

July 10, 2018

MARKET EXPECTATIONS SURVEY

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The U.S. economy added 213,000 jobs in June, close to PNC's forecast of 210,000 and above the consensus expectation for an increase of 195,000. The private sector added 202,000 jobs over the month, with government employment up by 11,000. May job growth was revised up 21,000 to 244,000, while April growth was revised up by 16,000 to 175,000, for a combined upward revision to job growth over the two months of 37,000. The U.S. economy has added an average of 215,000 jobs per month so far in 2018, above last year's pace of 182,000 per month.

The unemployment rose 0.2 percentage point in June to 4.0 percent; this was the first increase in the unemployment rate since January 2017. Outside of April and May, this is the lowest the unemployment rate has been since the end of 2000. The unemployment rate rose for a good reason. More than 600,000 people entered the labor force in June, encouraged by the tight job market. The labor force participation rate (share of adults working or looking for work) rose by 0.2 percentage point over the month to 62.9 percent; since the beginning of 2016 it has been in a narrow range between 62.6 and 63.0 percent. The number of people employed in the household survey rose by an unspectacular 100,000 in June, but has averaged almost 260,000 per month so far this year. The broader U-6 unemployment rate (unemployed, underemployed and too discouraged to look for a job) also rose by 0.2 percentage point in June, to 7.8 percent, but remains near a two-decade low.

Job growth was good in almost all industries in June. Goods-producing industries added 53,000 jobs over the month, including 36,000 in manufacturing and 13,000 in construction. Private service-providing industries added 149,000 jobs in June. Average hourly earnings rose 0.2 percent in June, a slowing from 0.3 percent growth in May. Year-over-year growth in wages was 2.7 percent in June, unchanged from May. 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. The average workweek was 34.5 hours for a fifth straight month. With more jobs, a steady workweek, and moderate growth in wages, aggregate weekly earnings were up 0.3 percent in June, which will result in a small rise in real income; the consumer price index likely rose 0.2 percent over the month.

The job market is in excellent shape in the middle of 2018. Job growth continues to run well above the pace needed to reduce labor market slack and wage growth is picking up. PNC expects job growth of around 190,000 per month this year, slightly above last year's pace; it will slow through the end of 2018 as businesses find it more and more difficult to hire. 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. However, a trade war that would lead to a slowing in the job market is becoming a much more plausible downside risk as the US and its trading partners implement tit for tat tariffs. One potential upside risk for job growth is higher wages bringing more people into the job market.

The excellent June employment report supports an increase in the federal funds rate at the FOMC's late September meeting, by one-quarter of a percentage point to a range of 2.00 to 2.20 percent. Core inflation (excluding food and energy) moved to the FOMC's 2 percent goal in May, 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 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 an 82 percent probability of at least one rate increase by the end of September.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Fed Funds Rate Target Range Mid-Point <i>(after the FOMC meeting on 8/1/18)</i> Range: 1.75 to 2.00 percent Median: 1.875 percent	1.63%	No hike at the August meeting and we expect the FOMC will hike the funds rate another 25 bps to a 2.00-2.25 percent target range at their September 25-26 meeting.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
June PPI (7/11, Wednesday) Range: 0.0 to 0.3 percent Median: 0.2 percent	0.5% (May)	<u>Up</u> 0.3 percent, partly reflecting higher gasoline prices.
June PPI (ex-food & energy) (7/11, Wednesday) Range: 0.1 to 0.3 percent Median: 0.2 percent	0.3% (May)	<u>Up</u> 0.2 percent.
June CPI (7/12, Thursday) Range: 0.1 to 0.3 percent Median: 0.2 percent	0.2% (May)	<u>Up</u> 0.2 percent partly reflecting a 1.5 percent rise in gasoline prices.
June CPI (ex-food & energy) (7/12, Thursday) Range: 0.1 to 0.2 percent Median: 0.2 percent	0.2% (May)	<u>Up</u> 0.2 percent.
June Export Price Index (7/13, Friday) Range: 0.1 to 0.3 percent Median: 0.2 percent	0.6% (May)	<u>Up</u> 0.3 percent.
June Import Price Index (7/13, Friday) Range: -0.2 to 0.4 percent Median: 0.1 percent	0.6% (May)	<u>Up</u> 0.4 percent, partly reflecting higher imported crude oil prices.
Jul U. Mich. Consumer Sentiment (prelim) (7/13, Friday) Range: 97.5 to 99.4 Median: 98.2	98.2 (June)	<u>Up</u> to 99.
June Retail Sales (7/16, Monday) Range: 0.2 to 0.7 percent Median: 0.4 percent	0.8% (May)	<u>Up</u> 0.4 percent.
June Retail Sales (ex-auto) (7/16, Monday) Range: 0.1 to 0.6 percent Median: 0.4 percent	0.9% (May)	<u>Up</u> 0.2 percent. Core retail sales <u>up</u> 0.1 percent.
May Business Inventories (7/16, Monday) Range: 0.2 to 0.4 percent Median: 0.4 percent	0.3% (Apr)	<u>Up</u> 0.3 percent. Sales <u>up</u> 0.6 percent.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
June Industrial Production (7/17, Tuesday) Range: 0.2 to 0.6 percent Median: 0.5 percent	-0.1% (May)	<u>Up</u> 0.6 percent.
June Capacity Utilization (7/17, Tuesday) Range: 77.9 to 78.3 percent Median: 78.2 percent	77.9% (May)	<u>Up</u> to 78.3 percent.
June Housing Starts (7/18, Wednesday) Range: 1.270 to 1.346 million Median: 1.315 million	1.350M (May)	<u>Down</u> to 1.32 million.
June Leading Indicators (7/19, Thursday) Range: 0.2 to 0.5 percent Median: 0.4 percent	0.2% (May)	<u>Up</u> 0.3 percent.

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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MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY																																																																		
<p>July 2</p> <p>ISM MFG INDEX</p> <table> <tr><td>Apr</td><td>57.3</td></tr> <tr><td>May</td><td>58.7</td></tr> <tr><td>June</td><td>60.2</td></tr> </table> <p>CONSTRUCTION SPENDING</p> <table> <tr><td>Mar</td><td>-0.9%</td></tr> <tr><td>Apr</td><td>0.9</td></tr> <tr><td>May</td><td>0.4</td></tr> </table>	Apr	57.3	May	58.7	June	60.2	Mar	-0.9%	Apr	0.9	May	0.4	<p>3</p> <p>MANUFACTURERS'</p> <table> <tr><th colspan="3"><u>Ship Inv Orders</u></th></tr> <tr><td>Mar</td><td>0.7%</td><td>0.2%</td><td>1.7%</td></tr> <tr><td>Apr</td><td>0.1</td><td>0.4</td><td>-0.4</td></tr> <tr><td>May</td><td>0.6</td><td>0.2</td><td>0.4</td></tr> </table> <p>Autos Light</p> <table> <tr><th colspan="4"><u>Dom For Truck Total</u></th></tr> <tr><td>Apr</td><td>3.9</td><td>1.6</td><td>11.7</td><td>17.2</td></tr> <tr><td>May</td><td>3.7</td><td>1.8</td><td>11.6</td><td>16.9</td></tr> <tr><td>June</td><td>3.5</td><td>2.0</td><td>12.0</td><td>17.5</td></tr> </table> <p>Early Market Close</p>	<u>Ship Inv Orders</u>			Mar	0.7%	0.2%	1.7%	Apr	0.1	0.4	-0.4	May	0.6	0.2	0.4	<u>Dom For Truck Total</u>				Apr	3.9	1.6	11.7	17.2	May	3.7	1.8	11.6	16.9	June	3.5	2.0	12.0	17.5	<p>4</p> <p>Market Closed in Observance of the July 4th Holiday</p>	<p>5</p> <p>ISM NON-MFG INDEX</p> <table> <tr><td>Apr</td><td>56.8</td></tr> <tr><td>May</td><td>58.6</td></tr> <tr><td>June</td><td>59.1</td></tr> </table> <p>ADP Employment (June)</p> <p>FOMC Minutes (June)</p>	Apr	56.8	May	58.6	June	59.1	<p>6</p> <p>EMPLOYMENT REPORT</p> <table> <tr><th colspan="2"><u>U.Rate Jobs(000)</u></th></tr> <tr><td>Apr</td><td>3.9 +175</td></tr> <tr><td>May</td><td>3.8 +244</td></tr> <tr><td>June</td><td>4.0 +213</td></tr> </table> <p>TRADE BALANCE (\$B)</p> <table> <tr><td>Mar</td><td>-\$47.2</td></tr> <tr><td>Apr</td><td>-\$46.1</td></tr> <tr><td>May</td><td>-\$43.1</td></tr> </table>	<u>U.Rate Jobs(000)</u>		Apr	3.9 +175	May	3.8 +244	June	4.0 +213	Mar	-\$47.2	Apr	-\$46.1	May	-\$43.1
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<p>23</p> <p>EXISTING HOME SALES(000)</p> <table> <tr><td>Apr</td><td>5,450</td></tr> <tr><td>May</td><td>5,430</td></tr> <tr><td>June</td><td></td></tr> </table>	Apr	5,450	May	5,430	June		<p>24</p>	<p>25</p> <p>NEW HOME SALES(000)</p> <table> <tr><td>Apr</td><td>646</td></tr> <tr><td>May</td><td>689</td></tr> <tr><td>June</td><td></td></tr> </table>	Apr	646	May	689	June		<p>26</p> <p>ADV DURABLE GOODS</p> <table> <tr><th colspan="2"><u>Total Ex-Transp</u></th></tr> <tr><td>Apr</td><td>-1.0% 1.9%</td></tr> <tr><td>May</td><td>-0.6 -0.3</td></tr> <tr><td>June</td><td></td></tr> </table>	<u>Total Ex-Transp</u>		Apr	-1.0% 1.9%	May	-0.6 -0.3	June		<p>27</p> <p>GROSS DOMESTIC PRODUCT</p> <p>2nd Qtr (1st estimate)</p> <table> <tr><th colspan="2"><u>Real GDP Price Index</u></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</td><td>2.9</td><td>2.3</td></tr> <tr><td>1Q'18</td><td>2.0</td><td>2.2</td></tr> <tr><td>2Q'18(1st)</td><td></td><td></td></tr> </table> <p>U of M July Consumer Sentiment (Final)</p>	<u>Real GDP Price Index</u>		2Q'17	3.1%	1.0%	3Q'17	3.2	2.1	4Q'17	2.9	2.3	1Q'18	2.0	2.2	2Q'18(1 st)																															
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