

## Economy Downshifted Amid January’s Winter Weather, But Should Regain Speed Quickly; Natural Gas Prices Fell to Lowest Since the 1990s in February

High-frequency indicators of economic activity pulled back in January as storms and cold weather disrupted day-to-day activity across much of the United States. Unit new auto sales fell to the lowest since last spring, retail sales fell 0.8%, and housing starts plunged 14.8%. Indicators that are less susceptible to weather held up better: Permits filed for new home construction edged down 0.3% (It’s easier to file paperwork to build a house during a snowstorm than to break ground), and confidence surveys covering consumers, homebuilders, and purchasing managers broadly improved. On balance, the data suggest the economy started the year in low gear, but is picking up as the weather improves.

Despite January’s soft patch, Comerica’s February forecast upgrades the outlook for 2024’s real GDP growth, after a stronger-than-expected GDP report for the fourth quarter of last year was released in late January. A recession seems relatively unlikely this year, about a three-in-ten chance. Positive wealth effects from rising house prices and stock prices are supporting consumer spending by affluent households; household incomes are growing faster than consumer prices; and consumers are happy to see stable fuel prices at the pump. These factors support the economy in 2024 and were notably absent in early 2023. January’s jobs report, showing a robust 353,000 nonfarm payroll jobs added on the month and the unemployment rate holding near a half-century low at 3.7%, is further evidence of the economy’s solid forward momentum.

Warmer weather since January contributed to a second 2024 surprise for the economy: Natural gas futures prices fell to near the lowest since the mid-1990s. Temperatures reached record highs in many parts of the country and reduced heating demand in February, while domestic natural gas production is at a record high. In addition to its use heating homes, natural gas is a key feedstock for manufacturing fertilizer, which accounts for about a fifth of the cash cost of food production in the United States according to the USDA. Natural gas prices surged in 2022, contributing to higher food prices since then. If its price stays low, fresh food prices should calm down, too.

The Fed might be happy to see natural gas prices low if they weren’t concerned by bigger-than-usual increases in medical service prices at the turn of year as providers passed on higher input costs. Inflation of “sticky” service prices (charges that change relatively infrequently) was disappointingly hot in January. The Fed’s policymakers are watching these prices like hawks, and January’s unwelcome upside surprise is further reason for them to delay interest rate cuts until mid-2024. Comerica continues to expect the Fed to wait until June to start reducing their benchmark rate, and to make a cumulative three quarters of a percent in rate cuts over the course of this year.

### U.S. Economic Outlook, Summary

<i>a = actual f = forecast</i>	3Q'23a	4Q'23p	1Q'24f	2Q'24f	3Q'24f	4Q'24f	1Q'25f	2022a	2023p	2024f	2025f
Real GDP (Percent Change Annualized)	4.9	3.3	1.0	1.2	1.5	1.8	1.8	1.9	2.5	2.1	1.7
CPI (Percent Change Year-over-Year)	3.6	3.2	2.9	2.7	2.3	2.2	2.0	8.0	4.1	2.5	2.0
Payroll Jobs (Average Monthly Diff., Ths.)	222	210	263	160	153	166	164	412	246	185	149
Unemployment Rate (Percent)	3.7	3.7	3.8	3.9	4.0	4.0	4.0	3.6	3.6	3.9	4.0
Federal Funds Rate (Period Average)	5.26	5.33	5.37	5.28	5.03	4.78	4.33	1.68	5.02	5.12	3.62
10-Yr. Treasury Rate (Period Average)	4.15	4.44	3.95	3.72	3.59	3.32	3.26	2.95	3.96	3.65	3.30

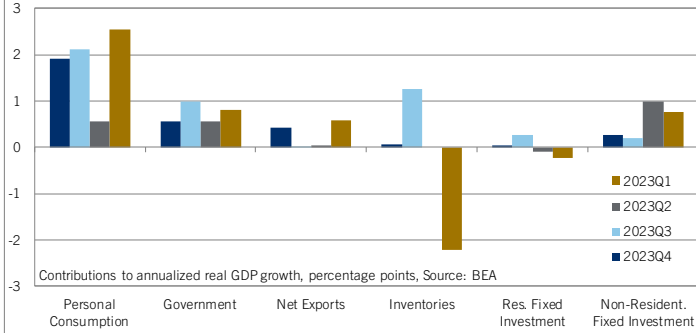
*a = actual p = preliminary f = forecast*

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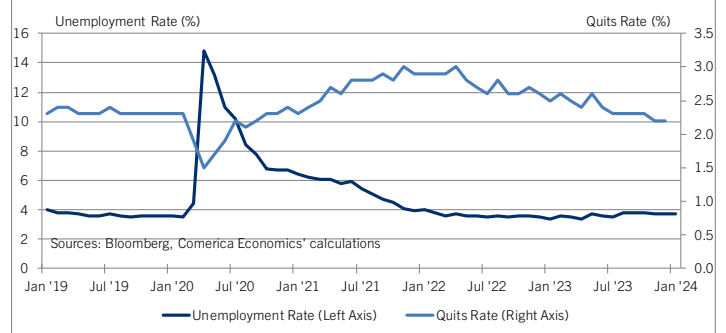
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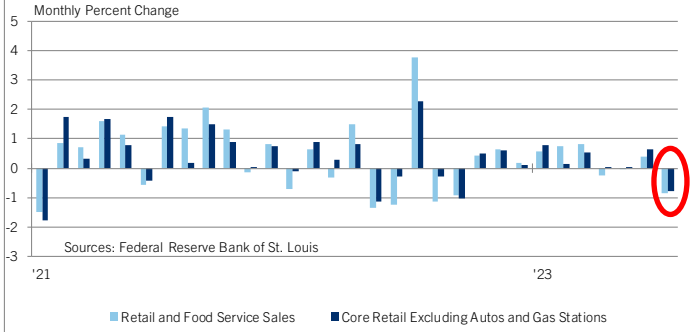
## Broad-Based Spending Growth Fueled Real GDP's Solid Expansion at the End of 2023



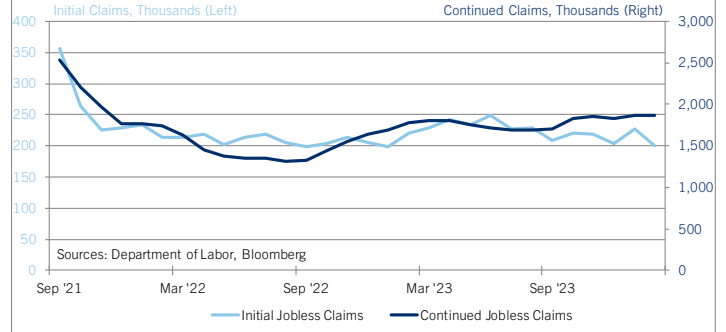
## The Unemployment and Quits Rates Show the Job Market Is Back to Where It Was in 2019



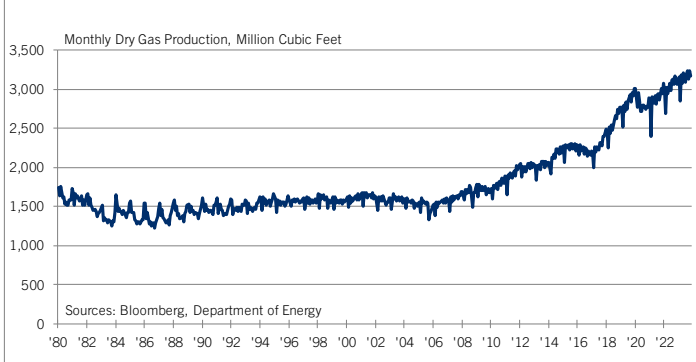
## Economic Activity Pulled Back Amid January's Disruptive Weather



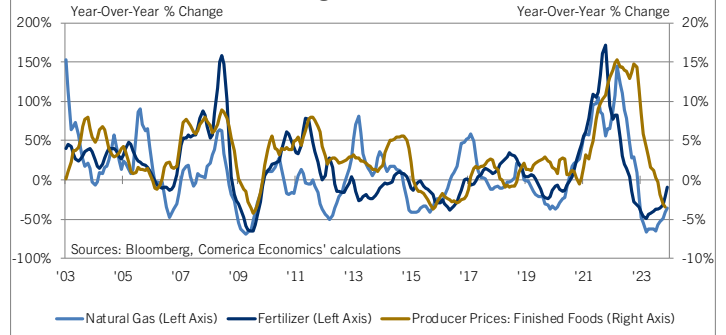
## Weekly Jobless Claims Reports Show a Modest Margin of Slack in the Job Market



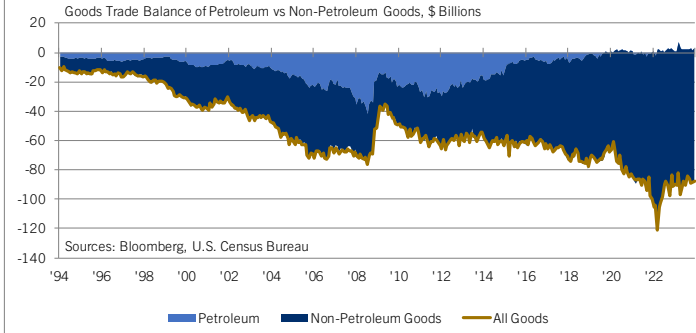
## U.S. Natural Gas Production Is at a Record High



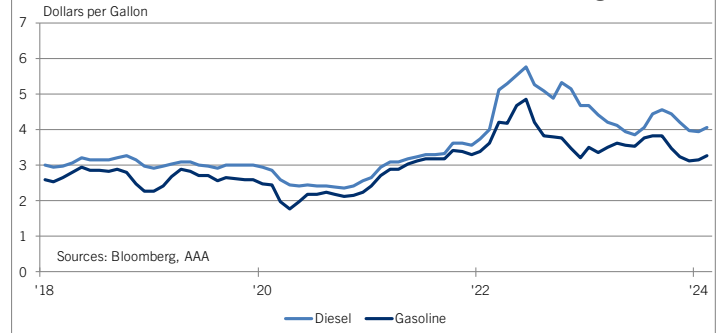
## Low Prices of Natural Gas and Fertilizer Are Lowering Food Inflation



## The U.S. Has Become a Net Exporter of Petroleum Products Since 2020



## Gas and Diesel Prices Moved Up in February But Still Near the Bottom of Their 2022-2023 Range



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	3Q'23a	4Q'23p	1Q'24f	2Q'24f	3Q'24f	4Q'24f	1Q'25f	2022a	2023p	2024f	2025f
<b>Output</b>											
Nominal GDP (Billions \$ Annualized Rate)	27,610	27,939	28,141	28,363	28,609	28,872	29,139	25,744	27,356	28,496	29,545
Percent Change Annualized	<b>8.3</b>	<b>4.8</b>	<b>2.9</b>	<b>3.2</b>	<b>3.5</b>	<b>3.7</b>	<b>3.8</b>	<b>9.1</b>	<b>6.3</b>	<b>4.2</b>	<b>3.7</b>
Real GDP (Chained 2017 Billions \$ Annual Rate)	22,491	22,673	22,728	22,794	22,879	22,980	23,081	21,822	22,375	22,845	23,230
Percent Change Annualized	<b>4.9</b>	<b>3.3</b>	<b>1.0</b>	<b>1.2</b>	<b>1.5</b>	<b>1.8</b>	<b>1.8</b>	<b>1.9</b>	<b>2.5</b>	<b>2.1</b>	<b>1.7</b>
Pers. Consumption Expenditures	15,461	15,570	15,625	15,655	15,702	15,757	15,823	15,091	15,422	15,685	15,907
Percent Change Annualized	<b>3.1</b>	<b>2.8</b>	<b>1.4</b>	<b>0.8</b>	<b>1.2</b>	<b>1.4</b>	<b>1.7</b>	<b>2.5</b>	<b>2.2</b>	<b>1.7</b>	<b>1.4</b>
Nonresidential Fixed Investment	3,285	3,300	3,313	3,339	3,358	3,379	3,402	3,132	3,268	3,347	3,432
Percent Change Annualized	<b>1.4</b>	<b>1.9</b>	<b>1.6</b>	<b>3.2</b>	<b>2.2</b>	<b>2.6</b>	<b>2.7</b>	<b>5.2</b>	<b>4.4</b>	<b>2.4</b>	<b>2.5</b>
Residential Investment	739	741	745	750	755	761	766	823	734	753	777
Percent Change Annualized	<b>6.7</b>	<b>1.1</b>	<b>2.0</b>	<b>3.0</b>	<b>2.7</b>	<b>3.2</b>	<b>2.7</b>	<b>-9.0</b>	<b>-10.7</b>	<b>2.5</b>	<b>3.3</b>
Change in Private Inventories	78	83	30	31	35	50	59	128	51	36	77
Net Exports	-931	-908	-888	-897	-896	-903	-914	-1,051	-926	-896	-922
Government Expenditures	3,843	3,874	3,891	3,903	3,913	3,923	3,932	3,670	3,817	3,907	3,945
Percent Change Annualized	<b>5.8</b>	<b>3.3</b>	<b>1.8</b>	<b>1.2</b>	<b>1.0</b>	<b>1.1</b>	<b>0.9</b>	<b>-0.9</b>	<b>4.0</b>	<b>2.4</b>	<b>1.0</b>
Industrial Prod. Index (2007=100)	103.3	102.5	102.3	102.5	102.8	103.2	103.5	102.6	102.8	102.7	104.0
Percent Change Annualized	<b>1.8</b>	<b>-3.1</b>	<b>-0.5</b>	<b>0.7</b>	<b>1.3</b>	<b>1.4</b>	<b>1.2</b>	<b>3.4</b>	<b>0.2</b>	<b>-0.1</b>	<b>1.2</b>
Capacity Utilization (Percent)	79.5	78.6	78.1	77.7	77.6	77.4	77.3	80.3	79.3	77.7	77.1
<b>Prices</b>											
CPI (1982-84=100)	306.0	308.1	310.0	311.7	313.2	314.8	316.3	292.6	304.7	312.4	318.6
Year-Over-Year Percent Change	<b>3.6</b>	<b>3.2</b>	<b>2.9</b>	<b>2.7</b>	<b>2.3</b>	<b>2.2</b>	<b>2.0</b>	<b>8.0</b>	<b>4.1</b>	<b>2.5</b>	<b>2.0</b>
PCE Price Index (2012=100)	120.8	121.3	122.0	122.7	123.3	123.8	124.5	116.0	120.4	123.0	125.4
Year-Over-Year Percent Change	<b>3.3</b>	<b>2.7</b>	<b>2.3</b>	<b>2.2</b>	<b>2.1</b>	<b>2.1</b>	<b>2.0</b>	<b>6.5</b>	<b>3.7</b>	<b>2.2</b>	<b>2.0</b>
GDP Price Index (2017=100)	122.8	123.2	123.8	124.5	125.1	125.7	126.3	118.0	122.3	124.8	127.3
Year-Over-Year Percent Change	<b>3.2</b>	<b>2.6</b>	<b>2.1</b>	<b>2.2</b>	<b>1.9</b>	<b>2.0</b>	<b>2.0</b>	<b>7.1</b>	<b>3.6</b>	<b>2.0</b>	<b>2.0</b>
PPI, Final Demand (Nov. 2009=100)	142.3	142.2	142.8	143.4	144.0	144.6	145.3	138.7	141.6	143.7	146.3
Year-Over-Year Percent Change	<b>1.7</b>	<b>1.0</b>	<b>1.2</b>	<b>1.9</b>	<b>1.2</b>	<b>1.7</b>	<b>1.7</b>	<b>9.5</b>	<b>2.1</b>	<b>1.5</b>	<b>1.8</b>
Crude Oil, WTI (\$/barrel)	\$82	\$79	\$77	\$80	\$80	\$80	\$80	\$95	\$78	\$79	\$80
<b>Labor Markets</b>											
Payroll Jobs (Average Monthly Difference, Ths.)	222	210	263	160	153	166	164	412	246	185	149
Unemployment Rate (Percent)	3.7	3.7	3.8	3.9	4.0	4.0	4.0	3.6	3.6	3.9	4.0
Labor Force Participation Rate (%)	62.7	62.7	62.5	62.7	62.8	62.9	63.0	62.2	62.6	62.7	63.0
Average Weekly Hours	34.4	34.3	34.2	34.2	34.3	34.4	34.3	34.6	34.4	34.2	34.2
<b>Personal Income</b>											
Average Hourly Earnings (\$)	33.92	34.23	34.52	34.82	35.12	35.43	35.75	32.26	33.72	34.97	36.25
Percent Change Annualized	<b>4.4</b>	<b>3.7</b>	<b>3.5</b>	<b>3.5</b>	<b>3.4</b>	<b>3.7</b>	<b>3.6</b>	<b>5.4</b>	<b>4.5</b>	<b>3.7</b>	<b>3.6</b>
Real Disp. Income (2017 Billions \$ Annualized)	16,809	16,915	17,001	17,076	17,136	17,210	17,273	16,117	16,796	17,106	17,366
Percent Change Annualized	<b>0.3</b>	<b>2.5</b>	<b>2.1</b>	<b>1.8</b>	<b>1.4</b>	<b>1.7</b>	<b>1.5</b>	<b>-6.0</b>	<b>4.2</b>	<b>1.8</b>	<b>1.5</b>
Personal Saving Rate (Percent)	4.2	4.0	4.5	5.3	5.7	6.0	6.2	3.3	4.5	5.4	6.5
<b>Housing</b>											
Housing Starts (Ths., Annual Rate)	1,371	1,454	1,528	1,554	1,569	1,579	1,588	1,551	1,415	1,557	1,606
Single-Family Housing Starts	967	1,042	1,080	1,093	1,104	1,111	1,116	1,004	943	1,097	1,132
Multifamily Housing Starts	403	412	448	461	465	468	471	547	472	460	474
Exst. SF Home Sales (Ths., Annual Rate)	3,593	3,397	3,501	3,633	3,678	3,705	3,728	4,530	3,673	3,629	3,835
New SF Home Sales (Ths., Annual Rate)	693	652	680	690	695	701	706	637	668	692	716
Case/Shiller One-Family HPI (1/2000=100)	309.1	313.6	316.2	317.7	319.3	320.9	322.5	298.5	305.7	318.5	325.4
Year/Year Percent Change	<b>2.5</b>	<b>5.1</b>	<b>6.2</b>	<b>5.1</b>	<b>3.3</b>	<b>2.3</b>	<b>2.0</b>	<b>14.8</b>	<b>2.4</b>	<b>4.2</b>	<b>2.2</b>
<b>Consumer</b>											
Retail & Food Service Sales (Monthly Avg, Bns)	699.8	706.5	709.3	709.9	711.7	713.5	717.5	672.6	695.4	711.1	722.6
Percent Change Annualized	<b>6.9</b>	<b>3.9</b>	<b>1.6</b>	<b>0.3</b>	<b>1.0</b>	<b>1.1</b>	<b>2.2</b>	<b>9.7</b>	<b>3.4</b>	<b>2.3</b>	<b>1.6</b>
Consumer Confidence* (Conference Board)	109.0	102.7	113.3	121.1	122.1	122.1	123.2	104.5	105.4	119.7	125.4
Car and Light Truck Sales (Millions)	15.8	15.8	15.4	15.9	16.4	16.7	16.9	13.9	15.6	16.1	17.1
<b>Financial Indicators (Period Average)</b>											
Federal Funds Rate, % (Effective)	5.26	5.33	5.37	5.28	5.03	4.78	4.33	1.68	5.02	5.12	3.62
Prime Rate, %	8.43	8.50	8.54	8.45	8.20	7.95	7.50	4.85	8.19	8.29	6.79
1-Month BSBY, %	5.34	5.40	5.38	5.29	5.03	4.77	4.33	1.80	5.12	5.12	3.62
3-Month Term SOFR, %	5.37	5.38	5.20	5.07	4.86	4.52	4.07	2.18	5.16	4.91	3.46
1-Yr. Treasury Rate, %	5.39	5.22	4.73	4.49	4.27	3.83	3.44	2.79	5.08	4.33	2.91
5-Yr. Treasury Rate, %	4.31	4.42	3.90	3.63	3.46	3.24	3.07	3.00	4.06	3.56	2.95
10-Yr. Treasury Rate, %	4.15	4.44	3.95	3.72	3.59	3.32	3.26	2.95	3.96	3.65	3.30
30-Yr. Fixed Rate Mortgage, %	7.04	7.29	6.50	6.07	5.85	5.46	5.30	5.33	6.80	5.97	5.26
Corporate Profits After Tax (Billions \$ Annualized)	3,018	3,085	3,133	3,161	3,191	3,216	3,236	2,981	2,972	3,175	3,286
Percent Change Annualized	<b>16.8</b>	<b>9.2</b>	<b>6.4</b>	<b>3.7</b>	<b>3.8</b>	<b>3.2</b>	<b>2.5</b>	<b>4.8</b>	<b>-0.3</b>	<b>6.9</b>	<b>3.5</b>

a = actual p = preliminary f = forecast

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