

Gas Prices Rise After OPEC+ Extends Supply Cuts; Fed Likely Holds Rates Steady This Month

Inflation’s return to normal has hit another bump in the road. Gas prices are up after OPEC+ extended oil supply cuts in early September, raising inflation in Comerica’s September forecast. Even so, most measures of core inflation continue to trend lower as car dealers and other retailers of durable goods offer consumers incentives to move inventory. The pullback in house prices between mid-2022 and last winter is starting to slow shelter inflation, too, and residential rents are rising more slowly as a big wave of new multifamily construction comes to market.

The labor market continues to cool. Employers added 187,000 jobs in August, and with downward revisions to June and July, job growth was a cool 153,000 per month in the summer. The unemployment rate rose to 3.8%, the highest since early 2022, as nearly three quarters of a million more people entered the labor force and looked for work. More jobseekers is good news for this economy, since a majority of small businesses have reported few or no qualified applicants for job postings since early 2021. Average hourly earnings of payroll employees rose 4.3% from a year earlier in August, matching its pace since March—and faster than the pre-pandemic normal of 3%. The Fed would like to see slightly slower wage growth to reduce the risk of wage-price pressures aggravating inflation in 2024. They are likely to get what they want soon, since alternative measures of wage growth are slowing more than average hourly earnings; these include the Federal Reserve Bank of Atlanta’s wage tracker, which is based on data from the government’s household survey, private payroll processing company ADP’s wage data, and anecdotal evidence like the Fed’s Beige Book economic survey and news reports of lower new hire wages at Walmart.

Consumer spending was solid in July and August. But it is growing faster than incomes, and there are signs of strains on the budgets of households with narrower financial cushions. Consumers are likely to throttle back on discretionary spending as student loan payments restart and higher gas prices eat into household budgets.

The Fed will be pleased to see a margin of slack open in the economy’s productive capacity. Comerica forecasts for the Fed to hold the federal funds target range steady at the next rate decision on September 20, and signal the following decision on November 1 will be data dependent. After more than two years of inflation exceeding their target, they would rather err by raising rates too much and slow the economy unnecessarily than by cutting too early and allowing inflation to rebound. That makes them more likely than not to make a final quarter percentage point hike for this cycle at the November decision, especially given the latest unwelcome rise in gas prices. Still, if core inflation continues to slow, the Fed is likely to pivot to rate cuts in the first half of 2024. Comerica’s September Economic Outlook raises the forecasts for long-term bond yields and mortgage rates, which tend to rise when the price of crude oil goes up.

U.S. Economic Outlook, Summary

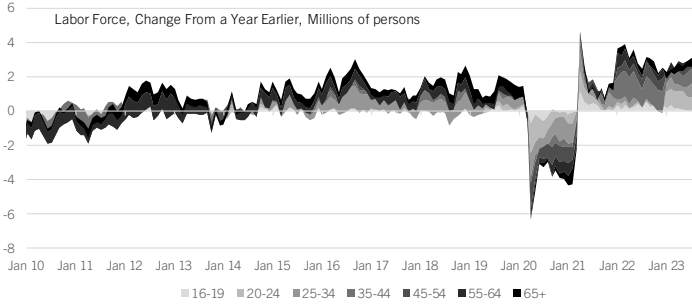
<i>a = actual f = forecast</i>	4Q'22a	1Q'23a	2Q'23a	3Q'23p	4Q'23f	1Q'24f	2Q'24f	2022a	2023f	2024f	2025f
Real GDP (Percent Change Annualized)	2.6	2.0	2.1	2.8	0.8	0.6	0.9	2.1	2.1	1.1	1.3
CPI (Percent Change Year-over-Year)	7.1	5.8	4.1	3.8	3.6	3.3	3.3	8.0	4.3	3.2	2.8
Payroll Jobs (Average Monthly Diff., Ths.)	316	322	222	154	124	101	80	427	206	73	145
Unemployment Rate (Percent)	3.6	3.5	3.6	3.7	4.0	4.3	4.4	3.6	3.7	4.4	4.4
Federal Funds Rate (Period Average)	3.65	4.52	5.07	5.29	5.50	5.58	5.33	1.68	5.07	5.21	3.67
10-Yr. Treasury Rate (Period Average)	3.83	3.65	3.59	4.07	4.23	4.22	3.92	2.95	3.89	3.82	2.93

a = actual p = preliminary f = forecast

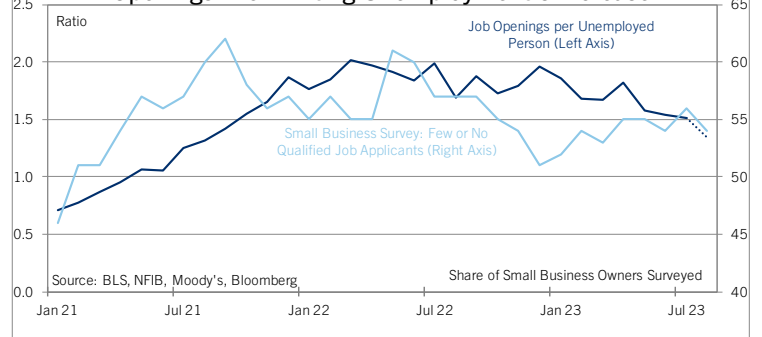
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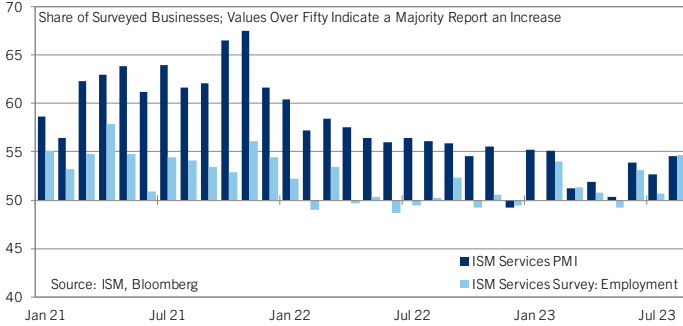
Younger Workers Contributing Much More to Labor Force Growth than in the Last Business Cycle



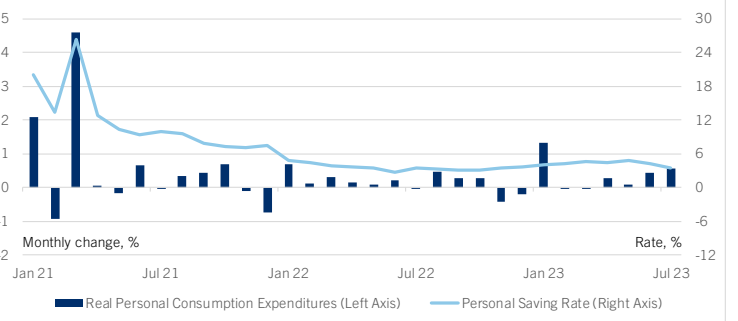
High Job Openings, Widespread Difficulties Filling Openings Are Limiting Unemployment's Increase



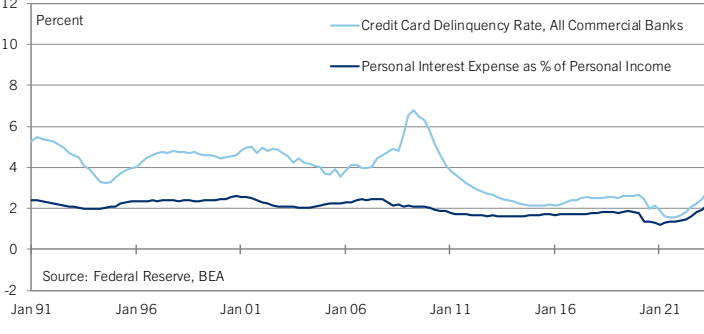
ISM Survey Reports Better Growth of Service-Sector Output and Jobs in the Last Few Months



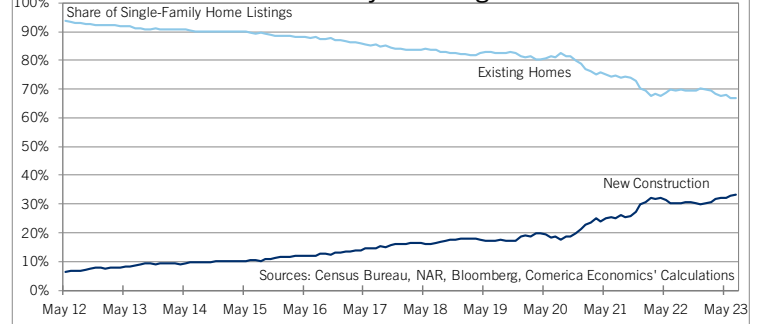
Recent Strength in Consumer Spending Was Funded by a Falling Saving Rate; This Is Unlikely to Last Long



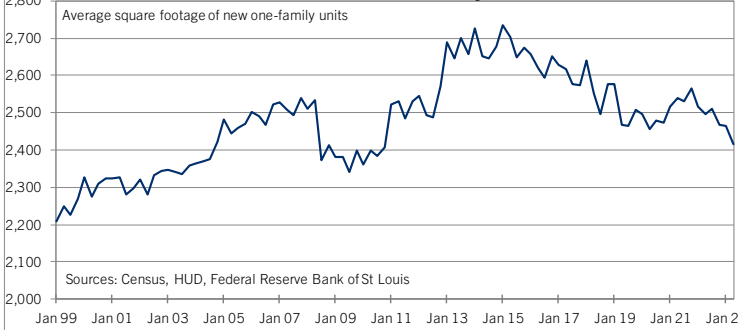
Rising Interest Rates Are Starting to Strain Budgets for Households With Thinner Financial Cushions



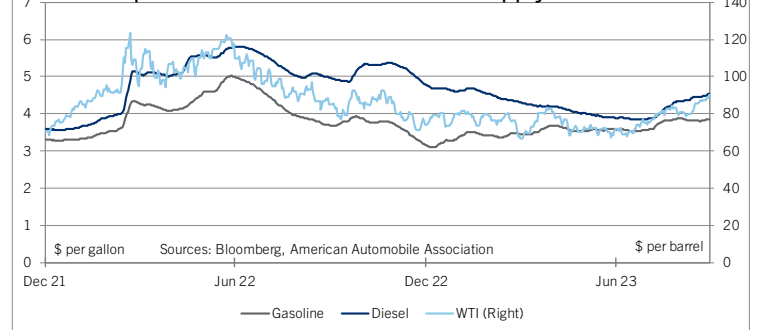
It's Unusually Slim Pickings for Homebuyers Outside of the Newly-Built Segment



Builders Are Pivoting to Smaller Layouts to Make Homes Affordable to Buyers



Oil, Gas, and Diesel Prices Head Higher in September After OPEC+ Extends Supply Cuts



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	4Q'22a	1Q'23a	2Q'23a	3Q'23p	4Q'23f	1Q'24f	2Q'24f	2022a	2023f	2024f	2025f
Output											
Nominal GDP (Billions \$ Annualized Rate)	26,138	26,530	26,799	27,218	27,477	27,699	27,926	25,463	27,006	28,043	29,055
<i>Percent Change Annualized</i>	6.6	6.1	4.1	6.4	3.9	3.3	3.3	9.2	6.1	3.8	3.6
Real GDP (Chained 2012 Billions \$ Annual Rate)	20,182	20,283	20,386	20,525	20,565	20,599	20,645	20,014	20,440	20,664	20,923
<i>Percent Change Annualized</i>	2.6	2.0	2.1	2.8	0.8	0.6	0.9	2.1	2.1	1.1	1.3
Pers. Consumption Expenditures	14,215	14,360	14,420	14,545	14,525	14,492	14,493	14,130	14,463	14,498	14,596
<i>Percent Change Annualized</i>	1.0	4.2	1.7	3.5	-0.5	-0.9	0.0	2.7	2.4	0.2	0.7
Nonresidential Fixed Investment	2,989	2,993	3,038	3,069	3,083	3,092	3,104	2,945	3,046	3,119	3,245
<i>Percent Change Annualized</i>	4.0	0.6	6.1	4.1	1.9	1.2	1.5	3.9	3.4	2.4	4.1
Residential Investment	577	571	566	569	571	581	595	643	569	600	629
<i>Percent Change Annualized</i>	-25.1	-4.0	-3.6	2.5	1.5	6.9	9.8	-10.6	-11.5	5.4	4.9
Change in Private Inventories	137	4	-2	-5	0	2	2	125	-1	6	52
Net Exports	-1,239	-1,208	-1,212	-1,241	-1,211	-1,168	-1,150	-1,357	-1,218	-1,160	-1,203
Government Expenditures	3,442	3,484	3,513	3,525	3,532	3,535	3,537	3,406	3,514	3,537	3,537
<i>Percent Change Annualized</i>	3.8	5.0	3.3	1.3	0.8	0.4	0.2	-0.6	3.1	0.7	0.0
Industrial Prod. Index (2007=100)	102.7	102.6	102.6	102.8	102.4	102.0	101.9	102.6	102.6	102.0	103.8
<i>Percent Change Annualized</i>	-2.5	-0.3	0.0	0.9	-1.6	-1.5	-0.3	3.4	0.0	-0.6	1.8
Capacity Utilization (Percent)	79.9	79.6	79.3	79.1	78.5	77.9	77.4	80.3	79.1	77.3	76.9
Prices											
CPI (1982-84=100)	298.5	301.3	303.4	306.7	309.2	311.3	313.4	292.6	305.2	314.9	323.6
<i>Percent Change Annualized</i>	4.2	3.8	2.7	4.5	3.3	2.7	2.6	8.0	4.3	3.2	2.8
PCE Price Index (2012=100)	124.9	126.2	127.0	128.2	129.3	130.2	131.0	122.9	127.7	131.6	134.9
<i>Percent Change Annualized</i>	3.7	4.1	2.5	4.0	3.5	2.7	2.5	6.3	3.9	3.1	2.5
GDP Price Index (2012=100)	129.5	130.8	131.5	132.6	133.7	134.5	135.3	127.2	132.1	135.8	139.0
<i>Percent Change Annualized</i>	3.9	4.1	2.0	3.7	3.1	2.6	2.4	7.0	3.9	2.7	2.4
PPI, Final Demand (Nov. 2009=100)	140.8	141.1	140.7	141.8	142.9	143.9	144.9	138.7	141.6	145.4	149.2
<i>Percent Change Annualized</i>	2.7	0.8	-1.2	3.2	3.0	2.8	2.9	9.5	2.1	2.6	2.7
Crude Oil, WTI (\$/barrel)	\$83	\$76	\$74	\$82	\$87	\$88	\$89	\$95	\$80	\$89	\$90
Labor Markets											
Payroll Jobs (Average Monthly Difference, Ths.)	316	322	222	154	124	101	80	427	206	73	145
Unemployment Rate (Percent)	3.6	3.5	3.6	3.7	4.0	4.3	4.4	3.6	3.7	4.4	4.4
Labor Force Participation Rate (%)	62.2	62.5	62.6	62.7	62.8	63.0	63.0	62.2	62.6	63.0	63.0
Average Weekly Hours	34.5	34.5	34.4	34.4	34.4	34.4	34.3	34.6	34.4	34.3	34.3
Personal Income											
Average Hourly Earnings (\$)	32.79	33.11	33.46	33.76	34.03	34.28	34.53	32.25	33.59	34.65	35.70
<i>Percent Change Annualized</i>	4.6	3.9	4.3	3.6	3.2	3.1	3.0	5.3	4.2	3.2	3.0
Real Disp. Income (2012 Billions \$ Annualized)	15,236	15,550	15,677	15,706	15,717	15,725	15,734	15,127	15,663	15,725	15,883
<i>Percent Change Annualized</i>	2.5	8.5	3.3	0.7	0.3	0.2	0.2	-6.2	3.5	0.4	1.0
Personal Saving Rate (Percent)	3.4	4.3	4.5	4.5	5.0	5.8	6.3	3.6	4.6	6.4	6.7
Housing											
Housing Starts (Ths., Annual Rate)	1,405	1,385	1,443	1,441	1,424	1,413	1,402	1,551	1,423	1,400	1,398
Exst. SF Home Sales (Ths., Annual Rate)	3,753	3,893	3,810	3,689	3,707	3,731	3,769	4,530	3,775	3,795	3,974
New SF Home Sales (Ths., Annual Rate)	598	638	689	705	710	718	721	637	686	725	755
Case/Shiller One-Family HPI (1/2000=100)	298.1	297.3	302.5	304.7	305.5	306.2	307.2	298.5	302.5	307.9	312.9
<i>Year/Year Percent Change</i>	7.4	2.2	-0.2	1.0	2.5	3.0	1.6	14.8	1.3	1.8	1.6
Consumer											
Consumer Confidence® (Conference Board)	104.2	104.5	105.4	106.3	110.1	111.4	112.4	104.5	106.6	112.3	116.8
Car and Light Truck Sales (Millions)	14.4	15.5	15.7	15.9	16.0	16.1	16.2	13.9	15.7	16.3	16.7
Retail & Food Service Sales (Monthly Avg, Bns)	679.9	687.4	688.4	705.6	706.7	703.8	703.9	672.7	697.0	705.8	714.5
<i>Percent Change Annualized</i>	0.7	4.5	0.6	10.4	0.6	-1.6	0.0	9.7	3.6	1.3	1.2
Financial Indicators (Period Average)											
Federal Funds Rate, % (Effective)	3.65	4.52	5.07	5.29	5.50	5.58	5.33	1.68	5.07	5.21	3.67
Prime Rate, %	6.82	7.69	8.16	8.41	8.62	8.70	8.45	4.85	8.22	8.33	6.77
1-Month BSBY, %	3.79	4.58	5.16	5.35	5.51	5.59	5.35	1.80	5.15	5.21	3.68
3-Month Term SOFR, %	4.24	4.78	5.13	5.36	5.45	5.46	5.17	2.18	5.18	5.05	3.52
1-Yr. Treasury Rate, %	4.61	4.77	4.94	5.42	5.39	5.25	4.88	2.79	5.13	4.68	3.10
5-Yr. Treasury Rate, %	4.00	3.80	3.69	4.26	4.35	4.28	3.92	3.00	4.03	3.80	2.84
10-Yr. Treasury Rate, %	3.83	3.65	3.59	4.07	4.23	4.22	3.92	2.95	3.89	3.82	2.93
30-Yr. Fixed Rate Mortgage, %	6.69	6.36	6.49	7.04	7.17	7.04	6.51	5.33	6.77	6.40	5.27
Corporate Profits After Tax (Billions \$ Annualized)	2,721	2,688	2,756	2,780	2,796	2,817	2,833	2,872	2,755	2,852	3,011
<i>Percent Change Annualized</i>	-21.5	-4.8	10.4	3.7	2.3	3.1	2.2	4.4	-4.1	3.5	5.6

a = actual p = preliminary f = forecast

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