

MARKET EXPECTATIONS SURVEY

Gus Faucher
Chief Economist

Stuart Hoffman
Senior Economic Advisor

William Adams
Senior Economist

Kurt Rankin
Economist

THE PNC FINANCIAL SERVICES GROUP | The Tower at PNC Plaza | 300 Fifth Avenue | Pittsburgh, PA 15222-2401

The Federal Government has shutdown 18 times in the past 40 years. About half lasted three days or less; the longest was 22 days. The stock market was barely changed during those shut down periods with the biggest decline 3 percent and biggest rise 1 percent with an average decline of less than 1 percent. The shutdown had no lasting economic impacts but perhaps will have political ramification at the mid-year elections in November 2018 if this shutdown drags on long enough to be even remembered at that time.

Sunday night Senate bipartisan leaders agreed to hold a noon Monday 1/22 Senate vote on whether to proceed to debate a bill to provide short-term government funding to February 8, one week less than the four-week extension approved by the House last week. The new bill also would include the CHIP funding and ACA tax repeals we described in earlier notes. Bipartisan agreement in the Senate that this process vote should be held is significant forward movement, but there is not yet full agreement on the path forward to resolve the spending/DACA/border security issues that divide the political parties.

The Senate agreement to hold the process vote we think probably indicates that both political parties think they have made their political points, shown seriousness to their respective bases, and are ready to move forward again before the public starts blaming the shutdown on incumbents regardless of political party. So the Senate is likely to vote positively Monday afternoon to proceed and then to approve government funding to February 8. House approval of the likely Senate action is very likely; the House Republican majority will not want to be seen as holding up funding the government after pointing the shutdown finger at Democrats all weekend.

Senate Majority Leader McConnell said Sunday night that if the Senate votes go well he intends to have all outstanding issues in the bipartisan spending/DACA/border security negotiations finished by the February 8 spending deadline. McConnell also said that, if negotiations on DACA and border security were not finished by then, he would bring those issues to the Senate floor immediately afterward. These pledges are intended both to underscore McConnell's continued commitment to resolving all these issues and to put pressure on both political parties as well as the White House to finish them over the next three weeks. If those negotiations do not result in agreements before February 8, McConnell is in effect warning negotiators that their leverage might well decrease if the issues are resolved through the regular congressional legislative process.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Fed Funds Rate Target Range Mid-Point (after the FOMC meeting on 1/31/18) 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 may not justify a rate hike at the March FOMC meeting but it will be a close call. The Fed funds future market current odds of a March rate hike are 73 percent. The FOMC may not want to miss that "opportunity" for a rate hike.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Dec Existing Home Sales (1/24, Wednesday) Range: 5.55 to 5.90 million Median: 5.70 million.	5.810M (Nov)	<u>Up</u> to 5.90 million.
Dec Advance Trade in Goods (1/25, Thursday) Range: -\$71.7 to -\$66.8 billion Median: -\$68.8 billion	-\$70.0B (Nov)	A <u>narrowing</u> to -\$68.5 billion.
Dec New Home Sales (1/25, Thursday) Range: 0.635 to 0.750 million Median: 0.680 million	0.733M (Nov)	<u>Down</u> to 650,000 but still a solid sales pace. The December home builders' survey dipped but is still very strong.
Dec Leading Indicators (1/25, Thursday) Range: 0.1 to 0.7 percent Median: 0.5 percent	0.4% (Nov)	<u>Up</u> 0.5 percent. Coincident indicators <u>up</u> a strong 0.4 percent.
Q4 GDP Advance Report (1/26, Friday) Range: 2.4 to 3.4 percent Median: 3.0 percent	3.2% (Q3, 3 rd Est.)	<u>Up</u> 3.2 percent annualized with real consumer spending, business investment and construction spending leading the way. This is a third straight gain above 3 percent (the economic growth "hat trick").
Q4 Chain Price Index Advance Report (1/26, Friday) Range: 2.0 to 3.2 percent Median: 2.3 percent	2.1% (Q3, 3 rd Est.)	<u>Up</u> 2.7 percent annualized so nominal GDP growth was a relatively rapid 6 percent per annum last quarter.
Dec Durable Goods Orders (1/26, Friday) Range: -1.0 to 3.0 percent Median: 0.9 percent	1.3% (Nov)	<u>Up</u> 0.6 percent. Shipments also <u>up</u> 0.6 percent.
Dec Personal Income (1/29, Monday) Range: 0.1 to 0.4 percent Median: 0.3 percent	0.3% (Nov)	<u>Up</u> 0.2 percent. Many individuals and companies likely shifted bonuses/sales rewards to January 2018 to take advantage of the lower tax rates this year. We expect a super strong rise in income, especially after-tax income, in January and February combined.
Dec Personal Consumption Expend. (1/29, Monday) Range: 0.3 to 0.5 percent Median: 0.5 percent	0.5% (Nov)	<u>Up</u> a strong 0.5 percent reflecting the solid holiday sales season. The PCE total and core price index was up 0.1 percent and 0.2 percent, respectively.
Jan Consumer Confidence (1/30, Tuesday) Range: 118.0 to 127.0 Median: 123.1	122.1 (Dec)	<u>Up</u> to a very confident consumer level of 127.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Jan ADP Employment Survey (1/31, Wednesday) Range: 170,000 to 227,000 Median: 195,000	250K (Dec)	<u>Up</u> 170,000.
Q4 Employment Cost Index (1/31, Wednesday) Range: 0.3 to 0.7 percent Median: 0.5 percent	0.7% (Q3)	<u>Up</u> 0.5 percent and edging down to a gain of 2.5 percent from a year ago-- identical to the AHE wage measure rise.
Q4 Nonfarm Productivity (Prelim) (2/1, Thursday) Range: 0.6 to 2.7 percent Median: 1.3 percent	3.0% (Q3)	<u>Up</u> 1.8 percent.
Q4 Unit Labor Costs (Prelim) (2/1, Thursday) Range: -0.6 to 1.5 percent Median: 0.9 percent	-0.2% (Q3)	<u>Up</u> 1.0 percent.
Jan ISM (Manufacturing) (2/1, Thursday) Range: 57.6 to 59.2 percent Median: 58.8 percent	59.7% (Dec)	<u>Down</u> to a still strong 58.5.
Dec Construction Spending (2/1, Thursday) Range: -0.3 to 0.5 percent Median: 0.4 percent	0.8% (Nov)	<u>Down</u> 0.4 percent as very cold weather temporarily held back construction activity.
Jan Nonfarm Payrolls (2/2, Friday) Range: 159,000 to 205,000 Median: 188,000	148K (Dec)	<u>Up</u> 165,000.
Jan Private Nonfarm Payrolls (2/2, Friday) Range: 155,000 to 200,000 Median: 182,000	146K (Dec)	<u>Up</u> 160,000.
Jan Manufacturing Payrolls (2/2, Friday) Range: 5,000 to 25,000 Median: 10,000	25K (Dec)	<u>Up</u> 5,000.
Jan Unemployment Rate (2/2, Friday) Range: 4.1 to 4.1 percent Median: 4.1 percent	4.1% (Dec)	<u>Unchanged</u> at 4.1 percent with both household jobs and the labor force rising by close to 150,000.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Jan Average Hourly Earnings (2/2, Friday) Range: 0.2 to 0.4 percent Median: 0.2 percent	0.3% (Dec)	<u>Up</u> 0.3 percent. The gain from a year ago will edge up to 2.6 percent.
Jan Hours Worked (2/2, Friday) Range: 34.4 to 34.5 hours Median: 34.5 hours	34.5hrs (Dec)	<u>Down</u> to 34.4 hours as cold weather kept some workers off the job.
Dec Factory Orders (2/2, Friday) Range: 0.3 to 0.9 percent Median: 0.5 percent	1.3% (Nov)	<u>Up</u> 0.3 percent.
Jan U. Mich Consumer Sentiment (final) (2/2, Friday) Range: 95.0 to 96.5 Median: 95.3	95.9 (Dec)	<u>Up</u> to 95.5.

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MONTHLY CALENDAR OF ECONOMIC DATA

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Chief Economist

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Jan/Feb 2018

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
15	16	17	18	19
		IND PROD CAP UTIL Oct 1.8% 77.4% Nov -0.1 77.2 Dec 0.9 77.9 Fed Beige Book	HOUSING(000) Starts Permits Oct 1,261 1,316 Nov 1,299 1,303 Dec 1,192 1,302 Philadelphia Fed Survey (Jan)	U of M Jan Consumer Sentiment (Prelim)
22	23	24	25	26
		EXISTING HOME SALES(000) Oct 5.500 Nov 5.810 Dec NEW HOME SALES(000) Oct 624 Nov 733 Dec	LEADING INDICATORS Oct 1.2% Nov 0.4 Dec NEW HOME SALES(000) Oct 624 Nov 733 Dec	GROSS DOMESTIC PRODUCT 4th Qtr (1st estimate) Real GDP Price Index 2Q'17 3.1% 1.0% 3Q'17 3.2 2.1 4Q'17(1 st) ADV DURABLE GOODS Total Ex-Transp Oct -0.4% 1.3% Nov 1.3 -0.1 Dec
29	30	31	Feb 1	2
PERSONAL Income Spending Oct 0.4% 0.2% Nov 0.3 0.6 Dec	CASE-SHILLER HPI 20-City Composite(SA) M/M Y/Y Sept 1.0% 6.2% Oct 0.7 6.4 Nov CB CONSUMER CONFIDENCE Total Current Expect Nov 128.6 154.9 111.0 Dec 122.1 156.6 99.1 Jan	Employment Cost Index Total W&S Fringes 4Q'16 0.5 0.5 0.5 1Q'17 0.8 0.8 0.7 2Q'17 0.5 0.5 0.6 3Q'17 0.7 0.7 0.8 4Q'17 2/1 Autos Light Dom For Truck Total Nov 4.7 1.7 11.1 17.5 Dec 4.6 1.6 11.8 17.8 Jan ADP Employment (Jan) Chicago PMI (Jan) FOMC Statement - 2pm	Nonfarm Business (Q4 1st) Productivity & Costs Productivity Unit Labor Costs 4Q'16 1.3 -5.7 1Q'17 0.1 4.8 2Q'17 1.5 -1.2 3Q'17 3.0 -0.2 4Q'17(1 st) ISM MFG INDEX Nov 58.2% Dec 59.7 Jan CONSTRUCTION SPENDING Oct 0.9% Nov 0.8 Dec	EMPLOYMENT REPORT U.Rate Jobs(000) Nov 4.1 +252 Dec 4.1 +148 Jan MANUFACTURERS' Ship Inv Orders Oct 0.8% 0.3% 0.4% Nov 1.2 0.4 1.3 Dec U of M Jan Consumer Sentiment (Final)
5	6	7	8	9
ISM NON-MFG INDEX Nov 57.4 Dec 55.9 Jan	TRADE BALANCE (\$B) Oct -\$48.9 Nov -\$50.5 Dec	CONSUMER CREDIT(\$B) Oct +\$20.5 Nov +\$28.0 Dec	Unemployment Claims (000) Oct Nov Dec Jan 244 239 236 261 223 252 225 220 234 240 245 229 238 247 250	