

Economic Expansion to Broaden in 2026 on Tailwinds From Lower Interest Rates, Fiscal Stimulus, and an Improving Housing Market; More Fed Cuts Forecast for Next Year

The U.S. economy looks to have registered a good albeit uneven year in 2025, though there is less data available this December than usual to judge since the government shutdown delayed many economic statistics. 2025 saw solid real GDP growth as spending surged on AI-related software, equipment, and data centers. The roaring stock market fueled wealth gains by affluent households, supporting consumer spending. However, job growth was sluggish and inflation held above the Fed's target, pressuring the finances of lower- and middle-income households.

Employment took a leg down in the fourth quarter as the federal government shed tens of thousands of workers while private hiring slowed to a near-standstill. The December jobs report's release in early 2026 will likely show the unemployment rate rose about half a percentage point over the course of 2025. Job growth should gain traction in the new year, though, supported by stronger conditions in industries that lagged in the past year. The Fed's rate cuts between Labor Day and the end of 2025 set the stage for a rebound of existing home sales, which should fuel hiring in real estate, as well as real estate-adjacent industries like retailing of appliances and furniture and home remodeling. Consumer spending on durable goods will get a shot in the arm from the tax cuts included in the July 4 fiscal bill, another tailwind for retailers. Increased federal spending will fuel hiring of federal workers and contractors. In the other direction, rising AI adoption poses an upside risk to white-collar unemployment. Compare AI to the smartphone, another recent technological revolution: Its rise accelerated the decline of print publishing as media consumption habits changed. Smartphones did eventually fuel a boom of gig economy jobs, too, but that took years longer to emerge than the decline of print publishing.

Inflation is forecast to hold above the Fed's target in 2026 as tariff costs gradually work their way to checkout prices. Next year will likely mark the sixth consecutive year of inflation above the Fed's target. Even so, consumers are finding relief from prices less affected by trade: In particular, shelter inflation is finally cooling off as house prices and advertised rents hold little changed, and as more housing supply comes to market. Inflation from tariffs is forecast to dissipate in the second half of 2026, moving overall inflation closer to the Fed's target.

After three quarters of a percent in rate cuts between September and December, the Fed looks likely to continue to reduce rates in 2026. The Fed will want to arrest the downward momentum visible in recent employment data. That momentum will probably be even clearer in early 2026 as delayed job market data are published. Comerica forecasts for the Fed to reduce the federal funds target rate by three quarters of a percent by September, to a range of 2.75% to 3.00%. The ten-year Treasury yield is forecast to average between 4.00% and 4.25% in 2026.

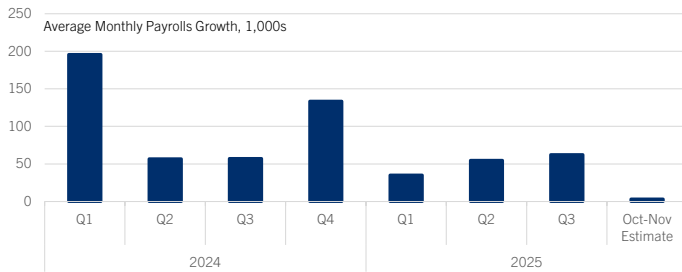
U.S. Economic Outlook, Summary											
<i>a = actual f = forecast</i>	2Q'25a	3Q'25p	4Q'25f	1Q'26f	2Q'26f	3Q'26f	4Q'26f	2024a	2025f	2026f	2027f
Real GDP (Percent Change Annualized)	3.8	4.0	0.6	1.7	2.0	1.9	1.8	2.8	2.1	2.0	2.0
CPI (Percent Change Year-over-Year)	2.5	2.9	2.8	2.6	2.8	2.6	2.6	3.0	2.7	2.6	2.4
Payroll Jobs (Average Monthly Diff., Ths.)	93	33	25	30	35	40	50	161	81	39	46
Unemployment Rate (Percent)	4.2	4.3	4.4	4.5	4.6	4.5	4.3	4.0	4.2	4.5	3.9
Federal Funds Rate (Period Average)	4.33	4.29	3.91	3.46	3.33	3.08	2.88	5.14	4.21	3.19	2.88
10-Yr. Treasury Rate (Period Average)	4.36	4.26	4.09	4.11	4.11	4.11	4.11	4.21	4.29	4.11	4.11
<i>a = actual p = preliminary f = forecast</i>											

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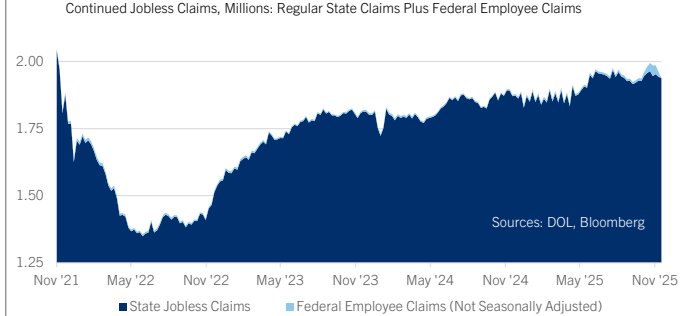
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Payrolls Growth Seems to Have Hit an Air Pocket in Late 2025

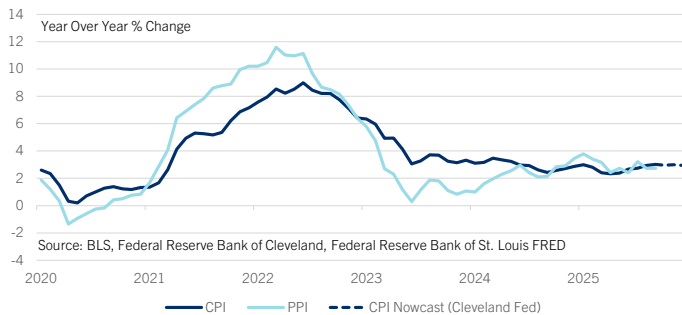


Sources: BLS, ADP, Revelio Labs, LinkedIn, Comerica Bank estimates.
Note: Values adjusted to incorporate 2025 preliminary benchmark revision to payroll employment.

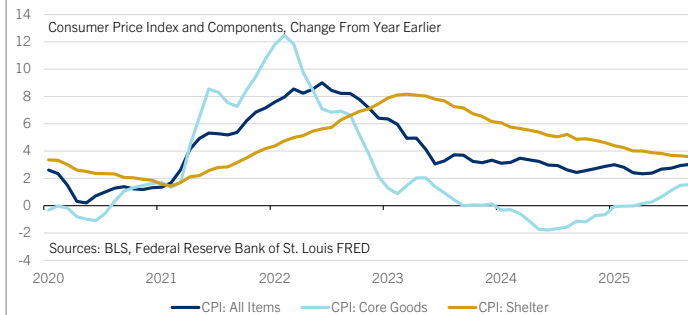
Federal Layoffs Pushed Jobless Claims to Highest Since 2021 in October



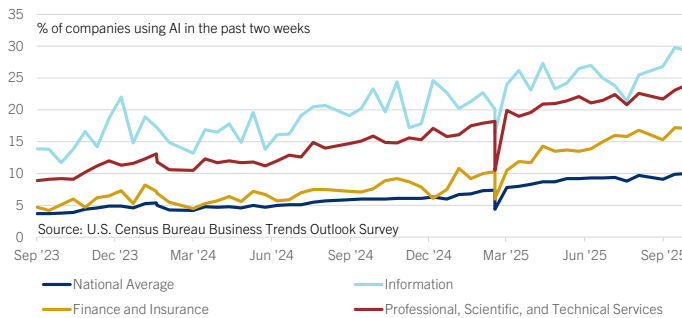
Inflation Likely Held Stable Above the Fed's Target at Year-End



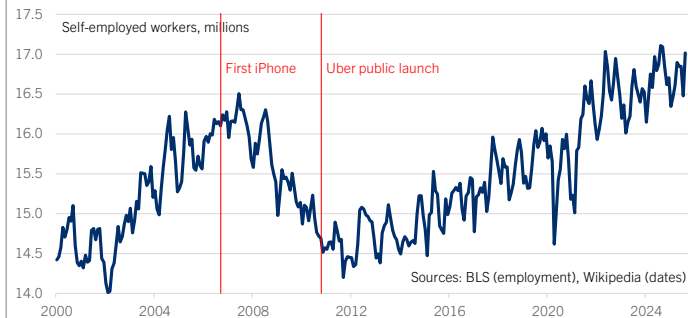
Cooling Shelter Inflation Is Helping Offset Tariff Costs in the CPI Basket



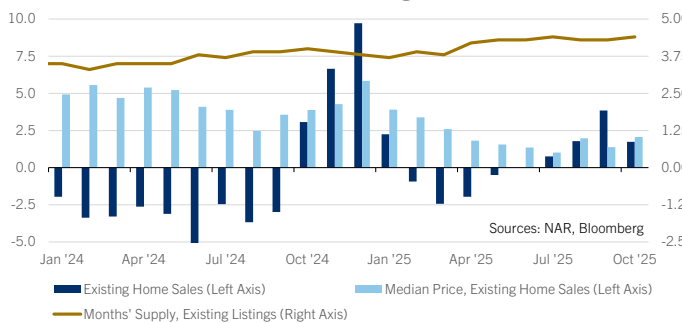
AI Adoption Is Moving Fastest in Industries With Large Shares of White-Collar Workers



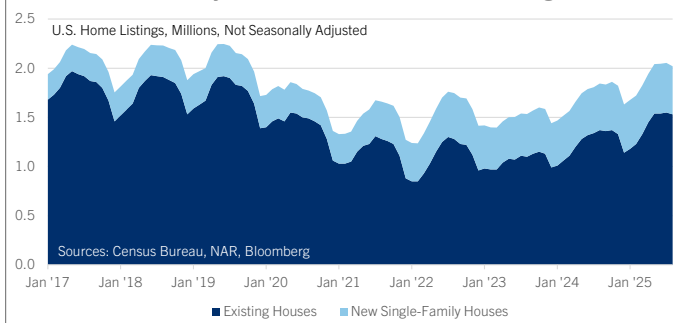
It Took Four Years for the Launch of the Modern Smartphone to Kickstart Rideshare & Delivery Jobs



Existing Home Sales Up Year-Over-Year in Last Four Months as Listings Rise



Home Listings Near Pre-Pandemic Levels, With More Newly-Built Units and Fewer Existing Units



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	2Q'25a	3Q'25p	4Q'25f	1Q'26f	2Q'26f	2Q'26f	2Q'26f	2024a	2025f	2026f	2027f
Output											
Nominal GDP (Billions \$ Annualized Rate)	30,486	30,972	31,208	31,536	31,890	32,227	32,556	29,298	30,677	32,052	33,433
Percent Change Annualized	6.0	6.5	3.1	4.3	4.6	4.3	4.1	5.3	4.7	4.5	4.3
Real GDP (Chained 2017 Billions \$ Annual Rate)	23,771	24,004	24,041	24,140	24,260	24,376	24,487	23,358	23,841	24,316	24,805
Percent Change Annualized	3.8	4.0	0.6	1.7	2.0	1.9	1.8	2.8	2.1	2.0	2.0
Pers. Consumption Expenditures	16,446	16,549	16,592	16,669	16,771	16,851	16,925	16,088	16,483	16,804	17,114
Percent Change Annualized	2.5	2.5	1.0	1.9	2.5	1.9	1.8	2.9	2.5	1.9	1.8
Nonresidential Fixed Investment	3,659	3,682	3,709	3,749	3,795	3,843	3,890	3,519	3,661	3,819	4,007
Percent Change Annualized	7.3	2.5	2.9	4.5	4.9	5.2	5.0	2.9	4.0	4.3	4.9
Residential Investment	779	764	766	772	779	785	790	790	774	781	801
Percent Change Annualized	-5.1	-7.2	1.0	3.2	3.4	3.1	2.6	3.2	-2.0	0.9	2.5
Change in Private Inventories	-18	-20	16	21	32	33	15	43	37	25	9
Net Exports	-1,058	-946	-1,028	-1,083	-1,153	-1,193	-1,210	-1,033	-1,103	-1,160	-1,248
Government Expenditures	3,993	4,005	4,016	4,041	4,067	4,088	4,109	3,945	4,002	4,076	4,155
Percent Change Annualized	-0.1	1.2	1.1	2.5	2.6	2.1	2.0	3.8	1.4	1.9	1.9
Federal Fiscal Deficit, \$ Trillions, Fiscal Year	--	--	--	--	--	--	--	1.83	1.78	2.16	2.32
As Percent of Annual GDP								-6.3	-5.8	-6.7	-6.9
Industrial Prod. Index (2007=100)	103.8	103.9	104.1	104.6	105.1	105.5	105.9	102.6	103.8	105.3	106.9
Percent Change Annualized	1.6	0.4	0.7	1.9	1.9	1.6	1.5	-0.3	1.2	1.4	1.5
Capacity Utilization (Percent)	77.6	77.4	77.2	77.2	77.3	77.3	77.2	77.6	77.4	77.2	76.9
Prices											
CPI (Year-Over-Year % Change)	2.5	2.9	2.8	2.6	2.8	2.6	2.6	3.0	2.7	2.6	2.4
Core CPI (Year-Over-Year % Change)	2.8	3.1	3.0	2.9	3.0	2.7	2.5	3.4	3.0	2.8	2.3
PCE Price Index (Year-Over-Year % Change)	2.4	2.8	2.8	2.7	2.8	2.6	2.6	2.6	2.6	2.7	2.4
Core PCE Price Index (Year-Over-Year % Change)	2.7	3.0	3.0	3.0	3.0	2.8	2.6	2.9	2.9	2.8	2.4
GDP Price Index (Year-Over-Year % Change)	2.5	2.7	2.7	2.4	2.5	2.5	2.5	2.5	2.6	2.5	2.3
PPI, Final Demand (Year-Over-Year % Change)	2.5	2.9	2.4	2.0	2.7	2.4	2.5	2.4	2.8	2.4	2.4
Crude Oil, WTI (\$/barrel)	\$65	\$66	\$60	\$61	\$61	\$61	\$62	\$77	\$66	\$61	\$62
Labor Markets											
Payroll Jobs (Average Monthly Difference, Ths.)	93	33	25	30	35	40	50	161	81	39	46
Unemployment Rate (Percent)	4.2	4.3	4.4	4.5	4.6	4.5	4.3	4.0	4.2	4.5	3.9
Labor Force Participation Rate (%)	62.4	62.2	62.1	62.1	62.2	62.1	62.0	62.6	62.3	62.1	62.1
Average Weekly Hours	34.3	34.2	34.2	34.2	34.2	34.2	34.1	34.3	34.2	34.2	34.0
Personal Income											
Average Hourly Earnings (\$)	36.21	36.53	36.80	37.07	37.32	37.56	37.81	35.06	36.36	37.44	38.51
Percent Change Annualized	3.3	3.6	3.1	2.9	2.7	2.5	2.7	4.0	3.7	3.0	2.9
Real Disp. Income (2017 Billions \$ Annualized)	18,082	18,129	18,224	18,533	18,728	18,755	18,805	17,724	18,095	18,705	18,957
Percent Change Annualized	3.1	1.0	2.1	6.9	4.3	0.6	1.1	2.9	2.1	3.4	1.3
Personal Saving Rate (Percent)	5.3	5.3	5.5	5.7	5.9	6.0	6.2	5.4	5.3	5.9	6.5
Housing											
Housing Starts (Ths., Annual Rate)	1,354	1,338	1,335	1,336	1,341	1,347	1,354	1,371	1,357	1,344	1,374
Single-Family Housing Starts	941	921	913	908	909	912	915	1,016	947	911	930
Multifamily Housing Starts	413	417	422	428	432	435	438	355	410	433	443
Exst. SF Home Sales (Ths., Annual Rate)	3,627	3,653	3,746	3,799	3,830	3,858	3,881	3,673	3,691	3,842	3,940
New SF Home Sales (Ths., Annual Rate)	670	687	693	695	698	700	703	685	676	699	717
FHFA Purchase-Only HPI (Annual % Change)	2.9	2.1	0.9	0.5	0.9	1.5	1.9	5.4	2.5	1.2	2.5
Case/Shiller One-Family HPI (Annual % Change)	2.4	1.5	0.5	-0.1	1.0	1.7	2.1	5.1	2.0	1.2	2.7
Consumer											
Retail & Food Service Sales (Monthly Avg, Bns)	720.3	730.6	732.9	741.9	752.3	759.1	765.5	696.9	724.8	754.7	780.9
Percent Change Annualized	2.9	5.9	1.3	5.0	5.7	3.7	3.4	2.6	4.0	4.1	3.5
Consumer Confidence* (Conference Board)	93.1	97.4	98.3	101.8	99.3	102.9	105.2	104.5	97.1	102.3	112.1
Car and Light Truck Sales (Millions)	16.3	16.7	15.4	15.8	16.1	16.2	16.3	16.0	16.2	16.1	15.9
Financial Indicators (Period Average)											
Federal Funds Rate (Effective)	4.33	4.29	3.91	3.46	3.33	3.08	2.88	5.14	4.21	3.19	2.88
Prime Rate	7.50	7.46	7.03	6.58	6.45	6.20	6.00	8.31	7.37	6.31	6.00
1-Month Term SOFR	4.32	4.28	3.86	3.43	3.31	3.07	2.87	5.11	4.19	3.17	2.87
3-Month Term SOFR	4.30	4.19	3.81	3.52	3.35	3.02	2.90	5.05	4.15	3.20	2.91
1-Yr. Treasury Rate	4.03	3.88	3.66	3.39	3.11	2.86	2.90	4.69	3.93	3.06	3.04
5-Yr. Treasury Rate	3.96	3.80	3.66	3.63	3.59	3.55	3.52	4.13	3.92	3.57	3.53
10-Yr. Treasury Rate	4.36	4.26	4.09	4.11	4.11	4.11	4.11	4.21	4.29	4.11	4.11
30-Yr. Fixed Rate Mortgage	6.79	6.55	6.22	6.14	6.06	5.98	5.93	6.72	6.59	6.03	5.85
Corporate Profits After Tax (Billions \$ Annualized)	3,356	3,409	3,447	3,610	3,655	3,693	3,738	3,499	3,387	3,674	3,869
Percent Change Annualized	2.4	6.5	4.5	20.4	5.0	4.3	5.0	7.9	-3.2	8.5	5.3

a = actual p = preliminary f = forecast

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