

March 2, 2018

MARKET EXPECTATIONS SURVEY

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Personal income rose 0.4 percent in January before inflation, with a much bigger 0.9 percent increase in disposable (after-tax) income as a result of the tax cuts that Congress passed in late 2017. Wages and salaries rose 0.5 percent in January, with personal taxes paid down 3.3 percent over the month. Adjusted for inflation, after-tax income rose 0.6 percent in January, with inflation-adjusted spending down 0.1 percent.

Consumer spending (PCE) rose a modest 0.2 percent in January before inflation. Spending on durable goods fell 1.5 percent with a drop in auto sales over the month, while spending on services rose 0.3 percent. Spending on nondurable goods rose 1.0 percent as energy prices rose. With after-tax income up much more than spending, the personal saving rate rose from 2.5 percent in December to 3.2 percent in January.

Inflation was modest in January. The PCE price index rose 0.4 percent with higher energy prices over the month, while the core index (excluding volatile food and energy prices) rose 0.3 percent, the biggest one-month increase in a year. On a year-over-year basis overall inflation was 1.7 percent in January, close to where it was been since September. Core inflation was 1.5 percent year-over-year in January, at the same pace since October. Both of these remain below the Federal Reserve's inflation goal of 2 percent.

The tax cuts boosted after-tax income growth in January, but have not yet boosted spending. It will take a few months for reduced tax withholdings to show up in household purchases, but the tax cut will provide a boost to consumer spending this year. Households will also use some of the tax cuts to boost their saving, which has fallen as a share of income over the past couple of years. Other fundamentals for consumer spending growth are solid: more jobs, accelerating wage growth, rising household wealth, near-record consumer confidence, and historically low interest rates (although they are rising).

Inflation remains below the Federal Reserve's 2 percent goal, but there are indications it may be starting to pick up. Core inflation, after falling in the first half of 2017, has risen over the past half-year. And wage pressures appear to be building, with the tight job market leading to stronger growth in average hourly earnings. In January the average hourly wage was up 2.9 percent from one year earlier, the strongest pace since mid-2009.

With the tight job market and rising wage pressures, the Federal Open Market Committee is set to raise the federal funds rate by a quarter of a percentage point, to a range of 1.50 to 1.75 percent, when it meets on March 20 and 21. PNC expects two more 25 basis point increases in the fed funds rate later this year.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Fed Funds Rate Target Range Mid-Point <i>(after the FOMC meeting on 3/21/18)</i> Range: 1.50 to 1.75 percent Median: 1.625 percent	1.13%	Jay Powell will Chair his first meeting on March 20-21 and we expect the economic and inflation data will easily justify a 25 bps funds rate hike at that meeting to a 1.50-1.75 range. He made his case for continuing a gradual but persistent rate hike strategy in his testimonies to Congress this week. The Fed funds future market's current odds of a March rate hike are 85 percent.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Feb ISM-NMI (3/5, Monday) Range: 57.9 to 60.5 percent Median: 59.0 percent	59.9% (Jan)	<u>Down</u> to a still strong 58.5.
Jan Factory Orders (3/6, Tuesday) Range: -2.8 to -0.3 percent Median: -1.2 percent	1.7% (Dec)	<u>Down</u> 1.8 percent, mostly reflecting a temporarily decline in aircraft orders. Sales <u>up</u> 0.4 percent.
Jan Trade Balance (3/7, Wednesday) Range: -\$55.9 to -\$52.0 billion Median: -\$54.1 billion	-\$53.1B (Dec)	A <u>widening</u> to \$-54.8 billion.
Q4 Nonfarm Productivity (Revised) (3/7, Wednesday) Range: -0.6 to 0.4 percent Median: -0.1 percent	-0.1% (Q4 2 nd Estimate)	Revised to <u>unchanged</u> .
Q4 Unit Labor Costs (Revised) (3/7, Wednesday) Range: 1.9 to 2.7 percent Median: 2.1 percent	2.0% (Q4 2 nd Estimate)	Revised to <u>up</u> 2.2 percent.
Jan Consumer Credit (3/7, Wednesday) Range: \$15.0 to \$20.0 billion Median: \$18.0 billion	\$18.4B (Dec)	<u>Up</u> \$14 billion.
Feb Nonfarm Payrolls (3/9, Friday) Range: 180,000 to 237,000 Median: 202,000	200K (Jan)	<u>Up</u> a strong 225,000.
Feb Private Nonfarm Payrolls (3/9, Friday) Range: 160,000 to 238,000 Median: 195,000	196K (Jan)	<u>Up</u> a strong 215,000.
Feb Manufacturing Payrolls (3/9, Friday) Range: 8,000 to 28,000 Median: 15,000	15K (Jan)	<u>Up</u> 20,000.
Feb Unemployment Rate (3/9, Friday) Range: 4.0 to 4.1 percent Median: 4.0 percent	4.1% (Jan)	<u>Down</u> to 4.0 percent. Household jobs will rise more than the labor force as the participation rate edges up to 62.8 percent.
Feb Average Earnings (3/9, Friday) Range: 0.1 to 0.3 percent Median: 0.2 percent	0.3% (Jan)	<u>Up</u> 0.2 percent bringing the year over year gain down to 2.8 percent. This might give financial markets a sigh of relief after the big rises in January 2018 and December 2017.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Feb Hours Worked (3/9, Friday) Range: 34.3 to 34.5 hours Median: 34.5 hours	34.3hrs (Jan)	Back <u>up</u> to 34.4 hours reinforcing the strength in the February labor market report.

Visit <http://www.pnc.com/economicreports> to view the full listing of economic reports published by PNC's economists.

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MONTHLY CALENDAR OF ECONOMIC DATA

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Feb/Mar 2018

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<p>26</p> <p>NEW HOME SALES(000)</p> <table> <tr><td>Nov</td><td>696</td></tr> <tr><td>Dec</td><td>643</td></tr> <tr><td>Jan</td><td>593</td></tr> </table>	Nov	696	Dec	643	Jan	593	<p>27</p> <p>ADV DURABLE GOODS</p> <table> <tr><th colspan="2">Total</th><th>Ex-Transp</th></tr> <tr><td>Nov</td><td>1.7%</td><td>0.4%</td></tr> <tr><td>Dec</td><td>2.6</td><td>0.7</td></tr> <tr><td>Jan</td><td>-3.7</td><td>-0.3</td></tr> </table> <p>CASE-SHILLER HPI</p> <p>20-City Composite(SA)</p> <table> <tr><th colspan="2">M/M</th><th>Y/Y</th></tr> <tr><td>Oct</td><td>0.7%</td><td>6.3%</td></tr> <tr><td>Nov</td><td>0.7</td><td>6.4</td></tr> <tr><td>Dec</td><td>0.6</td><td>6.3</td></tr> </table> <p>CB CONSUMER CONFIDENCE</p> <table> <tr><th>Total</th><th>Current</th><th>Expect</th></tr> <tr><td>Dec</td><td>123.1</td><td>156.5</td><td>100.8</td></tr> <tr><td>Jan</td><td>124.3</td><td>154.7</td><td>104.0</td></tr> <tr><td>Feb</td><td>130.8</td><td>162.4</td><td>109.7</td></tr> </table>	Total		Ex-Transp	Nov	1.7%	0.4%	Dec	2.6	0.7	Jan	-3.7	-0.3	M/M		Y/Y	Oct	0.7%	6.3%	Nov	0.7	6.4	Dec	0.6	6.3	Total	Current	Expect	Dec	123.1	156.5	100.8	Jan	124.3	154.7	104.0	Feb	130.8	162.4	109.7	<p>28</p> <p>GROSS DOMESTIC PRODUCT</p> <p>4th Qtr (2nd estimate)</p> <table> <tr><th colspan="2">Real GDP</th><th>Price Index</th></tr> <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>2.6</td><td>2.4</td></tr> <tr><td>4Q'17(2nd)</td><td>2.5</td><td>2.3</td></tr> </table> <p>3/1</p> <p>Autos Light</p> <table> <tr><th>Dom</th><th>For</th><th>Truck</th><th>Total</th></tr> <tr><td>Dec</td><td>4.6</td><td>1.6</td><td>11.8</td><td>17.8</td></tr> <tr><td>Jan</td><td>4.1</td><td>1.7</td><td>11.4</td><td>17.2</td></tr> <tr><td>Feb</td><td>3.9</td><td>1.8</td><td>11.4</td><td>17.1</td></tr> </table> <p>Chicago PMI (Feb)</p>	Real GDP		Price Index	2Q'17	3.1%	1.0%	3Q'17	3.2	2.1	4Q'17(1 st)	2.6	2.4	4Q'17(2 nd)	2.5	2.3	Dom	For	Truck	Total	Dec	4.6	1.6	11.8	17.8	Jan	4.1	1.7	11.4	17.2	Feb	3.9	1.8	11.4	17.1	<p>Mar 1</p> <p>PERSONAL</p> <table> <tr><th colspan="2">Income</th><th>Spending</th></tr> <tr><td>Nov</td><td>0.3%</td><td>0.7%</td></tr> <tr><td>Dec</td><td>0.4</td><td>0.4</td></tr> <tr><td>Jan</td><td>0.4</td><td>0.2</td></tr> </table> <p>ISM MFG INDEX</p> <table> <tr><td>Dec</td><td>59.3%</td></tr> <tr><td>Jan</td><td>59.1</td></tr> <tr><td>Feb</td><td>60.8</td></tr> </table> <p>CONSTRUCTION SPENDING</p> <table> <tr><td>Nov</td><td>1.2%</td></tr> <tr><td>Dec</td><td>0.8</td></tr> <tr><td>Jan</td><td>0.0</td></tr> </table> <p>U of M Feb Consumer Sentiment (Final)</p>	Income		Spending	Nov	0.3%	0.7%	Dec	0.4	0.4	Jan	0.4	0.2	Dec	59.3%	Jan	59.1	Feb	60.8	Nov	1.2%	Dec	0.8	Jan	0.0	
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<p>19</p> <p>Federal Budget (Feb)</p>	<p>20</p> <p>CONSUMER PRICE INDEX</p> <table> <tr><th>Total</th><th>Core</th></tr> <tr><td>Dec</td><td>0.2%</td><td>0.2%</td></tr> <tr><td>Jan</td><td>0.5</td><td>0.3</td></tr> <tr><td>Feb</td><td></td><td></td></tr> </table>	Total	Core	Dec	0.2%	0.2%	Jan	0.5	0.3	Feb			<p>21</p> <p>CURRENT ACCOUNT</p> <table> <tr><td>Q4'2016</td><td>-\$114.0</td></tr> <tr><td>Q1'2017</td><td>-\$113.5</td></tr> <tr><td>Q2'2017</td><td>-\$124.4</td></tr> <tr><td>Q3'2017</td><td>-\$100.6</td></tr> <tr><td>Q4'2017</td><td></td></tr> </table> <p>EXISTING HOME SALES(000)</p> <table> <tr><td>Dec</td><td>5,560</td></tr> <tr><td>Jan</td><td>5,380</td></tr> <tr><td>Feb</td><td></td></tr> </table> <p>FOMC Statement - 2pm</p>	Q4'2016	-\$114.0	Q1'2017	-\$113.5	Q2'2017	-\$124.4	Q3'2017	-\$100.6	Q4'2017		Dec	5,560	Jan	5,380	Feb		<p>22</p> <p>LEADING INDICATORS</p> <table> <tr><td>Dec</td><td>0.6%</td></tr> <tr><td>Jan</td><td>0.1</td></tr> <tr><td>Feb</td><td></td></tr> </table>	Dec	0.6%	Jan	0.1	Feb		<p>23</p> <p>ADV DURABLE GOODS</p> <table> <tr><th>Total</th><th>Ex-Transp</th></tr> <tr><td>Dec</td><td>2.6%</td><td>0.7%</td></tr> <tr><td>Jan</td><td>-3.7</td><td>-0.3</td></tr> <tr><td>Feb</td><td></td><td></td></tr> </table> <p>NEW HOME SALES(000)</p> <table> <tr><td>Dec</td><td>643</td></tr> <tr><td>Jan</td><td>593</td></tr> <tr><td>Feb</td><td></td></tr> </table>	Total	Ex-Transp	Dec	2.6%	0.7%	Jan	-3.7	-0.3	Feb			Dec	643	Jan	593	Feb																																																						
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