

The Comerica Economic Outlook

The Mid-Cycle Economy Recovers From a Winter Stumble

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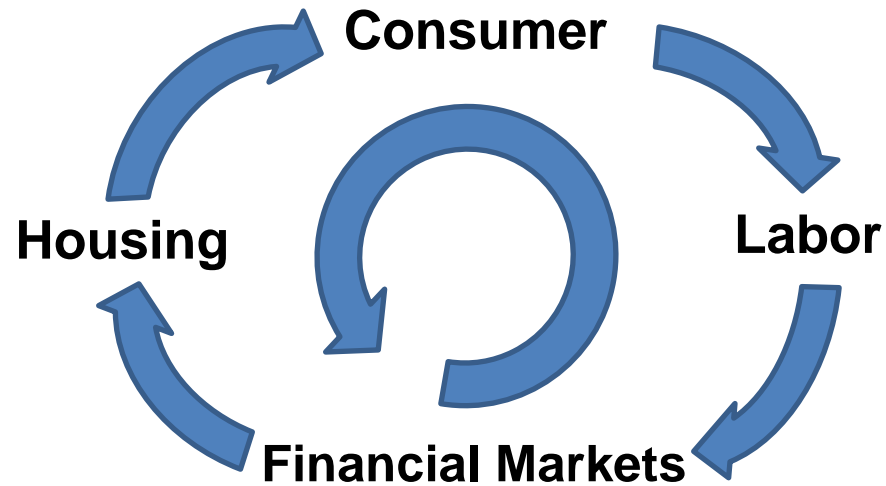
Key Take Aways.....

- The real GDP decline of 1.0 percent in 2014Q1 was an aberration.
- Real GDP growth will accelerate to around 2.6 percent for the current Q2.
- Recent job growth has been strong, but will likely moderate.
- Measures of business and consumer confidence are improving.
- This is not a recovering economy...this is a mid-cycle economy.
- Ongoing improvement in U.S. housing markets is a **key element** in our forecast.
- Ongoing globally synchronized expansion is also a **key element** in our forecast.
- The Federal Reserve tapers QE completely by the end of this year. We expect to see interest rate lift-off in the third quarter of 2015. It may be messy.

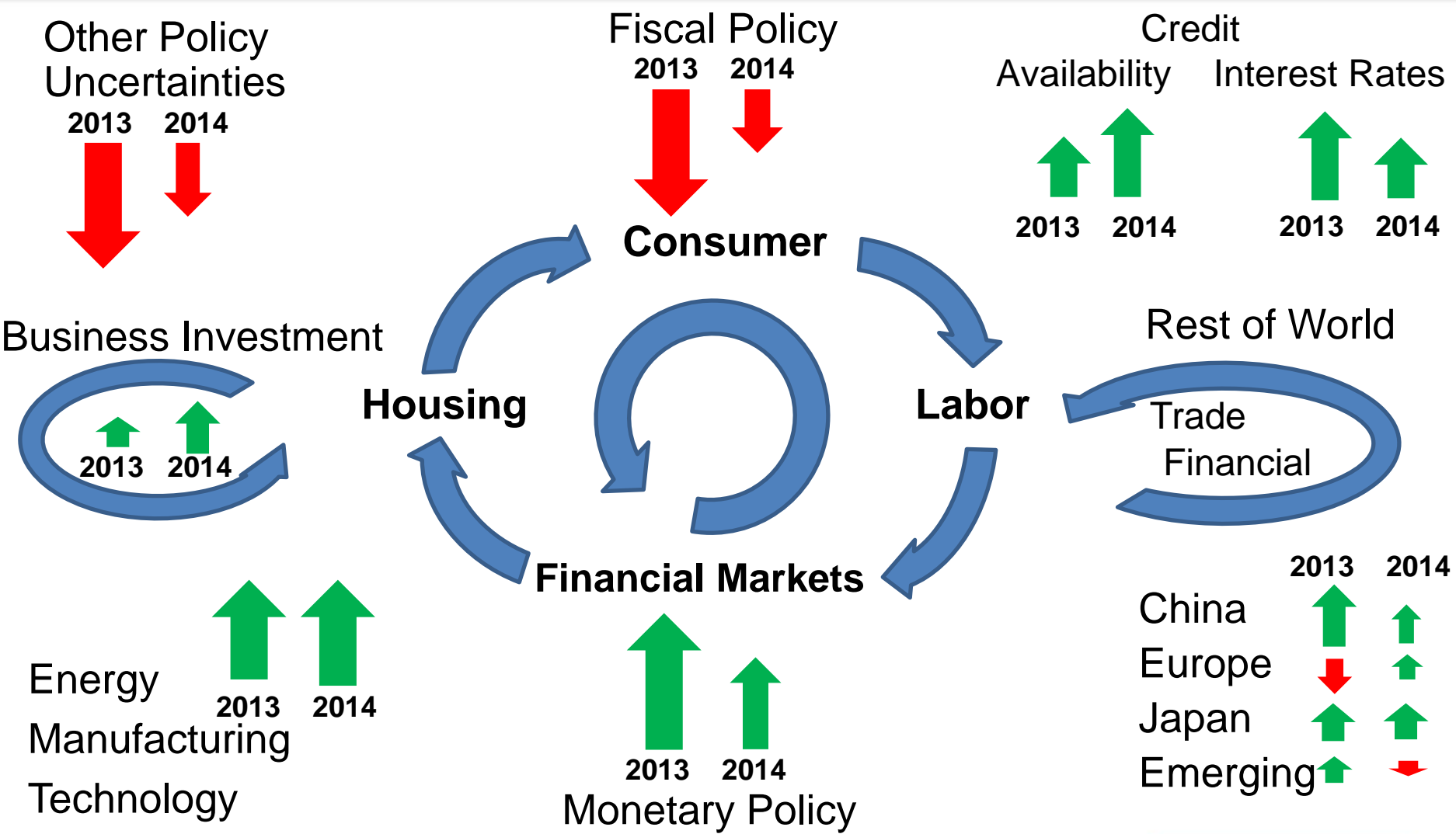
Endogenous Growth Story

- Consumer deleveraging
- Home prices rising nationwide
- Households are accumulating wealth
- Pent-up demand for housing and autos is being fulfilled
- Jobs are being created
- Incomes are increasing
- Consumer re-emerges as a positive force in the U.S. economy

A Virtuous Cycle in the U.S. Economy



A Virtuous Cycle in the U.S. Economy, Buffeted by Exogenous Forces



Economic Policy Uncertainty Index and Business Confidence

Economic Policy Uncertainty Index and the NFIB Survey



Economic Policy Uncertainty Index (L)

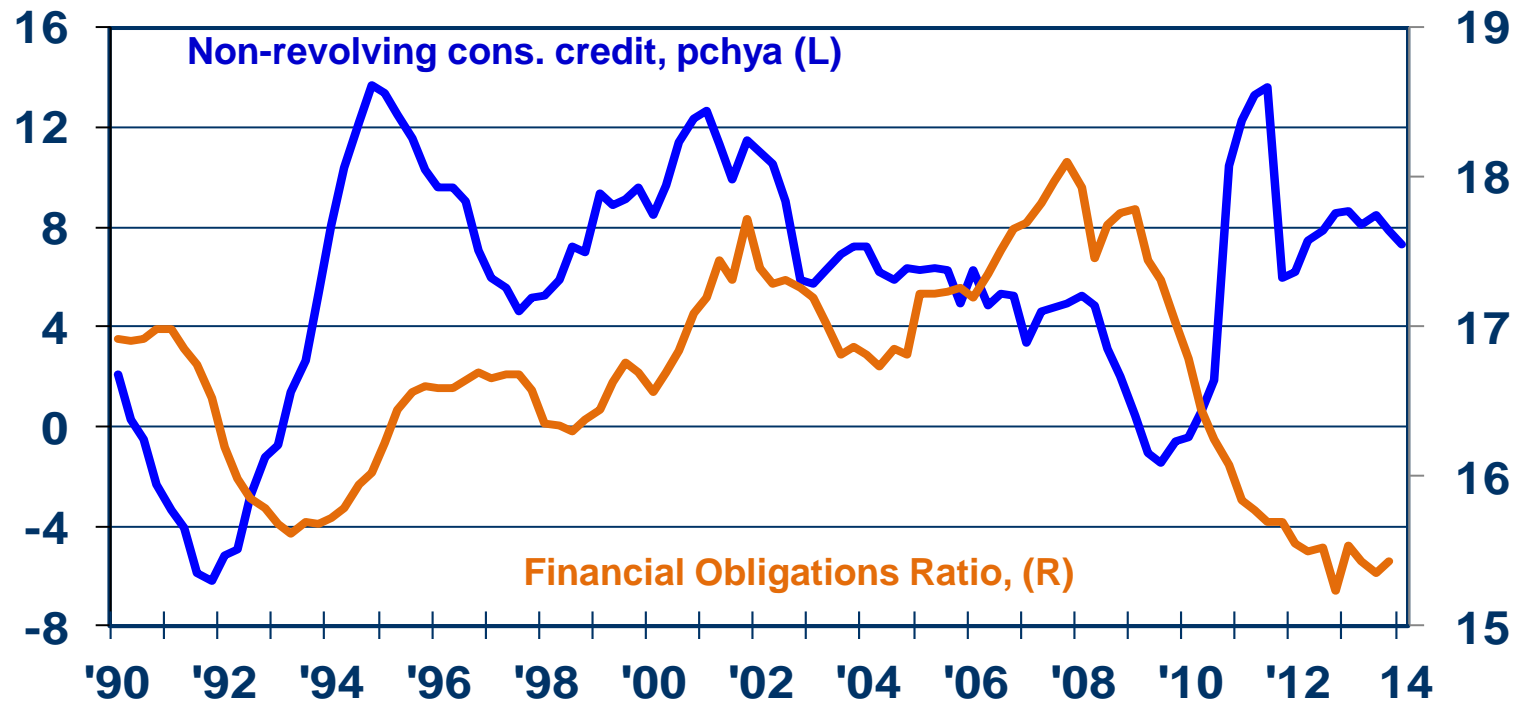
NFIB Business Optimism (R)

- 110 NFIB Survey components:
- 105 Employment plans
 - 100 Current job openings
 - 95 Capital outlay plans
 - 90 Inventory plans
 - 85 Current inventory
 - 80 Expectations economy
 - Expectations sales
 - Expected credit conditions
 - Good time to expand
 - Earnings



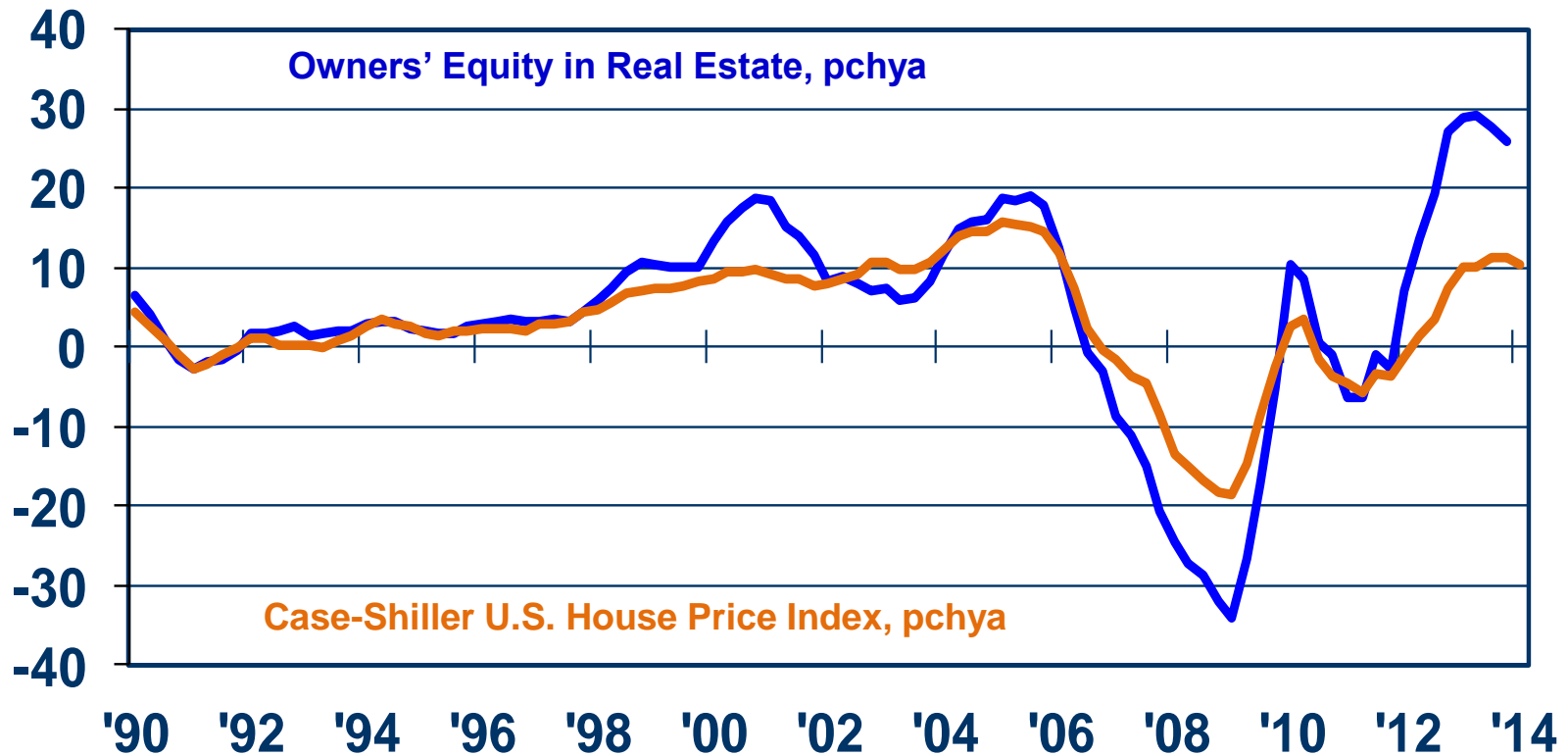
Consumer Deleveraging...And Releveraging

Non-revolving Consumer Credit and Financial Obligations Ratio



Rising House Prices Are Growing Owners' Equity

Positive Wealth Effect from Housing Equity

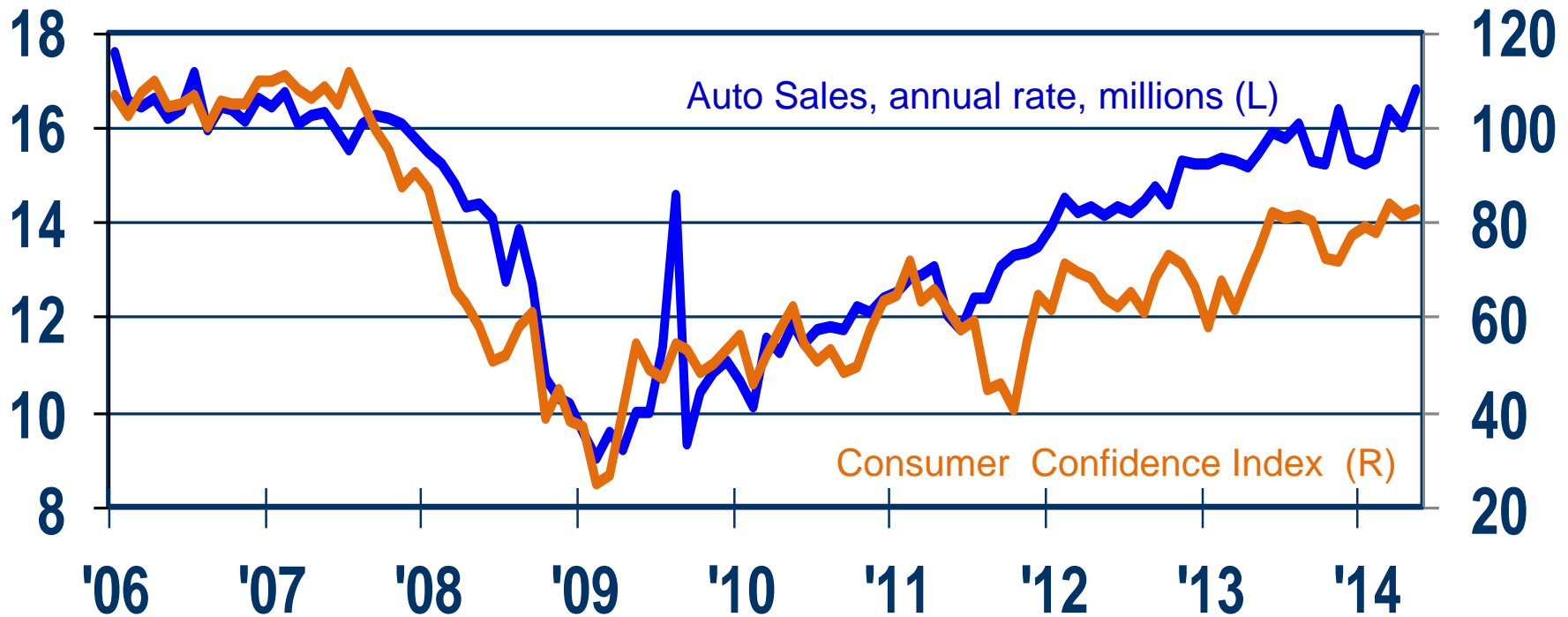


SF +20.9 % in March



Auto Sales Revved Up in May

Auto Sales, Consumer Confidence



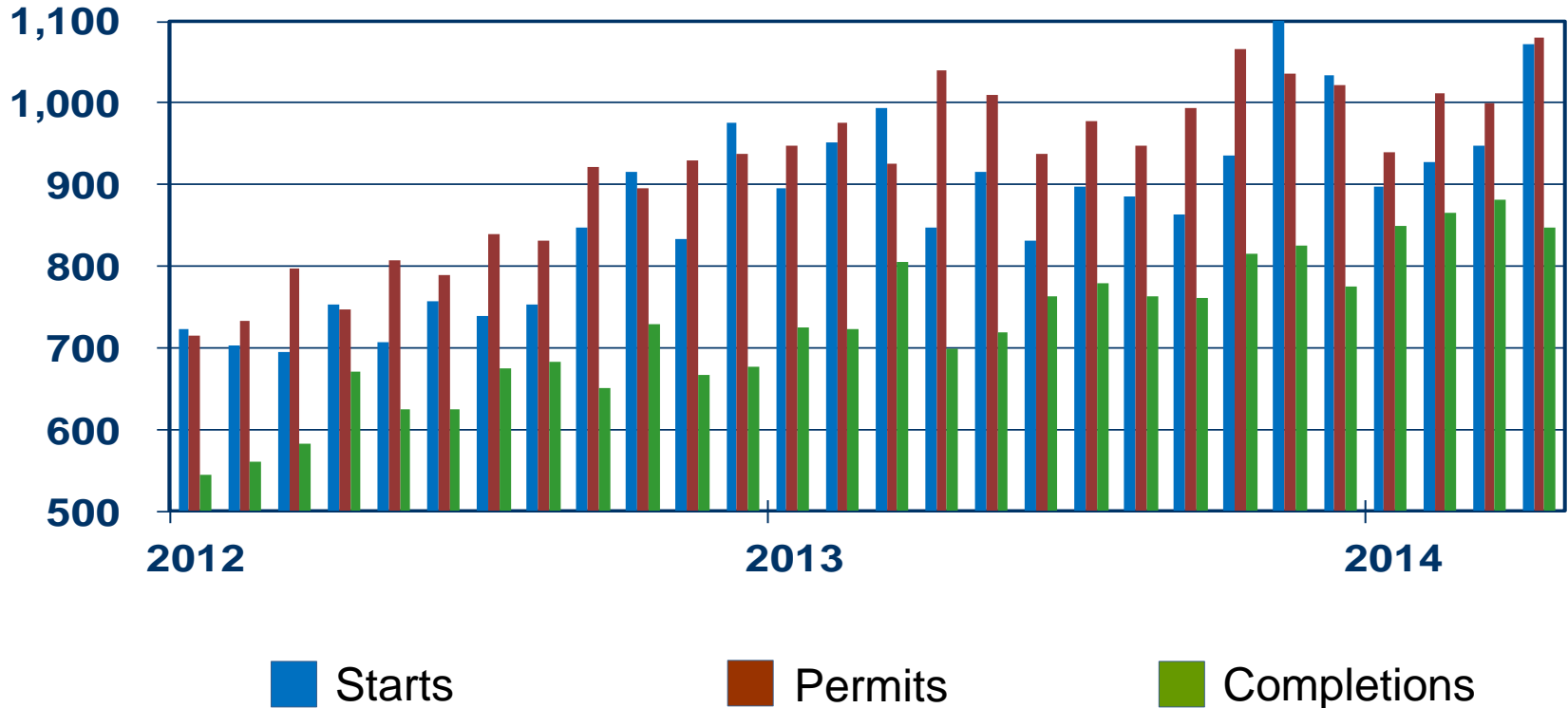
April 2014 Home Sales Up!

Home Sales Are Improving



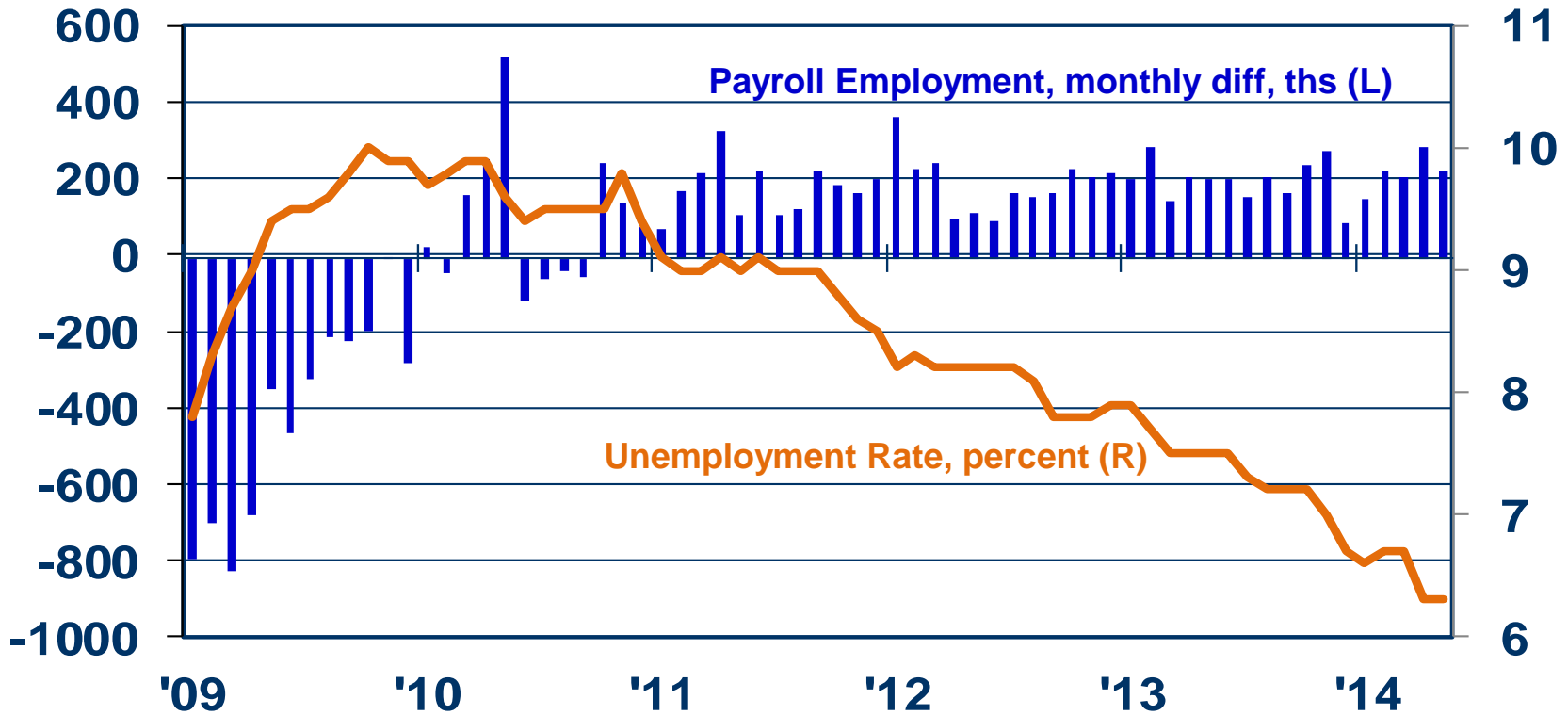
House Construction Warming Up

Residential Construction, Annualized Rate, ths



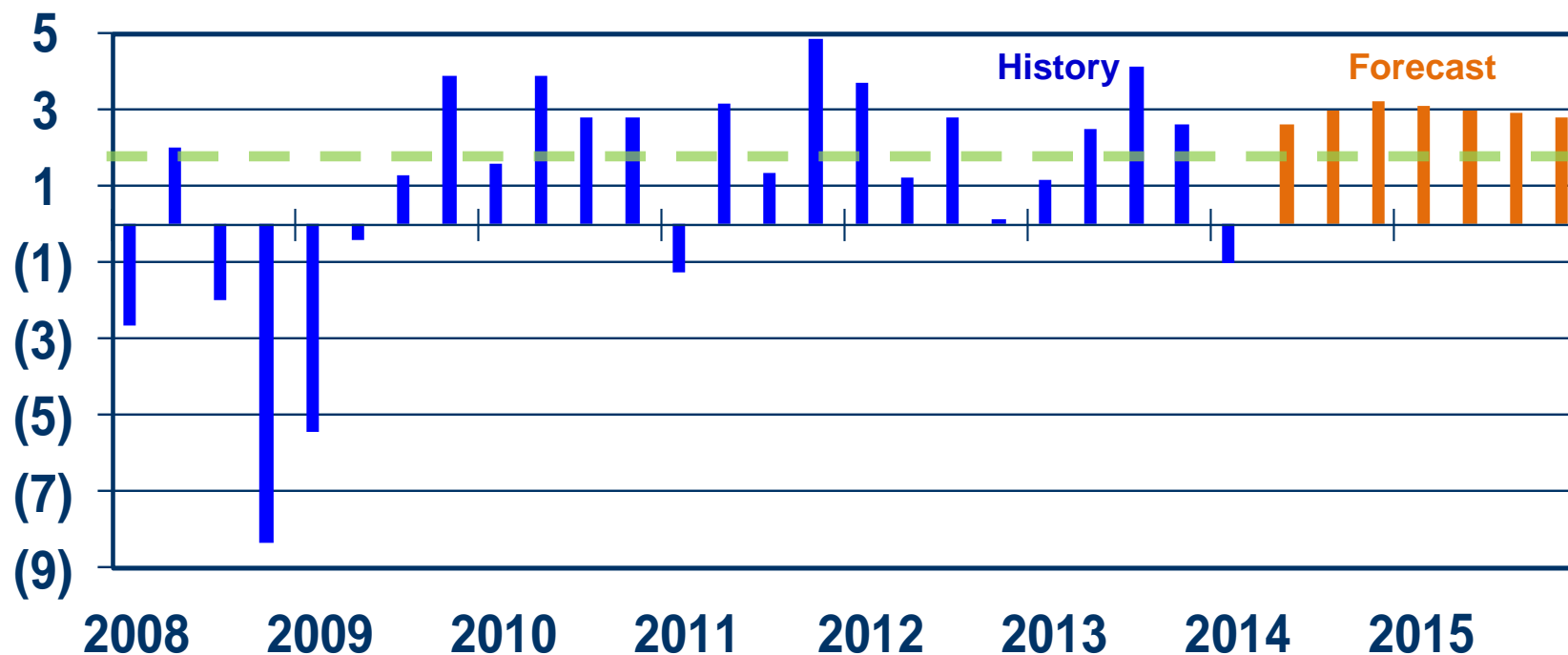
Job Creation Up After Winter Freeze

+217K in May, U. Rate 6.3 Percent



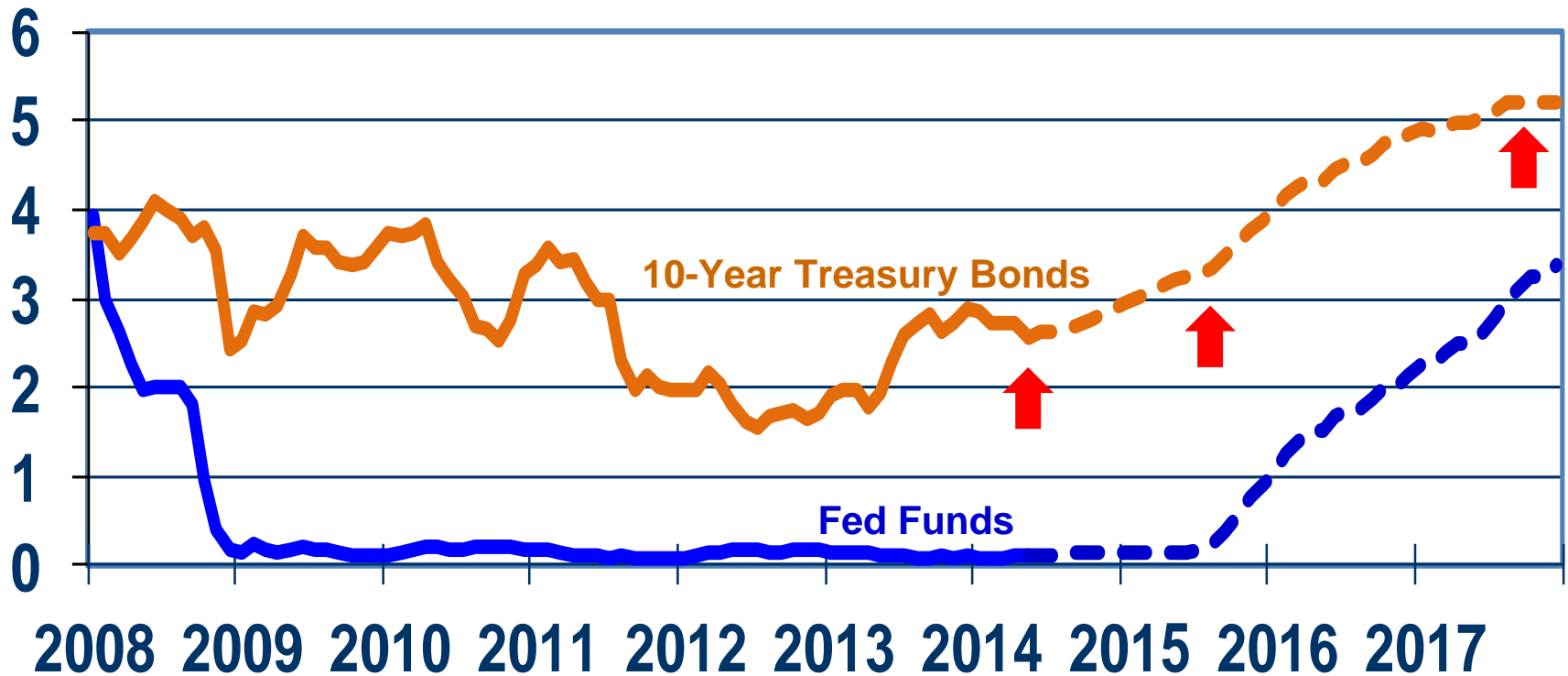
Forecast for 2014, Ongoing Moderate Expansion

U.S. Real GDP Growth, annualized rate



Interest Rates Face Upward Pressure as Flight to Quality and Monetary Policy Unwind

Yield, percent



Note, fed funds rate may not be the key Fed policy rate in 2015.



Forecast Risks

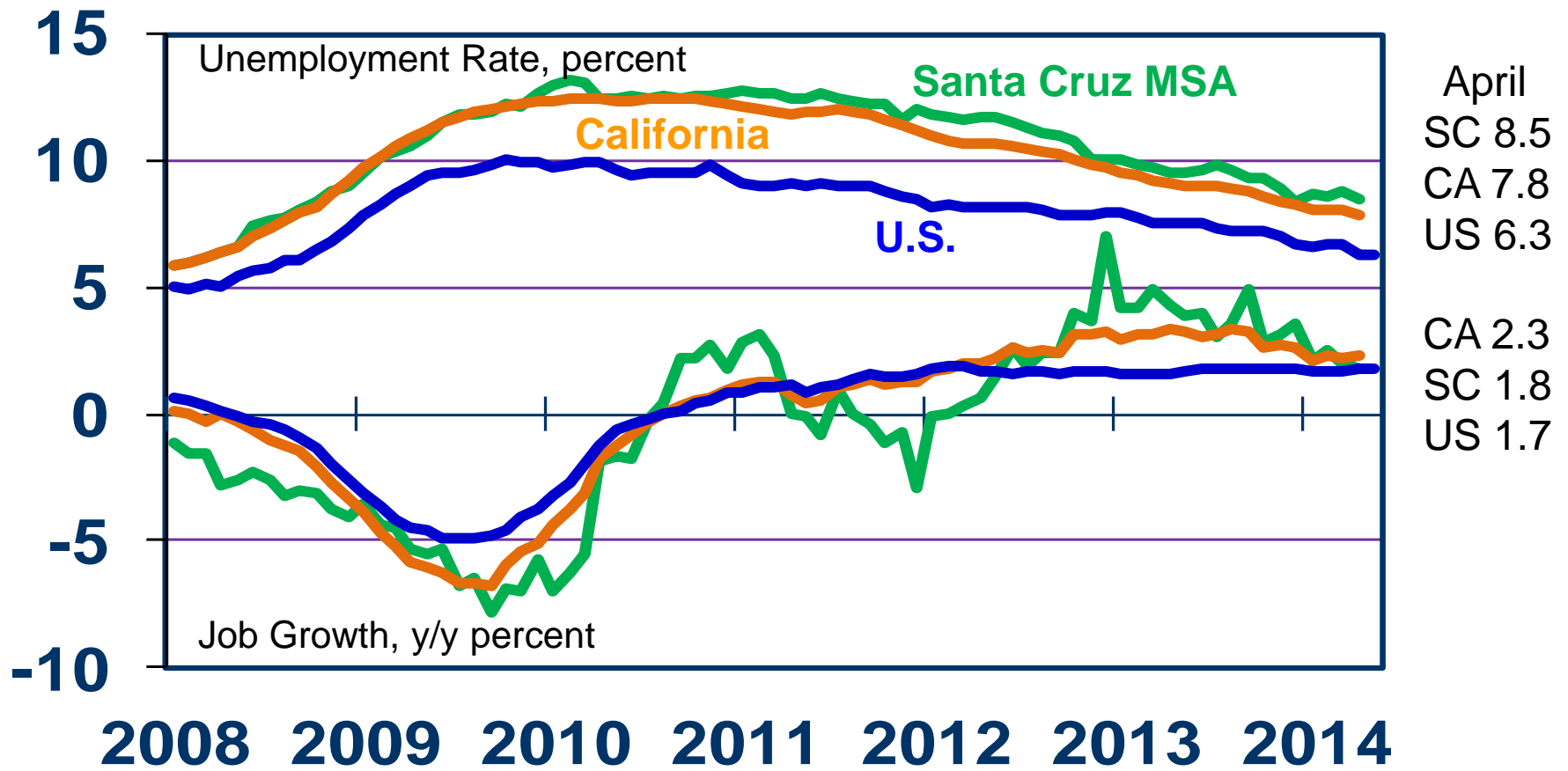
Downside Risks

- Housing recovery stalls
- Job growth weakens
- Consumer spending languishes
- Business investment evaporates
- Asia, Eurozone, Russia
- Monetary policy stumbles
- Fiscal policy failure, rating downgrade
- Oil prices

Upside Risks

- Consumer/Business confidence surges
- Full-time employment gains
- Households unleash pent-up demand
- Equity markets rally
- Low interest rates/investment boom
- Non-res construction accelerates
- Energy/manufacturing renaissance
- Emergent technology/productivity

California Labor Markets Have Improved



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