

The Comerica U.S. Economic Outlook

Global Reflation and the Trump Swerve

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Reflation

Noun

1. An increase in economic activity and prices
2. An increase in the supply of money and credit designed to cause such an increase

Swerve

Verb

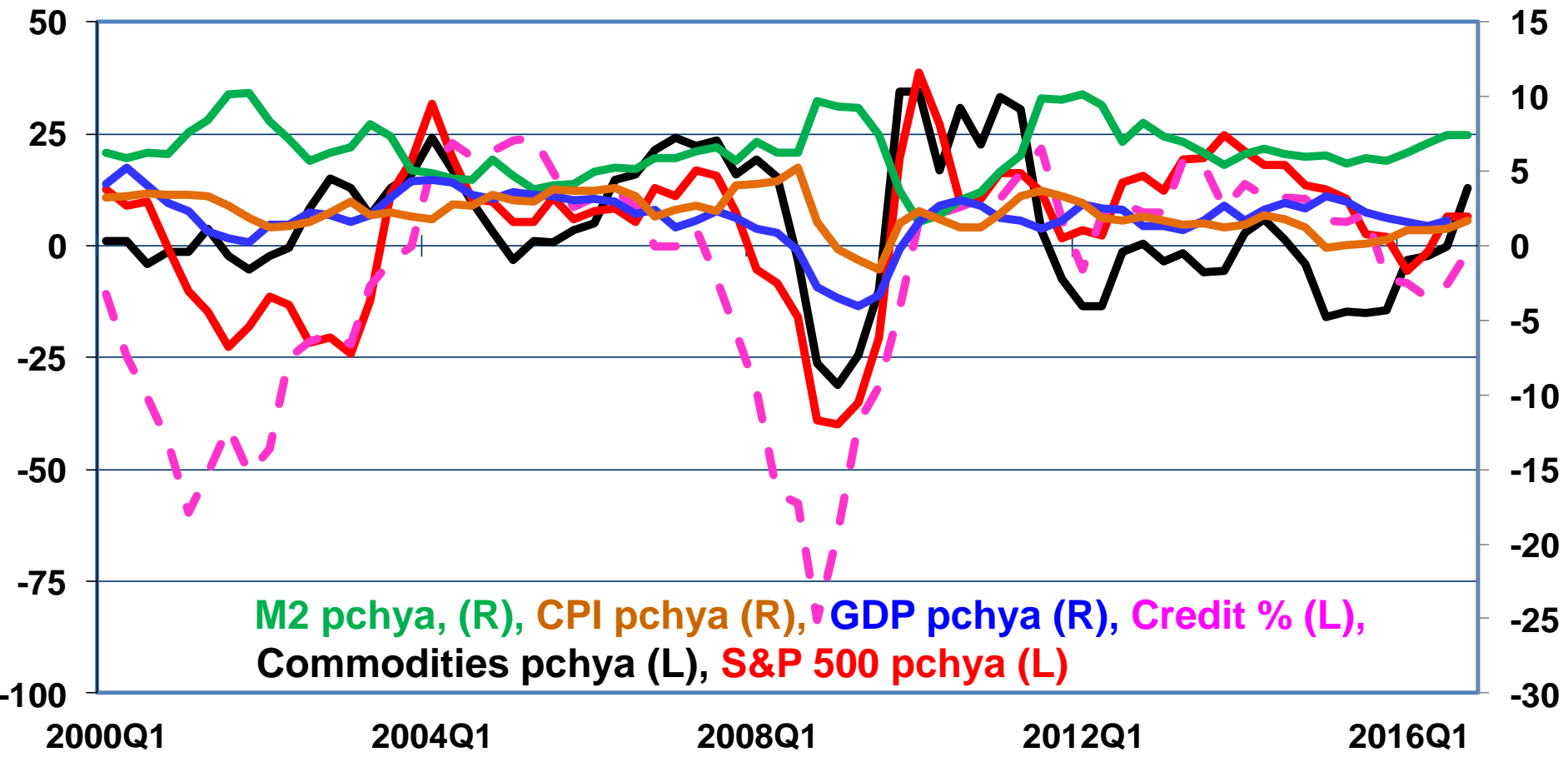
change or cause to change direction abruptly.
"a car swerved around a corner"

Noun

an abrupt change of direction.
"do not make sudden swerves, particularly around parked vehicles"

Reflation Metrics Are Lining Up....

Various Reflation Metrics



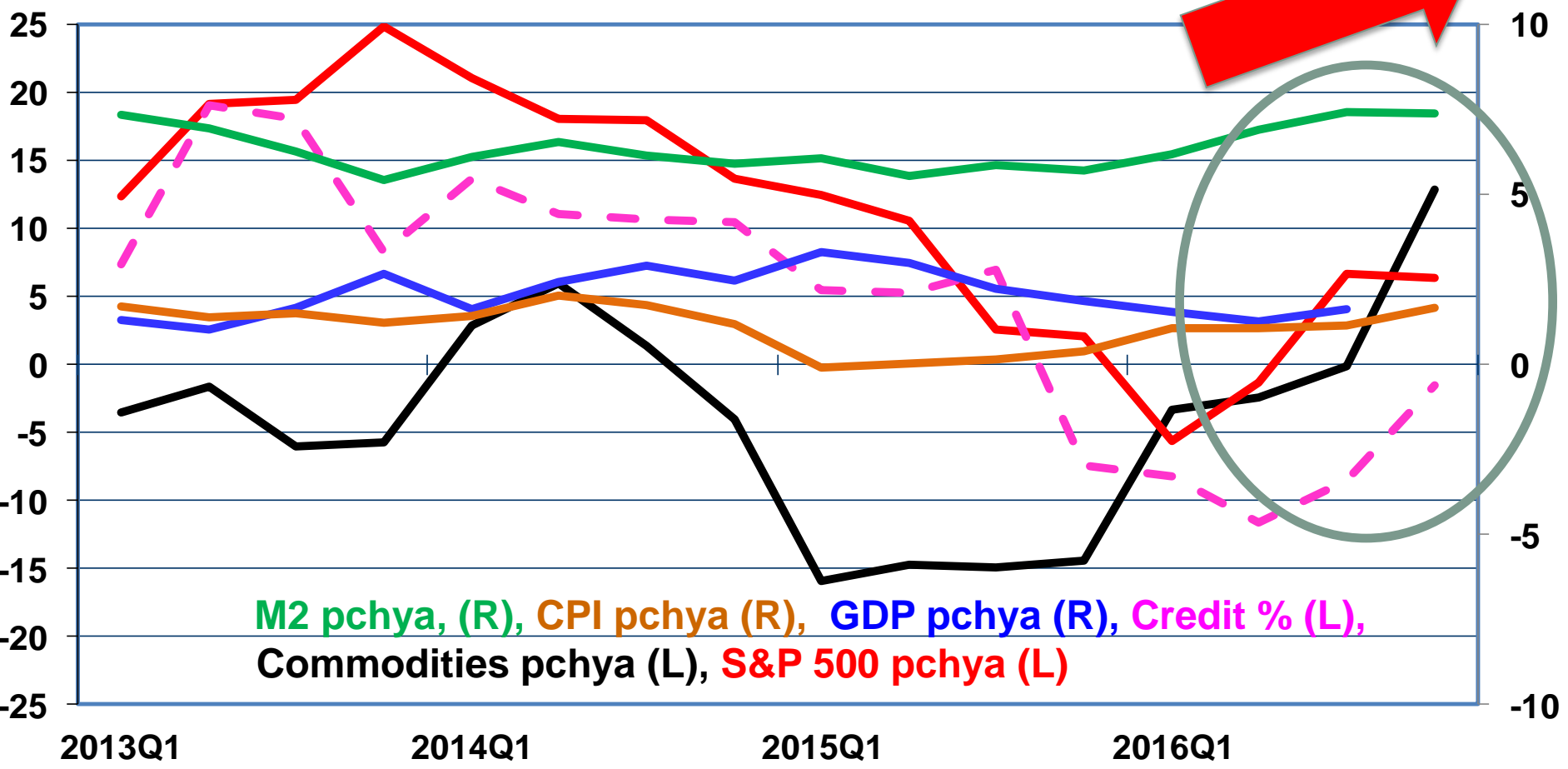
M2 pchya, (R), CPI pchya (R), GDP pchya (R), Credit % (L),
Commodities pchya (L), S&P 500 pchya (L)



Sources: BEA, BLS, Federal Reserve, CRB, S&P

Reflation Metrics Are Lining Up.... A Closer Look (Same Graph)

Various Reflation Metrics



M2 pchya, (R), CPI pchya (R), GDP pchya (R), Credit % (L),
Commodities pchya (L), S&P 500 pchya (L)



Sources: BEA, BLS, Federal Reserve, CRB, S&P

How the Trump Swerve May Impact the Economy

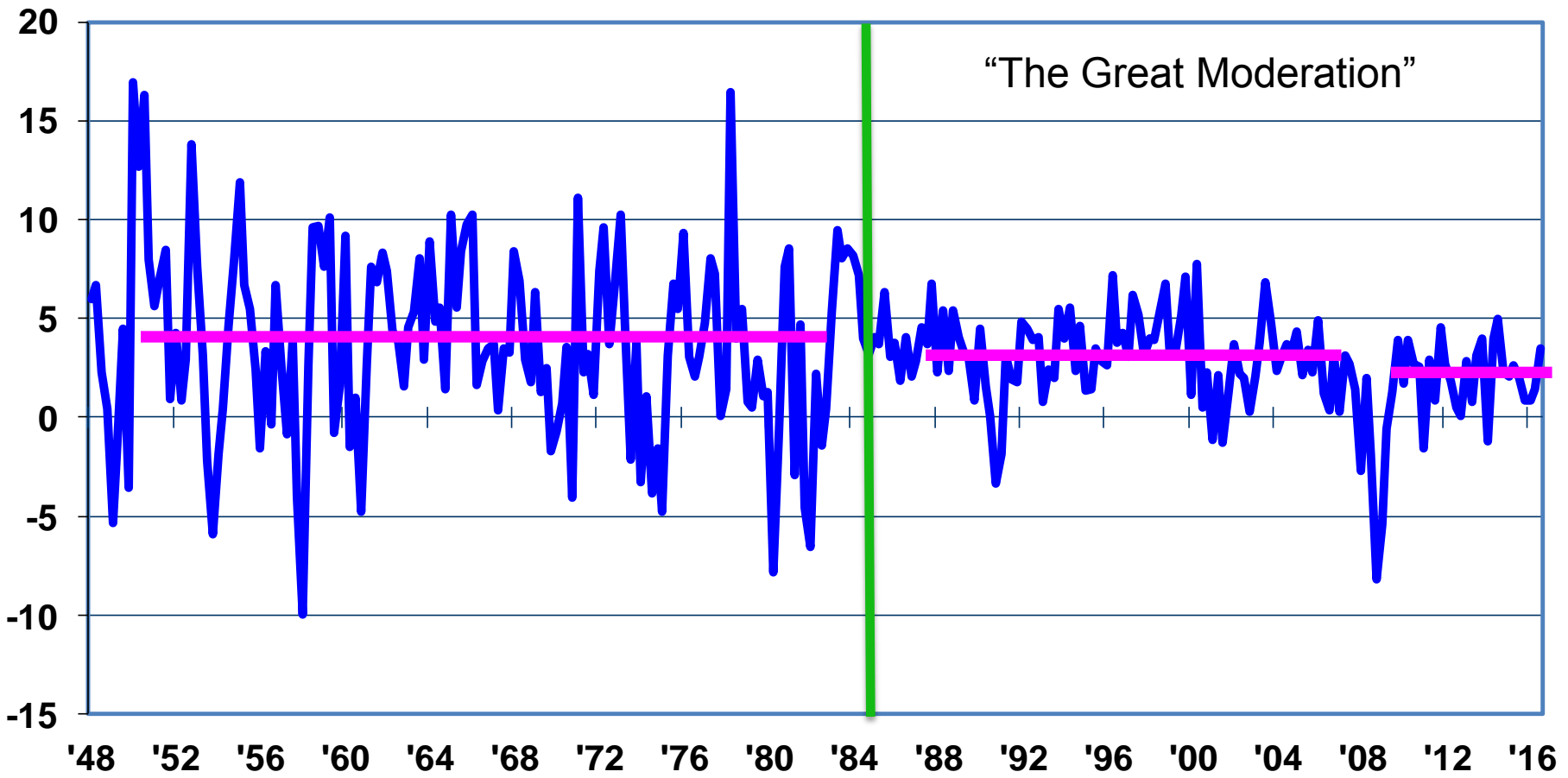
11 Areas

- Federal spending, infrastructure and defense, big league increase?
- Tax reform, personal and corporate, border adjustment tax
- Inflation higher, due to lower unemployment, stronger demand
- Interest rates higher, more debt and the monetary offset
- Value of the dollar stronger
- Healthcare...Yuge!
- International trade, potential for pushback
- Immigration, constraint to labor force growth
- Financial regulation, Rollback of Dodd-Frank
- Energy and environmental policy, Hydrocarbon friendly
- Federal Reserve, Yellen? Other appointees



The Heartbeat of the U.S. Economy

Real Gross Domestic Product, Annualized Percent Change

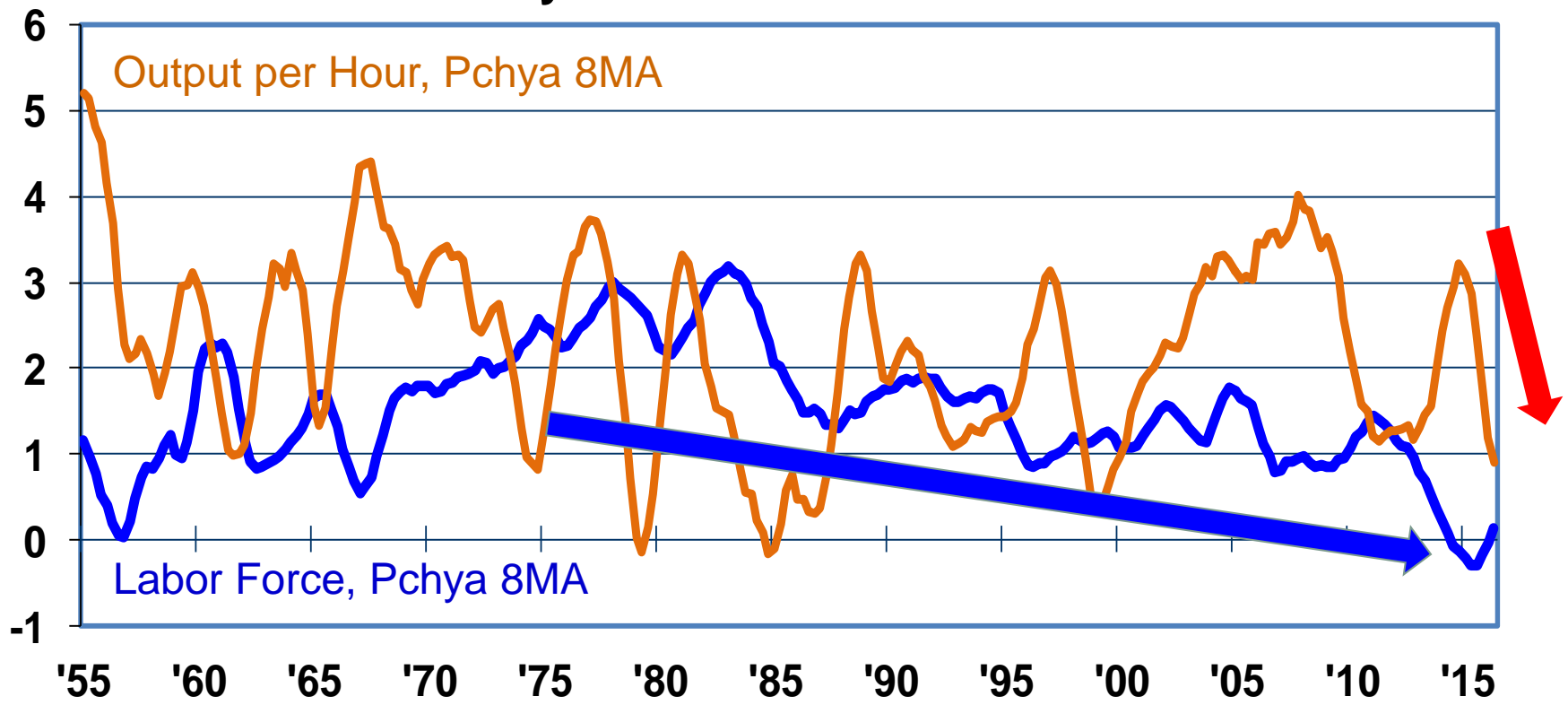


Source: BEA



Potential GDP As a Guide to Economic Performance

Productivity Growth and Labor Force Growth



Source: BLS



How to Increase Potential GDP

Productivity

- Encourage business investment
- Reduce regulatory burden
- Reduce drag from obsolete infrastructure
- Retain high productivity industries
- Incubate new high productivity industries

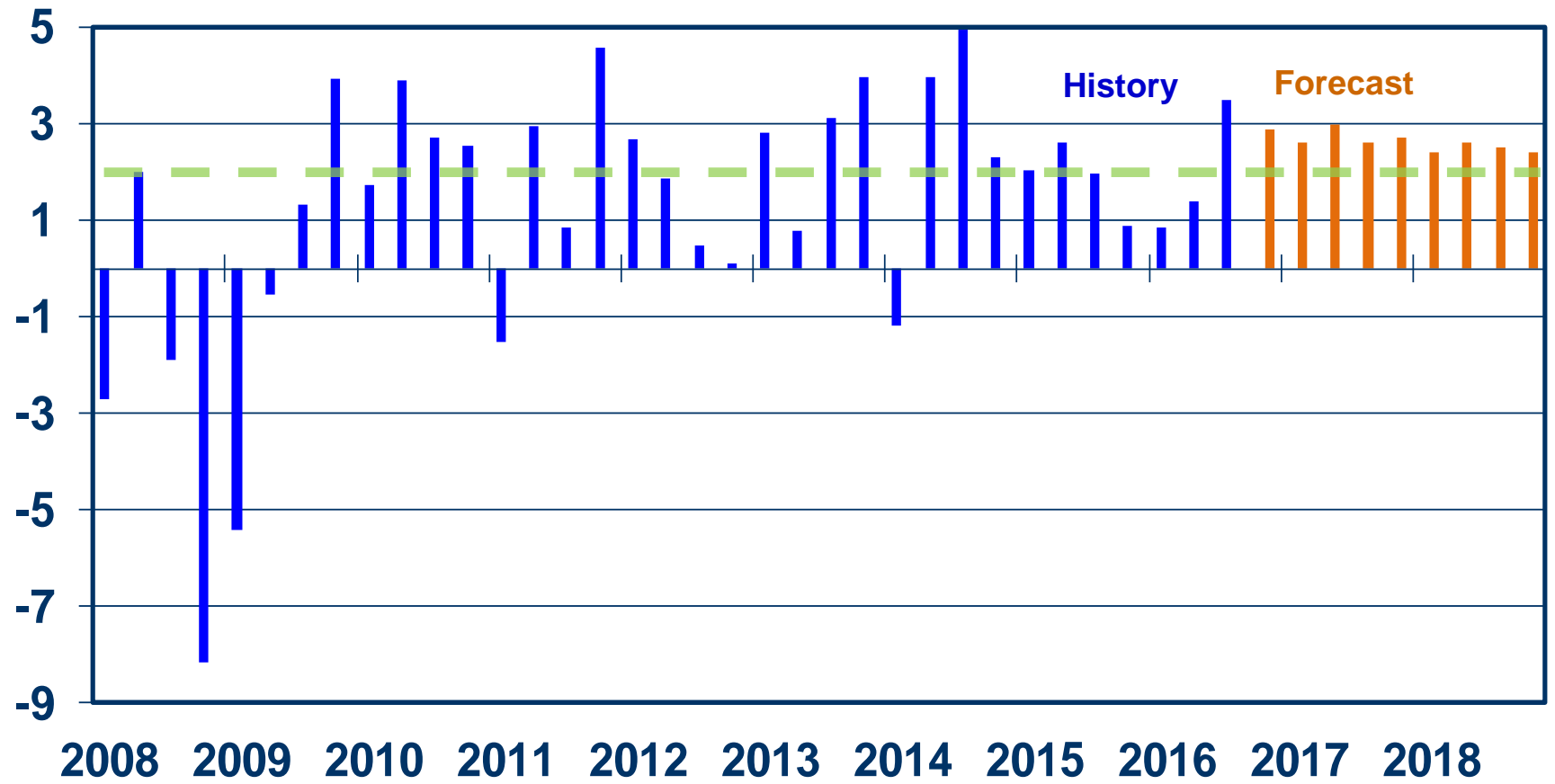
Labor Force

- Increase immigration of talented and motivated workers
- Education and workforce development
- Reabsorb disenfranchised workers
- Increase wages and the opportunity cost of not working



GDP Forecast, Ongoing Moderate Expansion

U.S. Real GDP Growth, Annualized Percent Change

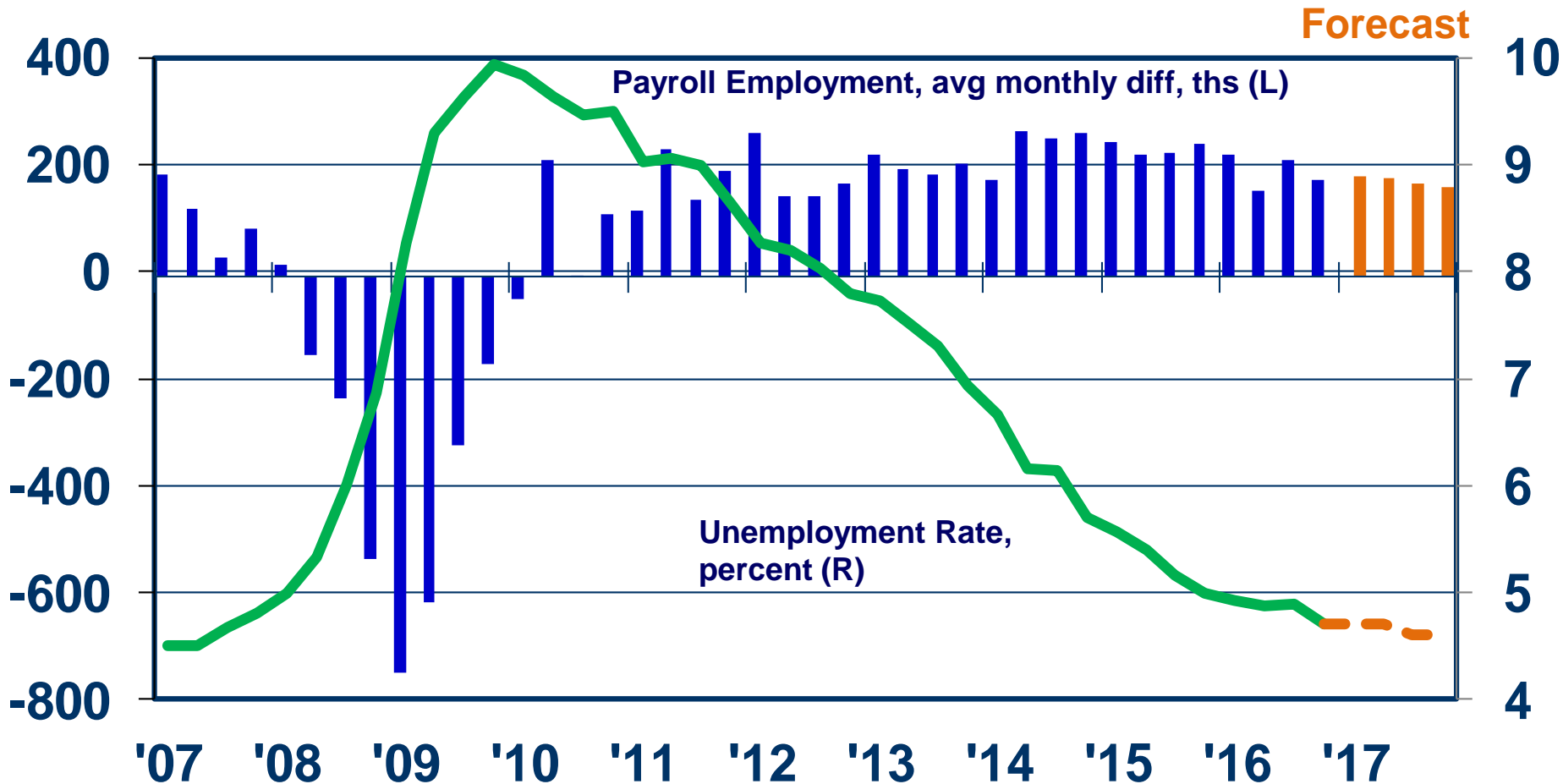


Sources: BEA, Comerica Bank



Unemployment Rate Approaching Lower Bound

+156k in December, U. Rate 4.7 Percent

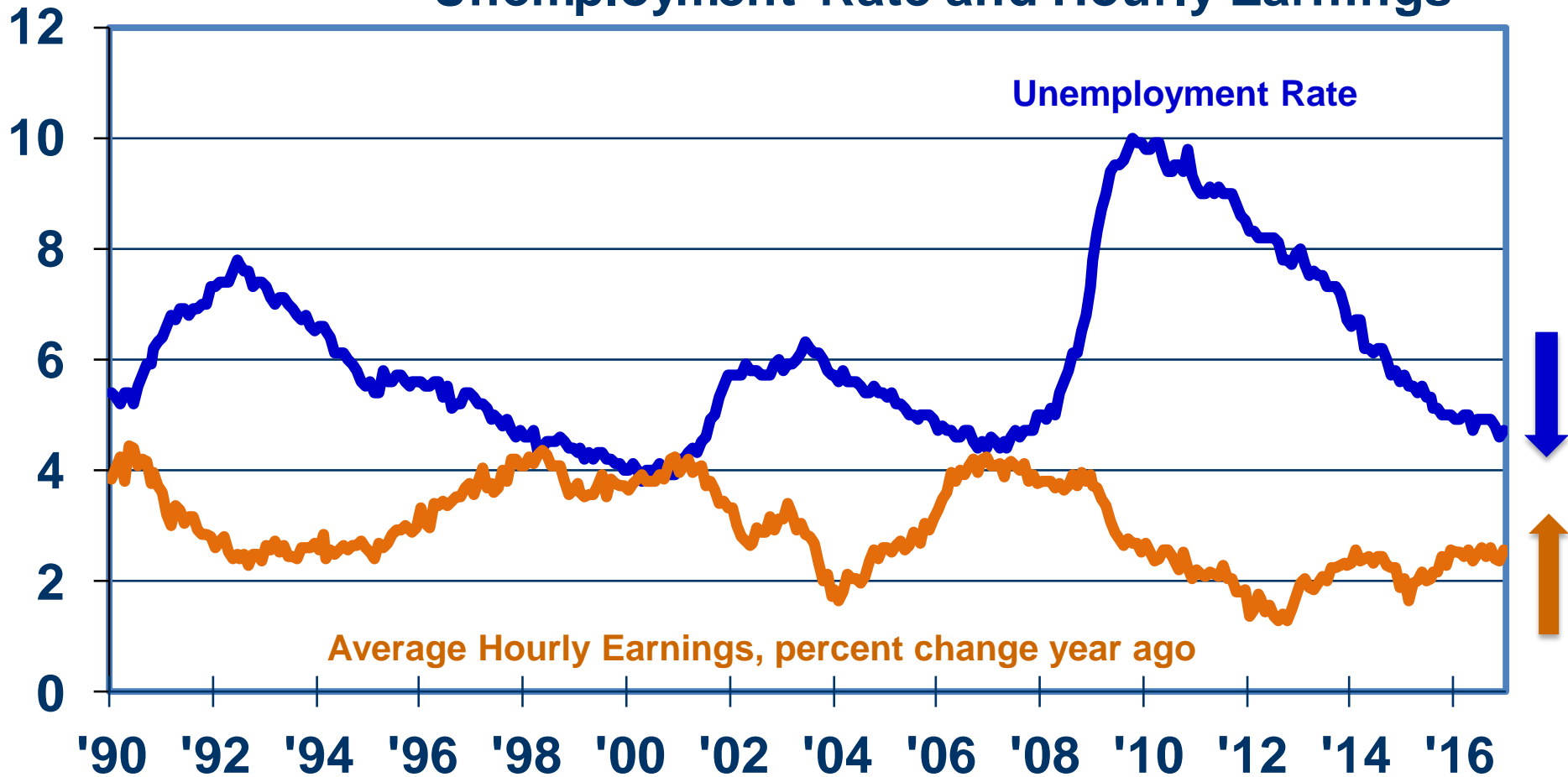


Sources: BLS, Comerica Bank



Upward Pressure on Wages Will Continue

Unemployment Rate and Hourly Earnings

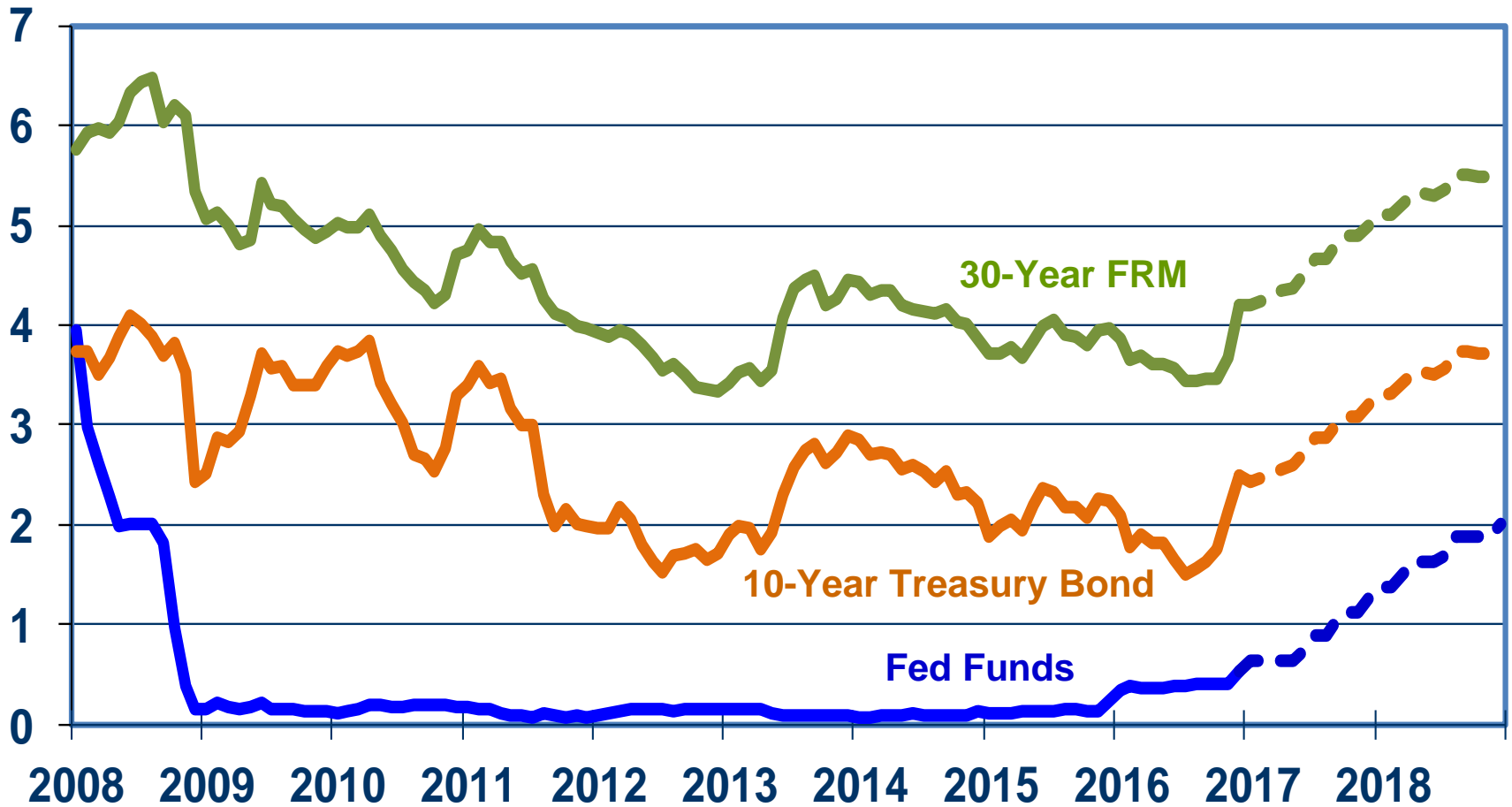


Source: BLS



Interest Rate Outlook

Yield, percent



Sources: Federal Reserve, Comerica Bank



2017 Forecast...The 360 View

Downside Risks

- Global volatility, China, Japan, Eurozone/Brexit, Russia, MENA
- Pushback from trade agreements
- Higher inflation
- Higher interest rates
- Dollar strength
- Trade balance deteriorates
- Terrorist event
- Consumer spending slumps
- Housing stalls

Upside Risks

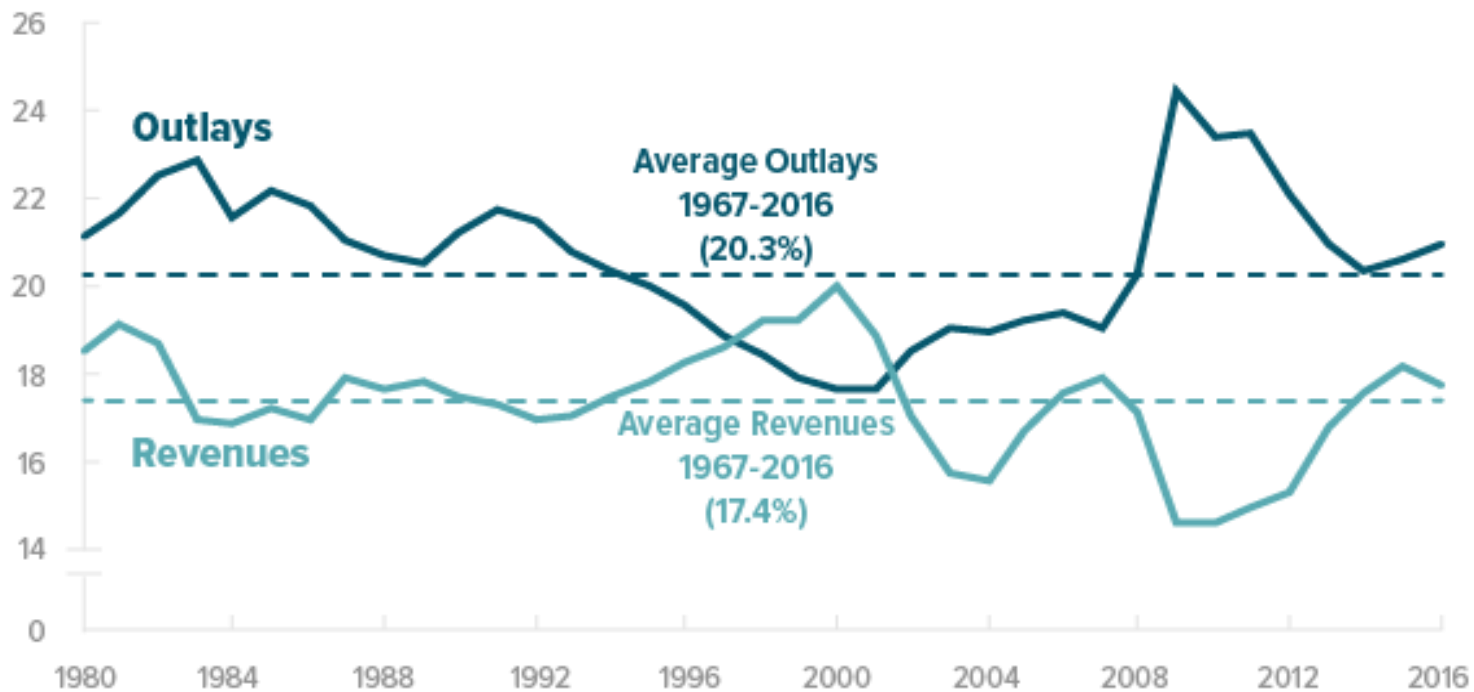
- Consumer/business confidence
- Stock market surge
- Tax reform, personal and corporate
- Fiscal Stimulus
- Business investment
- Financial market deregulation
- Expansive energy policy
- Single-family housing market
- China/Europe find traction
- Job growth stays strong



Mind the Gap

Federal Revenues and Outlays, 1980 to 2016

Percentage of GDP



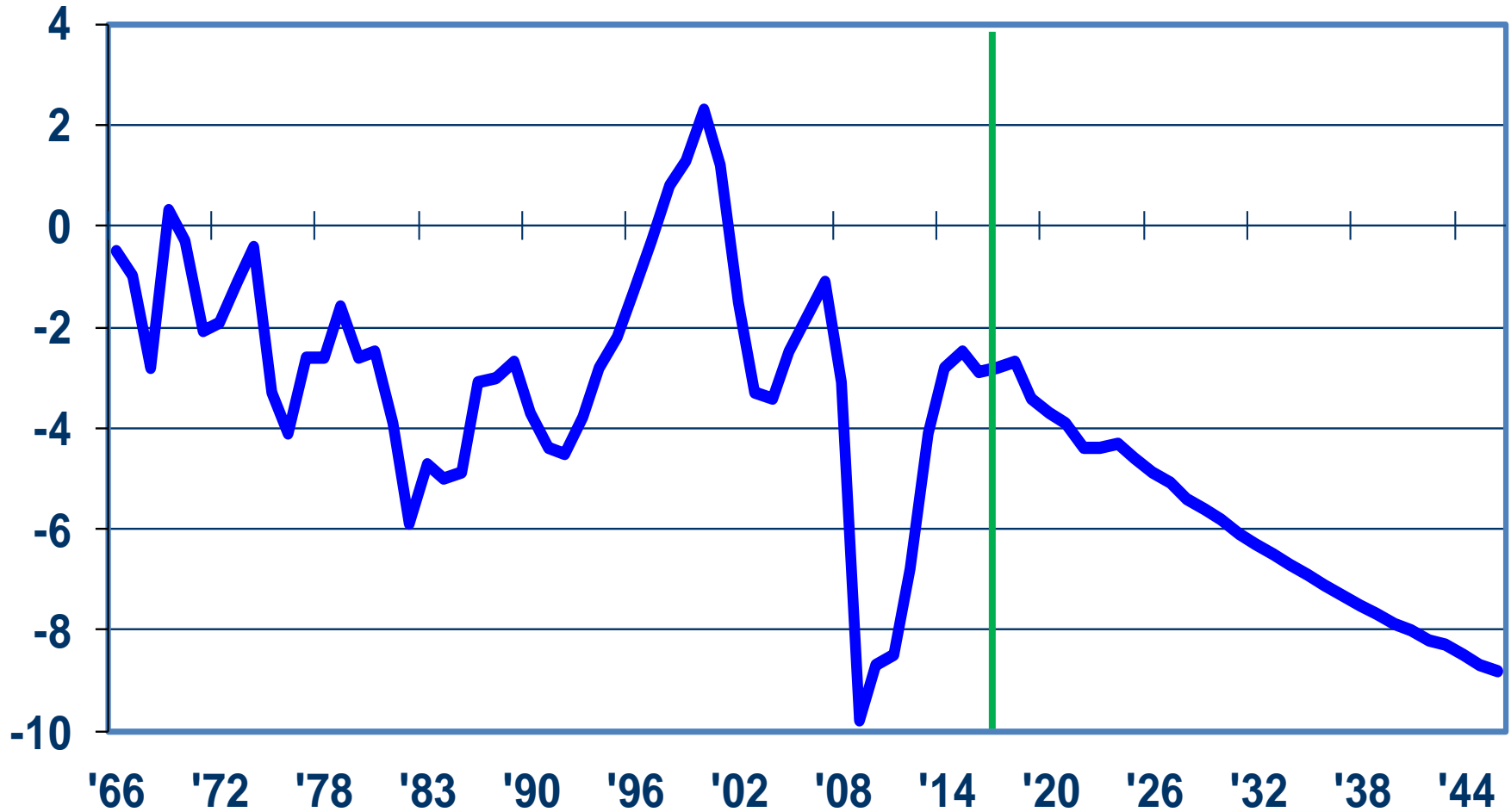
CONGRESSIONAL BUDGET OFFICE

NOVEMBER 2016



A Dire Prediction by the CBO

Federal Deficit as Percent of GDP

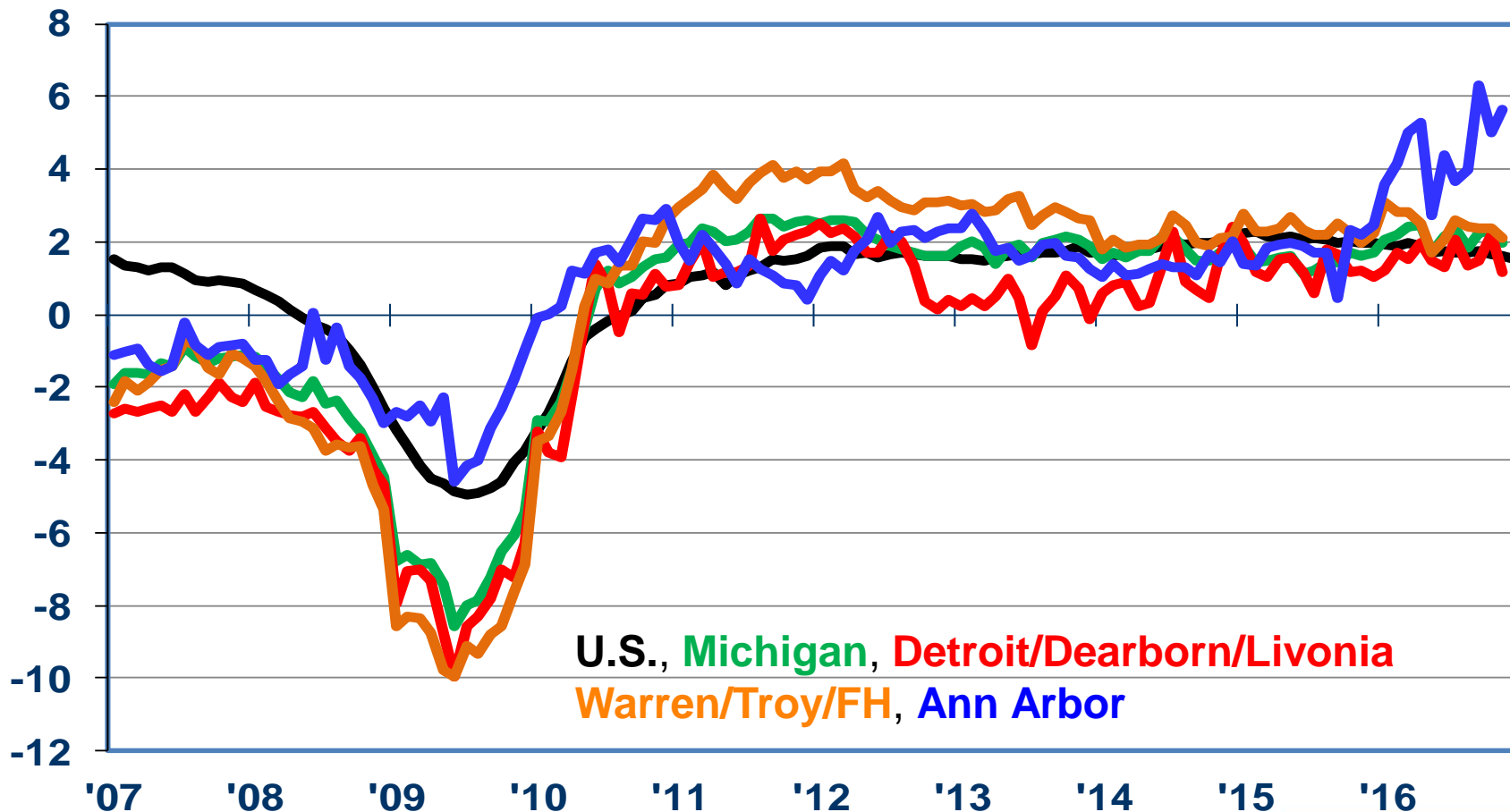


Source: Congressional Budget Office



U.S. and Michigan Job Growth

Total Employment, year-over-year percent



U.S., Michigan, Detroit/Dearborn/Livonia
Warren/Troy/FH, Ann Arbor



Source: Bureau of Labor Statistics

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