

January 5, 2018

MARKET EXPECTATIONS SURVEY

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The U.S. economy added 148,000 jobs in December, below the 190,000 consensus, but still a decent rise. The private sector added 146,000 jobs in December. There was a net downward revision of 9,000 jobs for the previous two months. In the fourth quarter, the U.S. economy added an average of 204,000 jobs per month, above the average of 171,000 per month for all of 2017. This is down from a pace of 187,000 jobs per month in 2016.

The unemployment held steady at 4.1 percent in December for a third month. The broader U-6 “under employment” rate (unemployed, underemployed and too discouraged to look for a job) edged up to 8.1 percent in December, but remains near a decade-long low point.

Job growth was broad-based across private industries in December. Manufacturing employment rose 25,000 and construction employment rose 30,000. Private service-providing industries added only 91,000 jobs in December. Jobs declined in retail trade by 20,000 as brick and mortar stores continue to pare workers (this is before the store closings announced by Macys and Sears/Kmart). Average hourly earnings rose 0.3 percent and year-over-year growth remained at 2.5 percent in December. Surprisingly, there are few indications that the tight labor market is leading to stronger wage growth, a disappointment given that the expansion is now more than eight-and-a-half years old.

The average workweek held steady at 34.5 hours in December. With a moderate increase in jobs, a stable workweek, and a rise in wages, aggregate weekly earnings were up 0.5 percent in December, which should allow for a large real income gain in December given that the consumer price index was likely unchanged last month, held down by a nearly 3 percent decline in gasoline prices.

In summary, the job market is very healthy as 2018 begins. The solid economy will add about 140,000 jobs per month this year, well above the pace of the underlying growth in the labor force, so the unemployment rate will decline to 3.7 percent by year-end 2018. Wage gains should pick up to nearly 3.0 percent as the labor market continues to tighten this year and some of the corporate tax cut gets passed along to workers.

Inflation has remained below the FOMC’s 2.0 percent goal, but given the increasingly tight job market, that will not deter the FOMC from continued “gradual” funds rate hikes in 2018. Solid economic and job growth this year will give the FOMC the green light to raise the federal funds rate by 25 bps three times in 2018 (June, September and December). Right now the Fed funds futures market is pricing in a 67 percent probability of a 25 basis point rate increase at the March 2018 FOMC meeting. We expect them to remain on hold awaiting further evidence on a speed-up in inflation and the impact of the tax cuts on economic growth.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Fed Funds Rate Target Range Mid-Point <i>(after the FOMC meeting on 1/31/18)</i> Range: 1.25 to 1.50 percent Median: 1.375 percent	0.13%	We do <u>not</u> expect a funds rate hike at the January 30-31 FOMC meeting. Jay Powell will be Chair after that meeting and we expect the economic and inflation data will NOT justify a rate hike at the March FOMC meeting so they take a “breather”. We do expect 25 bps rate hikes at the June, September and December FOMC meetings.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Nov Consumer Credit (1/8, Monday) Range: \$14.0 to \$20.9 billion Median: \$18.0 billion	\$20.5B (Oct)	<u>Up</u> \$14.0 billion.
Dec Export Price Index (1/10, Wednesday) Range: 0.2 to 0.4 percent Median: 0.3 percent	0.5% (Nov)	<u>Up</u> 0.2 percent.
Dec Import Price Index (1/10, Wednesday) Range: 0.2 to 0.8 percent Median: 0.4 percent	0.7% (Nov)	<u>Up</u> 0.2 percent. Import oil prices flat.
Dec PPI (1/11, Thursday) Range: -0.1 to 0.3 percent Median: 0.2 percent	0.4% (Nov)	<u>Down</u> 0.1 percent. Gasoline prices down big.
Dec PPI (ex-food) (1/11, Thursday) Range: 0.1 to 0.2 percent Median: 0.2 percent	0.3% (Nov)	<u>Up</u> 0.1 percent.
Dec CPI (1/12, Friday) Range: 0.0 to 0.4 percent Median: 0.1 percent	0.4% (Nov)	<u>Unchanged</u> . Gasoline prices <u>down</u> nearly 3 percent.
Dec CPI (ex-food & energy) (1/12, Friday) Range: 0.1 to 0.3 percent Median: 0.2 percent	0.1% (Nov)	<u>Up</u> 0.2 percent.
Dec Retail Sales (1/12, Friday) Range: 0.2 to 0.7 percent Median: 0.5 percent	0.8% (Nov)	<u>Up</u> 0.5 percent reflecting a strong holiday sales season.
Dec Retail Sales (ex-auto) (1/12, Friday) Range: 0.2 to 0.5 percent Median: 0.4 percent	1.0% (Nov)	<u>Up</u> 0.3 percent. Control sales (ex-vehicles, gasoline, building materials and restaurant sales) <u>up a solid</u> 0.5 percent.
Nov Business Inventories (1/12, Friday) Range: 0.2 to 0.5 percent Median: 0.3 percent	-0.1% (Oct)	<u>Up</u> 0.4 percent. Sales <u>up</u> a strong 0.9 percent.
Dec Industrial Production (1/17, Wednesday) Range: -0.1 to 0.5 percent Median: 0.3 percent	0.2% (Nov)	<u>Up</u> 0.4 percent with manufacturing up 0.2 percent. Big gains in mining and utilities (Brrrr).

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Dec Capacity Utilization (1/17, Wednesday) Range: 76.9 to 77.4 percent Median: 77.3 percent	77.1% (Nov)	<u>Up</u> to 77.3 percent.
Dec Housing Starts (1/18, Thursday) Range: 1.225 to 1.325 million Median: 1.270 million	1.297M (Nov)	<u>Down</u> 3 percent to a still solid 1.26 million. Building permits <u>down</u> 1 percent to 1.29 million.
Jan U. Mich Consumer Sentiment (prelim) (1/19, Friday) Range: 94.5 to 99.0 Median: 97.0	95.9 (Dec)	A <u>big jump</u> to 99.0.

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MONTHLY CALENDAR OF ECONOMIC DATA

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MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY																																																																
<p>Jan 1</p> <p>Markets Closed New Year's Day</p> 	2	<p>3</p> <p>CONSTRUCTION SPENDING</p> <p>Sept 1.3% Oct 0.9 Nov 0.8</p> <p>ISM MFG INDEX</p> <p>Oct 58.7% Nov 58.2 Dec 59.7</p> <table border="1"> <thead> <tr> <th colspan="2">Autos</th> <th colspan="2">Light</th> </tr> <tr> <th>Dom</th> <th>For</th> <th>Truck</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Oct 4.8</td> <td>1.8</td> <td>11.5</td> <td>18.1</td> </tr> <tr> <td>Nov 4.7</td> <td>1.7</td> <td>11.1</td> <td>17.5</td> </tr> <tr> <td>Dec 4.6</td> <td>1.6</td> <td>11.8</td> <td>17.8</td> </tr> </tbody> </table>	Autos		Light		Dom	For	Truck	Total	Oct 4.8	1.8	11.5	18.1	Nov 4.7	1.7	11.1	17.5	Dec 4.6	1.6	11.8	17.8	<p>4</p> <p>1/5</p> <p>ISM NON-MFG INDEX</p> <p>Oct 60.1 Nov 57.4 Dec 55.9</p> <p>Unemployment Claims (000)</p> <table border="1"> <thead> <tr> <th>Oct</th> <th>Nov</th> <th>Dec</th> <th>Jan</th> </tr> </thead> <tbody> <tr> <td>244</td> <td>239</td> <td>236</td> <td></td> </tr> <tr> <td>223</td> <td>252</td> <td>225</td> <td></td> </tr> <tr> <td>234</td> <td>240</td> <td>245</td> <td></td> </tr> <tr> <td>229</td> <td>238</td> <td>247</td> <td></td> </tr> <tr> <td></td> <td></td> <td>250</td> <td></td> </tr> </tbody> </table> <p>ADP Employment (Dec)</p>	Oct	Nov	Dec	Jan	244	239	236		223	252	225		234	240	245		229	238	247				250		<p>5</p> <p>EMPLOYMENT REPORT</p> <table border="1"> <thead> <tr> <th>U.Rate</th> <th>Jobs(000)</th> </tr> </thead> <tbody> <tr> <td>Oct 4.1</td> <td>+211</td> </tr> <tr> <td>Nov 4.1</td> <td>+252</td> </tr> <tr> <td>Dec 4.1</td> <td>+148</td> </tr> </tbody> </table> <p>TRADE BALANCE (\$B)</p> <p>Sept -\$44.9 Oct -\$48.9 Nov -\$50.5</p> <p>MANUFACTURERS'</p> <table border="1"> <thead> <tr> <th>Ship</th> <th>Inv</th> <th>Orders</th> </tr> </thead> <tbody> <tr> <td>Sept 1.1%</td> <td>0.6%</td> <td>1.7%</td> </tr> <tr> <td>Oct 0.8</td> <td>0.3</td> <td>0.4</td> </tr> <tr> <td>Nov 1.2</td> <td>0.4</td> <td>1.3</td> </tr> </tbody> </table>	U.Rate	Jobs(000)	Oct 4.1	+211	Nov 4.1	+252	Dec 4.1	+148	Ship	Inv	Orders	Sept 1.1%	0.6%	1.7%	Oct 0.8	0.3	0.4	Nov 1.2	0.4	1.3
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22	23	<p>24</p> <p>EXISTING HOME SALES(000)</p> <p>Oct 5.500 Nov 5.810 Dec</p>	<p>25</p> <p>LEADING INDICATORS</p> <p>Oct 1.2% Nov 0.4 Dec</p> <p>NEW HOME SALES(000)</p> <p>Oct 624 Nov 733 Dec</p>	<p>26</p> <p>GROSS DOMESTIC PRODUCT 4th Qtr (1st estimate)</p> <table border="1"> <thead> <tr> <th></th> <th>Real GDP</th> <th>Price Index</th> </tr> </thead> <tbody> <tr> <td>2Q'17</td> <td>3.1%</td> <td>1.0%</td> </tr> <tr> <td>3Q'17</td> <td>3.2</td> <td>2.1</td> </tr> <tr> <td>4Q'17(1st)</td> <td></td> <td></td> </tr> </tbody> </table> <p>ADV DURABLE GOODS</p> <table border="1"> <thead> <tr> <th>Total</th> <th>Ex-Transp</th> </tr> </thead> <tbody> <tr> <td>Oct -0.4%</td> <td>1.3%</td> </tr> <tr> <td>Nov 1.3</td> <td>-0.1</td> </tr> <tr> <td>Dec</td> <td></td> </tr> </tbody> </table>		Real GDP	Price Index	2Q'17	3.1%	1.0%	3Q'17	3.2	2.1	4Q'17(1 st)			Total	Ex-Transp	Oct -0.4%	1.3%	Nov 1.3	-0.1	Dec																																													
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