

Winter Cold Snap and Tariffs to Keep Inflation Above the Fed's Target in 2025; Increased Supply in the Housing Market to Slow Services Inflation This Year

A number of shocks to food and energy prices at the turn of the year will raise inflation near-term. The H5N1 bird flu caused big disruptions to food supply chains in January, pushing wholesale egg prices to a record high and chicken to the highest since mid-2023. The cold snap across most of the continental U.S., as well as new tariffs on Russian energy products, pushed up prices of natural gas, diesel, and gas in the month, too. Inflation ran hot in December 2024 and will likely do so again in the January reports. Later this year, higher tariffs will contribute to higher prices as well. President Trump imposed new tariffs on American purchases of Chinese goods in February, and is contemplating tariffs on imports from other regions. In addition to the direct effect of tariffs raising prices, they will allow American manufacturers who compete against imported goods to raise the prices they charge, too—good news for those companies and their workers, but paid for by other businesses and consumers.

However, inflationary pressures from the housing market should cool this year. Homebuilders are delivering new units at the fastest pace in many years, and homeowners who delayed sales because of high mortgage rates are gradually reconciling themselves and getting on with it, raising listings incrementally. The contribution to inflation from the housing component of the CPI and PCE indexes slowed throughout 2024, and should continue to move lower in 2025. While housing is expensive relative to incomes, that picture should improve incrementally this year.

The job market largely held steady at the turn of the year. The unemployment rate may be revised higher in the January release as the BLS incorporates more accurate data about the number of recent immigrants participating in the workforce. Also, January's cold snap, the LA wildfires, and a bad flu season kept many hourly workers from jobs in parts of the month. But the unemployment rate is likely at a near-term peak, and Comerica forecasts for it to fall over the course of 2025. Small businesses' hiring plans rose to the highest since mid-2023 in December, and other surveys like the ISM PMI reports provide more evidence that businesses are inclined to be more aggressive in hiring this year, at the same time that tighter immigration policies slow growth of the labor force.

The Fed held its monetary stance unchanged in January after three consecutive cuts from September to December, and signaled they are in 'no hurry' to cut further. Comerica forecasts for the Fed to hold short-term interest rates steady at current levels through mid-year. The Fed is forecast to make a single quarter percentage point rate cut in mid-2025, likely around the end of their program of reducing holdings of Treasury bonds and mortgage-backed securities. Longer-term interest rates will average around current levels in 2025 as financial markets anticipate inflation from tariffs, a hotter job market, and fiscal stimulus from Congress extending tax cuts.

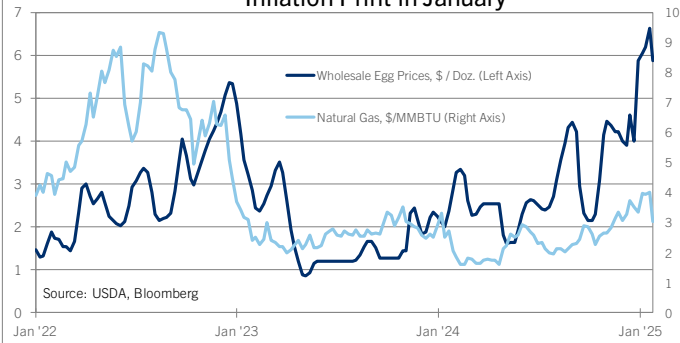
U.S. Economic Outlook, Summary											
<i>a</i> = actual <i>f</i> = forecast	2Q'24a	3Q'24a	4Q'24p	1Q'25f	2Q'25f	3Q'25f	4Q'25f	2023a	2024p	2025f	2026f
Real GDP (Percent Change Annualized)	3.0	3.1	2.3	2.7	2.7	2.7	2.6	2.9	2.8	2.7	2.6
CPI (Percent Change Year-over-Year)	3.2	2.6	2.7	2.5	2.6	3.1	3.0	4.1	3.0	2.8	2.7
Payroll Jobs (Average Monthly Diff., Ths.)	192	144	155	150	165	170	170	245	187	164	170
Unemployment Rate (Percent)	4.0	4.2	4.1	4.2	4.1	4.0	3.8	3.6	4.0	4.0	3.7
Federal Funds Rate (Period Average)	5.33	5.26	4.65	4.33	4.33	4.12	4.08	5.02	5.14	4.21	3.87
10-Yr. Treasury Rate (Period Average)	4.44	3.95	4.28	4.63	4.69	4.60	4.47	3.96	4.21	4.60	4.20
<i>a</i> = actual <i>p</i> = preliminary <i>f</i> = forecast											

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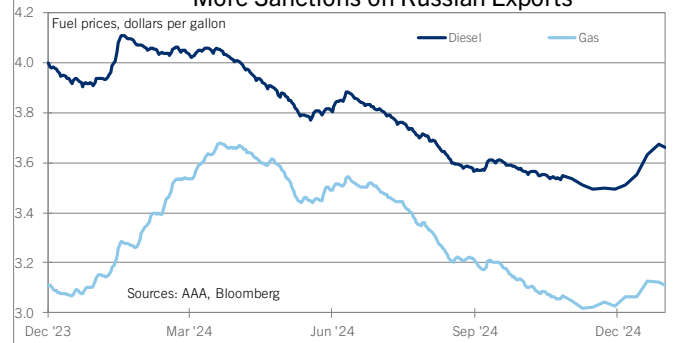
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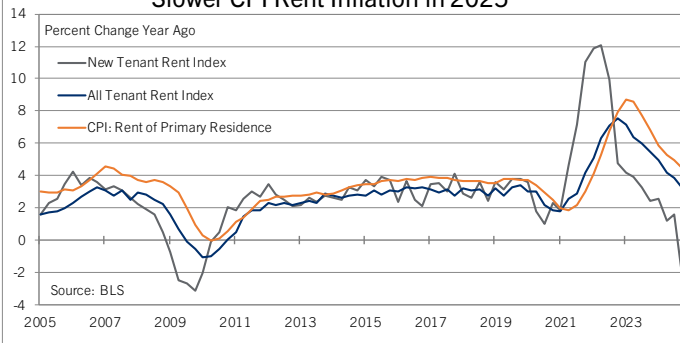
Higher Prices of Eggs and Natural Gas to Fuel a Hot Inflation Print in January



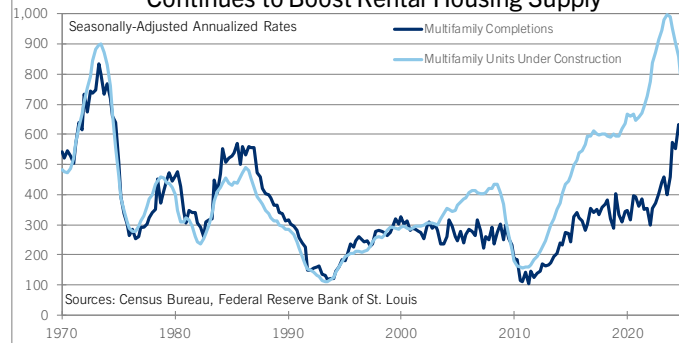
Fuel Prices Rose in January After the U.S. Imposed More Sanctions on Russian Exports



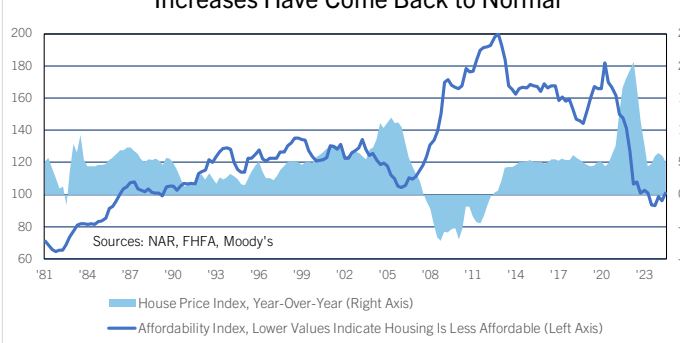
Rents on New Leases Are Falling, Pointing to Slower CPI Rent Inflation in 2025



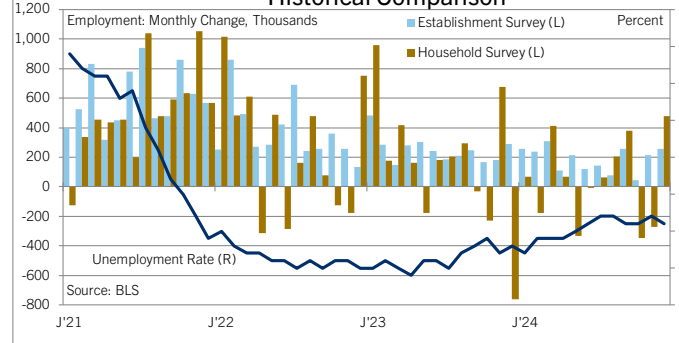
Post-Pandemic Surge in Multifamily Construction Continues to Boost Rental Housing Supply



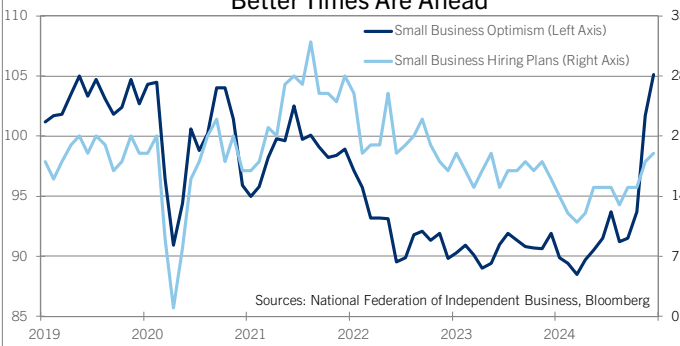
While Housing Is Historically Expensive, Price Increases Have Come Back to Normal



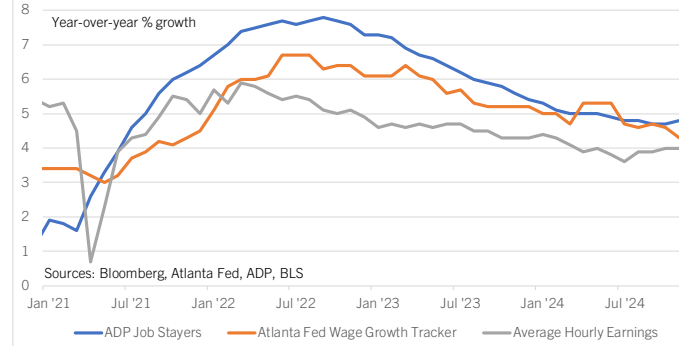
Unemployment Rose in 2024 But Is Still Fairly Low in Historical Comparison



Small Business Owners' Intuition Is Telling Them Better Times Are Ahead



Wage Growth Indicators Continue to Slow



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	2Q'24a	3Q'24a	4Q'24p	1Q'25f	2Q'25f	3Q'25f	4Q'25f	2023a	2024p	2025f	2026f
Output											
Nominal GDP (Billions \$ Annualized Rate)	29,017	29,375	29,701	30,105	30,512	30,951	31,378	27,721	29,179	30,737	32,489
Percent Change Annualized	5.6	5.0	4.5	5.6	5.5	5.9	5.6	6.6	5.3	5.3	5.7
Real GDP (Chained 2017 Billions \$ Annual Rate)	23,224	23,400	23,531	23,691	23,849	24,006	24,158	22,671	23,302	23,926	24,560
Percent Change Annualized	3.0	3.1	2.3	2.7	2.7	2.7	2.6	2.9	2.8	2.7	2.6
Pers. Consumption Expenditures	15,967	16,113	16,280	16,351	16,425	16,515	16,596	15,622	16,054	16,472	16,866
Percent Change Annualized	2.8	3.7	4.2	1.8	1.8	2.2	2.0	2.5	2.8	2.6	2.4
Nonresidential Fixed Investment	3,504	3,539	3,519	3,571	3,613	3,655	3,703	3,385	3,508	3,636	3,831
Percent Change Annualized	3.9	4.0	-2.2	6.0	4.9	4.7	5.3	6.0	3.7	3.6	5.4
Residential Investment	795	787	797	807	830	843	854	763	795	833	879
Percent Change Annualized	-2.8	-4.3	5.3	5.2	12.2	6.0	5.4	-8.3	4.2	4.9	5.5
Change in Private Inventories	72	58	4	52	68	71	78	33	38	67	72
Net Exports	-1,036	-1,069	-1,067	-1,100	-1,103	-1,096	-1,088	-933	-1,037	-1,097	-1,096
Government Expenditures	3,917	3,966	3,991	4,002	4,007	4,010	4,008	3,812	3,940	4,007	4,000
Percent Change Annualized	3.1	5.1	2.5	1.1	0.5	0.3	-0.2	3.9	3.4	1.7	-0.2
Industrial Prod. Index (2007=100)	102.9	102.7	102.5	102.8	103.4	104.0	104.6	102.9	102.6	103.7	105.9
Percent Change Annualized	2.4	-0.6	-0.8	1.1	2.2	2.5	2.5	0.2	-0.3	1.1	2.2
Capacity Utilization (Percent)	78.0	77.6	77.2	77.2	77.7	77.9	78.1	79.0	77.6	77.7	78.1
Prices											
CPI (Year-Over-Year % Change)	3.2	2.6	2.7	2.5	2.6	3.1	3.0	4.1	3.0	2.8	2.7
Core CPI (Year-Over-Year % Change)	3.4	3.2	3.3	2.9	2.9	3.1	3.0	4.8	3.4	3.0	2.9
PCE Price Index (Year-Over-Year % Change)	2.6	2.3	2.4	2.2	2.3	2.6	2.7	3.8	2.5	2.5	2.6
Core PCE Price Index (Year-Over-Year % Change)	2.7	2.7	2.8	2.5	2.5	2.7	2.8	4.1	2.8	2.6	2.8
GDP Price Index (Year-Over-Year % Change)	2.6	2.2	2.4	2.4	2.4	2.8	3.0	3.6	2.4	2.6	3.1
PPI, Final Demand (Year-Over-Year % Change)	2.6	2.2	3.0	3.0	2.9	3.1	3.1	2.0	2.3	3.0	3.0
Crude Oil, WTI (\$/barrel)	\$82	\$77	\$71	\$73	\$72	\$72	\$72	\$78	\$77	\$72	\$72
Labor Markets											
Payroll Jobs (Average Monthly Difference, Ths.)	192	144	155	150	165	170	170	245	187	164	170
Unemployment Rate (Percent)	4.0	4.2	4.1	4.2	4.1	4.0	3.8	3.6	4.0	4.0	3.7
Labor Force Participation Rate (%)	62.6	62.7	62.5	62.7	62.7	62.7	62.7	62.6	62.6	62.7	62.7
Average Weekly Hours	34.3	34.3	34.3	34.3	34.3	34.3	34.3	34.4	34.3	34.3	34.3
Personal Income											
Average Hourly Earnings (\$)	34.87	35.21	35.58	35.91	36.22	36.51	36.83	33.72	35.06	36.37	37.68
Percent Change Annualized	3.4	3.9	4.3	3.8	3.5	3.2	3.5	4.5	4.0	3.7	3.6
Real Disp. Income (2017 Billions \$ Annualized)	17,497	17,545	17,668	17,751	17,845	17,920	18,017	17,052	17,540	17,883	18,490
Percent Change Annualized	1.0	1.1	2.8	1.9	2.1	1.7	2.2	5.1	2.9	2.0	3.4
Personal Saving Rate (Percent)	4.9	4.3	4.1	4.4	4.7	4.9	5.1	4.7	4.7	4.7	5.5
Housing											
Housing Starts (Ths., Annual Rate)	1,340	1,332	1,379	1,407	1,419	1,432	1,450	1,421	1,365	1,427	1,482
Single-Family Housing Starts	1,004	971	1,003	1,018	1,026	1,035	1,044	949	1,010	1,031	1,061
Multifamily Housing Starts	336	361	376	388	393	396	406	473	355	396	421
Exst. SF Home Sales (Ths., Annual Rate)	3,657	3,510	3,723	3,808	3,866	3,908	3,956	3,674	3,672	3,884	4,033
New SF Home Sales (Ths., Annual Rate)	693	708	662	694	702	710	717	666	682	706	734
FHFA Purchase-Only HPI (Annual % Change)	5.9	4.3	4.0	4.0	4.0	4.1	3.7	4.9	5.2	4.0	3.1
Case/Shiller One-Family HPI (Annual % Change)	5.9	4.4	3.9	3.8	3.8	3.9	3.5	2.5	5.1	3.8	3.1
Consumer											
Retail & Food Service Sales (Monthly Avg, Bns)	703.1	712.4	725.2	731.6	736.8	744.2	750.2	692.1	710.2	740.7	772.6
Percent Change Annualized	1.8	5.4	7.3	3.6	2.9	4.1	3.3	3.6	2.6	4.3	4.3
Consumer Confidence® (Conference Board)	98.9	102.2	110.6	110.5	112.3	114.4	116.7	105.4	104.5	113.5	117.1
Car and Light Truck Sales (Millions)	15.9	15.7	16.7	16.3	16.2	16.4	16.6	15.6	16.0	16.4	16.9
Financial Indicators (Period Average)											
Federal Funds Rate (Effective)	5.33	5.26	4.65	4.33	4.33	4.12	4.08	5.02	5.14	4.21	3.87
Prime Rate	8.50	8.43	7.82	7.50	7.50	7.29	7.25	8.19	8.31	7.38	7.04
1-Month Term SOFR	5.33	5.21	4.59	4.30	4.30	4.10	4.06	5.09	5.11	4.19	3.85
3-Month Term SOFR	5.33	5.07	4.50	4.31	4.24	4.07	4.06	5.16	5.05	4.17	3.80
1-Yr. Treasury Rate	5.14	4.45	4.25	4.16	4.10	3.99	3.92	5.08	4.69	4.04	3.69
5-Yr. Treasury Rate	4.46	3.79	4.13	4.38	4.33	4.21	4.09	4.06	4.13	4.25	3.77
10-Yr. Treasury Rate	4.44	3.95	4.28	4.63	4.69	4.60	4.47	3.96	4.21	4.60	4.20
30-Yr. Fixed Rate Mortgage	6.99	6.51	6.65	7.00	7.04	6.85	6.64	6.80	6.72	6.88	6.15
Corporate Profits After Tax (Billions \$ Annualized)	3,413	3,403	3,440	3,474	3,510	3,547	3,581	3,069	3,393	3,528	3,776
Percent Change Annualized	12.4	-1.2	4.4	4.0	4.3	4.3	3.8	4.0	10.6	4.0	7.0

a = actual p = preliminary f = forecast

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