

Recession Fears Seem Overblown, But Growth Will Trend Slower as Stimulus Fades; the Worst Is Likely Past for Inflation

The economy unexpectedly contracted in the first quarter of 2022, but its underlying momentum remained solid, dispelling fears that it has slipped into recession. The first estimate of real GDP showed a 1.4% annualized contraction in the quarter, after a 6.9% annualized jump in the fourth quarter of 2022. The first quarter saw big drags from an increase in the trade deficit, businesses adding more slowly to inventories, and lower government spending. The components of final demand that say the most about the economy’s underlying trend, consumer spending and business fixed investment, both grew solidly in the first quarter. Real GDP will return to growth in the second quarter as trade, inventories, and government spending become less of a drag. But growth is moderating as the economy transitions from a breakneck-fast recovery in the second half of 2020 and 2021 to a slower expansion in 2022.

The April jobs report is further reason to see the first quarter’s decline in real GDP as a fluke and not a warning signal of recession. U.S. employers added a net 428,000 jobs to payrolls during the month, and the unemployment rate held unchanged at 3.6%, a hair’s breadth from the 3.5% low of late 2019 and early 2020—which was the lowest in a half century. The April jobs report also showed wage growth is cooling. The three-month moving average of wage growth slowed to under 4% annualized in April, down from over 6% in late 2021. Business surveys have consistently pointed to wage pressures as a reason behind inflation’s surge to a 40-year high in early 2022. There are still upside risks to inflation from surging energy and food prices, knock-on effects of the Russia-Ukraine war, and from China’s lockdowns, which could cause renewed shortages of imported goods. But slower wage growth, as well as a decline in used car prices (wholesale auction prices have been edging lower since January) makes it likely that inflation peaked in year-over-year terms in the spring of 2022.

The Federal Open Market Committee (FOMC) made a big half-percentage-point hike to the Federal Reserve’s policy rate at their May rate decision, to a range of 0.75%-to-1.00%. Fed Chair Powell says the Fed is moving “expeditiously” to get monetary policy back to a neutral setting, meaning that it will neither add to nor hold back economic growth. Most members of the FOMC think neutral is probably between two and three percent. Fed Chair Powell said after the May decision that “There is a broad sense on the [FOMC] that additional 50 basis point increases should be on the table at the next couple of meetings.” Comerica forecasts for the Fed to make two more half-percentage point hikes in the federal funds rate at the next two decisions, in June and July, and then raise the rate a quarter percentage point at the three remaining decisions in the rest of the year. This will raise the federal funds rate to a range of 2.50%-to-2.75% by year-end. The Fed also announced the beginning of reductions in the size of their balance sheet at their May decision, which will actually get underway in June; this policy change is pushing long-term interest rates higher.

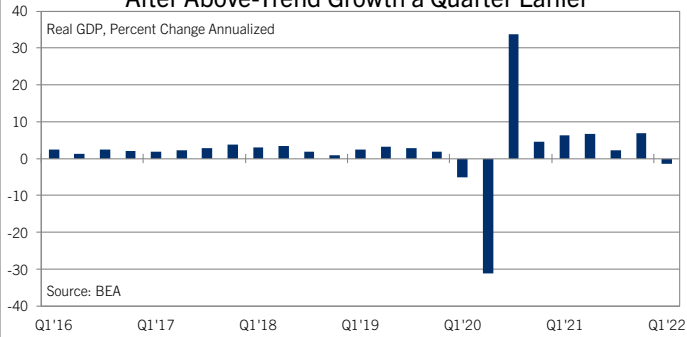
U.S. Economic Outlook, Summary

<i>a = actual f = forecast</i>	1Q'22p	2Q'22f	3Q'22f	4Q'22f	1Q'23f	2Q'23f	3Q'23f	2021a	2022f	2023f	2024f
Real GDP (Percent Change Annualized)	-1.4	5.4	0.8	2.4	1.4	1.2	1.1	5.7	2.9	1.7	1.3
CPI (Percent Change Year-over-Year)	8.0	7.9	7.6	7.0	5.6	4.5	3.8	4.7	7.6	4.2	2.3
Payroll Jobs (Average Monthly Diff., Ths.)	577	455	355	250	166	130	108	514	409	129	111
Unemployment Rate (Percent)	3.8	3.6	3.6	3.6	3.6	3.5	3.5	5.4	3.7	3.5	3.5
Federal Funds Rate (Effective)	0.12	0.77	1.80	2.29	2.67	2.88	2.88	0.08	1.25	2.83	2.73
10-Yr. Treasury Rate	1.94	3.05	3.23	3.08	2.93	2.73	2.64	1.44	2.83	2.73	2.71

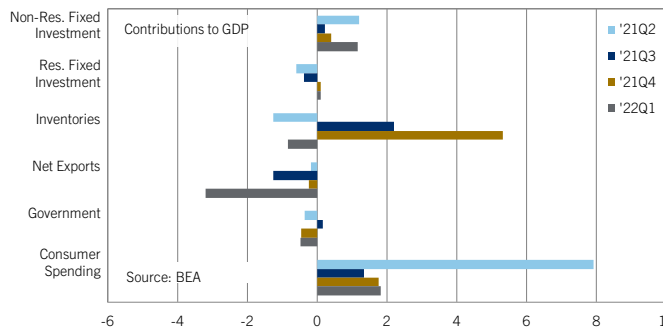
a = actual f = forecast

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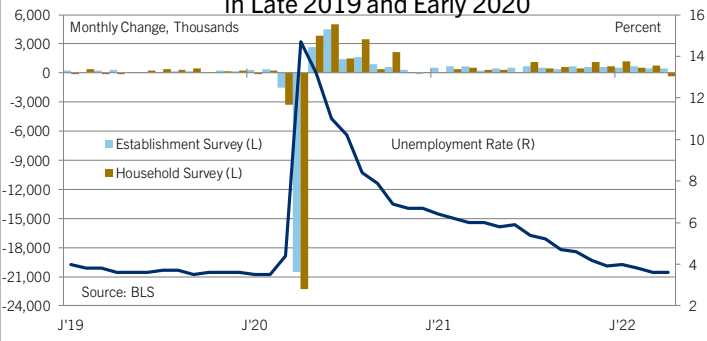
First Quarter's Fall in Real GDP Is Partly Giveback After Above-Trend Growth a Quarter Earlier



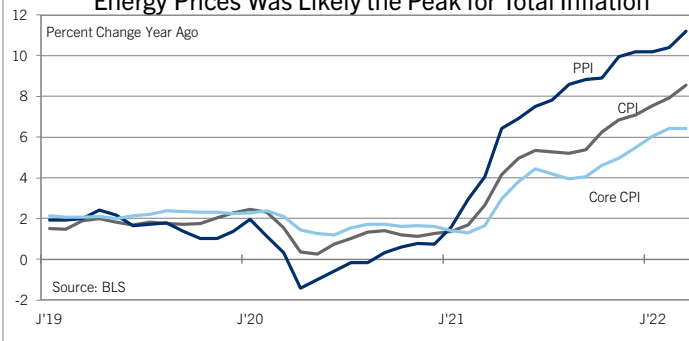
Investment and Consumption Components of GDP Look Much Better than This Quarter's Headline



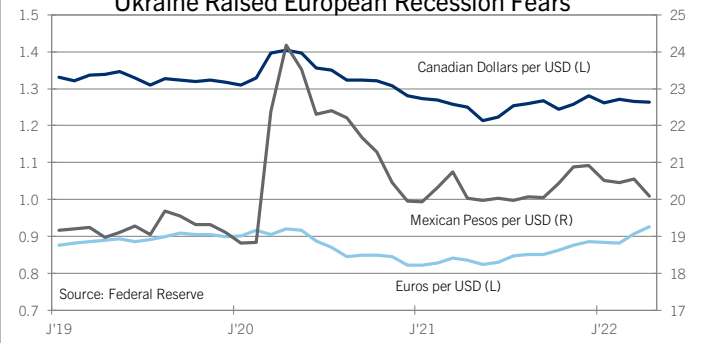
Most Labor Market Data Is as Strong or Stronger Than in Late 2019 and Early 2020



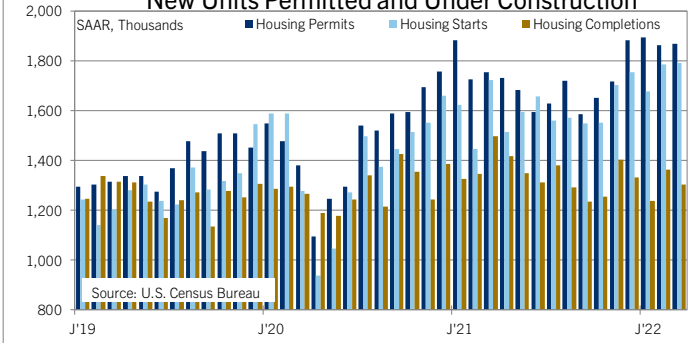
With Wage Growth Slowing, March's Surge in Energy Prices Was Likely the Peak for Total Inflation



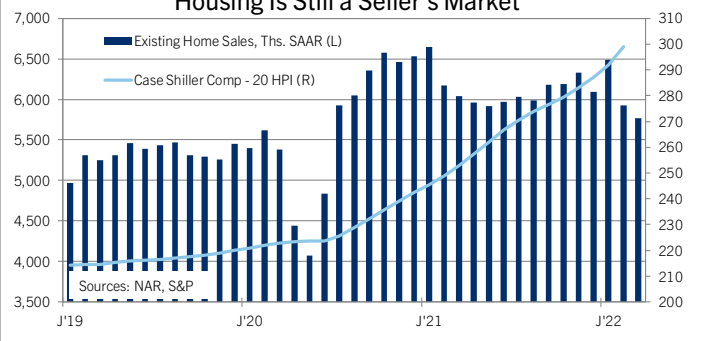
Euro Weakened in March and April as Russia-Ukraine Raised European Recession Fears



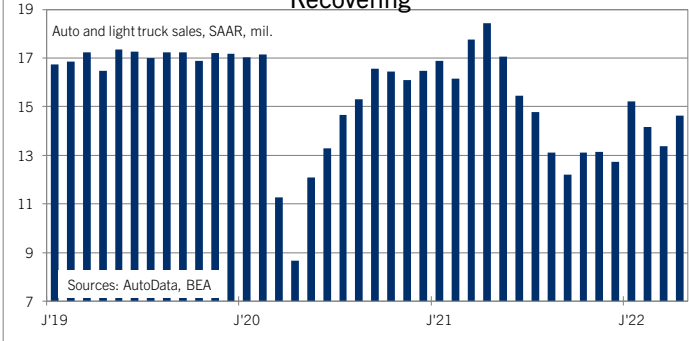
Housing Supply to Increase on the Huge Pipeline of New Units Permitted and Under Construction



Despite Higher Interest Rates and Home Prices, Housing Is Still a Seller's Market



Auto Sales and Dealer Inventories Are Gradually Recovering



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	1Q'22p	2Q'22f	3Q'22f	4Q'22f	1Q'23f	2Q'23f	3Q'23f	2021a	2022f	2023f	2024f
Output											
Nominal GDP (Billions \$)	24383	25099	25512	25897	26210	26498	26770	22996	25223	26633	27654
Percent Change Annualized	6.5	12.3	6.7	6.2	4.9	4.5	4.2	10.1	9.7	5.6	3.8
Real GDP (Chained 2012 Billions \$)	19736	19999	20036	20156	20225	20284	20342	19427	19982	20317	20572
Percent Change Annualized	-1.4	5.4	0.8	2.4	1.4	1.2	1.1	5.7	2.9	1.7	1.3
Pers. Consumption Expenditures	13912	13983	14036	14108	14154	14184	14206	13625	14010	14199	14403
Percent Change Annualized	2.7	2.1	1.5	2.1	1.3	0.9	0.6	7.9	2.8	1.3	1.4
Nonresidential Fixed Investment	2970	2999	3049	3087	3109	3118	3121	2868	3026	3117	3119
Percent Change Annualized	9.2	3.9	6.9	5.0	2.9	1.2	0.3	7.4	5.5	3.0	0.1
Residential Investment	702	725	734	739	732	719	700	708	725	707	641
Percent Change Annualized	2.1	13.9	5.2	3.0	-3.7	-7.1	-10.3	9.2	2.4	-2.5	-9.3
Change in Private Inventories	159	200	120	30	-20	-40	-40	-33	127	-30	4
Net Exports	-1542	-1504	-1516	-1442	-1389	-1338	-1290	-1284	-1501	-1319	-1248
Government Expenditures	3336	3393	3410	3431	3437	3439	3443	3376	3392	3441	3450
Percent Change Annualized	-2.7	7.0	2.1	2.4	0.7	0.3	0.5	0.5	0.5	1.4	0.3
Industrial Prod. Index (2007=100)	103.6	104.6	105.3	105.6	104.8	103.8	103.7	100.1	104.8	104.1	105.3
Percent Change Annualized	8.1	3.6	3.0	1.0	-2.9	-3.6	-0.5	5.5	4.6	-0.7	1.2
Capacity Utilization (Percent)	77.7	78.2	78.4	78.3	77.5	76.5	75.9	75.4	78.1	76.4	75.8
Prices											
CPI (1982-84=100)	284.6	289.9	294.0	298.0	300.6	302.9	305.1	271.0	291.6	303.9	310.9
Percent Change Annualized	9.2	7.6	5.8	5.6	3.6	3.1	2.9	4.7	7.6	4.2	2.3
PCE Price Index (2012=100)	120.1	121.9	123.3	124.9	126.1	127.2	128.1	115.5	122.6	127.6	130.1
Percent Change Annualized	7.0	6.1	4.8	5.3	3.9	3.4	3.0	3.9	6.1	4.1	2.0
GDP Price Index (2012=100)	123.7	125.7	127.6	128.8	129.9	131.0	131.9	118.5	126.4	131.4	134.8
Percent Change Annualized	8.0	6.8	6.0	3.8	3.5	3.3	3.0	4.2	6.7	3.9	2.6
PPI, Final Demand (Nov. 2009=100)	135.0	138.3	141.8	144.7	146.9	148.9	150.8	126.7	140.0	149.7	155.0
Percent Change Annualized	12.5	10.3	10.4	8.5	6.1	5.7	5.1	3.9	6.8	3.3	2.0
Crude Oil, WTI (\$/barrel)	94.3	110.0	110.0	110.0	95.0	90.0	87.0	67.6	106.1	89.3	80.0
Labor Markets											
Payroll Jobs (Average Monthly Diff., Ths.)	577	455	355	250	166	130	108	514	409	129	111
Unemployment Rate (Percent)	3.8	3.6	3.6	3.6	3.6	3.5	3.5	5.4	3.7	3.5	3.5
Average Weekly Hours	34.6	34.6	34.6	34.6	34.7	34.7	34.7	34.8	34.6	34.7	34.9
Population (Millions)	333.6	334.1	334.7	335.3	335.9	336.4	337.0	332.1	334.4	336.7	339.0
Percent Change Annualized	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Personal Income											
Average Hourly Earnings (\$)	31.64	31.92	32.20	32.45	32.69	32.92	33.15	30.60	32.05	33.04	34.05
Percent Change Annualized	5.2	3.6	3.6	3.2	3.0	2.9	2.9	4.2	4.7	3.1	3.1
Real Disp. Income (2012 Billions \$)	15339	15304	15342	15340	15330	15321	15331	16021	15331	15337	15507
Percent Change Annualized	-2.0	-0.9	1.0	0.0	-0.3	-0.2	0.3	2.2	-4.3	0.0	1.1
Personal Saving Rate (Percent)	6.6	6.3	6.4	6.5	6.6	6.7	6.8	12.0	6.4	6.7	6.8
Housing											
Housing Starts (Ths., Ann. Rate)	1753	1761	1813	1834	1843	1816	1796	1605	1790	1809	1771
Exst. SF Home Sales (Ths., Ann Rate)	5383	5473	5554	5606	5642	5647	5579	5418	5504	5608	5593
New SF Home Sales (Ths., Ann Rate)	814	791	800	806	808	807	809	774	803	808	809
Case/Shiller HPI (Jan. 2000=100)	288.4	299.1	305.4	309.1	311.8	313.5	314.6	260.0	300.5	313.8	316.7
Year/Year Percent Change	19.1	17.5	14.4	11.8	8.1	4.8	3.0	17.1	15.6	4.4	0.9
Consumer											
Consumer Confidence® (Conference Board)	108.1	104.5	106.2	109.0	112.0	115.4	116.1	112.7	107.0	115.0	116.9
Car and Light Truck Sales (Millions)	14.3	14.7	15.1	15.8	16.4	17.0	17.4	15.1	14.9	17.3	18.4
Interest Rates (Percent)											
Federal Funds Rate (Effective)	0.12	0.77	1.80	2.29	2.67	2.88	2.88	0.08	1.25	2.83	2.73
Prime Rate	3.29	3.91	4.92	5.41	5.79	6.00	6.00	3.25	4.38	5.95	5.85
1-Month LIBOR	0.22	0.87	1.73	2.34	2.81	3.03	3.04	0.10	1.29	2.98	2.89
3-Month LIBOR	0.51	1.39	2.16	2.64	2.94	3.05	3.08	0.16	1.67	3.04	2.86
1-Yr. Treasury Rate	0.96	2.05	2.48	2.78	2.92	2.88	2.83	0.10	2.07	2.85	2.48
5-Yr. Treasury Rate	1.82	2.96	3.13	3.07	3.02	2.91	2.75	0.86	2.74	2.83	2.47
10-Yr. Treasury Rate	1.94	3.05	3.23	3.08	2.93	2.73	2.64	1.44	2.83	2.73	2.71
30-Yr. Fixed Rate Mortgage	3.79	5.24	5.44	5.39	5.26	5.01	4.64	2.96	4.97	4.82	4.35

a = actual p = preliminary f = forecast

April 5, 2022

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