

2024 Election Transforms the Economic Outlook; Latest Forecast Lays Out A Plausible Scenario of Solid Growth, Tariff-Fueled Inflation, and Slower Rate Cuts

The Republican sweep of the 2024 elections is set to transform the economic outlook. President-elect Trump will take office with ambitious economic plans: Roll back regulation, cut taxes, raise tariffs, and curb immigration. Republican majorities in the Senate and Congress will help foster his plans to reality. This is a challenging moment to forecast. Specific assumptions about post-election policies are sure to be wrong in some respect, but a forecast that ignores the election entirely is even more likely to miss. Comerica’s December forecast lays out one plausible scenario for how policy changes might affect the outlook for the economy and interest rates.

Our forecast assumes the next Congress passes a major tax bill, combining extensions of some expiring provisions of the 2017 tax cut, reversal of some Biden-era tax increases, and follow-through on some tax-related campaign promises. Fiscal stimulus through tax cuts provides a significant incremental boost to disposable incomes and corporate profits, with pass-through to consumer spending and hiring.

These effects become visible in economic statistics well ahead of when the tax cut becomes effective (presumably in 2026). The first surveys conducted after the election show business leaders are upbeat as they look forward to a more business-friendly approach in Washington. “Animal spirits” will likely boost consumer spending and job openings in the first half of 2025 as affluent consumers and businesses act on their good vibes.

Comerica’s forecast accordingly raises the outlook for real GDP growth in 2025 and 2026. It also assumes that tariff rates increase. That lifts near-term growth of industrial production, contributes to higher prices of consumer and capital goods, and as a result raises inflation. The forecast also assumes that curbs on immigration slow the growth of the labor force (fewer immigrant workers). Solid economic growth and a tighter labor supply bring the unemployment rate back under 4% by mid-2025.

If the economy evolves along these lines, the Fed will see less need to cut interest rates in 2025 than signaled in their September Dot Plot. Comerica’s forecast sees the Fed cutting the fed funds target three quarters of a percent between Thanksgiving 2024 and the end of 2025. The 10-year Treasury yield is forecast to average between 4.25% and 4.75% in 2025, and the 30-year fixed mortgage rate between 6.25% and 7.00%. The Fed is likely to end its balance sheet run-off program in mid-2025 as their total assets fall to between \$6.4 and \$6.6 trillion. Higher interest rates mean slower growth of home sales in 2025 than in Comerica’s October forecast, but sales in 2026 are projected above the prior forecast due to pent-up demand, tax cuts fueling purchasing power, and wealth effects.

U.S. Economic Outlook, Summary

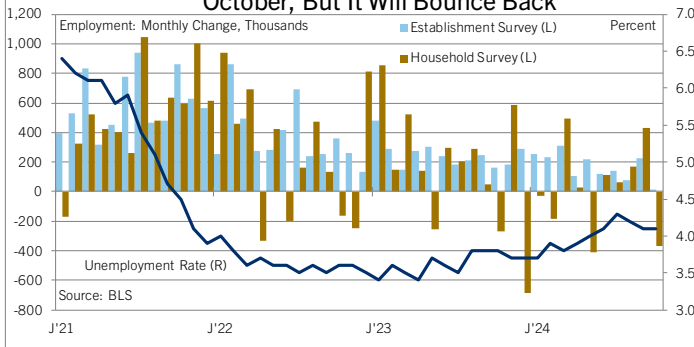
<i>a = actual f = forecast</i>	2Q'24a	3Q'24p	4Q'24f	1Q'25f	2Q'25f	3Q'25f	4Q'25f	2023a	2024f	2025f	2026f
Real GDP (<i>Percent Change Annualized</i>)	3.0	2.8	1.5	3.0	3.2	3.0	2.8	2.9	2.7	2.7	2.7
CPI (<i>Percent Change Year-over-Year</i>)	3.2	2.6	2.4	2.2	2.2	2.7	2.9	4.1	2.9	2.5	2.9
Payroll Jobs (<i>Average Monthly Diff., Ths.</i>)	192	140	107	170	180	175	172	245	174	174	173
Unemployment Rate (<i>Percent</i>)	4.0	4.2	4.1	4.0	3.8	3.7	3.7	3.6	4.0	3.8	3.7
Federal Funds Rate (<i>Period Average</i>)	5.33	5.26	4.66	4.28	4.03	3.83	3.83	5.02	5.15	3.99	3.81
10-Yr. Treasury Rate (<i>Period Average</i>)	4.44	3.95	4.34	4.42	4.44	4.43	4.38	3.96	4.22	4.42	4.28

a = actual p = preliminary f = forecast

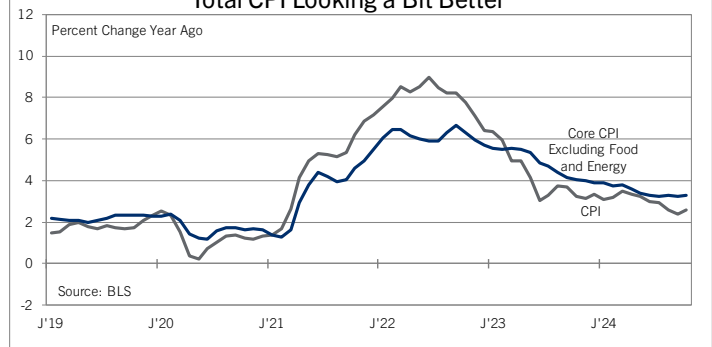
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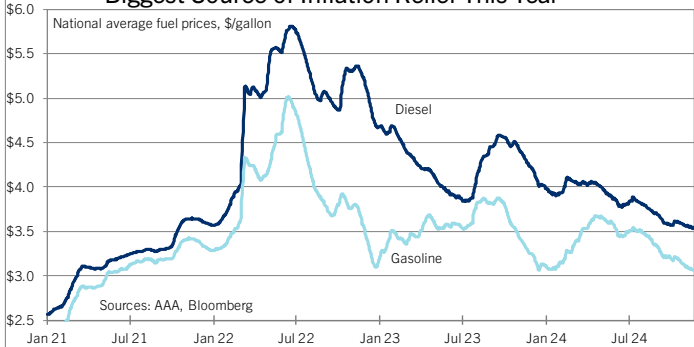
Hurricanes and the Boeing Strike Hurt Job Growth in October, But It Will Bounce Back



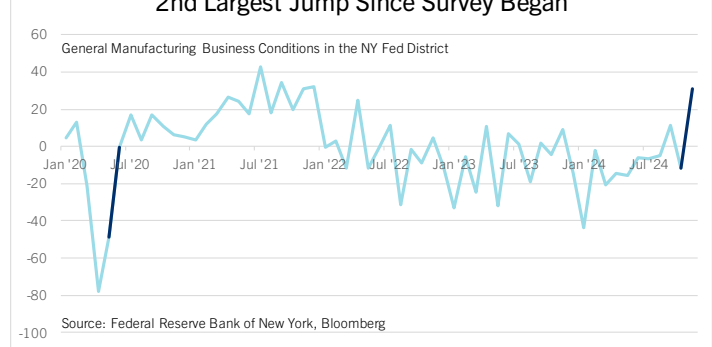
Core CPI Has Moved Sideways For Six Months, Total CPI Looking a Bit Better



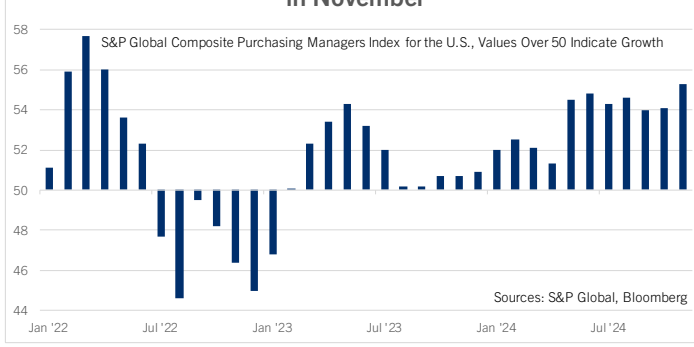
Falling Gas and Diesel Prices Have Been the Biggest Source of Inflation Relief This Year



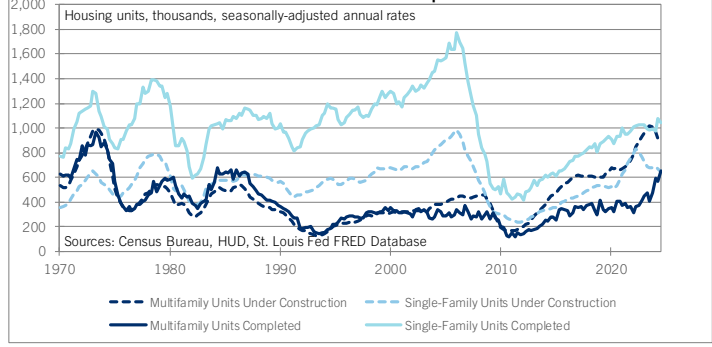
Empire Manufacturing Survey Just Registered the 2nd Largest Jump Since Survey Began



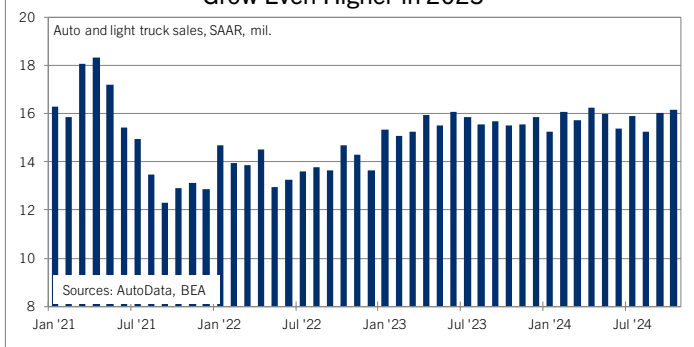
PMI Survey Jumped to the Strongest Since 2022 in November



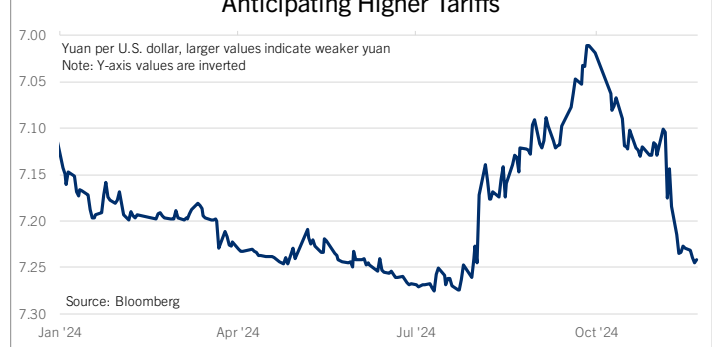
Housing Deliveries Are Roaring, But Likely to Slow in 2nd Half of 2025 as Pipeline Shrinks



Auto Sales Back About 16 Million SAAR, Set to Grow Even Higher in 2025



Chinese Currency Depreciates Post-Election, Anticipating Higher Tariffs



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	2Q'24a	3Q'24p	4Q'24f	1Q'25f	2Q'25f	3Q'25f	4Q'25f	2023a	2024f	2025f	2026f
Output											
Nominal GDP (Billions \$ Annualized Rate)	29,017	29,350	29,597	29,977	30,409	30,844	31,266	27,721	29,147	30,624	32,307
<i>Percent Change Annualized</i>	5.6	4.7	3.4	5.2	5.9	5.8	5.6	6.6	5.1	5.1	5.5
Real GDP (Chained 2017 Billions \$ Annual Rate)	23,224	23,386	23,476	23,647	23,834	24,012	24,176	22,671	23,285	23,917	24,571
<i>Percent Change Annualized</i>	3.0	2.8	1.5	3.0	3.2	3.0	2.8	2.9	2.7	2.7	2.7
Pers. Consumption Expenditures	15,967	16,112	16,197	16,324	16,464	16,580	16,681	15,622	16,033	16,512	16,955
<i>Percent Change Annualized</i>	2.8	3.7	2.1	3.2	3.5	2.9	2.5	2.5	2.6	3.0	2.7
Nonresidential Fixed Investment	3,504	3,533	3,556	3,584	3,628	3,668	3,703	3,385	3,516	3,646	3,799
<i>Percent Change Annualized</i>	3.9	3.3	2.6	3.2	5.0	4.5	3.9	6.0	3.9	3.7	4.2
Residential Investment	795	785	787	809	833	852	865	763	792	840	890
<i>Percent Change Annualized</i>	-2.8	-5.1	1.3	11.4	12.4	9.2	6.3	-8.3	3.8	6.0	6.0
Change in Private Inventories	72	60	106	100	76	82	86	33	64	86	81
Net Exports	-1,036	-1,077	-1,158	-1,170	-1,180	-1,195	-1,195	-933	-1,062	-1,185	-1,208
Government Expenditures	3,917	3,966	3,978	3,992	4,006	4,017	4,027	3,812	3,937	4,010	4,045
<i>Percent Change Annualized</i>	3.1	5.0	1.3	1.4	1.4	1.1	1.0	3.9	3.3	1.9	0.9
Industrial Prod. Index (2007=100)	102.9	102.7	102.7	103.5	104.5	105.5	106.3	102.9	102.6	104.9	108.3
<i>Percent Change Annualized</i>	2.5	-0.6	0.0	3.0	4.0	3.7	3.3	0.2	-0.2	2.2	3.2
Capacity Utilization (Percent)	78.0	77.6	77.3	77.7	78.1	78.4	78.7	79.0	77.6	78.2	79.1
Prices											
CPI (Year-Over-Year % Change)	3.2	2.6	2.4	2.2	2.2	2.7	2.9	4.1	2.9	2.5	2.9
Core CPI (Year-Over-Year % Change)	3.4	3.2	3.0	2.7	2.7	2.9	3.0	4.8	3.4	2.8	2.9
PCE Price Index (Year-Over-Year % Change)	2.6	2.3	2.3	2.1	2.2	2.5	2.7	3.8	2.5	2.4	2.7
Core PCE Price Index (Year-Over-Year % Change)	2.7	2.7	2.7	2.4	2.4	2.6	2.7	4.1	2.8	2.5	2.7
GDP Price Index (Year-Over-Year % Change)	2.6	2.2	2.3	2.1	2.2	2.4	2.7	3.6	2.4	2.3	2.8
PPI, Final Demand (Year-Over-Year % Change)	2.6	2.0	2.5	2.4	2.3	2.6	2.8	2.0	2.1	2.5	2.5
Crude Oil, WTI (\$/barrel)	\$82	\$77	\$72	\$72	\$72	\$72	\$72	\$78	\$77	\$72	\$72
Labor Markets											
Payroll Jobs (Average Monthly Difference, Ths.)	192	140	107	170	180	175	172	245	174	174	173
Unemployment Rate (Percent)	4.0	4.2	4.1	4.0	3.8	3.7	3.7	3.6	4.0	3.8	3.7
Labor Force Participation Rate (%)	62.6	62.7	62.7	62.8	62.7	62.6	62.7	62.6	62.6	62.7	62.7
Average Weekly Hours	34.3	34.3	34.3	34.2	34.2	34.2	34.2	34.4	34.3	34.2	34.2
Personal Income											
Average Hourly Earnings (\$)	34.87	35.21	35.54	35.88	36.25	36.61	36.96	33.72	35.05	36.43	37.89
<i>Percent Change Annualized</i>	3.4	3.9	3.8	4.0	4.2	4.0	4.0	4.5	3.9	3.9	4.0
Real Disp. Income (2017 Billions \$ Annualized)	17,554	17,623	17,746	17,881	18,035	18,183	18,337	17,052	17,594	18,109	18,899
<i>Percent Change Annualized</i>	2.4	1.6	2.8	3.1	3.5	3.3	3.4	5.1	3.2	2.9	4.4
Personal Saving Rate (Percent)	5.2	4.8	5.0	5.3	5.6	5.8	6.0	4.7	5.1	5.6	6.4
Housing											
Housing Starts (Ths., Annual Rate)	1,340	1,326	1,392	1,415	1,428	1,442	1,454	1,421	1,366	1,435	1,483
Single-Family Housing Starts	1,004	963	989	998	1,005	1,014	1,022	949	1,004	1,010	1,041
Multifamily Housing Starts	336	363	403	417	423	427	433	473	362	425	442
Exst. SF Home Sales (Ths., Annual Rate)	3,657	3,513	3,575	3,654	3,699	3,736	3,771	3,674	3,635	3,715	3,908
New SF Home Sales (Ths., Annual Rate)	693	724	733	745	753	760	767	666	704	756	786
FHFA Purchase-Only HPI (Annual % Change)	5.7	4.4	3.7	3.4	3.2	3.0	2.8	5.0	5.1	3.1	2.5
Case/Shiller One-Family HPI (Annual % Change)	5.9	4.6	3.8	3.4	3.2	3.0	2.8	2.5	5.2	3.1	2.4
Consumer											
Retail & Food Service Sales (Monthly Avg, Bns)	703.1	712.2	718.0	729.3	742.7	753.4	763.0	692.6	708.3	747.1	788.3
<i>Percent Change Annualized</i>	1.8	5.3	3.3	6.4	7.5	5.9	5.2	3.6	2.3	5.5	5.5
Consumer Confidence* (Conference Board)	98.9	102.2	104.4	114.5	118.2	122.2	123.3	105.4	102.9	119.6	119.4
Car and Light Truck Sales (Millions)	15.9	15.7	16.5	16.5	16.6	16.7	16.7	15.6	16.0	16.6	17.0
Financial Indicators (Period Average)											
Federal Funds Rate (Effective)	5.33	5.26	4.66	4.28	4.03	3.83	3.83	5.02	5.15	3.99	3.81
Prime Rate	8.50	8.43	7.83	7.45	7.20	7.00	7.00	8.19	8.32	7.16	6.98
1-Month Term SOFR	5.33	5.21	4.60	4.23	4.00	3.80	3.81	5.09	5.12	3.96	3.81
3-Month Term SOFR	5.33	5.07	4.43	4.06	3.81	3.70	3.72	5.16	5.04	3.83	3.76
1-Yr. Treasury Rate	5.14	4.45	4.15	3.93	3.70	3.69	3.76	5.08	4.66	3.77	3.85
5-Yr. Treasury Rate	4.46	3.79	4.18	4.20	4.07	4.02	3.98	4.06	4.14	4.07	3.89
10-Yr. Treasury Rate	4.44	3.95	4.34	4.42	4.44	4.43	4.38	3.96	4.22	4.42	4.28
30-Yr. Fixed Rate Mortgage	6.99	6.51	6.68	6.82	6.74	6.64	6.49	6.80	6.73	6.67	6.21
Corporate Profits After Tax (Billions \$ Annualized)	3,413	3,449	3,484	3,524	3,563	3,601	3,639	3,069	3,415	3,582	3,874
<i>Percent Change Annualized</i>	12.4	4.3	4.1	4.7	4.6	4.3	4.3	4.0	11.3	4.9	8.2

a = actual p = preliminary f = forecast

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