

Fed Tapers Its Balance Sheet Reduction Program as the April Jobs Report Points to a Return to a Normal Balance Between Labor Supply and Demand

At their May 1st Federal Open Market Committee meeting, the Fed announced they would slow the pace at which they reduce the size of their balance sheet beginning in June. The Fed bought trillions of dollars of government-backed bonds between 2020 and 2022 to support the recovery from the 2020 recession, and has been unwinding those purchases since mid-2022 by accepting repayment on a portion of the bonds as they mature. Beginning in June, the Fed will lower the monthly cap on repayments of Treasuries they accept to \$25 billion, from \$60 billion previously. They will hold unchanged a \$35 billion monthly cap on mortgage-backed security (MBS) repayments. This “taper” of the Fed’s balance sheet reduction (a.k.a Quantitative Tightening or QT) is a first step toward less restrictive monetary policy.

However, interest rate cuts are likely to come later in 2024 than expected when the year began, since inflation has surprised to the upside since then. The Fed is particularly concerned that sticky service prices are rising rapidly, like in-home healthcare, car repairs, and car and home insurance. These are signs of the momentum that has built up in inflation since 2020. Less concerning for the Fed but no less frustrating for consumers, gasoline prices are up this year, too, fueled by fears that wars could disrupt global oil supplies. Prices of chicken and beef have risen as well as bird flu forced farmers to cull herds.

Inflation is still running too hot to meet the Fed’s mandate for stable prices, but the other half of their dual mandate—maximum employment—is looking increasingly like the pre-pandemic normal. The unemployment rate edged up to 3.9% in April and tied for the highest since early 2022, as employers added a smaller-than-expected 175,000 jobs. Other measures of the job market, like job openings, the quits rate, and surveys which show consumers are less confident in their employment prospects, collectively point to an even softer job market than the unemployment rate. Average hourly earnings growth for private-sector workers has slowed to the least since mid-2021, with pay for public sector and unionized workers rising faster than pay for un-unionized private workers after un-unionized private workers secured faster wage increases in 2022 and 2023.

Comerica’s May forecast anticipates the Fed waiting until September to make a first quarter-percentage-point cut to the federal funds rate, followed by another cut in December. This is a later and smaller reduction in interest rates than Comerica’s April forecast, which saw three quarter-percentage-point cuts in 2024. The Fed will likely end balance sheet reductions in the first half of 2025, when total Fed assets reach between \$6.6 and \$6.9 trillion.

U.S. Economic Outlook, Summary

<i>a = actual f = forecast</i>	4Q'23a	1Q'24p	2Q'24f	3Q'24f	4Q'24f	1Q'25f	2Q'25f	2023a	2024f	2025f	2026f
Real GDP (Percent Change Annualized)	3.4	1.6	1.5	1.5	1.7	1.7	1.8	2.5	2.3	1.7	1.7
CPI (Percent Change Year-over-Year)	3.2	3.2	3.4	3.1	3.0	2.5	2.1	4.1	3.2	2.2	2.0
Payroll Jobs (Average Monthly Diff., Ths.)	206	264	240	240	240	240	220	245	246	221	213
Unemployment Rate (Percent)	3.7	3.8	3.9	4.0	4.1	4.1	4.0	3.6	3.9	4.0	3.9
Federal Funds Rate (Period Average)	5.33	5.33	5.33	5.28	5.03	4.78	4.53	5.02	5.24	4.41	3.02
10-Yr. Treasury Rate (Period Average)	4.44	4.16	4.55	4.60	4.58	4.45	4.33	3.96	4.47	4.12	3.41

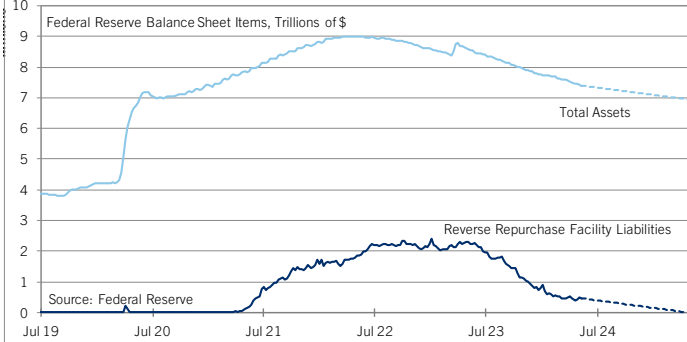
a = actual p = preliminary f = forecast

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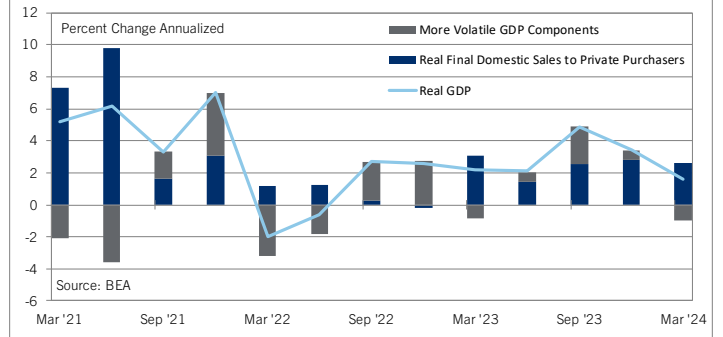
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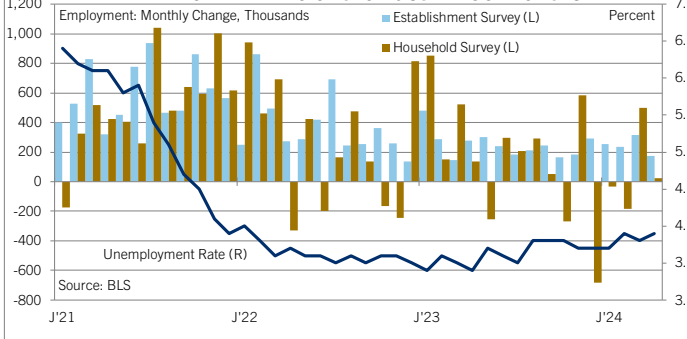
Fed's Balance Sheet Reduction on Course to End in First Half of 2025



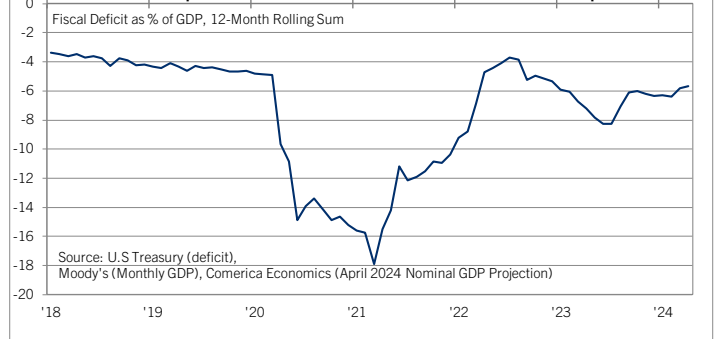
Real GDP Slowed in Early 2024 on Headwinds from Inventories, Trade, and Public Spending



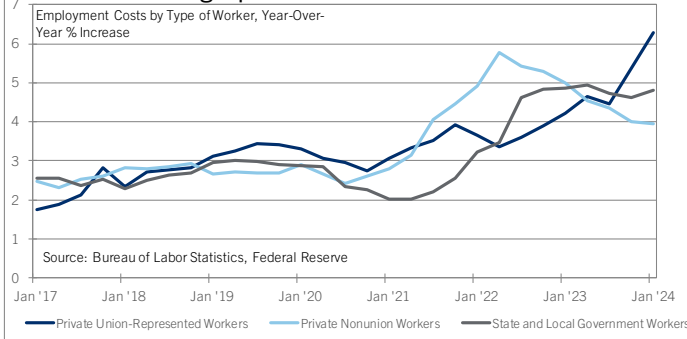
Unemployment Rate Tied for the Highest Since Early 2022 in Two of the Last Three Months



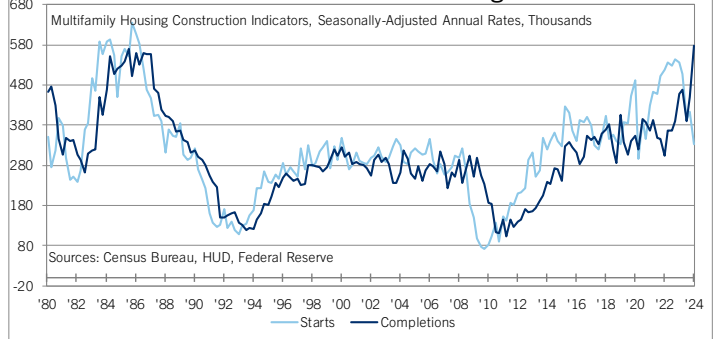
Fiscal Deficit Shrank as Share of GDP in Early 2024 as Capital Gains Boosted Income Tax Receipts



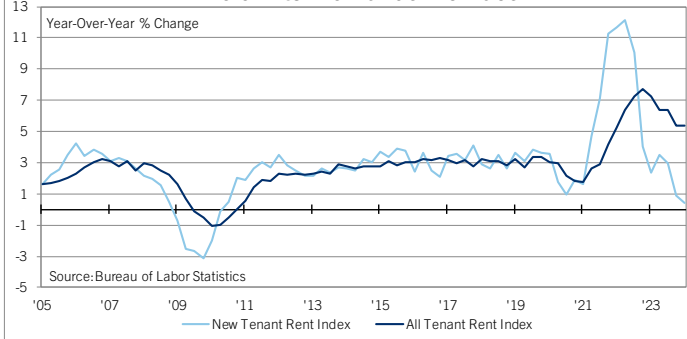
Pay Growth for Union and Public-Sector Workers Is Catching Up with Un-Unionized Private Workers



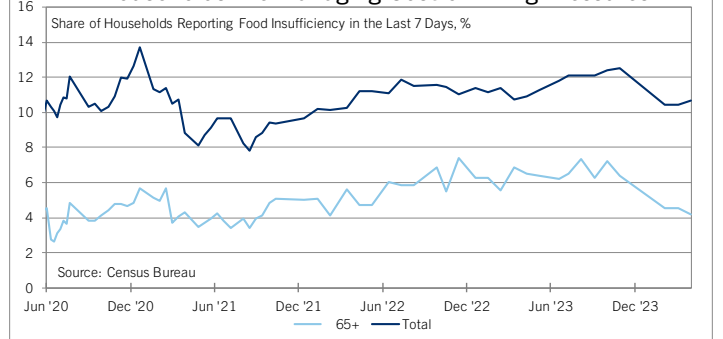
The Wave of New Rental Units That Broke Ground Between 2021 and 2023 Is Coming to Market



Inflation of New Residential Leases Has Slowed to Below Its Pre-Pandemic Pace



Fewer Americans Hungry Since Turn of Year, Households Are Managing Cost-of-Living Pressures



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	4Q'23a	1Q'24p	2Q'24f	3Q'24f	4Q'24f	1Q'25f	2Q'25f	2023a	2024f	2025f	2026f
Output											
Nominal GDP (Billions \$ Annualized Rate)	27,957	28,284	28,577	28,843	29,115	29,390	29,673	27,361	28,705	29,806	30,914
<i>Percent Change Annualized</i>	5.1	4.8	4.2	3.8	3.8	3.8	3.9	6.3	4.9	3.8	3.7
Real GDP (Chained 2017 Billions \$ Annual Rate)	22,679	22,769	22,854	22,939	23,035	23,134	23,239	22,377	22,899	23,286	23,683
<i>Percent Change Annualized</i>	3.4	1.6	1.5	1.5	1.7	1.7	1.8	2.5	2.3	1.7	1.7
Pers. Consumption Expenditures	15,587	15,684	15,731	15,781	15,831	15,882	15,935	15,426	15,757	15,961	16,164
<i>Percent Change Annualized</i>	3.3	2.5	1.2	1.3	1.3	1.3	1.3	2.2	2.1	1.3	1.3
Nonresidential Fixed Investment	3,315	3,339	3,366	3,395	3,422	3,450	3,475	3,272	3,380	3,487	3,582
<i>Percent Change Annualized</i>	3.7	2.9	3.3	3.5	3.3	3.2	3.0	4.5	3.3	3.1	2.7
Residential Investment	744	769	759	764	771	778	785	735	766	789	819
<i>Percent Change Annualized</i>	2.8	13.9	-5.1	2.7	3.7	3.7	3.7	-10.6	4.1	3.0	3.8
Change in Private Inventories	55	35	35	23	23	33	60	44	29	57	91
Net Exports	-919	-973	-967	-969	-973	-980	-999	-928	-970	-993	-994
Government Expenditures	3,887	3,898	3,913	3,929	3,943	3,954	3,964	3,820	3,921	3,968	4,003
<i>Percent Change Annualized</i>	4.6	1.2	1.5	1.6	1.5	1.1	1.0	4.1	2.6	1.2	0.9
Industrial Prod. Index (2007=100)	102.7	102.2	102.3	102.7	103.0	103.4	103.8	102.8	102.6	104.0	105.5
<i>Percent Change Annualized</i>	-1.9	-1.8	0.4	1.3	1.4	1.5	1.5	0.2	-0.2	1.4	1.5
Capacity Utilization (Percent)	78.8	78.2	77.8	77.6	77.5	77.4	77.4	79.3	77.8	77.3	76.9
Prices											
CPI (1982-84=100)	308.1	311.0	313.9	315.5	317.3	318.9	320.5	304.7	314.4	321.3	327.7
<i>Year-Over-Year Percent Change</i>	3.2	3.2	3.4	3.1	3.0	2.5	2.1	4.1	3.2	2.2	2.0
PCE Price Index (2012=100)	121.4	122.4	123.3	124.0	124.7	125.3	126.0	120.4	123.6	126.3	128.9
<i>Year-Over-Year Percent Change</i>	2.8	2.6	2.7	2.6	2.7	2.4	2.2	3.7	2.7	2.2	2.0
GDP Price Index (2017=100)	123.3	124.2	125.1	125.8	126.4	127.1	127.8	122.3	125.4	128.1	130.7
<i>Year-Over-Year Percent Change</i>	2.6	2.5	2.7	2.4	2.6	2.3	2.1	3.6	2.5	2.1	2.0
PPI, Final Demand (Nov. 2009=100)	142.2	143.3	143.8	144.2	144.9	145.6	146.1	141.6	144.1	146.4	149.2
<i>Year-Over-Year Percent Change</i>	1.0	1.6	2.1	1.5	1.9	1.6	1.6	2.0	1.8	1.7	1.9
Crude Oil, WTI (\$/barrel)	\$79	\$77	\$84	\$82	\$82	\$82	\$82	\$78	\$81	\$82	\$83
Labor Markets											
Payroll Jobs (Average Monthly Difference, Ths.)	206	264	240	240	240	240	220	245	246	221	213
Unemployment Rate (Percent)	3.7	3.8	3.9	4.0	4.1	4.1	4.0	3.6	3.9	4.0	3.9
Labor Force Participation Rate (%)	62.7	62.6	62.7	62.8	62.8	62.8	62.8	62.6	62.7	62.8	63.1
Average Weekly Hours	34.4	34.3	34.3	34.3	34.3	34.3	34.4	34.4	34.3	34.4	34.4
Personal Income											
Average Hourly Earnings (\$)	34.22	34.59	34.90	35.19	35.46	35.75	36.05	33.72	35.03	36.20	37.44
<i>Percent Change Annualized</i>	3.6	4.4	3.6	3.4	3.2	3.3	3.4	4.5	3.9	3.3	3.4
Real Disp. Income (2017 Billions \$ Annualized)	16,902	16,947	17,098	17,266	17,412	17,569	17,728	16,795	17,181	17,809	18,462
<i>Percent Change Annualized</i>	2.0	1.1	3.6	4.0	3.4	3.7	3.7	4.2	2.3	3.7	3.7
Personal Saving Rate (Percent)	4.0	3.6	3.8	4.0	4.2	4.4	4.6	4.5	3.9	4.7	5.3
Housing											
Housing Starts (Ths., Annual Rate)	1,485	1,415	1,471	1,490	1,502	1,513	1,525	1,423	1,469	1,529	1,578
Single-Family Housing Starts	1,055	1,069	1,077	1,085	1,094	1,103	1,112	946	1,081	1,116	1,149
Multifamily Housing Starts	430	346	394	404	407	410	413	476	388	413	429
Exst. SF Home Sales (Ths., Annual Rate)	3,473	3,790	3,842	3,884	3,922	3,959	3,997	3,674	3,860	4,016	4,175
New SF Home Sales (Ths., Annual Rate)	644	667	704	712	719	725	732	667	700	736	765
Case/Shiller One-Family HPI (1/2000=100)	313.6	316.3	318.7	321.1	323.5	326.1	328.8	305.7	319.9	330.2	341.4
<i>Year/Year Percent Change</i>	5.2	6.2	5.4	3.9	3.2	3.1	3.2	2.4	4.6	3.2	3.4
Consumer											
Retail & Food Service Sales (Monthly Avg, Bns)	701.3	702.0	707.3	710.1	713.3	716.4	719.3	692.1	708.2	720.5	730.0
<i>Percent Change Annualized</i>	3.3	0.4	3.0	1.6	1.8	1.7	1.6	3.6	2.3	1.7	1.3
Consumer Confidence® (Conference Board)	102.7	106.8	105.8	105.5	104.5	106.1	106.5	105.4	105.7	106.2	103.1
Car and Light Truck Sales (Millions)	15.8	15.5	15.8	16.0	16.2	16.4	16.6	15.6	15.9	16.7	17.4
Financial Indicators (Period Average)											
Federal Funds Rate, % (Effective)	5.33	5.33	5.33	5.28	5.03	4.78	4.53	5.02	5.24	4.41	3.02
Prime Rate, %	8.50	8.50	8.50	8.45	8.20	7.95	7.70	8.19	8.41	7.58	6.19
1-Month BSBY, %	5.40	5.37	5.36	5.33	5.13	--	--	5.12	5.31	--	--
3-Month Term SOFR, %	5.38	5.32	5.29	5.17	4.92	4.72	4.47	5.16	5.17	4.33	2.96
1-Yr. Treasury Rate, %	5.22	4.90	5.10	4.91	4.63	4.35	4.05	5.08	4.88	3.85	2.77
5-Yr. Treasury Rate, %	4.42	4.12	4.59	4.61	4.55	4.32	4.07	4.06	4.47	3.86	2.96
10-Yr. Treasury Rate, %	4.44	4.16	4.55	4.60	4.58	4.45	4.33	3.96	4.47	4.12	3.41
30-Yr. Fixed Rate Mortgage, %	7.29	6.75	6.98	7.01	6.96	6.78	6.56	6.80	6.93	6.29	5.19
Corporate Profits After Tax (Billions \$ Annualized)	3,096	3,097	3,120	3,143	3,166	3,189	3,214	2,975	3,131	3,226	3,333
<i>Percent Change Annualized</i>	10.8	0.0	3.0	3.0	3.0	3.0	3.1	-0.2	5.3	3.0	3.3

a = actual p = preliminary f = forecast

May 16, 2024

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