

Tariffs and Turbulence Roil the Outlook, But Economy Can Still Avoid Recession in 2025

The April tariff shock dramatically increased risks to the economic outlook. The first April consumer survey shows economic expectations have plunged to the worst since the early 1980s, on par with Covid, the Great Recession, and the 1990s recession. Financial markets are unsettled. Stocks are in a correction, the dollar is depreciating, and the spread of ten-year Treasury yields above two-year yields is the widest since early 2022. Foreign investors could be starting to factor more political risk into the prices they are willing to pay for U.S. Treasuries.

Comerica's April forecast assumes that the U.S. government enters negotiations with major trading partners that result in partially rolling back tariffs relatively soon. Even so, April's shock will fuel a growth scare in the second and third quarters of 2025. In response, the Fed is forecast to cut the federal funds target by a quarter percentage point each at the July, September, and December meetings. They are forecast to cut another half percentage point in 2026. Expansionary fiscal policy is assumed to cushion the slowdown next year. Tariff revenues and savings from DOGE are forecast to partially fund an extension of the 2017 tax cuts, as well as a mix of the tax cuts promised during the 2024 presidential election and sweeteners to help the stock market.

Assuming policymakers follow this path, the U.S. economy is seen muddling through 2025 and 2026, but avoiding an outright recession. The unemployment rate is forecast to rise from 4.1% in early 2025 to average 4.5% in 2026, with considerably slower job growth but also weaker labor force growth as immigration enforcement tightens—the administration has announced that over 1.5 million immigrants' visas were cancelled in March and April. Inflation is forecast to rise, but not to get as bad as in 2022.

Risks to growth are to the downside, and to inflation and interest rates to the upside. Since the tariff hikes, the Fed has been warning that the bar to cut rates is higher with inflation rising than during a conventional economic shock which lowers both demand and prices. The Fed might even have to hike. The trade war could escalate further. Or investors could lose confidence in the U.S. and its currency, causing financial conditions to get worse.

At the same time, more favorable scenarios are not out of the question. Uncertainties from trade and other policy changes could corral the Fed into cutting rates. But once the Fed moves, the administration might announce breakthrough deals with trading partners and roll back tariffs. A pivot toward business-friendly tax and regulatory policies could push trade conflict out of the economic narrative, fueling a recovery of business risk taking, hiring, and consumer spending.

U.S. Economic Outlook, Summary

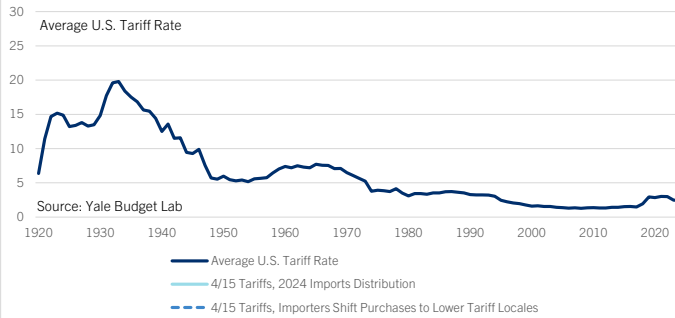
<i>a = actual f = forecast</i>	2Q'24a	3Q'24a	4Q'24a	1Q'25p	2Q'25f	3Q'25f	4Q'25f	2023a	2024a	2025f	2026f
Real GDP (Percent Change Annualized)	3.0	3.1	2.5	-1.4	2.8	-0.4	1.4	2.9	2.8	1.2	1.2
CPI (Percent Change Year-over-Year)	3.2	2.7	2.7	2.8	3.1	4.2	4.5	4.1	3.0	3.7	3.5
Payroll Jobs (Average Monthly Diff., Ths.)	171	113	170	188	13	29	48	213	161	69	97
Unemployment Rate (Percent)	4.0	4.2	4.1	4.1	4.3	4.4	4.4	3.6	4.0	4.3	4.5
Federal Funds Rate (Period Average)	5.33	5.26	4.65	4.33	4.33	4.08	3.78	5.02	5.14	4.13	3.24
10-Yr. Treasury Rate (Period Average)	4.44	3.95	4.28	4.45	3.98	3.87	3.86	3.96	4.21	4.04	3.74
<i>a = actual p = preliminary f = forecast</i>											

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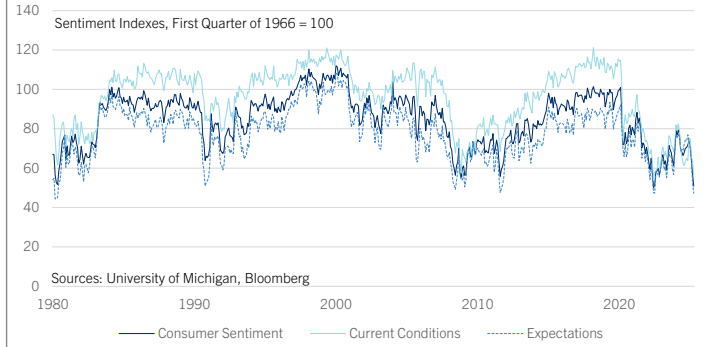
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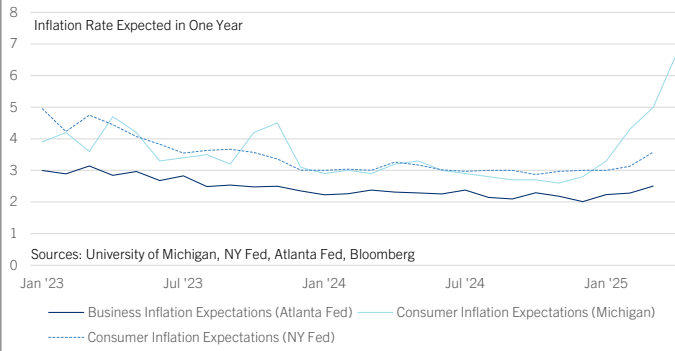
April Tariff Hikes Push U.S. Average Tariff to Great Depression Levels



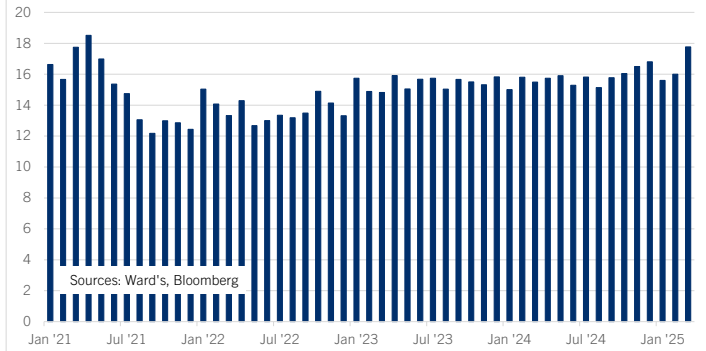
Consumers Are Freaked Out About Tariffs



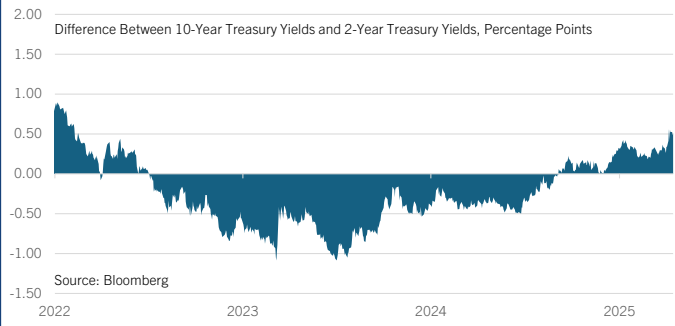
Inflation Expectations Are Rising



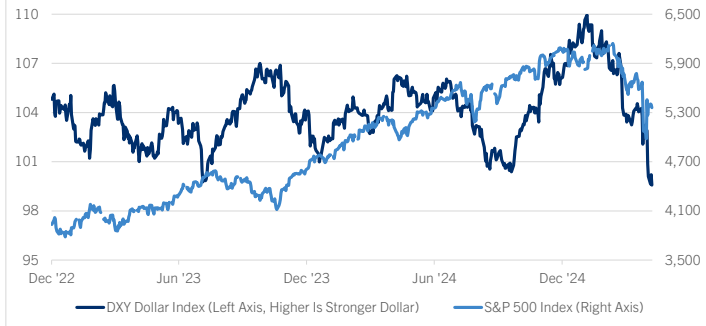
Auto Sales Surge as Consumers Front-Run Tariffs



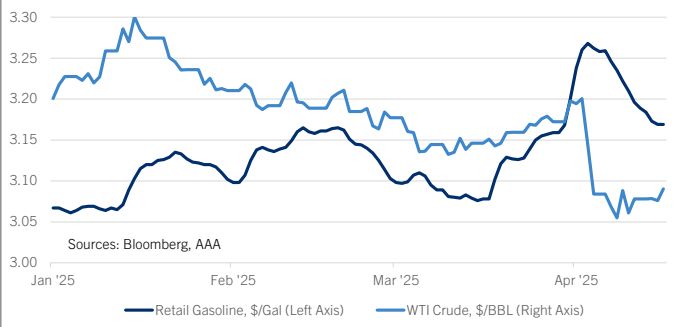
The Yield Curve Steepened During April's Financial Turmoil



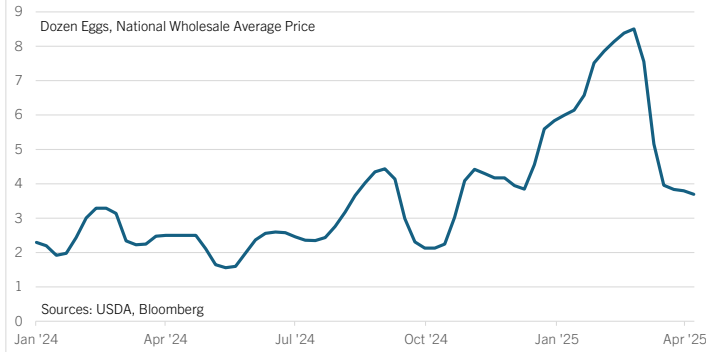
Dollar's Depreciation During April's Stock Market Sell-Off Feels Ominous



Retail Gas Prices Rose in April Despite Falling Crude Oil Futures



At Least Egg Prices Are Down This Month



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	2Q'24a	3Q'24a	4Q'24a	1Q'25p	2Q'25f	3Q'25f	4Q'25f	2023a	2024a	2025f	2026f
Output											
Nominal GDP (Billions \$ Annualized Rate)	29,017	29,375	29,724	29,875	30,393	30,771	31,254	27,721	29,185	30,573	32,048
Percent Change Annualized	5.6	5.0	4.8	2.1	7.1	5.1	6.4	6.6	5.3	4.8	4.8
Real GDP (Chained 2017 Billions \$ Annual Rate)	23,224	23,400	23,542	23,462	23,625	23,604	23,685	22,671	23,305	23,594	23,879
Percent Change Annualized	3.0	3.1	2.5	-1.4	2.8	-0.4	1.4	2.9	2.8	1.2	1.2
Pers. Consumption Expenditures	15,967	16,113	16,273	16,323	16,352	16,362	16,421	15,622	16,053	16,365	16,540
Percent Change Annualized	2.8	3.7	4.0	1.2	0.7	0.3	1.4	2.5	2.8	1.9	1.1
Nonresidential Fixed Investment	3,504	3,539	3,512	3,549	3,539	3,528	3,536	3,385	3,507	3,538	3,596
Percent Change Annualized	3.9	4.0	-2.9	4.2	-1.2	-1.2	0.8	6.0	3.6	0.9	1.6
Residential Investment	795	787	797	800	790	808	834	763	795	808	890
Percent Change Annualized	-2.8	-4.3	5.5	1.6	-5.3	9.5	13.7	-8.3	4.2	1.6	10.1
Change in Private Inventories	72	58	9	78	45	20	45	33	39	47	47
Net Exports	-1,036	-1,069	-1,053	-1,298	-1,115	-1,131	-1,168	-933	-1,034	-1,178	-1,230
Government Expenditures	3,917	3,966	3,996	4,002	4,008	4,009	4,009	3,812	3,942	4,007	4,030
Percent Change Annualized	3.1	5.1	3.1	0.5	0.6	0.1	0.0	3.9	3.4	1.7	0.6
Industrial Prod. Index (2007=100)	102.9	102.7	102.5	104.5	103.4	102.8	103.0	102.9	102.6	103.4	103.0
Percent Change Annualized	2.4	-0.6	-0.9	8.0	-4.2	-2.1	0.6	0.2	-0.3	0.8	-0.4
Capacity Utilization (Percent)	78.0	77.6	77.2	78.5	77.9	77.1	76.8	79.0	77.6	77.6	76.0
Prices											
CPI (Year-Over-Year % Change)	3.2	2.7	2.7	2.8	3.1	4.2	4.5	4.1	3.0	3.7	3.5
Core CPI (Year-Over-Year % Change)	3.4	3.3	3.3	3.1	3.6	4.5	4.8	4.8	3.4	4.0	4.0
PCE Price Index (Year-Over-Year % Change)	2.6	2.3	2.5	2.5	2.8	3.8	4.3	3.8	2.5	3.3	3.4
Core PCE Price Index (Year-Over-Year % Change)	2.7	2.7	2.8	2.7	3.2	3.9	4.4	4.1	2.8	3.6	3.6
GDP Price Index (Year-Over-Year % Change)	2.6	2.2	2.5	2.6	3.0	3.9	4.5	3.6	2.4	3.5	3.6
PPI, Final Demand (Year-Over-Year % Change)	2.6	2.2	3.1	3.3	3.5	4.3	4.7	2.0	2.4	4.0	3.9
Crude Oil, WTI (\$/barrel)	\$82	\$77	\$71	\$71	\$62	\$65	\$68	\$78	\$77	\$67	\$70
Labor Markets											
Payroll Jobs (Average Monthly Difference, Ths.)	171	113	170	188	13	29	48	213	161	69	97
Unemployment Rate (Percent)	4.0	4.2	4.1	4.1	4.3	4.4	4.4	3.6	4.0	4.3	4.5
Labor Force Participation Rate (%)	62.6	62.7	62.5	62.6	62.5	62.4	62.4	62.6	62.6	62.5	62.4
Average Weekly Hours	34.3	34.2	34.3	34.1	34.2	34.2	34.2	34.4	34.3	34.2	34.3
Personal Income											
Average Hourly Earnings (\$)	34.88	35.21	35.59	35.92	36.20	36.50	36.84	33.70	35.06	36.37	37.73
Percent Change Annualized	3.8	3.8	4.4	3.8	3.1	3.5	3.7	4.4	4.0	3.7	3.8
Real Disp. Income (2017 Billions \$ Annualized)	17,497	17,506	17,589	17,723	17,480	17,205	17,143	17,052	17,511	17,388	17,656
Percent Change Annualized	1.0	0.2	1.9	3.1	-5.4	-6.2	-1.4	5.1	2.7	-0.7	1.5
Personal Saving Rate (Percent)	4.9	4.1	3.7	4.5	4.8	5.0	5.2	4.7	4.5	4.9	5.6
Housing											
Housing Starts (Ths., Annual Rate)	1,340	1,332	1,392	1,425	1,409	1,420	1,432	1,421	1,368	1,422	1,454
Single-Family Housing Starts	1,004	971	1,018	1,050	1,037	1,043	1,048	949	1,014	1,045	1,063
Multifamily Housing Starts	336	361	374	375	372	378	384	473	354	377	391
Exst. SF Home Sales (Ths., Annual Rate)	3,630	3,557	3,767	3,800	3,708	3,737	3,780	3,676	3,673	3,756	3,906
New SF Home Sales (Ths., Annual Rate)	693	708	671	670	722	723	726	666	684	710	740
FHFA Purchase-Only HPI (Annual % Change)	5.9	4.5	4.5	5.1	5.1	5.2	4.6	4.9	5.4	5.0	3.5
Case/Shiller One-Family HPI (Annual % Change)	5.9	4.4	3.8	3.9	4.2	4.5	4.3	2.5	5.1	4.2	3.9
Consumer											
Retail & Food Service Sales (Monthly Avg, Bns)	703.1	712.4	725.3	727.9	734.1	744.5	756.9	692.0	710.1	740.8	768.4
Percent Change Annualized	2.0	5.4	7.4	1.4	3.4	5.8	6.8	3.5	2.6	4.3	3.7
Consumer Confidence* (Conference Board)	98.9	102.2	110.6	99.4	92.8	92.8	93.2	105.4	104.5	94.6	92.3
Car and Light Truck Sales (Millions)	15.9	15.7	16.7	16.5	15.2	14.9	15.0	15.6	16.0	15.4	15.7
Financial Indicators (Period Average)											
Federal Funds Rate (Effective)	5.33	5.26	4.65	4.33	4.33	4.08	3.78	5.02	5.14	4.13	3.24
Prime Rate	8.50	8.43	7.82	7.50	7.50	7.25	6.95	8.19	8.31	7.30	6.41
1-Month Term SOFR	5.33	5.21	4.59	4.31	4.30	4.06	3.77	5.09	5.11	4.11	3.23
3-Month Term SOFR	5.33	5.07	4.50	4.30	4.22	3.93	3.69	5.16	5.05	4.04	3.21
1-Yr. Treasury Rate	5.14	4.45	4.25	4.14	3.86	3.60	3.38	5.08	4.69	3.75	3.09
5-Yr. Treasury Rate	4.46	3.79	4.13	4.25	3.70	3.50	3.41	4.06	4.13	3.72	3.20
10-Yr. Treasury Rate	4.44	3.95	4.28	4.45	3.98	3.87	3.86	3.96	4.21	4.04	3.74
30-Yr. Fixed Rate Mortgage	6.99	6.51	6.65	6.82	6.34	6.03	5.92	6.80	6.72	6.28	5.79
Corporate Profits After Tax (Billions \$ Annualized)	3,413	3,403	3,631	3,552	3,460	3,486	3,514	3,069	3,441	3,503	3,763
Percent Change Annualized	12.4	-1.2	29.7	-8.5	-10.0	3.0	3.3	4.0	12.1	1.8	7.4

a = actual p = preliminary f = forecast

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