

## Consumer Sentiment Jumps to the Highest Since Mid-2021 A Path Is Clearing Toward More Normal Inflation, Job Market Conditions, and Interest Rates

Consumer sentiment rebounded to the highest since mid-2021 in January, and stock market indexes rose to new record highs, cheered by a steady flow of good news about the economic outlook. Real GDP growth is slowing from the third quarter of 2023’s unsustainably fast 4.9% annualized increase. But the odds of a recession in the year ahead look considerably lower than they seemed in early 2023. Household incomes are outpacing inflation, mortgage rates and rates for other types of longer-term borrowings are down from peaks in October, and domestic energy production is growing much faster than GDP, a boost to the supply side of the economy and competitiveness.

While some measures of inflation edged higher in year-over-year terms in late 2023, that was largely due to wonky base comparisons against late 2022, when a sharp drop in prices of gasoline and other energy products briefly tempered inflation. One tool to look through this volatility is the six-month annualized rate of inflation, which continued to slow in late 2023. In fact, by the Fed’s preferred measure, both total and core inflation were already back to the central bank’s target in six-month annualized terms in November (Chart below). With the labor shortage abating, house price increases coming in line with the pre-pandemic pace, and new residential leases flat to lower across much of the country, core inflation is likely to cool further in year-over-year terms in the first half of 2024.

The Fed’s rate setting committee agreed in December that “some time” should pass before they would be ready to start reducing interest rates, and communicated that message in the meeting’s minutes, which they released in January. How much time? Financial markets are positioned for roughly coin-toss odds of the Fed cutting rates in March, interpreting recent inflation releases as signs that inflation is “clearly moving down sustainably” toward the Fed’s target, their precondition for cuts. Comerica sees the Fed as more likely to wait until June before cautiously beginning to reduce rates, and making quarter-percentage-point cuts in that month, September, and December. The Fed is also likely to slow the pace of its balance sheet reductions in the second half of 2024, and end them in late 2024 or the first half of 2025, which could provide a further boost to financial market sentiment.

The key risks to this outlook are upside risks to inflation: Internationally, from wars in the Middle East and Ukraine that could disrupt energy supplies and trade flows; domestically, from wage growth that could outpace productivity and inflame wage-price pressures; or in Washington, where a wave of Treasury issuance last fall likely contributed to a (thankfully short-lived) jump in market-determined long-term interest rates. Even so, 2024 will likely mark a normalization of the U.S. economy, with growth, inflation, the job market, and interest rates looking more and more like they did before 2020.

### U.S. Economic Outlook, Summary

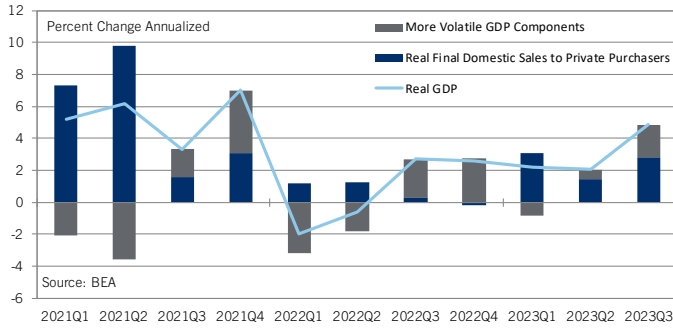
<i>a = actual f = forecast</i>	3Q'23a	4Q'23p	1Q'24f	2Q'24f	3Q'24f	4Q'24f	1Q'25f	2022a	2023p	2024f	2025f
Real GDP (Percent Change Annualized)	4.9	1.7	1.0	1.0	1.9	2.0	1.7	1.9	2.4	1.8	1.6
CPI (Percent Change Year-over-Year)	3.6	3.2	2.9	2.9	2.5	2.4	2.2	8.0	4.1	2.7	2.1
Payroll Jobs (Average Monthly Diff., Ths.)	199	174	125	86	122	145	139	427	229	120	109
Unemployment Rate (Percent)	3.7	3.7	3.9	4.0	4.2	4.2	4.2	3.6	3.6	4.1	4.2
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*

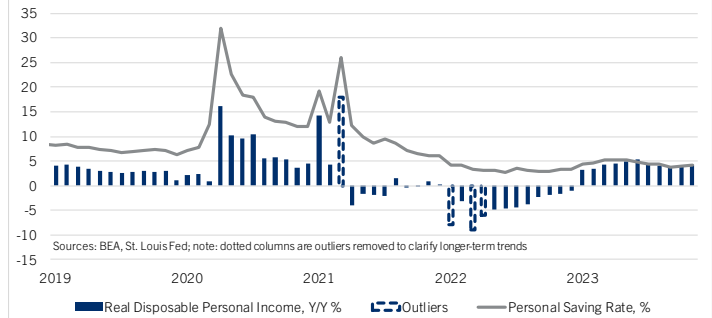
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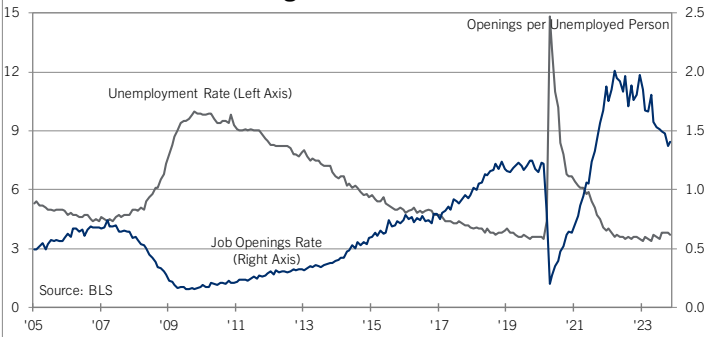
## Real GDP Growth to Moderate as Contributions From Volatile Components Revert to the Mean



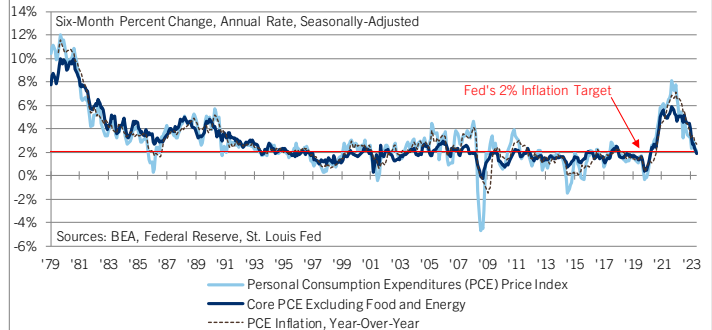
## Incomes Are Outpacing Inflation and Bolstering Household Finances



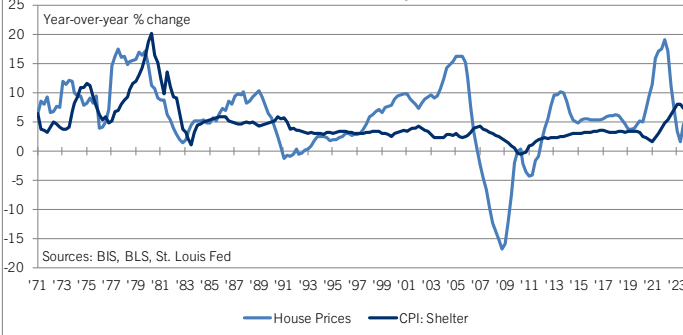
## Job Market Is Still Tight But Supply & Demand Are Coming Into Better Balance



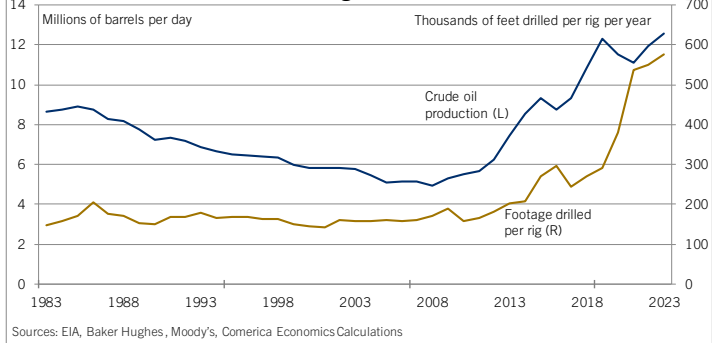
## In 6-Month Terms, Inflation Was Already Back at the Fed's Target in November



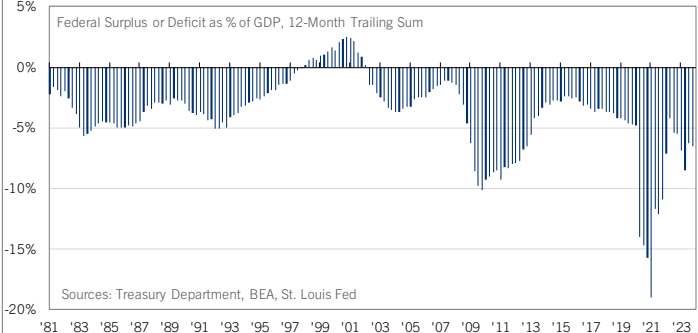
## Slower House Price Appreciation in 2023 Points to Cooler CPI Shelter Component in 2024



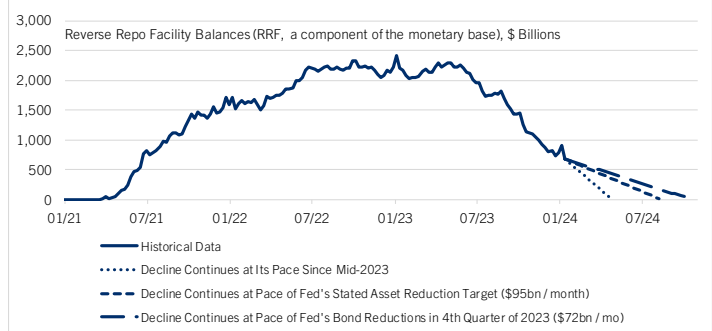
## Technological Innovation Is Driving U.S. Petroleum Output Higher



## Fiscal Deficit Widened From 5.5% of GDP in 2022 to 6.5% in 2023



## Fed Is on Course to Reduce Reserve Repo Facility Balances to Zero This Year



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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	27,883	28,124	28,351	28,628	28,908	29,167	25,744	27,342	28,503	29,536
<i>Percent Change Annualized</i>	<b>8.3</b>	<b>4.0</b>	<b>3.5</b>	<b>3.3</b>	<b>4.0</b>	<b>4.0</b>	<b>3.6</b>	<b>9.1</b>	<b>6.2</b>	<b>4.2</b>	<b>3.6</b>
Real GDP (Chained 2017 Billions \$ Annual Rate)	22,491	22,584	22,640	22,698	22,805	22,918	23,014	21,822	22,353	22,765	23,141
<i>Percent Change Annualized</i>	<b>4.9</b>	<b>1.7</b>	<b>1.0</b>	<b>1.0</b>	<b>1.9</b>	<b>2.0</b>	<b>1.7</b>	<b>1.9</b>	<b>2.4</b>	<b>1.8</b>	<b>1.6</b>
Pers. Consumption Expenditures	15,461	15,582	15,599	15,627	15,668	15,720	15,776	15,091	15,425	15,654	15,842
<i>Percent Change Annualized</i>	<b>3.1</b>	<b>3.1</b>	<b>0.4</b>	<b>0.7</b>	<b>1.1</b>	<b>1.3</b>	<b>1.4</b>	<b>2.5</b>	<b>2.2</b>	<b>1.5</b>	<b>1.2</b>
Nonresidential Fixed Investment	3,285	3,297	3,313	3,331	3,350	3,375	3,398	3,132	3,267	3,342	3,428
<i>Percent Change Annualized</i>	<b>1.4</b>	<b>1.6</b>	<b>1.9</b>	<b>2.2</b>	<b>2.3</b>	<b>3.0</b>	<b>2.8</b>	<b>5.2</b>	<b>4.3</b>	<b>2.3</b>	<b>2.6</b>
Residential Investment	739	734	750	758	778	791	794	823	733	769	808
<i>Percent Change Annualized</i>	<b>6.7</b>	<b>-2.4</b>	<b>9.0</b>	<b>4.1</b>	<b>11.0</b>	<b>7.0</b>	<b>1.5</b>	<b>-9.0</b>	<b>-10.9</b>	<b>5.0</b>	<b>5.0</b>
Change in Private Inventories	78	41	9	-4	10	30	43	128	40	11	55
Net Exports	-931	-951	-932	-927	-929	-937	-946	-1,051	-936	-931	-955
Government Expenditures	3,843	3,865	3,884	3,899	3,913	3,924	3,932	3,670	3,814	3,905	3,946
<i>Percent Change Annualized</i>	<b>5.8</b>	<b>2.3</b>	<b>2.0</b>	<b>1.5</b>	<b>1.5</b>	<b>1.1</b>	<b>0.9</b>	<b>-0.9</b>	<b>3.9</b>	<b>2.4</b>	<b>1.1</b>
Industrial Prod. Index (2007=100)	103.3	102.5	102.1	102.3	103.0	103.6	104.0	102.6	102.8	102.7	104.5
<i>Percent Change Annualized</i>	<b>1.8</b>	<b>-3.1</b>	<b>-1.3</b>	<b>0.7</b>	<b>2.5</b>	<b>2.5</b>	<b>1.8</b>	<b>3.4</b>	<b>0.2</b>	<b>0.0</b>	<b>1.7</b>
Capacity Utilization (Percent)	79.5	78.6	77.9	77.6	77.6	77.7	77.6	80.3	79.3	77.7	77.4
<b>Prices</b>											
CPI (1982-84=100)	306.0	308.1	310.2	312.0	313.8	315.5	317.1	292.6	304.7	312.9	319.5
<i>Year-Over-Year Percent Change</i>	<b>3.6</b>	<b>3.2</b>	<b>2.9</b>	<b>2.9</b>	<b>2.5</b>	<b>2.4</b>	<b>2.2</b>	<b>8.0</b>	<b>4.1</b>	<b>2.7</b>	<b>2.1</b>
PCE Price Index (2012=100)	120.8	121.6	122.6	123.3	124.0	124.6	125.3	116.0	120.4	123.6	126.2
<i>Year-Over-Year Percent Change</i>	<b>3.3</b>	<b>2.9</b>	<b>2.7</b>	<b>2.7</b>	<b>2.6</b>	<b>2.5</b>	<b>2.2</b>	<b>6.5</b>	<b>3.8</b>	<b>2.6</b>	<b>2.1</b>
GDP Price Index (2017=100)	122.8	123.5	124.3	125.0	125.6	126.2	126.8	118.0	122.3	125.3	127.7
<i>Year-Over-Year Percent Change</i>	<b>3.2</b>	<b>2.8</b>	<b>2.5</b>	<b>2.6</b>	<b>2.3</b>	<b>2.2</b>	<b>2.1</b>	<b>7.1</b>	<b>3.7</b>	<b>2.4</b>	<b>2.0</b>
PPI, Final Demand (Nov. 2009=100)	142.3	142.8	143.9	144.7	145.5	146.2	146.9	138.7	141.7	145.1	148.0
<i>Year-Over-Year Percent Change</i>	<b>1.7</b>	<b>1.4</b>	<b>2.0</b>	<b>2.8</b>	<b>2.2</b>	<b>2.4</b>	<b>2.1</b>	<b>9.5</b>	<b>2.2</b>	<b>2.4</b>	<b>2.0</b>
Crude Oil, WTI (\$/barrel)	\$82	\$79	\$88	\$89	\$90	\$90	\$90	\$95	\$78	\$89	\$90
<b>Labor Markets</b>											
Payroll Jobs (Average Monthly Difference, Ths.)	199	174	125	86	122	145	139	427	229	120	109
Unemployment Rate (Percent)	3.7	3.7	3.9	4.0	4.2	4.2	4.2	3.6	3.6	4.1	4.2
Labor Force Participation Rate (%)	62.7	62.7	62.9	62.8	62.9	63.0	63.1	62.2	62.6	62.9	63.1
Average Weekly Hours	34.4	34.3	34.2	34.1	34.3	34.4	34.1	34.6	34.4	34.2	34.2
<b>Personal Income</b>											
Average Hourly Earnings (\$)	33.82	34.13	34.39	34.63	34.86	35.10	35.38	32.25	33.63	34.75	35.85
<i>Percent Change Annualized</i>	<b>4.3</b>	<b>3.7</b>	<b>3.1</b>	<b>2.9</b>	<b>2.7</b>	<b>2.8</b>	<b>3.2</b>	<b>5.3</b>	<b>4.3</b>	<b>3.3</b>	<b>3.2</b>
Real Disp. Income (2017 Billions \$ Annualized)	16,809	16,894	16,973	17,056	17,147	17,262	17,386	16,117	16,791	17,109	17,585
<i>Percent Change Annualized</i>	<b>0.3</b>	<b>2.0</b>	<b>1.9</b>	<b>2.0</b>	<b>2.2</b>	<b>2.7</b>	<b>2.9</b>	<b>-6.0</b>	<b>4.2</b>	<b>1.9</b>	<b>2.8</b>
Personal Saving Rate (Percent)	4.2	4.5	5.2	5.5	5.8	6.0	6.2	3.3	4.6	5.6	6.5
<b>Housing</b>											
Housing Starts (Ths., Annual Rate)	1,371	1,454	1,465	1,479	1,489	1,497	1,501	1,551	1,415	1,482	1,511
Exst. SF Home Sales (Ths., Annual Rate)	3,593	3,680	3,668	3,845	3,885	3,863	3,978	4,530	3,744	3,815	4,023
New SF Home Sales (Ths., Annual Rate)	694	750	761	819	823	835	841	637	693	810	849
Case/Shiller One-Family HPI (1/2000=100)	309.1	309.1	310.0	311.7	314.3	317.4	320.9	298.5	304.6	313.3	327.0
<i>Year/Year Percent Change</i>	<b>2.5</b>	<b>3.7</b>	<b>4.1</b>	<b>3.1</b>	<b>1.7</b>	<b>2.7</b>	<b>3.5</b>	<b>14.8</b>	<b>2.1</b>	<b>2.9</b>	<b>4.4</b>
<b>Consumer</b>											
Consumer Confidence* (Conference Board)	109.0	103.6	104.6	101.7	100.5	101.0	102.6	104.5	105.6	101.9	104.9
Car and Light Truck Sales (Millions)	15.8	15.8	16.0	15.9	16.0	16.1	16.3	13.9	15.7	16.0	16.5
Retail & Food Service Sales (Monthly Avg. Bns)	699.8	706.5	710.2	711.6	713.6	716.4	720.4	672.6	695.4	712.9	725.2
<i>Percent Change Annualized</i>	<b>6.9</b>	<b>3.9</b>	<b>2.1</b>	<b>0.8</b>	<b>1.1</b>	<b>1.6</b>	<b>2.3</b>	<b>9.7</b>	<b>3.4</b>	<b>2.5</b>	<b>1.7</b>
<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	3.46
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	3,137	3,210	3,273	3,338	3,404	2,981	2,972	3,239	3,493
<i>Percent Change Annualized</i>	<b>16.8</b>	<b>9.2</b>	<b>6.9</b>	<b>9.7</b>	<b>8.0</b>	<b>8.2</b>	<b>8.2</b>	<b>4.8</b>	<b>-0.3</b>	<b>9.0</b>	<b>7.8</b>

a = actual p = preliminary f = forecast

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