publications](mailto:ComericaEconomicsPublications). 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.