

## Debt Ceiling Weighing on Business and Consumer Sentiment, But Headwinds Should Dissipate After a Deal Is Reached; Powell Favors Holding Rates Steady at the Fed’s June Decision

The government will run short of cash to pay its bills around June 1st if a deal is not reached to raise the debt ceiling by then. They could fudge the deadline by suspending nonessential functions or prioritizing debt payments over employees’ salaries or payments to contractors. In a pinch, the Treasury could consider other workarounds that might be legal but violate fiscal policy norms—issuing perpetuities or high-coupon bonds that raise more funds than their face value (The debt ceiling limits the face value of the federal debt, not its market value) minting trillion dollar coins, or invoking the 14th Amendment to contest the ceiling’s validity. The standoff’s drag on the economy has been small so far, and is primarily visible in a premium of short-term Treasury rates above the federal funds rate, as well as softer consumer and small business sentiment. Prior debt ceiling standoffs caused similar headwinds, which dissipated within a few months of their resolution. But the longer this drags on, the worse the drag will become, and the greater the risk of a real crisis. Comerica’s forecast assumes Washington reaches a deal on the debt ceiling relatively soon, and that government expenditures increase slower than inflation in the next fiscal year.

CPI slowed to a 4.9% year-ago increase in April, and producer prices rose 2.3%, both the slowest in two years. Inflation is forecast to slow further into 2024 but is still well above the Fed’s target—and risks to the inflation outlook are to the upside. Surveys of inflation expectations show the typical American expects slightly more inflation over the next few years than they expected before the pandemic, but inflation expectations among the people who worry the most about it are much higher than they used to be (Chart on page 2). After real GDP slowed from 2.1% in 2022 to 1.1% annualized in the first quarter of 2023, Comerica forecasts a modest pullback in real GDP through year-end 2023, similar to how output edged lower in the first half of 2022, but with a more substantial softening of the job market. Productivity growth has been weak since 2021 and businesses are less able to raise prices than in 2021 or 2022. That pressures margins and will likely force businesses in some industries to cut costs, including labor costs.

Fed Chair Powell stated at a monetary policy conference on May 19th that recent stresses in the financial system mean that the Fed might not have to raise interest rates as much as policymakers thought earlier this year to achieve their goals. Powell’s comments imply he favors holding interest rates unchanged at the Fed’s next decision in June. Comerica forecasts for the Fed to hold its policy rate steady at a range of 5.00%-to-5.25% over the next few decisions. A debt ceiling crisis would likely cause the Fed to rapidly pivot to rate cuts. On the other hand, the Fed could hold its policy rate above 5% into 2024 if the economy ekes out a soft landing, the labor market holds up better than expected, and inflation surprises to the upside in the second half of 2023.

### U.S. Economic Outlook, Summary

<i>a = actual f = forecast</i>	3Q'22a	4Q'22a	1Q'23p	2Q'23f	3Q'23f	4Q'23f	1Q'24f	2022a	2023f	2024f	2025f
Real GDP (Percent Change Annualized)	3.2	2.6	1.1	-0.5	-1.0	-0.5	0.7	2.1	0.9	0.6	1.6
CPI (Percent Change Year-over-Year)	8.3	7.1	5.8	4.2	3.7	3.2	2.8	8.0	4.2	2.2	1.8
Payroll Jobs (Average Monthly Diff., Ths.)	429	316	316	120	-50	-50	-40	427	84	36	126
Unemployment Rate (Percent)	3.6	3.6	3.5	3.6	3.9	4.2	4.4	3.6	3.8	4.6	4.6
Federal Funds Rate (Period Average)	2.19	3.65	4.52	4.98	5.08	4.83	4.58	1.68	4.85	3.91	2.44
10-Yr. Treasury Rate (Period Average)	3.11	3.83	3.65	3.52	3.63	3.64	3.61	2.95	3.61	3.34	3.01

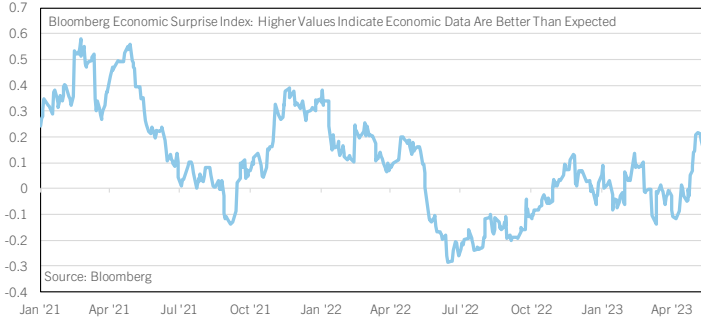
*a = actual p = preliminary f = forecast*

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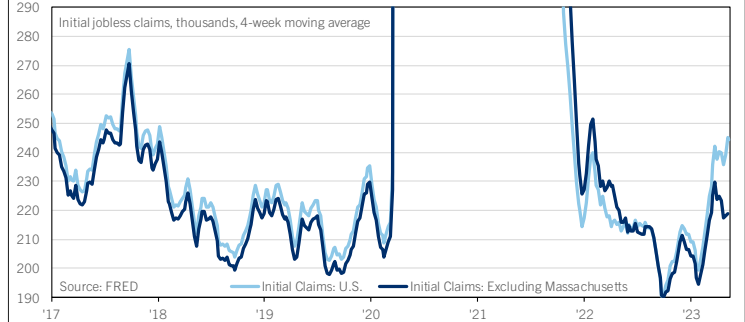
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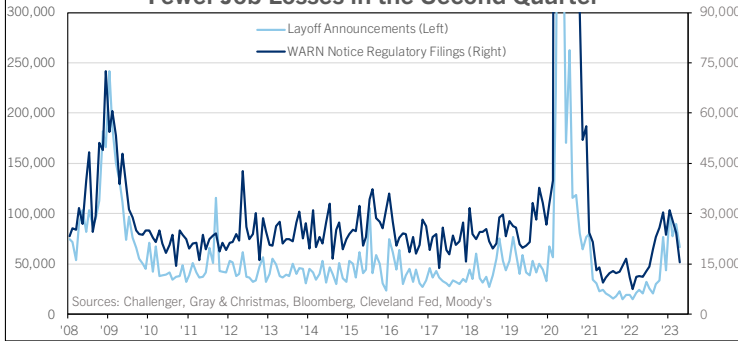
## Economic Data Have Outperformed the Dour Consensus Forecasts Over the Past Month



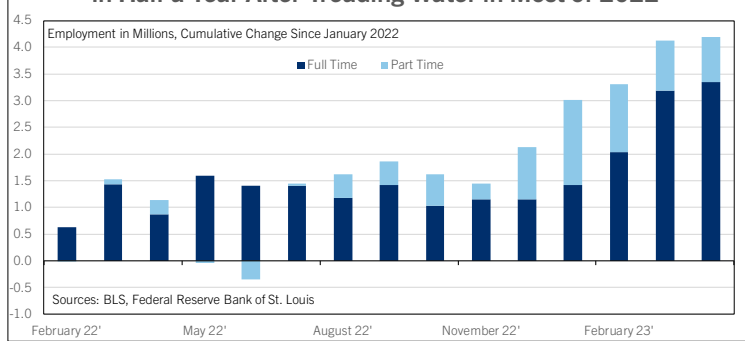
## Initial Claims Down Since Mid-March Outside Massachusetts, Which Uncovered Big UI Fraud



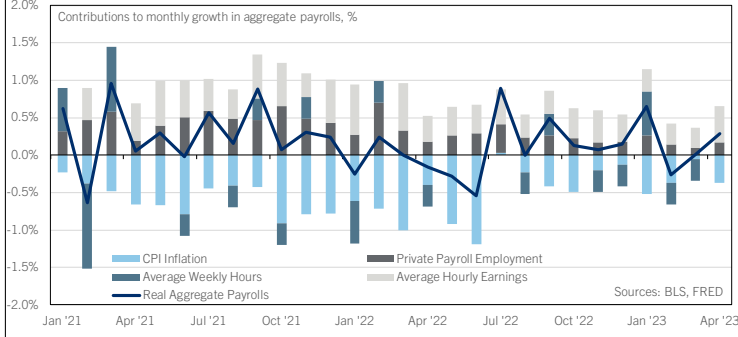
## Other Leading Indicators of Layoffs Pointed to Fewer Job Losses in the Second Quarter



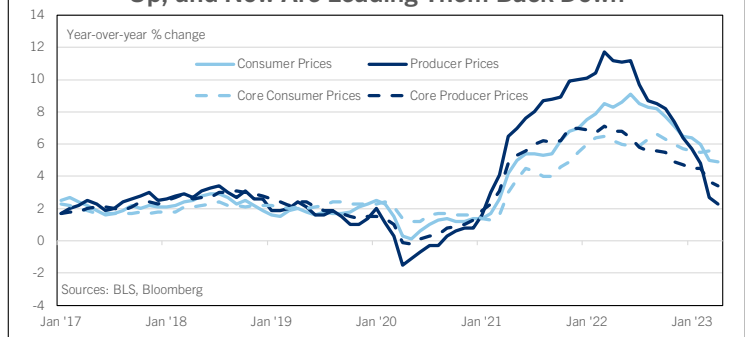
## Full-Time Employment Jumped More Than 2 Million in Half a Year After Treading Water in Most of 2022



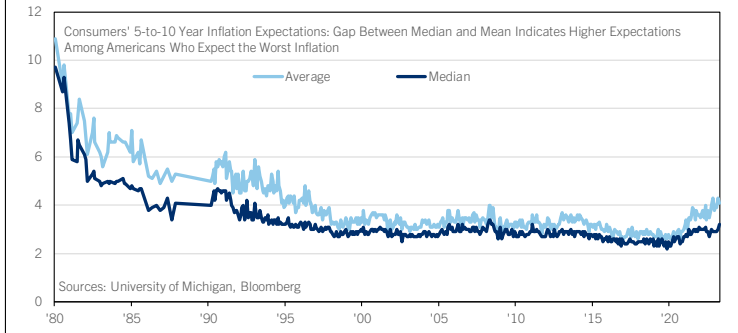
## Good News From Households' Earned Income, Too— It's Outpaced Inflation Since Mid-2022



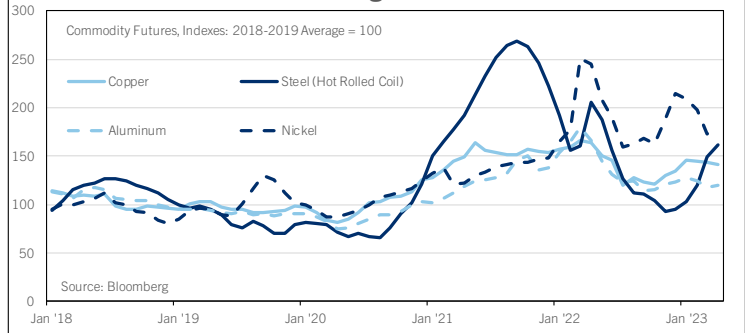
## Producer Prices Led Consumer Prices on the Way Up, and Now Are Leading Them Back Down



## Not Everyone Is Worried About Inflation, But the Worriers Are Much More Worried Than Usual



## Base Metal Prices Are Down From Their 2021-22 Peaks But Still Much Higher Than Pre-Pandemic



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	3Q'22a	4Q'22a	1Q'23p	2Q'23f	3Q'23f	4Q'23f	1Q'24f	2022a	2023f	2024f	2025f
<b>Output</b>											
Nominal GDP (Billions \$ Annualized Rate)	25,724	26,138	26,466	26,656	26,792	26,944	27,153	25,463	26,715	27,534	28,524
<i>Percent Change Annualized</i>	<b>7.7</b>	<b>6.6</b>	<b>5.1</b>	<b>2.9</b>	<b>2.1</b>	<b>2.3</b>	<b>3.1</b>	<b>9.2</b>	<b>4.9</b>	<b>3.1</b>	<b>3.6</b>
Real GDP (Chained 2012 Billions \$ Annual Rate)	20,055	20,182	20,236	20,212	20,161	20,138	20,174	20,014	20,186	20,301	20,621
<i>Percent Change Annualized</i>	<b>3.2</b>	<b>2.6</b>	<b>1.1</b>	<b>-0.5</b>	<b>-1.0</b>	<b>-0.5</b>	<b>0.7</b>	<b>2.1</b>	<b>0.9</b>	<b>0.6</b>	<b>1.6</b>
Pers. Consumption Expenditures	14,179	14,215	14,344	14,301	14,319	14,305	14,310	14,130	14,317	14,369	14,541
<i>Percent Change Annualized</i>	<b>2.3</b>	<b>1.0</b>	<b>3.7</b>	<b>-1.2</b>	<b>0.5</b>	<b>-0.4</b>	<b>0.1</b>	<b>2.7</b>	<b>1.3</b>	<b>0.4</b>	<b>1.2</b>
Nonresidential Fixed Investment	2,960	2,989	2,994	2,971	2,979	2,981	2,985	2,945	2,981	3,005	3,040
<i>Percent Change Annualized</i>	<b>6.2</b>	<b>4.0</b>	<b>0.7</b>	<b>-3.0</b>	<b>1.0</b>	<b>0.3</b>	<b>0.5</b>	<b>3.9</b>	<b>1.2</b>	<b>0.8</b>	<b>1.2</b>
Residential Investment	620	577	571	584	600	605	607	643	590	612	623
<i>Percent Change Annualized</i>	<b>-27.1</b>	<b>-25.1</b>	<b>-4.2</b>	<b>10.0</b>	<b>10.9</b>	<b>3.5</b>	<b>1.5</b>	<b>-10.6</b>	<b>-8.3</b>	<b>3.8</b>	<b>1.7</b>
Change in Private Inventories	39	137	-2	-9	-55	-55	-30	125	-30	1	25
Net Exports	-1,269	-1,239	-1,236	-1,190	-1,235	-1,242	-1,250	-1,357	-1,225	-1,256	-1,219
Government Expenditures	3,411	3,442	3,482	3,473	3,472	3,462	3,471	3,406	3,472	3,487	3,528
<i>Percent Change Annualized</i>	<b>3.7</b>	<b>3.8</b>	<b>4.7</b>	<b>-1.1</b>	<b>-0.1</b>	<b>-1.1</b>	<b>1.1</b>	<b>-0.6</b>	<b>1.9</b>	<b>0.4</b>	<b>1.2</b>
Industrial Prod. Index (2007=100)	103.3	102.7	102.7	102.0	101.6	101.5	101.7	102.6	101.9	102.4	104.4
<i>Percent Change Annualized</i>	<b>2.1</b>	<b>-2.5</b>	<b>0.2</b>	<b>-2.5</b>	<b>-1.8</b>	<b>-0.5</b>	<b>1.0</b>	<b>3.4</b>	<b>-0.7</b>	<b>0.4</b>	<b>2.0</b>
Capacity Utilization (Percent)	80.8	79.9	79.6	78.9	78.1	77.6	77.3	80.3	78.6	77.2	77.1
<b>Prices</b>											
CPI (1982-84=100)	295.5	298.5	301.3	303.9	306.4	308.1	309.6	292.6	304.9	311.6	317.3
<i>Percent Change Annualized</i>	<b>5.5</b>	<b>4.2</b>	<b>3.8</b>	<b>3.5</b>	<b>3.3</b>	<b>2.3</b>	<b>2.0</b>	<b>8.0</b>	<b>4.2</b>	<b>2.2</b>	<b>1.8</b>
PCE Price Index (2012=100)	123.8	124.9	126.2	127.3	128.3	129.3	130.0	122.9	127.8	130.9	133.3
<i>Percent Change Annualized</i>	<b>4.3</b>	<b>3.7</b>	<b>4.2</b>	<b>3.6</b>	<b>3.4</b>	<b>2.9</b>	<b>2.2</b>	<b>6.3</b>	<b>4.0</b>	<b>2.4</b>	<b>1.9</b>
GDP Price Index (2012=100)	128.3	129.5	130.8	131.9	132.9	133.8	134.6	127.2	132.3	135.6	138.4
<i>Percent Change Annualized</i>	<b>4.4</b>	<b>3.9</b>	<b>4.0</b>	<b>3.4</b>	<b>3.1</b>	<b>2.7</b>	<b>2.4</b>	<b>7.0</b>	<b>4.0</b>	<b>2.5</b>	<b>2.0</b>
PPI, Final Demand (Nov. 2009=100)	139.9	140.9	141.3	142.7	143.8	144.8	145.8	138.7	143.2	146.9	150.0
<i>Percent Change Annualized</i>	<b>2.7</b>	<b>2.9</b>	<b>1.2</b>	<b>4.0</b>	<b>3.1</b>	<b>2.8</b>	<b>2.5</b>	<b>8.3</b>	<b>5.1</b>	<b>2.8</b>	<b>2.3</b>
Crude Oil, WTI (\$/barrel)	\$94	\$83	\$76	\$80	\$86	\$87	\$88	\$95	\$82	\$88	\$88
<b>Labor Markets</b>											
Payroll Jobs (Average Monthly Difference, Ths.)	429	316	316	120	-50	-50	-40	427	84	36	126
Unemployment Rate (Percent)	3.6	3.6	3.5	3.6	3.9	4.2	4.4	3.6	3.8	4.6	4.6
Labor Force Participation Rate (%)	62.2	62.2	62.5	62.5	62.4	62.2	62.4	62.2	62.4	62.7	62.6
Average Weekly Hours	34.6	34.5	34.5	34.4	34.3	34.2	34.2	34.6	34.3	34.3	34.3
<b>Personal Income</b>											
Average Hourly Earnings (\$)	32.43	32.79	33.11	33.41	33.69	33.94	34.17	32.25	33.54	34.54	35.64
<i>Percent Change Annualized</i>	<b>4.7</b>	<b>4.6</b>	<b>3.9</b>	<b>3.7</b>	<b>3.4</b>	<b>3.0</b>	<b>2.8</b>	<b>5.3</b>	<b>4.0</b>	<b>3.0</b>	<b>3.2</b>
Real Disp. Income (2012 Billions \$ Annualized)	15,141	15,325	15,622	15,650	15,593	15,530	15,497	15,149	15,599	15,521	15,690
<i>Percent Change Annualized</i>	<b>3.2</b>	<b>5.0</b>	<b>8.0</b>	<b>0.7</b>	<b>-1.5</b>	<b>-1.6</b>	<b>-0.8</b>	<b>-6.1</b>	<b>3.0</b>	<b>-0.5</b>	<b>1.1</b>
Personal Saving Rate (Percent)	3.2	4.0	4.8	5.3	5.8	6.2	6.4	3.7	5.5	6.6	6.7
<b>Housing</b>											
Housing Starts (Ths., Annual Rate)	1,450	1,398	1,395	1,393	1,391	1,391	1,364	1,554	1,392	1,331	1,312
Exst. SF Home Sales (Ths., Annual Rate)	4,267	3,753	3,893	3,927	3,968	4,007	4,047	4,530	3,949	4,112	4,272
New SF Home Sales (Ths., Annual Rate)	580	598	651	660	667	672	679	641	663	690	720
Case/Shiller One-Family HPI (1/2000=100)	301.7	297.9	294.4	291.8	290.0	288.7	289.2	298.5	291.2	291.0	296.7
<i>Year/Year Percent Change</i>	<b>13.1</b>	<b>7.4</b>	<b>1.2</b>	<b>-3.8</b>	<b>-3.9</b>	<b>-3.1</b>	<b>-1.8</b>	<b>14.8</b>	<b>-2.4</b>	<b>-0.1</b>	<b>2.0</b>
<b>Consumer</b>											
Consumer Confidence® (Conference Board)	102.2	104.2	104.5	102.5	99.0	97.3	96.7	104.5	100.8	95.7	100.0
Car and Light Truck Sales (Millions)	13.5	14.4	15.5	15.7	16.0	16.1	16.2	13.9	15.8	16.5	16.8
Retail & Food Service Sales (Monthly Avg, Bns)	678.9	679.9	687.7	685.6	688.3	687.3	685.7	672.6	687.2	687.4	694.9
<i>Percent Change Annualized</i>	<b>1.5</b>	<b>0.6</b>	<b>4.7</b>	<b>-1.2</b>	<b>1.6</b>	<b>-0.6</b>	<b>-0.9</b>	<b>9.7</b>	<b>2.2</b>	<b>0.0</b>	<b>1.1</b>
<b>Financial Indicators (Period Average)</b>											
Federal Funds Rate, % (Effective)	2.19	3.65	4.52	4.98	5.08	4.83	4.58	1.68	4.85	3.91	2.44
Prime Rate, %	5.36	6.82	7.69	8.11	8.20	7.95	7.70	4.85	7.99	7.03	5.54
1-Month BSBY, %	2.37	3.79	4.58	5.04	5.16	4.94	4.69	1.80	4.93	3.98	2.50
3-Month Term SOFR, %	2.84	4.24	4.78	5.09	5.09	4.80	4.49	2.18	4.94	3.74	2.45
1-Yr. Treasury Rate, %	3.40	4.61	4.77	4.72	4.63	4.23	3.77	2.79	4.59	3.22	2.58
5-Yr. Treasury Rate, %	3.23	4.00	3.80	3.57	3.58	3.54	3.47	3.00	3.62	3.18	2.87
10-Yr. Treasury Rate, %	3.11	3.83	3.65	3.52	3.63	3.64	3.61	2.95	3.61	3.34	3.01
30-Yr. Fixed Rate Mortgage, %	5.58	6.69	6.36	6.38	6.38	6.17	5.89	5.33	6.32	5.30	4.63
Corporate Profits After Tax (Billions \$ Annualized)	2,891	2,721	2,688	2,697	2,706	2,720	2,742	2,872	2,703	2,785	2,868
<i>Percent Change Annualized</i>	<b>-18.6</b>	<b>-21.5</b>	<b>-4.8</b>	<b>1.3</b>	<b>1.4</b>	<b>2.0</b>	<b>3.2</b>	<b>4.4</b>	<b>-5.9</b>	<b>3.1</b>	<b>3.0</b>

a = actual p = preliminary f = forecast

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