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ECONOMIC REPORT

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SOLID JOB GROWTH IN APRIL; UNEMPLOYMENT RATE BELOW 4 PERCENT FOR FIRST TIME SINCE 2000

SUMMARY

- The U.S. economy added 164,000 jobs in April, below expectations.
- The unemployment rate fell to 3.9 percent, the lowest it has been since late 2000. The reason for the drop in the unemployment rate was not all positive, however.
- Wage growth slowed in April from March, but the tight labor market is pushing up average hourly earnings.
- The solid April jobs report supports an increase in the fed funds rate at the FOMC's next meeting, in mid-June.

The U.S. economy added 164,000 jobs in April, somewhat below the consensus expectation for an increase of 195,000 and PNC's forecast of 175,000. The private sector added 168,000 jobs over the month, while government employment fell by 4,000. March job growth was revised up by 32,000 to 135,000, while February growth was revised down by 2,000 to 324,000; February was still the best month for job growth since October 2015. There was a combined upward revision to job growth over the two months of 30,000. The U.S. economy has added an average of 200,000 jobs per month so far in 2018, above last year's pace of 182,000 per month.

The unemployment rate fell 0.2 percentage point in April to 3.9 percent, down from 4.1 percent in the six previous months. This is the lowest the unemployment rate has been since December 2000. The details on the unemployment rate were not as good, however. The rate fell because the labor force (the number of people either working or looking for work) fell by 239,000 in April. The number of jobs in the household survey of employment (different from the survey of employers) rose by just 3,000 in April; this followed a loss of 37,000 in March. Still, job growth in the household survey has averaged close to 300,000 so far in 2018. The labor force participation rate fell to 62.8 percent in April from 62.9 percent in March and 63.0 percent in February; it has been between 62.6 and 63.0 percent since the end of 2015. The broader U-6 unemployment rate (unemployed, underemployed and too discouraged to look for a job) fell to 7.8 percent from 8.0 percent in March, its lowest since mid-2001 (see Chart 1).

Job growth in most industries was good in April. Goods-producing industries added 49,000 jobs over the month, more than double the pace in March. Construction employment rose by 17,000, and manufacturing employment by 24,000, the latest in a string of solid increases. Private service-providing industries added 119,000 jobs in April, up slightly from March. Retail employment rose by just 2,000 over the month; the industry has struggled as online sales continue to take market share. Business/professional services added 54,000 jobs in April, with temp jobs up by 10,000. Education and healthcare added 31,000, while leisure/hospitality services added 14,000. Wholesale trade employment fell by 10,000. Federal government employment rose by 1,000 in April, but state and local government fell by 5,000.

Average hourly earnings rose 0.1 percent in April (0.149 percent before rounding), down from 0.2 percent growth in March (revised down from 0.3 percent). Year-over-year growth in wages was 2.6 percent in April, the same pace as in March (revised down from 2.7 percent). Slowly but surely the tighter job market is leading to stronger wage growth, as businesses raise pay to retain their current workers and attract new ones (see Chart 2). This acceleration is also seen in other measures of wage growth, such as the employment cost index.

The average workweek held steady in April at 34.5 hours. With more jobs, a steady workweek, and modest growth in wages, aggregate weekly earnings were up 0.3 percent in April, which will result in a small real income gain over the month; the consumer price index likely rose 0.2 percent (to be released on May 10).



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The solid April jobs report is further confirmation of the excellent labor market in 2018, even if some of the details weren't as good. Job growth continues to run above the pace needed to reduce labor market slack, the unemployment rate is below 4 percent for the first time in more than 17 years, and wage growth is picking up. PNC expects job growth of around 180,000 per month this year, close to last year's pace. Stimulus from the recent corporate and personal income tax cuts, as well as increased federal spending, will boost the economy and labor market in 2018 and into 2019. Wage growth will accelerate this year as employers compete for workers;

PNC's spring 2018 survey of small and medium-sized businesses finds that one-half of firms expect to raise compensation over the next six months. Higher wages could bring more people into the job market.

This report supports an increase in the federal funds rate when the Federal Open Market Committee meets in mid-June, by one-quarter of a percentage point to a range of 1.75 to 2.00 percent. Inflation moved to the FOMC's 2 percent goal in April, and the tight job market is raising concerns that building wage pressures could lead to higher inflation. The FOMC will try to let some of the steam off the

Chart 1: By Some Measures, Best Job Market Since 2000

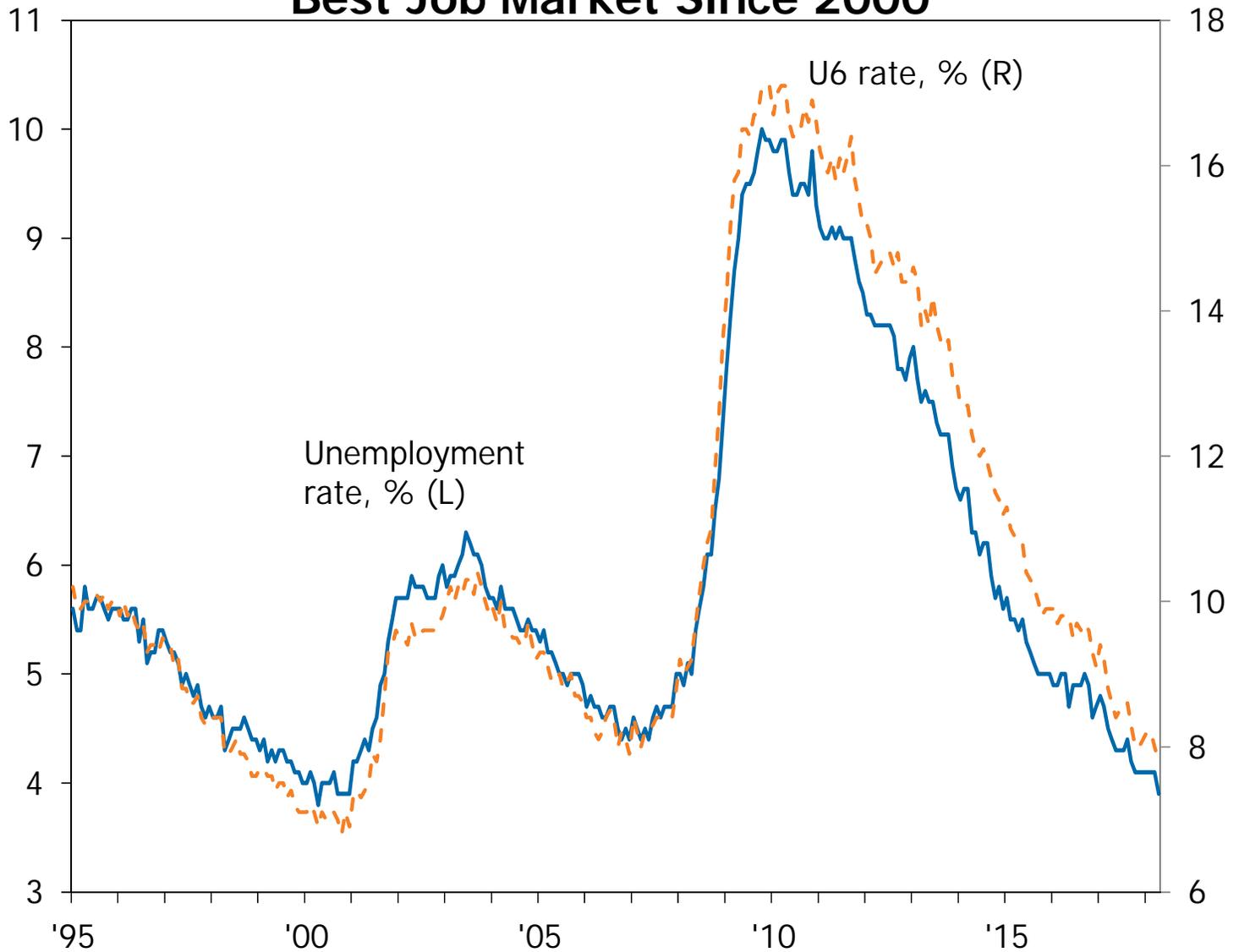


Chart source: Bureau of Labor Statistics

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economy, concerned that letting the labor market run too hot could push inflation well past the committee's 2 percent goal. Right now the fed funds futures market is pricing in a 100 percent probability of a rate increase at the mid-June meeting. PNC then expects one further FOMC rate hike in 2018, in December.

The current economic expansion, which began in June 2009, is now in its 107th month, making it the second-longest expansion in U.S. economic history. With the solid job market it has a decent shot of becoming the longest expansion ever; the longest expansion lasted 120 months, from 1991 to 2001.

Chart 2: Slow But Noticeable Acceleration in Wage Growth With Tighter Job Market

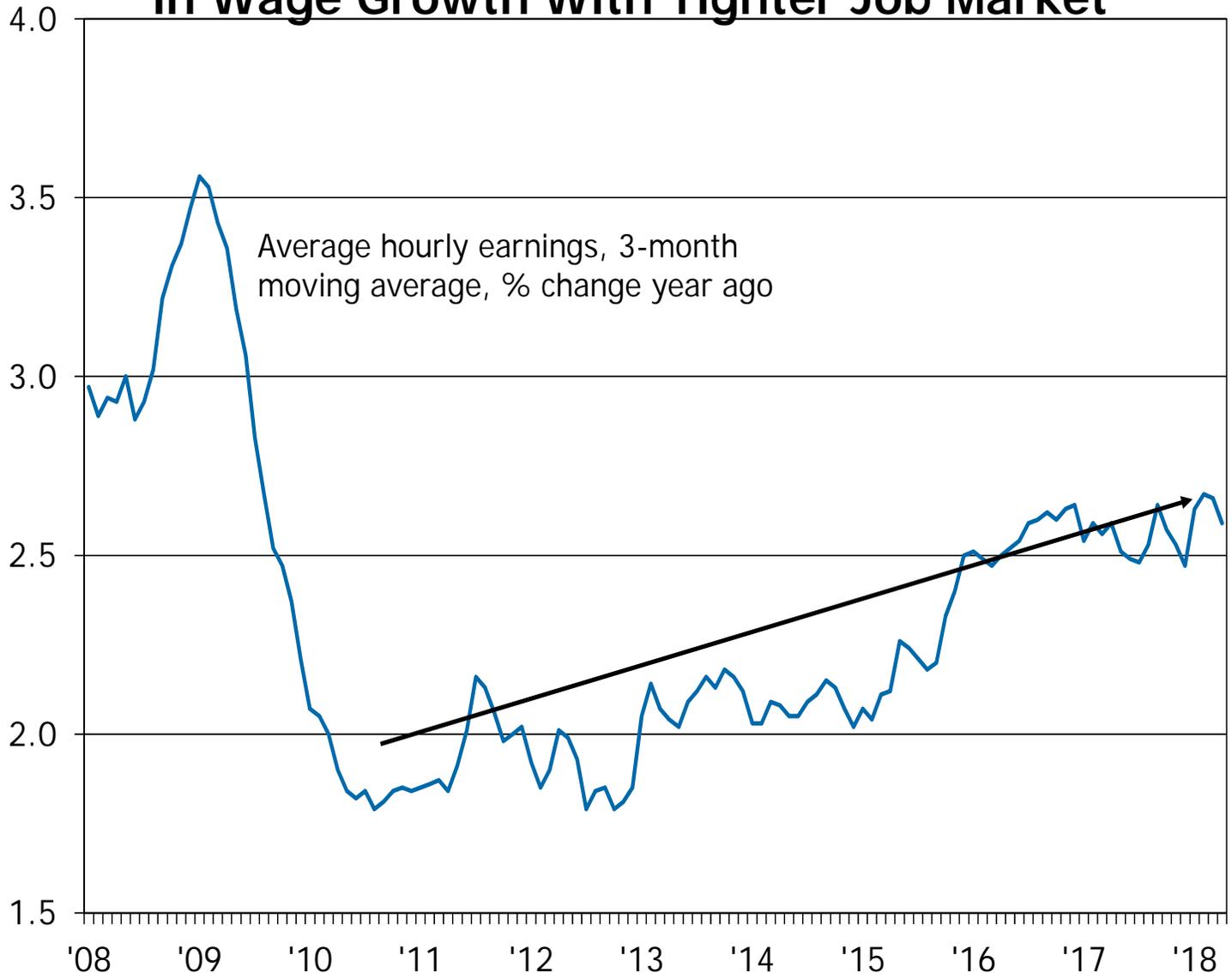


Chart source: Bureau of Labor Statistics

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