

## Reconciliation Bill to Cut Taxes and Increase Deficit in 2026; Real GDP Likely Rebounded in Second Quarter on Lower Imports

The “One Big Beautiful Bill Act” will help U.S. growth regain traction in 2026 as new tax cuts come into effect. The Bill extends or makes permanent some “temporary” tax cuts passed in 2017; reinstates capex incentives like bonus depreciation; reduces taxes on individual incomes, tips, overtime, and inheritances; and increased tax deductions for SALT taxes and car loan interest. These are partially funded by higher tariffs; cuts to Medicaid, SNAP, Obamacare, and student loan programs; earlier phaseouts of subsidies for renewables and EVs; and sales of oil and gas drilling leases. The tax cuts will reduce fiscal revenues more than the spending cuts reduce outlays, so the package adds to the fiscal deficit—i.e., fiscal stimulus. As a result, the deficit is forecast to increase from 6.5% of GDP in the 2025 fiscal year to 7.0% in 2026 and 2027, prolonging upward pressure on long-term interest rates.

The economy could use a shot in the arm after a wobbly second quarter. May saw an unusually broad-based decline of economic activity, with drops in retail sales, industrial production, housing starts, building permits, new home sales, construction spending, personal income, and personal consumption expenditures. Real GDP likely returned to growth in the second quarter of 2025 after a mild contraction in the first, but this was more due to a drop in imports than to stronger consumer or business demand.

While tariff hikes still seem likely to raise inflation in the second half of the year, their impact will be partially offset by less energy and shelter-cost inflation. Following the truce between Israel and Iran, U.S. gasoline and diesel prices are down about 5%-10% from a year ago. Residential rents and housing prices are much less inflationary than they were a few years ago. Housing supply is up as more existing homes are listed for sale, and rental vacancies are above pre-pandemic levels. High mortgage rates have housing demand in check. Comerica’s July forecast revises down the outlook for inflation in the second half of 2025 to account for less price pressure from these sources.

The June jobs report had solid headlines, with a decent increase in payrolls and a downtick in the unemployment rate. Its details weren’t as strong—the unemployment rate declined in part because the labor force participation rate pulled back to the lowest since late 2022, declining among workers aged 16 to 24 and over 55. Even so, the lower unemployment rate will make the Fed comfortable holding rates steady at their July decision. Comerica forecasts for the Fed to hold rates unchanged through late 2025, then make a quarter percentage point rate cut at the December decision. The Fed slowed its balance sheet reduction to a monthly limit of \$5 billion in Treasuries and \$35 billion in mortgage-backed securities (MBS) in April. They will likely continue reductions at this pace until April 2026, then hold the balance sheet steady and begin reinvesting maturing MBS into Treasuries.

### U.S. Economic Outlook, Summary

<i>a = actual    f = forecast</i>	4Q'24a	1Q'25a	2Q'25f	3Q'25f	4Q'25f	1Q'26f	2Q'26f	2024a	2025f	2026f	2027f
Real GDP (Percent Change Annualized)	2.5	-0.5	2.9	0.9	1.5	1.8	1.9	2.8	1.6	1.7	1.6
CPI (Percent Change Year-over-Year)	2.7	2.7	2.4	2.8	2.7	2.4	2.6	3.0	2.7	2.5	2.4
Payroll Jobs (Average Monthly Diff., Ths.)	170	174	165	25	30	35	38	161	99	37	39
Unemployment Rate (Percent)	4.1	4.1	4.2	4.2	4.2	4.2	4.2	4.0	4.2	4.1	3.9
Federal Funds Rate (Period Average)	4.65	4.33	4.33	4.33	4.28	4.03	3.83	5.14	4.32	3.80	3.38
10-Yr. Treasury Rate (Period Average)	4.28	4.45	4.36	4.39	4.46	4.44	4.44	4.21	4.41	4.43	4.27

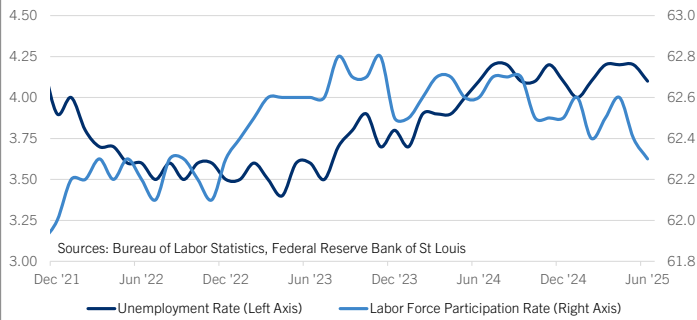
*a = actual    p = preliminary    f = forecast*

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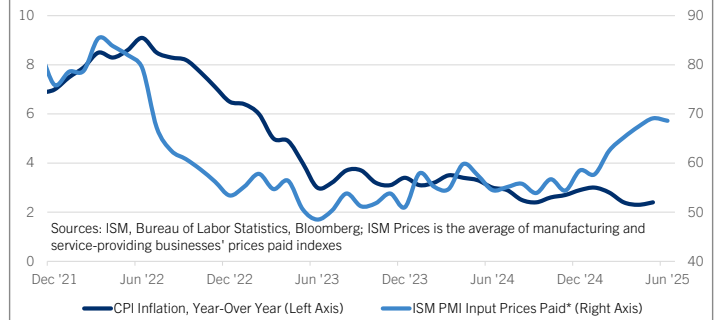
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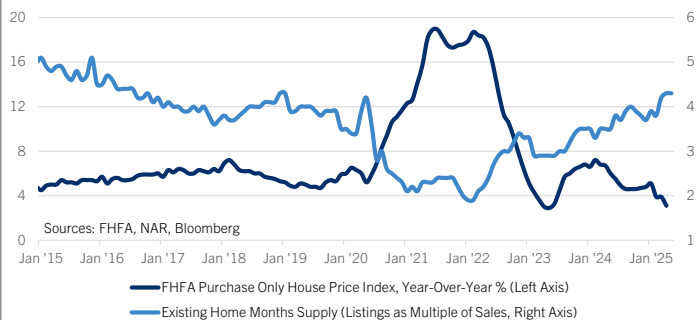
## Unemployment Rate Holding Steady, But Labor Force Participation Is Falling



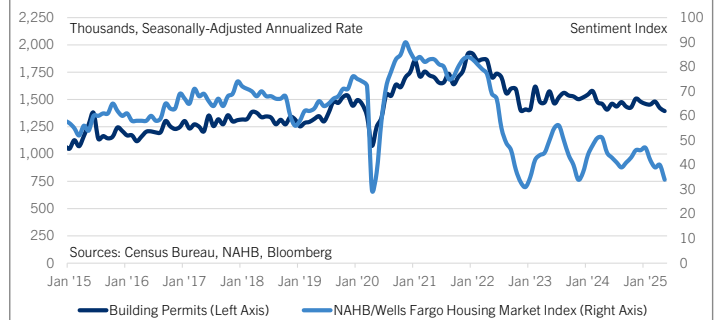
## Business Input Prices Rising at the Fastest Pace Since Late 2022, Inflation to Rise Near-Term



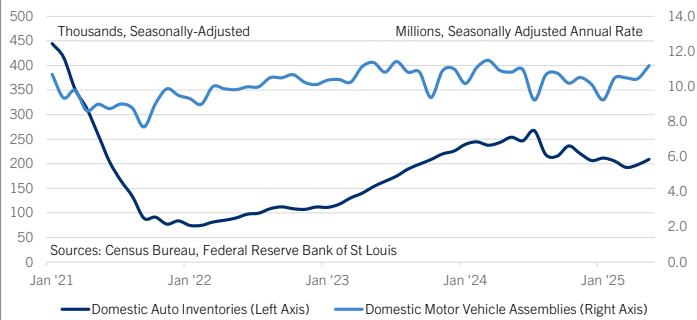
## House Price Increases Are Cooling With Supply-Demand Balance Looking Like 2016



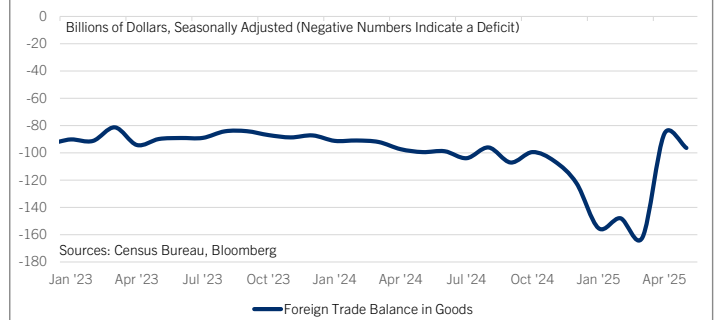
## Leading Indicators of Homebuilding Point to Weaker Residential Construction Ahead



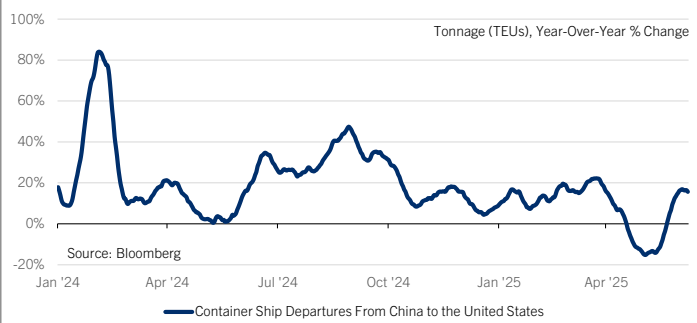
## Motor Vehicle Assemblies Were a Bright Spot for Manufacturing in May



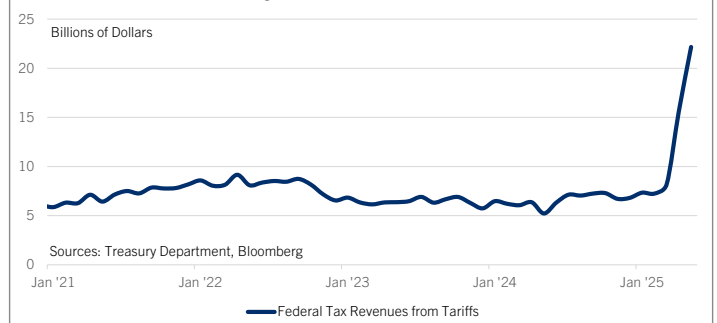
## Trade Deficit Shrank in April and May After Tariff Frontrunning, a Tailwind to 2nd Quarter GDP



## U.S. Imports Will Likely Pick Up Again in the Third Quarter



## Tariff Collections Surged After Hikes, Which Will Partially Offset Tax Cuts in 2026



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	4Q'24a	1Q'25a	2Q'25f	3Q'25f	4Q'25f	1Q'26f	2Q'26f	2024a	2025f	2026f	2027f
<b>Output</b>											
Nominal GDP (Billions \$ Annualized Rate)	29,724	29,962	30,358	30,613	30,905	31,224	31,548	29,185	30,460	31,696	32,908
Percent Change Annualized	<b>4.8</b>	<b>3.2</b>	<b>5.4</b>	<b>3.4</b>	<b>3.9</b>	<b>4.2</b>	<b>4.2</b>	<b>5.3</b>	<b>4.4</b>	<b>4.1</b>	<b>3.8</b>
Real GDP (Chained 2017 Billions \$ Annual Rate)	23,542	23,513	23,680	23,731	23,817	23,921	24,033	23,305	23,685	24,079	24,469
Percent Change Annualized	<b>2.5</b>	<b>-0.5</b>	<b>2.9</b>	<b>0.9</b>	<b>1.5</b>	<b>1.8</b>	<b>1.9</b>	<b>2.8</b>	<b>1.6</b>	<b>1.7</b>	<b>1.6</b>
Pers. Consumption Expenditures	16,273	16,292	16,320	16,364	16,424	16,499	16,570	16,053	16,350	16,604	16,887
Percent Change Annualized	<b>4.0</b>	<b>0.5</b>	<b>0.7</b>	<b>1.1</b>	<b>1.5</b>	<b>1.8</b>	<b>1.7</b>	<b>2.8</b>	<b>1.9</b>	<b>1.6</b>	<b>1.7</b>
Nonresidential Fixed Investment	3,512	3,600	3,607	3,613	3,616	3,638	3,662	3,507	3,609	3,673	3,763
Percent Change Annualized	<b>-2.9</b>	<b>10.3</b>	<b>0.8</b>	<b>0.7</b>	<b>0.3</b>	<b>2.5</b>	<b>2.7</b>	<b>3.6</b>	<b>2.9</b>	<b>1.8</b>	<b>2.5</b>
Residential Investment	797	794	788	780	782	785	788	795	786	791	807
Percent Change Annualized	<b>5.5</b>	<b>-1.3</b>	<b>-3.3</b>	<b>-3.8</b>	<b>0.8</b>	<b>1.7</b>	<b>1.7</b>	<b>4.2</b>	<b>-1.1</b>	<b>0.6</b>	<b>2.1</b>
Change in Private Inventories	9	160	-61	-41	-26	5	16	39	8	25	59
Net Exports	-1,053	-1,359	-999	-1,016	-1,014	-1,047	-1,053	-1,034	-1,097	-1,066	-1,129
Government Expenditures	3,996	3,991	3,993	3,997	4,002	4,008	4,015	3,942	3,996	4,019	4,047
Percent Change Annualized	<b>3.1</b>	<b>-0.6</b>	<b>0.2</b>	<b>0.4</b>	<b>0.6</b>	<b>0.5</b>	<b>0.7</b>	<b>3.4</b>	<b>1.4</b>	<b>0.6</b>	<b>0.7</b>
Federal Fiscal Deficit, \$ Trillions, Fiscal Year	--	--	--	--	--	--	--	1.83	1.99	2.21	2.30
As Percent of Annual GDP								<b>-6.3</b>	<b>-6.5</b>	<b>-7.0</b>	<b>-7.0</b>
Industrial Prod. Index (2007=100)	102.4	103.6	103.6	103.5	103.4	103.7	104.0	102.6	103.5	104.2	106.0
Percent Change Annualized	<b>-1.2</b>	<b>4.6</b>	<b>0.3</b>	<b>-0.5</b>	<b>-0.2</b>	<b>1.1</b>	<b>1.2</b>	<b>-0.3</b>	<b>0.9</b>	<b>0.7</b>	<b>1.6</b>
Capacity Utilization (Percent)	77.1	77.7	77.6	77.1	76.8	76.6	76.5	77.6	77.3	76.4	76.1
<b>Prices</b>											
CPI (Year-Over-Year % Change)	<b>2.7</b>	<b>2.7</b>	<b>2.4</b>	<b>2.8</b>	<b>2.7</b>	<b>2.4</b>	<b>2.6</b>	<b>3.0</b>	<b>2.7</b>	<b>2.5</b>	<b>2.4</b>
Core CPI (Year-Over-Year % Change)	<b>3.3</b>	<b>3.1</b>	<b>2.8</b>	<b>2.8</b>	<b>2.6</b>	<b>2.4</b>	<b>2.5</b>	<b>3.4</b>	<b>2.8</b>	<b>2.4</b>	<b>2.4</b>
PCE Price Index (Year-Over-Year % Change)	<b>2.5</b>	<b>2.5</b>	<b>2.2</b>	<b>2.4</b>	<b>2.4</b>	<b>2.2</b>	<b>2.4</b>	<b>2.5</b>	<b>2.4</b>	<b>2.4</b>	<b>2.3</b>
Core PCE Price Index (Year-Over-Year % Change)	<b>2.8</b>	<b>2.8</b>	<b>2.5</b>	<b>2.5</b>	<b>2.4</b>	<b>2.1</b>	<b>2.3</b>	<b>2.8</b>	<b>2.5</b>	<b>2.3</b>	<b>2.3</b>
GDP Price Index (Year-Over-Year % Change)	<b>2.5</b>	<b>2.6</b>	<b>2.6</b>	<b>2.8</b>	<b>2.8</b>	<b>2.5</b>	<b>2.4</b>	<b>2.4</b>	<b>2.7</b>	<b>2.4</b>	<b>2.2</b>
PPI, Final Demand (Year-Over-Year % Change)	<b>3.1</b>	<b>3.5</b>	<b>2.6</b>	<b>2.8</b>	<b>2.4</b>	<b>1.8</b>	<b>2.4</b>	<b>2.4</b>	<b>2.8</b>	<b>2.1</b>	<b>2.1</b>
Crude Oil, WTI (\$/barrel)	\$71	\$72	\$64	\$65	\$65	\$65	\$66	\$77	\$66	\$66	\$67
<b>Labor Markets</b>											
Payroll Jobs (Average Monthly Difference, Ths.)	170	174	165	25	30	35	38	161	99	37	39
Unemployment Rate (Percent)	4.1	4.1	4.2	4.2	4.2	4.2	4.2	4.0	4.2	4.1	3.9
Labor Force Participation Rate (%)	62.5	62.5	62.4	62.3	62.3	62.3	62.2	62.6	62.4	62.3	62.2
Average Weekly Hours	34.3	34.2	34.3	34.2	34.2	34.2	34.2	34.3	34.2	34.2	34.2
<b>Personal Income</b>											
Average Hourly Earnings (\$)	35.59	35.92	36.24	36.55	36.87	37.23	37.60	35.06	36.39	37.79	39.34
Percent Change Annualized	<b>4.4</b>	<b>3.7</b>	<b>3.6</b>	<b>3.5</b>	<b>3.6</b>	<b>3.9</b>	<b>4.1</b>	<b>4.0</b>	<b>3.8</b>	<b>3.8</b>	<b>4.1</b>
Real Disp. Income (2017 Billions \$ Annualized)	17,614	17,722	17,867	17,916	17,987	18,284	18,570	17,517	17,873	18,592	19,096
Percent Change Annualized	<b>2.5</b>	<b>2.5</b>	<b>3.3</b>	<b>1.1</b>	<b>1.6</b>	<b>6.8</b>	<b>6.4</b>	<b>2.7</b>	<b>2.0</b>	<b>4.0</b>	<b>2.7</b>
Personal Saving Rate (Percent)	3.8	4.3	4.6	5.0	5.2	5.4	5.6	4.6	4.8	5.6	6.2
<b>Housing</b>											
Housing Starts (Ths., Annual Rate)	1,387	1,401	1,325	1,326	1,324	1,324	1,327	1,371	1,344	1,330	1,353
Single-Family Housing Starts	1,013	1,015	924	913	904	899	898	1,016	939	898	904
Multifamily Housing Starts	374	386	401	413	420	425	430	355	405	432	449
Exst. SF Home Sales (Ths., Annual Rate)	3,767	3,737	3,650	3,603	3,581	3,591	3,604	3,673	3,643	3,619	3,678
New SF Home Sales (Ths., Annual Rate)	671	654	685	675	668	664	663	685	670	664	674
FHFA Purchase-Only HPI (Annual % Change)	4.6	4.0	2.9	1.4	-0.3	-1.1	-0.9	5.4	2.0	-0.5	0.8
Case/Shiller One-Family HPI (Annual % Change)	3.8	3.8	2.7	1.5	0.1	-1.1	-0.7	5.1	2.0	-0.4	0.6
<b>Consumer</b>											
Retail & Food Service Sales (Monthly Avg, Bns)	712.5	715.3	718.0	722.8	727.9	734.9	740.7	696.8	721.0	743.4	765.2
Percent Change Annualized	<b>7.4</b>	<b>1.6</b>	<b>1.6</b>	<b>2.7</b>	<b>2.9</b>	<b>3.9</b>	<b>3.2</b>	<b>2.6</b>	<b>3.5</b>	<b>3.1</b>	<b>2.9</b>
Consumer Confidence* (Conference Board)	110.6	99.8	92.4	94.0	97.7	94.5	97.3	104.5	96.0	97.4	101.1
Car and Light Truck Sales (Millions)	16.7	16.6	16.1	15.3	15.4	15.5	15.7	16.0	15.9	15.7	16.1
<b>Financial Indicators (Period Average)</b>											
Federal Funds Rate (Effective)	4.65	4.33	4.33	4.33	4.28	4.03	3.83	5.14	4.32	3.80	3.38
Prime Rate	7.82	7.50	7.50	7.50	7.45	7.20	7.00	8.31	7.49	6.97	6.55
1-Month Term SOFR	4.59	4.31	4.32	4.29	4.25	4.00	3.79	5.11	4.29	3.77	3.35
3-Month Term SOFR	4.50	4.30	4.30	4.21	4.09	3.86	3.73	5.05	4.23	3.66	3.26
1-Yr. Treasury Rate	4.25	4.14	4.03	4.03	3.92	3.76	3.64	4.69	4.03	3.59	3.25
5-Yr. Treasury Rate	4.13	4.25	3.96	4.05	4.07	4.01	3.95	4.13	4.08	3.93	3.69
10-Yr. Treasury Rate	4.28	4.45	4.36	4.39	4.46	4.44	4.44	4.21	4.41	4.43	4.27
30-Yr. Fixed Rate Mortgage	6.65	6.82	6.79	6.75	6.79	6.73	6.67	6.72	6.79	6.65	6.45
Corporate Profits After Tax (Billions \$ Annualized)	3,631	3,603	3,589	3,599	3,617	3,771	3,812	3,441	3,602	3,832	3,989
Percent Change Annualized	<b>29.7</b>	<b>-3.1</b>	<b>-1.4</b>	<b>1.0</b>	<b>2.0</b>	<b>18.2</b>	<b>4.5</b>	<b>12.1</b>	<b>4.7</b>	<b>6.4</b>	<b>4.1</b>

a = actual p = preliminary f = forecast

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