

NATIONAL ECONOMIC OUTLOOK

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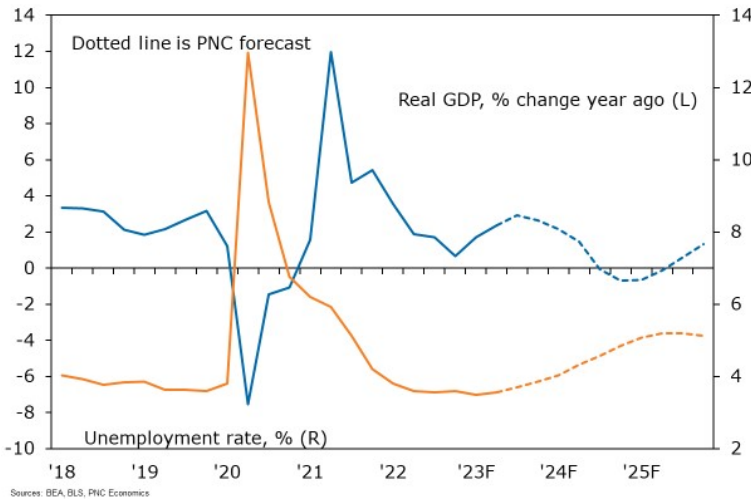
Economic Growth Strengthens in the Third Quarter as Consumer Spending Remains Strong

- Real GDP increased 4.9% at an annualized rate in the third quarter, according to the advance estimate from the Bureau of Economic Analysis. This was up from 2.1% in the second quarter, and was the strongest quarter for economic growth since the fourth quarter of 2021. On a year-over-year basis economic growth was 2.9%, about a percentage point above the economy's long-run potential. The Federal Reserve remains concerned that economic growth is too strong in 2023, creating inflationary pressures in the labor market. Real consumer spending rose 4.0% at an annualized rate in the third quarter, adding 2.7 percentage points to economic growth. Inflation-adjusted goods spending was up 4.8%, while inflation-adjusted services spending was up 3.6%. Inventories added 1.3 percentage points to third quarter growth, the biggest contribution since the fourth quarter of 2022. Real final sales of domestic product—GDP minus the change in inventories, which is a measure of demand for U.S.-produced goods and services—rose a solid 3.5% annualized in the third quarter. Household income, however, fell 1% annualized in the third quarter after adjusting for inflation.
- The personal consumption expenditures price index rose 0.4% in September, matching monthly inflation in August. The core PCE price index, excluding food and energy and the Federal Reserve's preferred inflation measure, rose 0.3% in September, up from 0.2% in August and the biggest increase since May. On a year-over-year basis overall PCE inflation was 3.4%, the same pace as in July and August. Year-ago core PCE inflation was 3.7% in September, down from 3.8% in August and a cyclical peak of 5.6% in early 2022. Inflation is slowing, but only gradually, and it remains far above the Federal Reserve's 2% objective. Inflation should continue to decline in the near term as the labor market softens somewhat and wage pressures abate. Slower rent growth will also contribute to a softening in housing inflation into 2024.
- The UAW and the Big Three automakers reached contracts at the end of October to settle a strike that started in mid-September. Unlike in previous strikes, the UAW struck individual plants and not entire companies. Because of this the hits to employment and economic output from the strike were modest. In the October jobs report employment in motor vehicle and parts manufacturing fell by 33,000, compared to total UAW employment at the Big Three of around 145,000, and total industry employment (including parts manufacturers and foreign-brand automakers) of more than one million. With the strike settled production and employment should quickly rebound, with no significant reduction in GDP or employment.

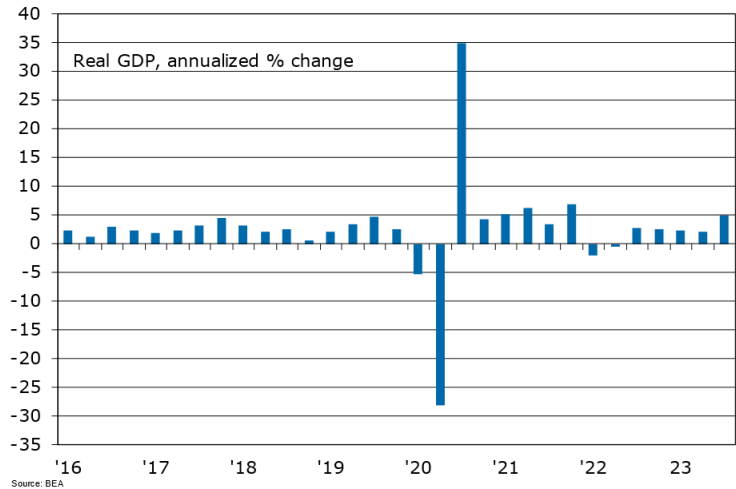
Baseline U.S. Economic Outlook, Summary Table*

	3Q'23p	4Q'23f	1Q'24f	2Q'24f	3Q'24f	4Q'24f	2022a	2023f	2024f	2025f
Output										
Real GDP (Chained 2017 Billions \$)	22492	22569	22592	22552	22479	22417	21822	22350	22510	22573
Percent Change Annualized	4.9	1.4	0.4	-0.7	-1.3	-1.1	1.9	2.4	0.7	0.3
CPI (1982-84 = 100)	306.0	307.6	308.5	309.5	310.7	312.1	292.6	304.6	310.2	316.0
Percent Change Annualized	3.6	2.1	1.2	1.3	1.6	1.8	8.0	4.1	1.9	1.9
Labor Markets										
Payroll Jobs (Millions)	156.6	156.8	156.8	156.6	156.3	155.9	152.6	156.1	156.4	155.4
Percent Change Annualized	1.7	0.5	0.1	-0.6	-0.8	-1.0	4.3	2.3	0.2	-0.6
Unemployment Rate (Percent)	3.7	3.9	4.0	4.3	4.6	4.8	3.6	3.7	4.4	5.1
Interest Rates (Percent)										
Federal Funds	5.26	5.33	5.33	5.33	5.19	4.98	1.68	5.02	5.21	4.28
10-Year Treasury Note	4.14	4.64	4.56	4.64	4.73	4.84	2.94	4.00	4.69	5.04
<i>a = actual f = forecast p = preliminary</i>										
<i>*Please see the Expanded Table for more forecast series.</i>										

PNC Expects Mild Recession in Mid-2024



Economic Growth Remains Very Strong in 2023



FOMC Is Approaching End of Tightening Cycle, But Recession Risks Remain Elevated

The Federal Open Market Committee kept the federal funds rate unchanged at each of its last two meetings, in mid-September and early November. This a dramatic change from the FOMC's actions from early 2022 to mid-2023, when the committee aggressively raised the fed funds rate from close to zero to above 5% in an effort to slow economic growth and cool off inflation. The U.S. economy remains strong at the end of 2023 despite this rapid tightening in monetary policy. But as higher interest rates continue to weigh on economic growth heading into 2024, the most likely outcome is a mild U.S. recession starting in the middle of next year.

The U.S. economy is in solid shape right now. The labor market remains resilient, even as job growth has slowed in 2023. In the three months through October job growth has averaged more than 200,000 per month, about double the economy's long-run potential. Wage growth has slowed somewhat this year but remains strong, with average hourly earnings up more than 4% over the past year as businesses continue to raise pay in an effort to find workers amid the tight job market. Consumer spending, which makes up about two-thirds of the U.S. economy, continues to increase solidly, even after accounting for inflation, as job and wage gains allow households to purchase more. Even the housing market, which had contracted for nine straight quarters due largely to a big runup in mortgage rates, was a positive for economic growth in the third quarter of 2023.

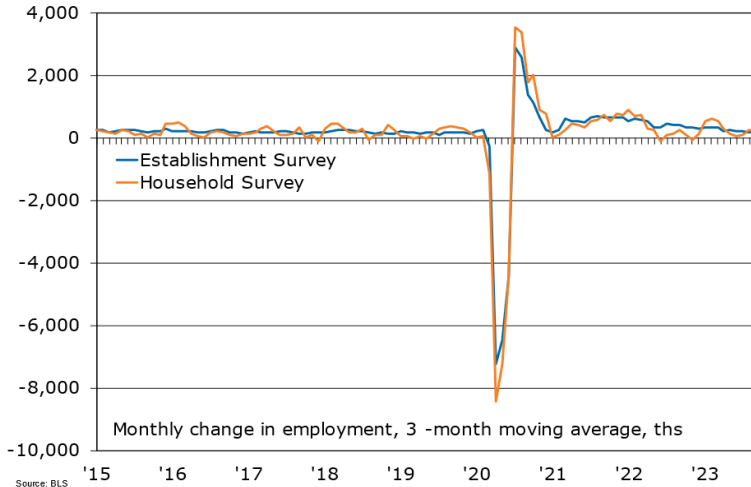
Inflation, however, remains well above the Federal Reserve's 2% objective, even as it has slowed this year. Because of this the FOMC wants to maintain its contractionary monetary policy. The fed funds rate, currently in a range between 5.25% and 5.50%, is at a level where it is actively weighing on economic growth, with high interest rates discouraging consumer purchases of big-ticket items and business investment. In its latest "dot plot," from mid-September, a majority of FOMC participants indicated that they favored one more increase in the fed funds rate in 2023 of one-quarter of a percentage point. Given that there is only one more FOMC meeting this year, in mid-December, this suggests that another rate increase could be forthcoming. However, PNC's current forecast is for the FOMC to keep the fed funds rate unchanged in the near term given slowing inflation and weaker job growth in late 2023.

Even if the fed funds rate is unchanged in the near term, the drag on the economy from current high interest rates will continue to intensify well into next year. Although short-term interest rates have stabilized over the past couple of months as the FOMC has stopped raising the fed funds rate, they remain at their highest levels in more than two decades. And long-term interest rates have moved higher over the past couple of months as the FOMC has indicated that it intends to keep the fed funds rate at a high level for an extended period of time. The typical rate on a 30-year mortgage, which was below 3% as recently as late 2021, is now close to 8% and near a two-decades high. Because higher interest rates weigh on the economy with a lag, growth will continue to soften in the near term.

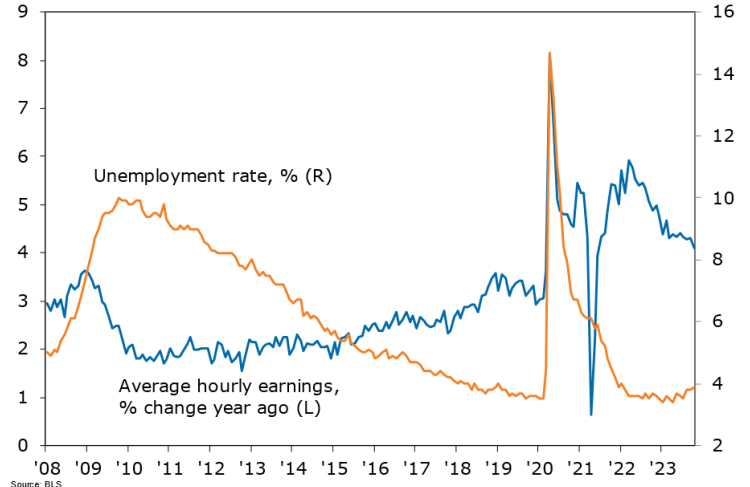
Given the rapid increases in both short-term and long-term interest rates over the past couple of years, the most likely outcome is a mild U.S. recession starting in mid-2024. Interest-rate sensitive sectors like housing, consumer durable goods, and business investment will contract, leading to a drop in overall economic output and modest job losses; the deteriorating labor market will further weigh on consumer purchases. But the softening economy will push inflation decisively lower, allowing the FOMC to start cutting the fed funds rate in mid-2024, leading to an economic recovery starting toward the end of next year as interest-rate sensitive industries rebound. A structurally tighter post-pandemic labor market will limit layoffs, and the recession should last only a couple of quarters. Real GDP will decline by about 1%, much less severe than in the downturns of 2007-2009 and the pandemic recession of 2020. The unemployment rate will peak at around 5% in early 2025, historically low for a recession. And given the ongoing resiliency of the job market and consumer spending, there is still a 40% probability that the economy can avoid a near-term recession. Risks are to the downside, including a protracted government shutdown or a major war in the Middle East that raises oil prices, leading to a drop in consumer spending and higher inflation that forces the FOMC to tighten more aggressively.

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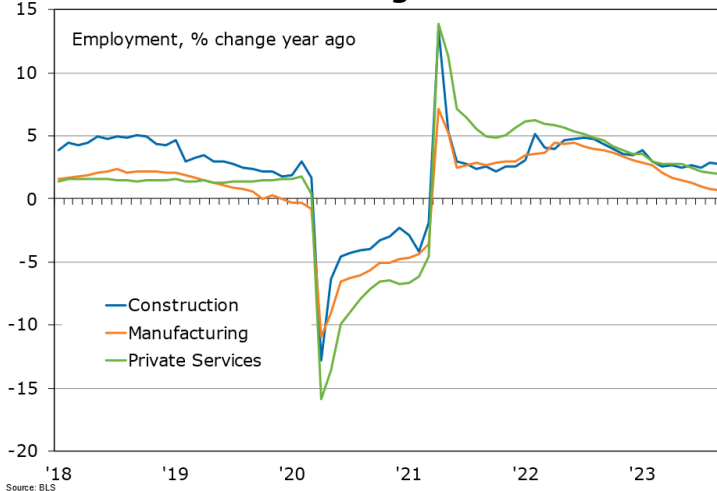
Job Growth Is Softening in 2023, But Fed Wants It to Slow Further



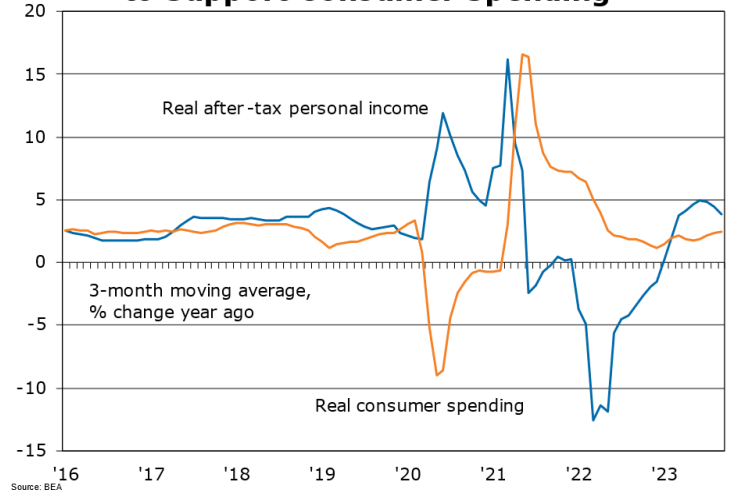
Wage Growth Is Gradually Slowing, But Is Still Too Strong for 2% Inflation



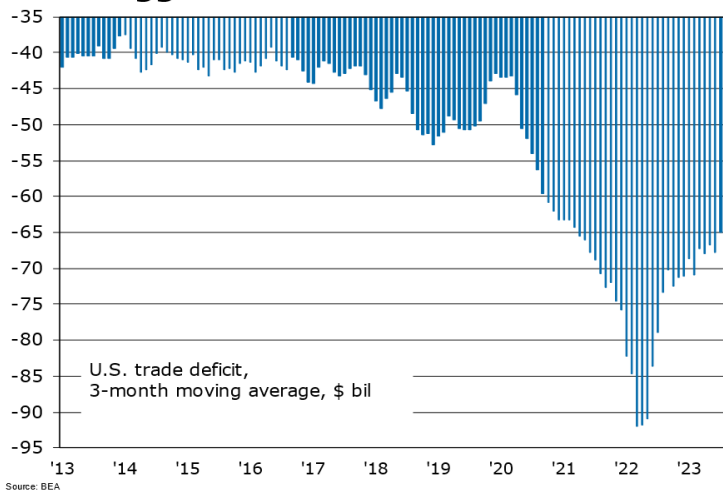
Higher Interest Rates Are Weighing on Manufacturing Job Growth



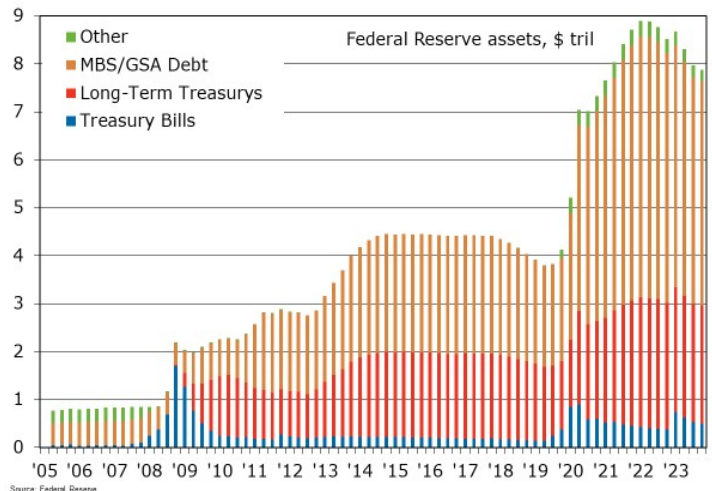
Solid Real Income Growth Continues to Support Consumer Spending



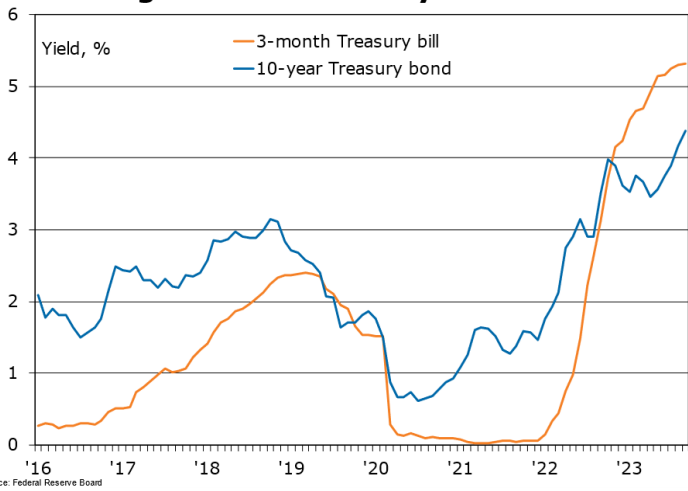
The Trade Deficit Continues to Shrink, But Is Bigger Than It Was Before Pandemic



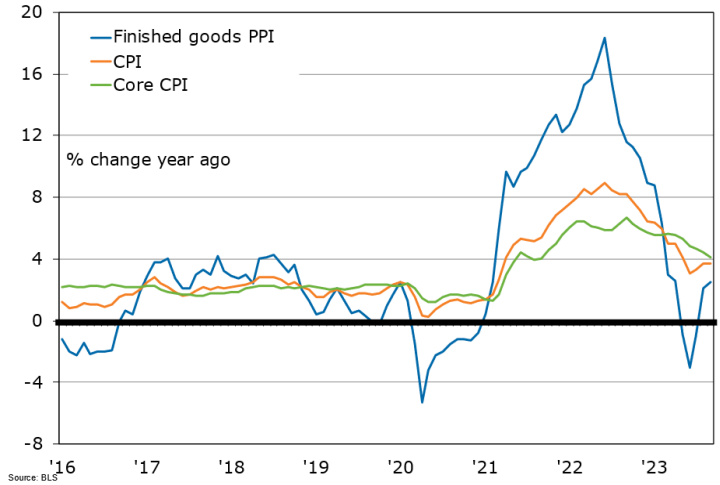
Fed Balance Sheet Continues to Shrink, Putting Upward Pressure on Long-Term Interest Rates



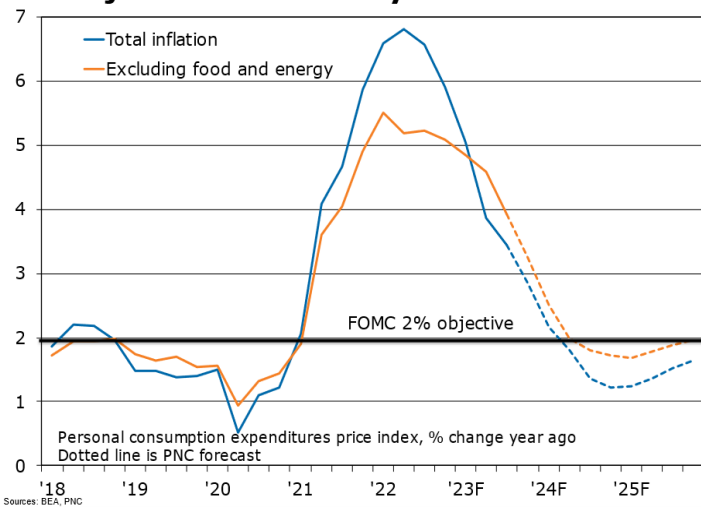
Higher Long-Term Rates in the Fall Will Weigh on the Economy Into 2024



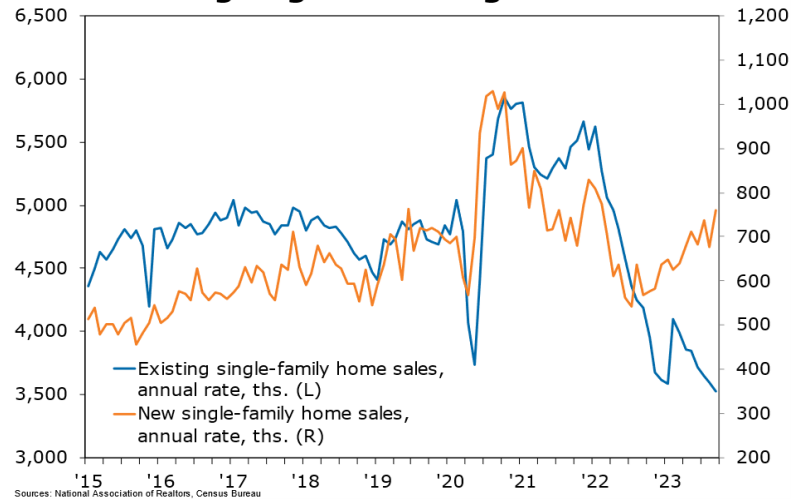
Inflation Is Slowing, But Is Still Too High for the Fed



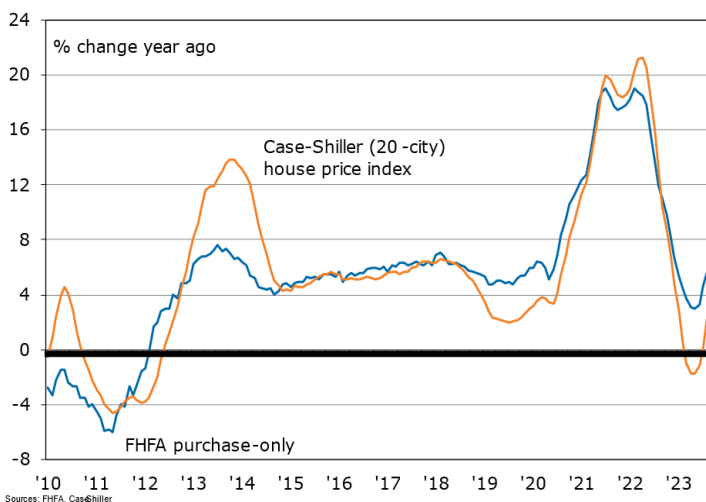
Inflation Should Return to Fed's 2% Objective as Economy Slows Further



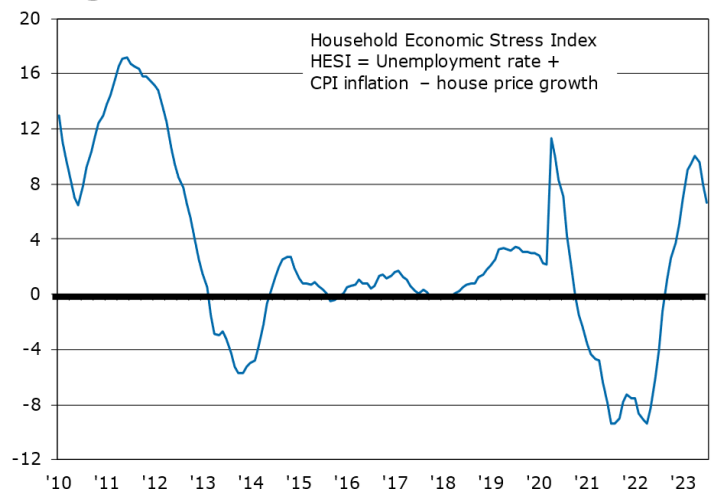
High Mortgage Rates, Tight Supplies Are Weighing on Existing Home Sales



With Tight Inventories, House Price Growth Has Picked Back Up Even as Mortgage Rates Have Risen



Household Economic Stress Is Elevated With High Inflation, Weaker House Price Growth



Baseline U.S. Economic Outlook, Expanded Table

	3Q'23p	4Q'23f	1Q'24f	2Q'24f	3Q'24f	4Q'24f	2022a	2023f	2024f	2025f
Output										
Nominal GDP (Billions \$)	27601	27869	28020	28077	28093	28126	25744	27337	28079	28669
Percent Change Annualized	8.2	3.9	2.2	0.8	0.2	0.5	9.1	6.2	2.7	2.1
Real GDP (Chained 2017 Billions \$)	22492	22569	22592	22552	22479	22417	21822	22350	22510	22573
Percent Change Annualized	4.9	1.4	0.4	-0.7	-1.3	-1.1	1.9	2.4	0.7	0.3
Pers. Consumption Expenditures	15494	15565	15597	15599	15580	15553	15091	15429	15582	15632
Percent Change Annualized	4.0	1.8	0.8	0.1	-0.5	-0.7	2.5	2.2	1.0	0.3
Nonresidential Fixed Investment	3272	3270	3260	3234	3197	3164	3132	3257	3214	3174
Percent Change Annualized	-0.1	-0.3	-1.1	-3.2	-4.6	-4.0	5.2	4.0	-1.3	-1.2
Residential Investment	734	730	727	727	730	733	823	731	729	751
Percent Change Annualized	3.9	-2.1	-1.6	-0.1	1.4	1.7	-9.0	-11.2	-0.2	3.0
Change in Private Inventories	81	106	83	43	5	-14	128	57	29	3
Net Exports	-938	-966	-942	-914	-887	-870	-1051	-942	-903	-859
Government Expenditures	3833	3848	3850	3846	3839	3836	3670	3807	3843	3857
Percent Change Annualized	4.6	1.6	0.2	-0.4	-0.7	-0.4	-0.9	3.7	0.9	0.4
Industrial Prod. Index (2012 = 100)	103.6	102.8	102.9	101.4	100.0	99.0	102.6	102.9	100.8	100.4
Percent Change Annualized	3.4	-3.0	0.2	-5.8	-5.1	-3.9	3.4	0.3	-2.1	-0.4
Capacity Utilization (Percent)	79.8	79.0	78.9	77.5	76.4	75.5	80.3	79.4	77.1	76.6
Prices										
CPI (1982-84 = 100)	306.0	307.6	308.5	309.5	310.7	312.1	292.6	304.6	310.2	316.0
Percent Change Annualized	3.6	2.1	1.2	1.3	1.6	1.8	8.0	4.1	1.9	1.9
Core CPI Index (1982-84 = 100)	309.7	311.3	312.5	313.7	314.9	316.2	294.3	308.1	314.3	320.0
Percent Change Annualized	2.9	2.0	1.6	1.4	1.5	1.7	6.1	4.7	2.0	1.8
PCE Price Index (2017 = 100)	120.9	121.5	121.9	122.2	122.6	122.9	116.0	120.4	122.4	124.2
Percent Change Annualized	2.9	1.8	1.4	1.1	1.2	1.3	6.5	3.8	1.6	1.4
Core PCE Price Index (2017 = 100)	119.7	120.3	120.8	121.3	121.8	122.3	114.4	119.2	121.6	123.8
Percent Change Annualized	2.4	2.0	1.9	1.6	1.6	1.7	5.2	4.1	2.0	1.8
GDP Price Index (2017 = 100)	122.7	123.5	124.0	124.5	125.0	125.5	118.0	122.3	124.7	127.0
Percent Change Annualized	3.2	2.5	1.8	1.5	1.5	1.6	7.1	3.7	2.0	1.8
Crude Oil, WTI (\$/Barrel)	82.2	86.0	77.7	71.7	72.1	73.7	94.4	79.4	73.8	75.0
Labor Markets										
Payroll Jobs (Millions)	156.6	156.8	156.8	156.6	156.3	155.9	152.6	156.1	156.4	155.4
Percent Change Annualized	1.7	0.5	0.1	-0.6	-0.8	-1.0	4.3	2.3	0.2	-0.6
Unemployment Rate (Percent)	3.7	3.9	4.0	4.3	4.6	4.8	3.6	3.7	4.4	5.1
Average Weekly Hours, Prod. Works.	33.8	33.8	33.7	33.7	33.6	33.5	34.0	33.8	33.6	33.5
Personal Income										
Average Hourly Earnings (\$)	29.0	29.3	29.6	29.8	30.0	30.2	27.6	28.9	29.9	30.5
Percent Change Annualized	4.0	4.1	3.7	3.3	2.9	2.4	6.4	4.7	3.6	2.2
Real Disp. Income (2017 Billions \$)	16766	16879	16892	16901	16903	16923	16117	16779	16905	17099
Percent Change Annualized	-1.0	2.7	0.3	0.2	0.0	0.5	-6.0	4.1	0.7	1.1
Housing										
Housing Starts (Ths., Ann. Rate)	1356	1323	1294	1254	1220	1197	1551	1379	1241	1230
Ext. Home Sales (Ths., Ann. Rate)	4012	3882	3896	4074	4348	4626	5081	4118	4236	5089
New SF Home Sales (Ths., Ann. Rate)	709	706	702	696	688	681	637	686	692	698
Case/Shiller HPI (Jan. 2000 = 100)	306.7	304.0	296.5	286.5	282.8	283.5	298.3	304.0	283.5	289.6
Percent Change Year Ago	1.7	1.9	-0.4	-5.3	-7.8	-6.7	7.5	1.9	-6.7	2.1
Consumer										
Auto Sales (Millions)	15.6	15.5	15.1	14.7	14.4	14.1	13.8	15.5	14.6	14.0
Consumer Credit (Billions \$)	5047	5109	5170	5217	5253	5287	4894	5109	5287	5511
Percent Change Year Ago	5.0	4.4	4.5	4.9	4.1	3.5	7.6	4.4	3.5	4.2
Interest Rates (Percent)										
Prime Rate	8.43	8.50	8.50	8.50	8.33	8.10	4.85	8.19	8.36	7.41
Federal Funds	5.26	5.33	5.33	5.33	5.19	4.98	1.68	5.02	5.21	4.28
3-Month Treasury Bill	5.42	5.45	5.35	5.20	5.02	4.71	2.00	5.17	5.07	4.10
10-Year Treasury Note	4.14	4.64	4.56	4.64	4.73	4.84	2.94	4.00	4.69	5.04
30-Year Fixed Mortgage	7.07	7.64	7.51	7.45	7.39	7.32	5.32	6.89	7.42	7.14
a = actual f = forecast p = preliminary										

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