

# 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*

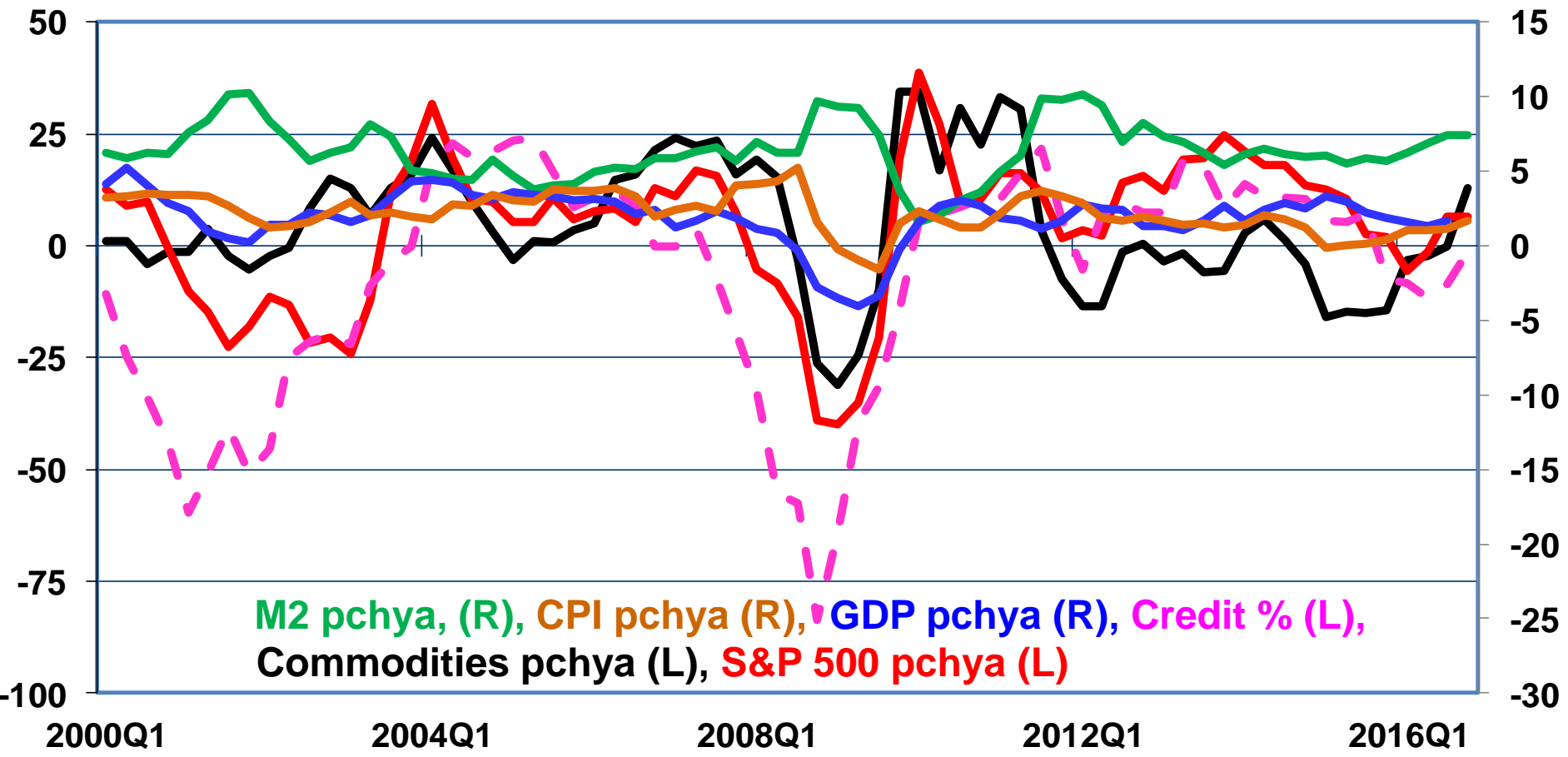
change or cause to change direction abruptly.  
"a car swerved around a corner"

*Noun*

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

# Reflation Metrics Are Lining Up....

## Various Reflation Metrics



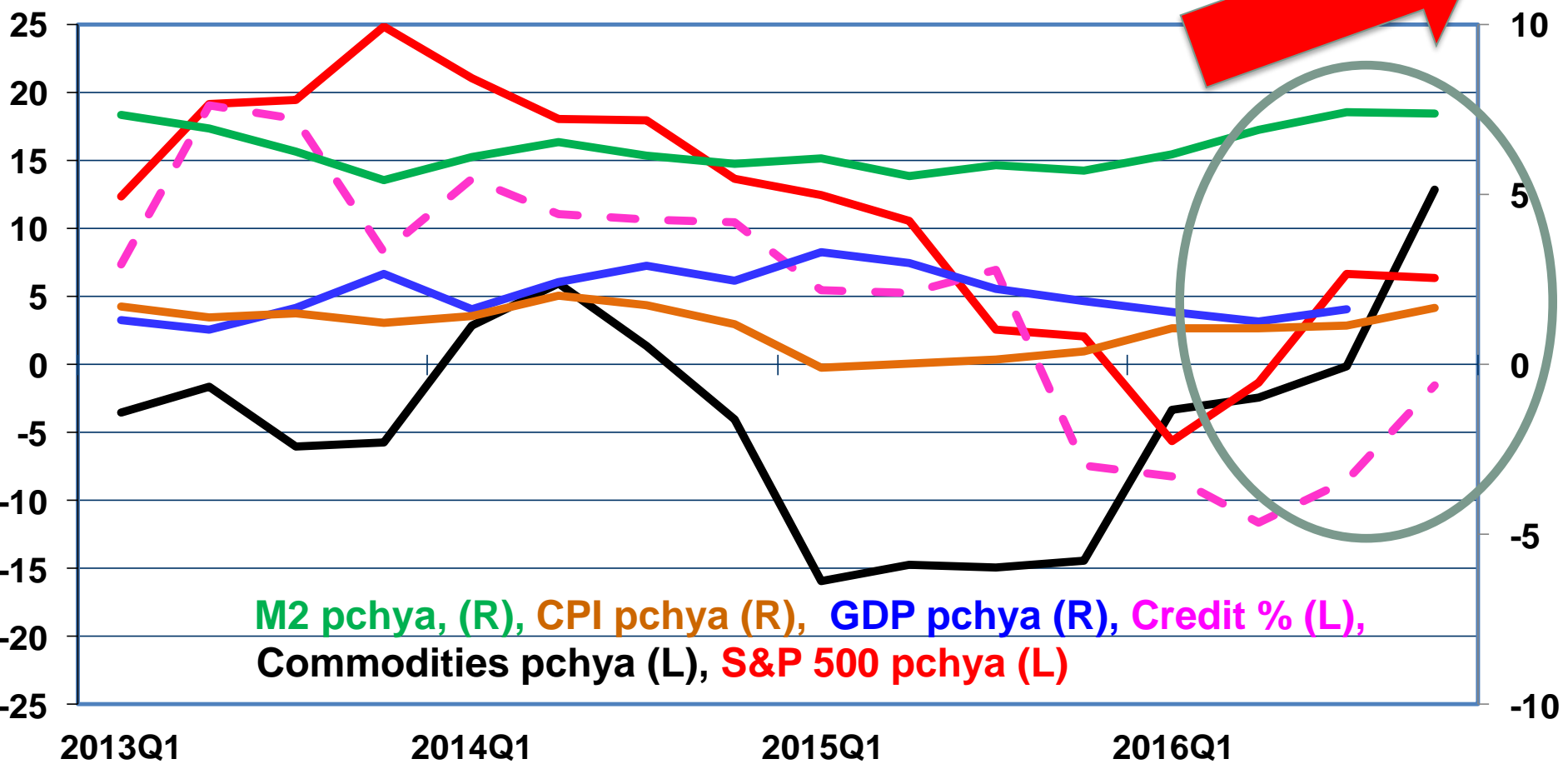
M2 pchya, (R), CPI pchya (R), GDP pchya (R), Credit % (L),  
Commodities pchya (L), S&P 500 pchya (L)



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

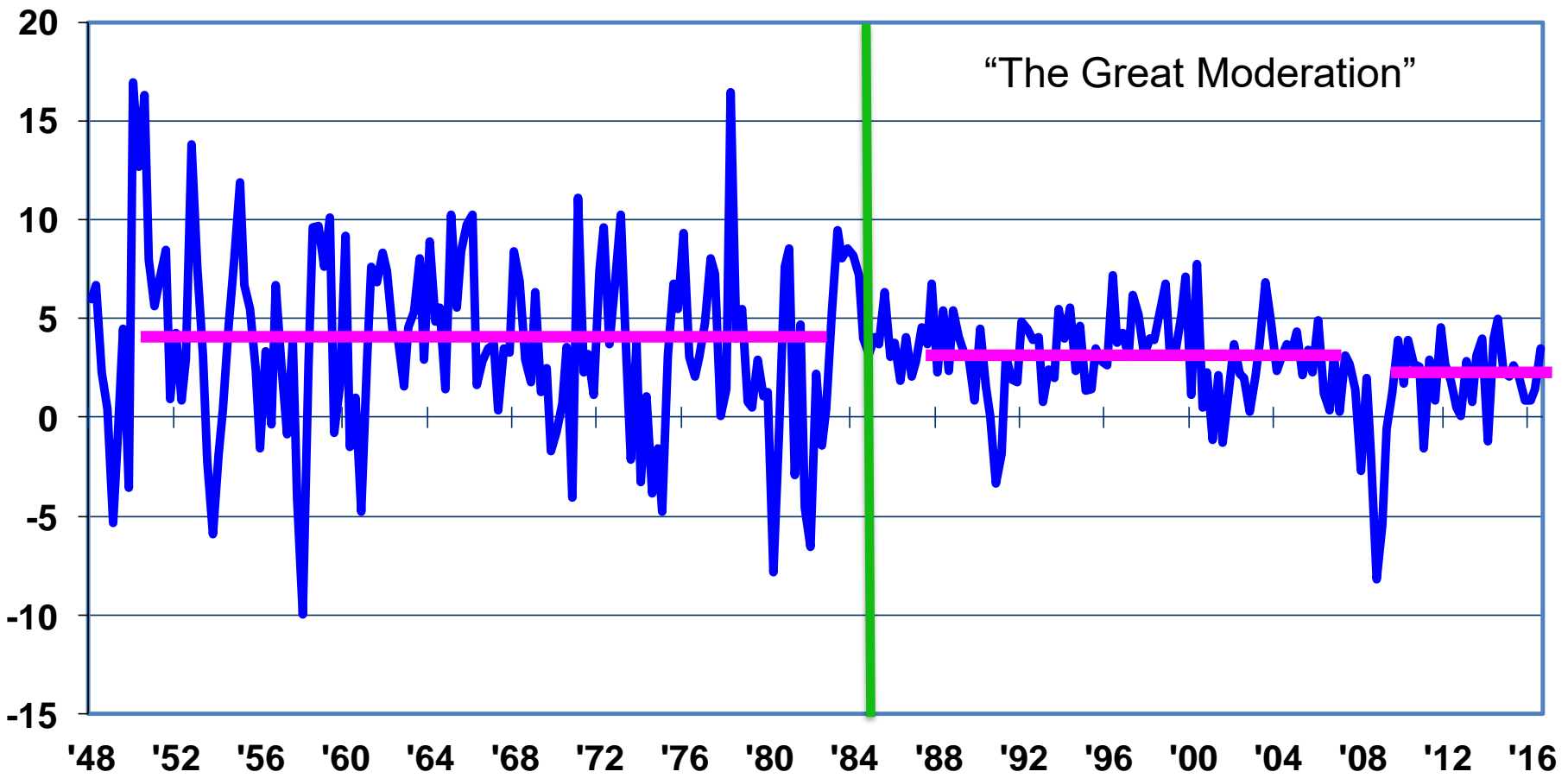
# *How the Trump Swerve May Impact the Economy*

## **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

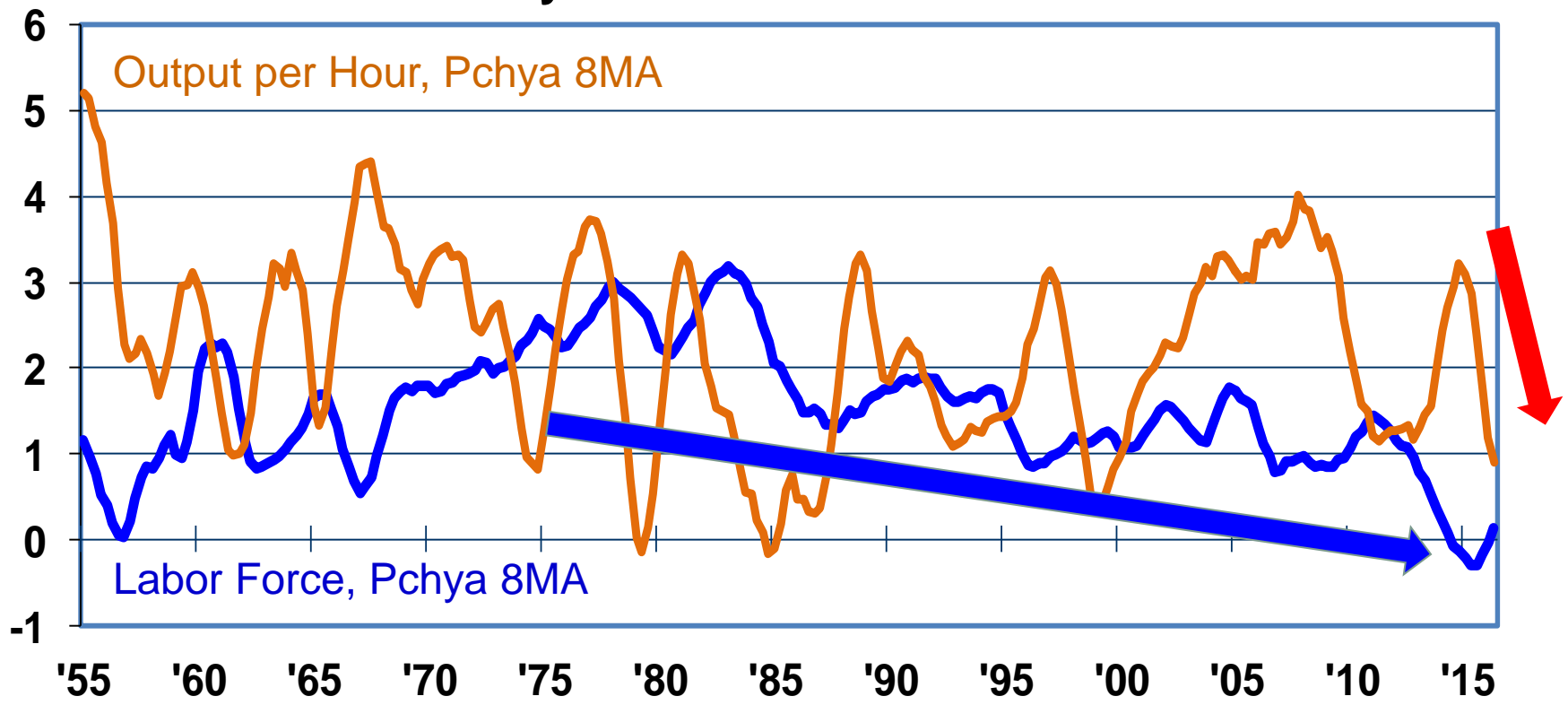


Source: BEA



# 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**

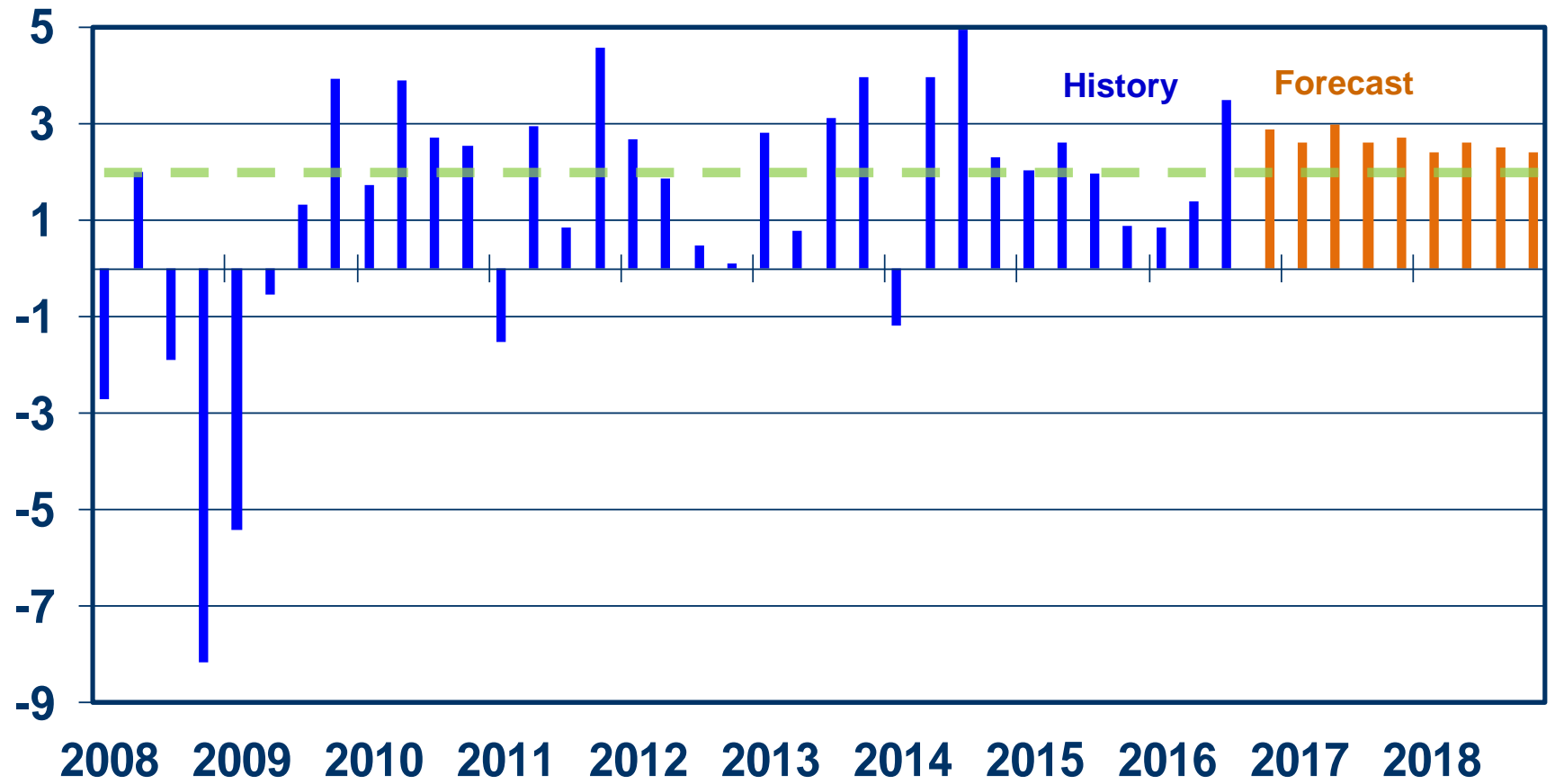
- Increase immigration of talented and motivated workers
- Education and workforce development
- Reabsorb disenfranchised workers
- Increase wages and the opportunity cost of not working





# GDP Forecast, Ongoing Moderate Expansion

## U.S. Real GDP Growth, Annualized Percent Change

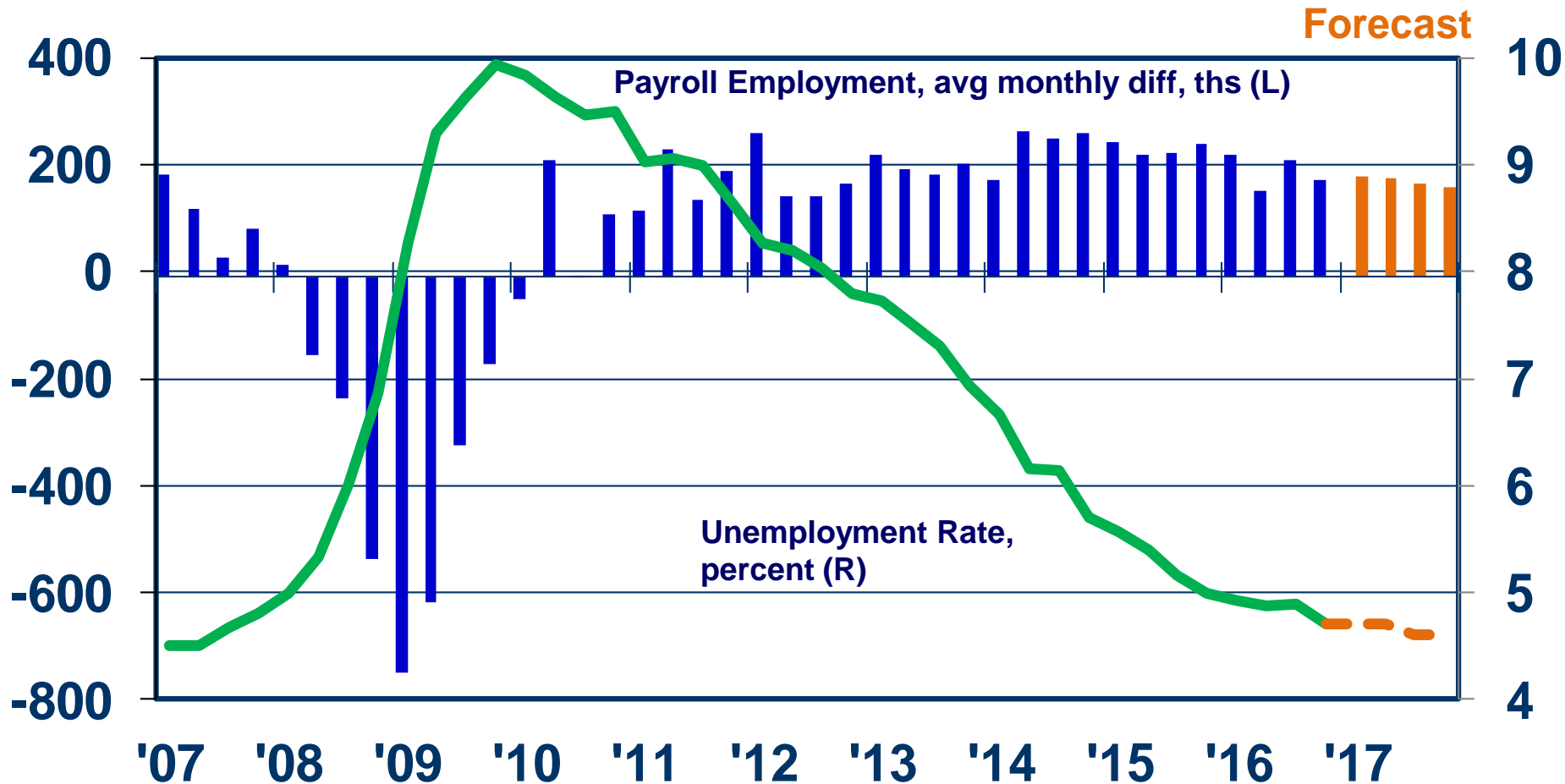


Sources: BEA, Comerica Bank



# Unemployment Rate Approaching Lower Bound

+156k in December, U. Rate 4.7 Percent

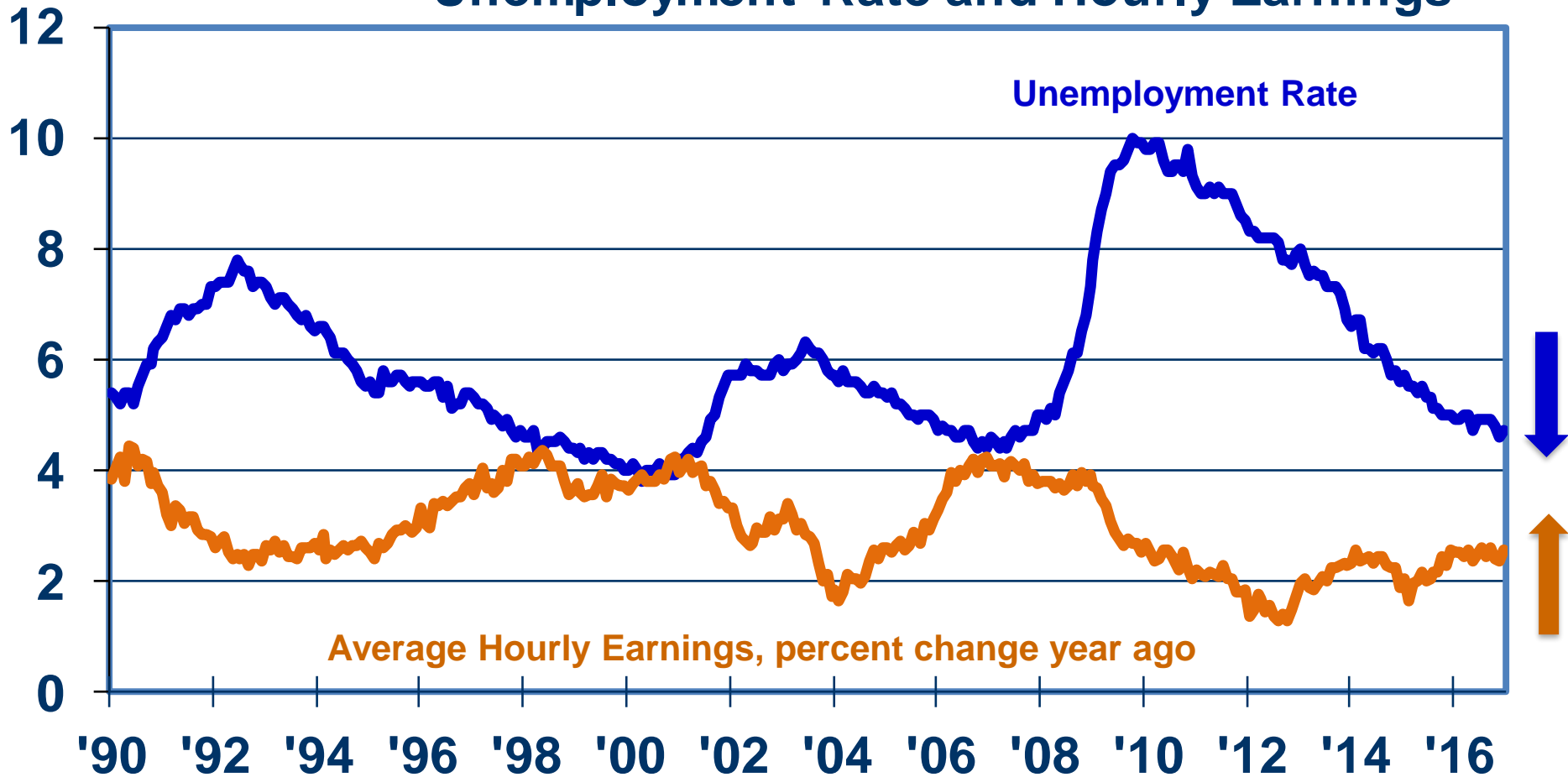


Sources: BLS, Comerica Bank



# Upward Pressure on Wages Will Continue

## Unemployment Rate and Hourly Earnings

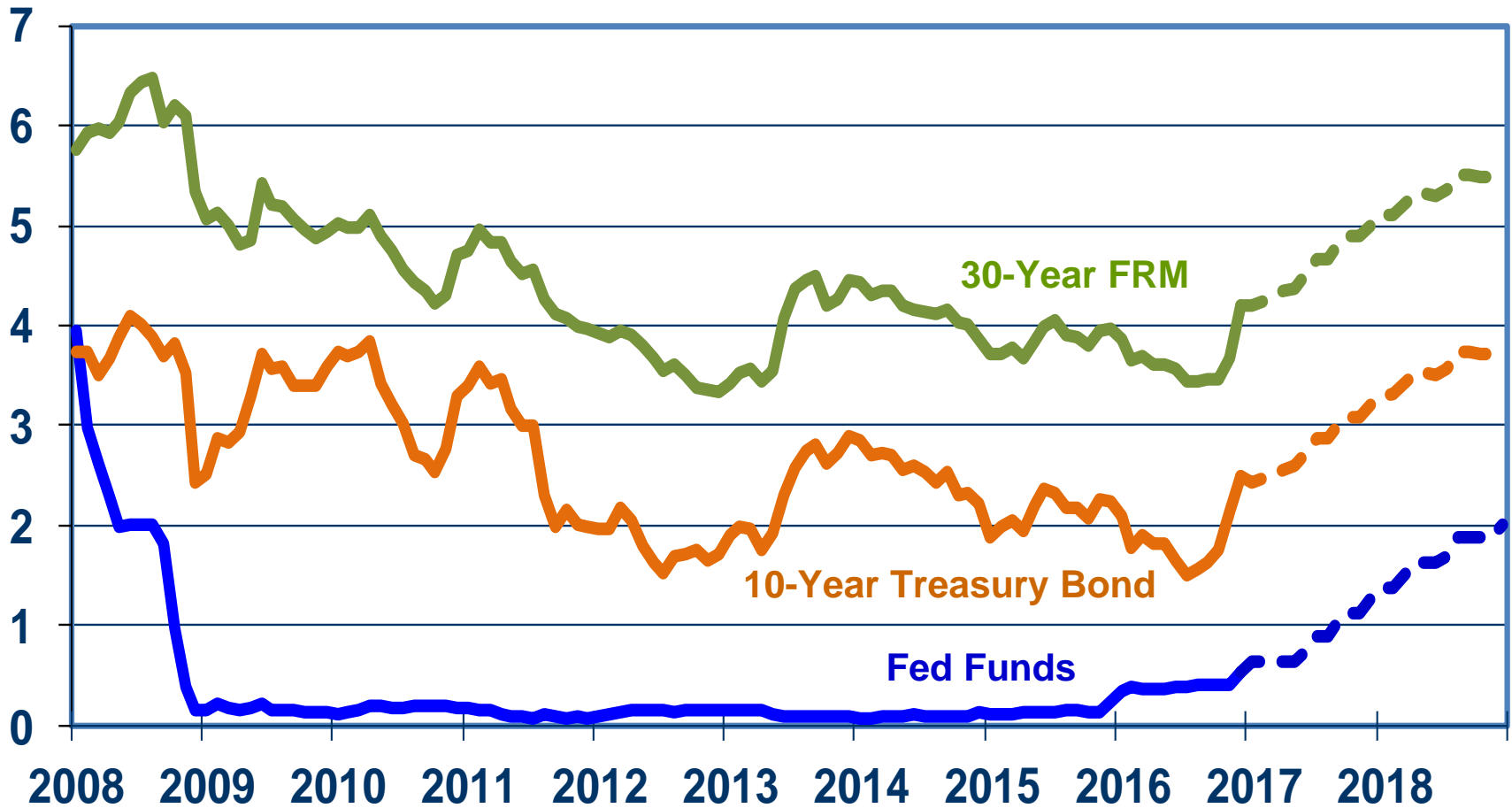


Source: BLS



# 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

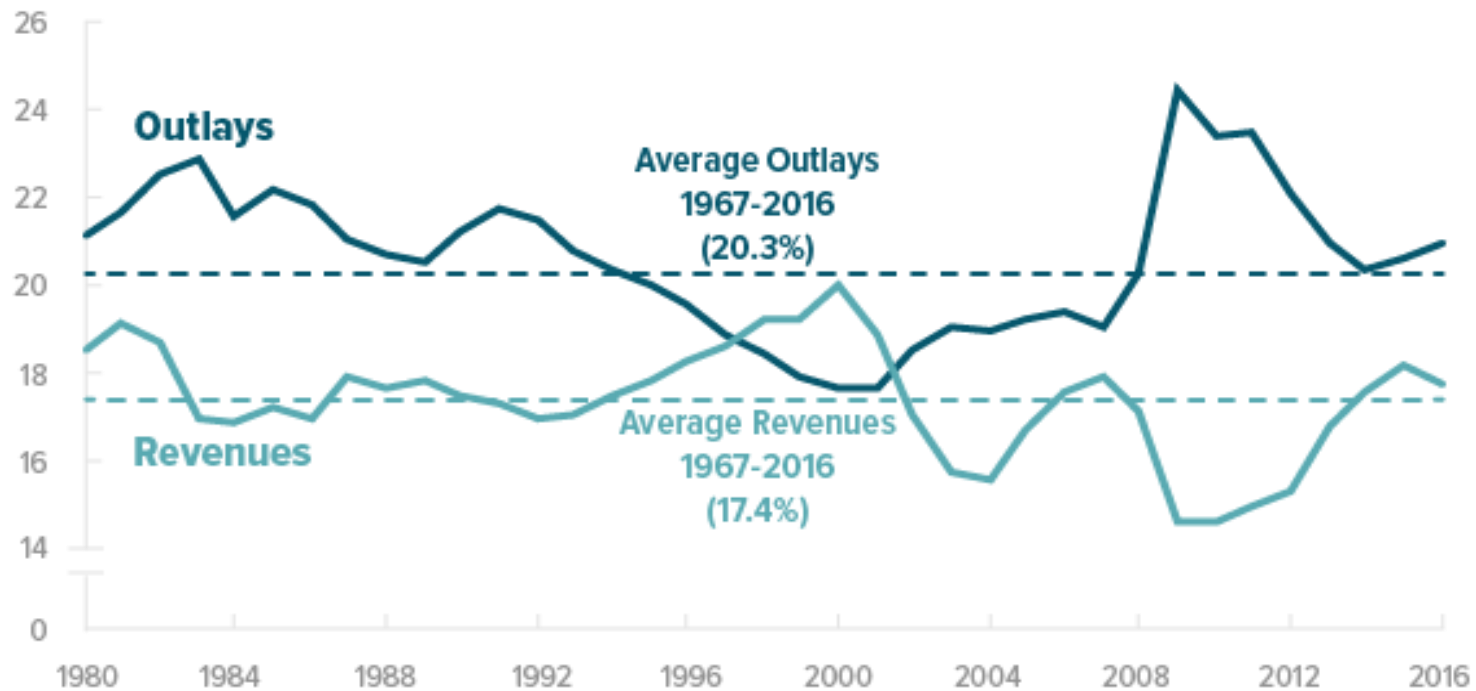
- Consumer/business confidence
- Stock market surge
- Tax reform, personal and corporate
- Fiscal Stimulus
- Business investment
- Financial market deregulation
- Expansive energy policy
- Single-family housing market
- China/Europe find traction
- Job growth stays strong



# Mind the Gap

## Federal Revenues and Outlays, 1980 to 2016

Percentage of GDP



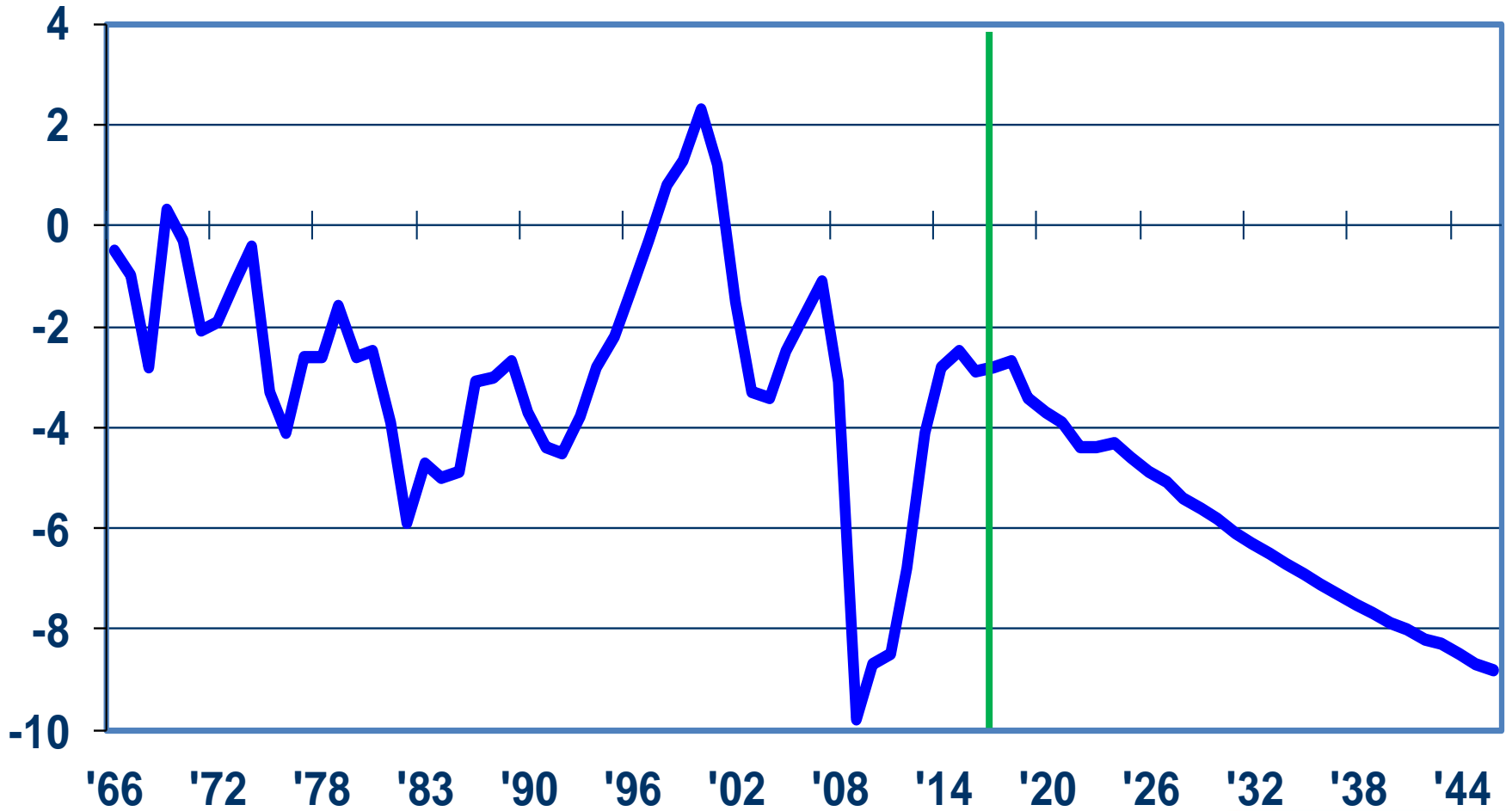
CONGRESSIONAL BUDGET OFFICE

NOVEMBER 2016



# A Dire Prediction by the CBO

## Federal Deficit as Percent of GDP



Source: Congressional Budget Office



Robert A. Dye, Chief Economist

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