

September 7, 2018

MARKET EXPECTATIONS SURVEY

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The US economy added 201,000 jobs in August, above the consensus expectation of 190,000 and very close to PNC's forecast of 200,000. So far this year job growth has averaged 207,000 per month, well above last year's pace of 182,000. There was a combined downward revision to job growth in June and July of 50,000, but that is not a concern; job growth over the past three months has averaged a very solid 185,000. The U.S. economy is now very close full employment, where everyone who wants a job and has the skills needed in the labor force can easily find one.

Private-sector employment rose by 204,000 in August, with job gains in most industries. There were big increases in education/healthcare, business/professional services, leisure/hospitality services, and construction. There were small job losses in manufacturing and retailing. State and local government jobs fell by 3,000 but will rise in September as teachers returned to the classrooms.

The unemployment rate (U-3) held steady in August at 3.9 percent; except for May, this is the lowest the unemployment rate has been since late 2001. Both of the number of people employed in the household survey (different from the survey of employers) and in the labor force fell in August, but these numbers are volatile from month to month and the trends are good. The U-6 so-called "underemployment rate" edged down to 7.4 percent, its lowest level thus far in this expansion.

Average hourly earnings rose 0.4 percent in August from July, and were up 2.9 percent from one year earlier, the fastest pace since June 2009 when the Great Recession was starting to decimate the labor market. As the labor market tightens businesses are raising pay to attract new workers and retain their current ones.

The labor market will continue to improve through the rest of this year and into 2019. The unemployment rate will fall to about 3.5 percent by the beginning of next year, although job growth will slow somewhat as businesses find it more and more difficult to hire qualified employees. Wage growth will accelerate further as firms raise pay to recruit workers. Stronger wage growth will bolster consumer spending into 2019.

Today's job report reinforces PNC's view that the Federal Open Market Committee will raise the federal funds rate by 0.25 percentage point to a range of 2.00 to 2.25 percent when it next meets on September 25 and 26. By gradually but persistently raising interest rates, the FOMC is trying to make sure that the labor market doesn't overheat; if it did, that would lead to wage pressures that would push inflation well past the committee's 2 percent objective.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Fed Funds Rate Target Range Mid-Point <i>(after the FOMC meeting on 9/26/18)</i> Range: 2.00 to 2.25 percent Median: 2.125 percent	1.88%	A 25 bps rate hike in the FOMC's target Fed funds rate range to 2.00-2.25 percent is all but guaranteed at the Sept. 25-26 meeting.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
July Consumer Credit (9/10, Monday) Range: \$9.7 to \$16.0 billion Median: \$14.0 billion	\$10.2B (June)	<u>Up</u> \$13.0 billion.
Aug PPI (9/12, Wednesday) Range: 0.0 to 0.3 percent Median: 0.2 percent	0.0% (July)	<u>Up</u> 0.2 percent.
Aug PPI (ex-food & energy) (9/12, Wednesday) Range: 0.1 to 0.3 percent Median: 0.2 percent	0.2% (July)	<u>Up</u> 0.2 percent.
Aug CPI (9/13, Thursday) Range: 0.1 to 0.4 percent Median: 0.3 percent	0.2% (July)	<u>Up</u> 0.3 percent. Gasoline prices rose by close to 3.0 percent.
Aug CPI (ex-food & energy) (9/13, Thursday) Range: 0.2 to 0.3 percent Median: 0.2 percent	0.2% (July)	<u>Up</u> 0.2 percent.
Aug Retail Sales (9/14, Friday) Range: -0.1 to 0.7 percent Median: 0.4 percent	0.5% (July)	<u>Up</u> 0.2 percent.
Aug Retail Sales (ex-auto) (9/14, Friday) Range: 0.0 to 0.8 percent Median: 0.5 percent	0.6% (July)	<u>Up</u> 0.3 percent. Control sales (excluding vehicles, gasoline, building materials and restaurant sales) <u>up</u> 0.3 percent. A solid back-to-school sales season.
Aug Export Price Index (9/14, Friday) Range: -0.2 to 0.4 percent Median: 0.0 percent	-0.5% (July)	<u>Up</u> 0.4 percent.
Aug Import Price Index (9/14, Friday) Range: -0.4 to 0.3 percent Median: -0.2 percent	0.0% (July)	<u>Up</u> 0.2 percent.
Aug Industrial Production (9/14, Friday) Range: -0.1 to 0.5 percent Median: 0.3 percent	0.1% (July)	<u>Up</u> a strong 0.4 percent. Manufacturing production <u>up</u> 0.3 percent on strength in vehicle output.
Aug Capacity Utilization (9/14, Friday) Range: 77.8 to 78.5 percent Median: 78.2 percent	78.1% (July)	<u>Up</u> to 78.4 percent.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
July Business Inventories (9/14, Friday) Range: 0.2 to 0.7 percent Median: 0.5 percent	0.1% (June)	<u>Up</u> 0.6 percent. Sales <u>up</u> 0.5 percent.
Sept U Mich Consumer Sentiment (prelim) (9/14, Friday) Range: 96.0 to 99.0 Median: 96.5	96.2 (Aug)	<u>Up</u> to 99.
Aug Housing Starts (9/19, Wednesday) Range: 1.211 to 1.258 million Median: 1.231 million	1.168M (July)	<u>Up</u> 6 percent to 1.24 million. Building permits <u>up</u> 1 percent to 1.32 million.
Aug Leading Indicators (9/20, Thursday) Range: 0.3 to 0.6 percent Median: 0.4 percent	0.6% (July)	<u>Up</u> 0.5 percent signaling that a recession is nowhere in sight.
Aug Existing Home Sales (9/20, Thursday) Range: 5.280 to 5.460 million Median: 5.400 million	5.340M (July)	<u>Down</u> to 5.30 million.

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																																																																																										
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Labor Day Markets Closed	<p>ISM MFG INDEX</p> <p>June 60.2 July 58.1 Aug 61.3</p> <p>CONSTRUCTION SPENDING</p> <p>May 0.7% June -0.8 July 0.1</p> <p style="text-align: center;">Autos Light</p> <table border="1"> <thead> <tr> <th></th> <th>Dom</th> <th>For</th> <th>Truck</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>June</td> <td>3.4</td> <td>2.0</td> <td>11.9</td> <td>17.3</td> </tr> <tr> <td>July</td> <td>3.4</td> <td>1.9</td> <td>11.5</td> <td>16.8</td> </tr> <tr> <td>Aug</td> <td>3.3</td> <td>1.8</td> <td>11.6</td> <td>16.7</td> </tr> </tbody> </table>		Dom	For	Truck	Total	June	3.4	2.0	11.9	17.3	July	3.4	1.9	11.5	16.8	Aug	3.3	1.8	11.6	16.7	<p>TRADE BALANCE (\$B)</p> <p>May -\$42.6 June -\$45.7 July -\$50.1</p> <p style="text-align: center;">9/6</p> <p>ISM NON-MFG INDEX</p> <p>June 59.1 July 55.7 Aug 58.5</p> <p style="text-align: center;">MANUFACTURERS'</p> <table border="1"> <thead> <tr> <th></th> <th>Ship</th> <th>Inv</th> <th>Orders</th> </tr> </thead> <tbody> <tr> <td>May</td> <td>0.6%</td> <td>0.2%</td> <td>0.4%</td> </tr> <tr> <td>June</td> <td>1.0</td> <td>0.2</td> <td>0.6</td> </tr> <tr> <td>July</td> <td>0.0</td> <td>0.8</td> <td>-0.8</td> </tr> </tbody> </table>		Ship	Inv	Orders	May	0.6%	0.2%	0.4%	June	1.0	0.2	0.6	July	0.0	0.8	-0.8	<p>Nonfarm Business (Q2 2nd) Productivity & Costs</p> <table border="1"> <thead> <tr> <th></th> <th>Productivity</th> <th>Unit Labor</th> <th>Costs</th> </tr> </thead> <tbody> <tr> <td>2Q'17</td> <td>1.6</td> <td></td> <td>-0.3</td> </tr> <tr> <td>3Q'17</td> <td>2.3</td> <td></td> <td>2.8</td> </tr> <tr> <td>4Q'17</td> <td>-0.3</td> <td></td> <td>2.3</td> </tr> <tr> <td>1Q'18</td> <td>0.3</td> <td></td> <td>3.4</td> </tr> <tr> <td>2Q'18(1st)</td> <td>2.9</td> <td></td> <td>-0.9</td> </tr> <tr> <td>2Q'18(2nd)</td> <td>2.9</td> <td></td> <td>-1.0</td> </tr> </tbody> </table> <p>ADP Employment (Aug)</p>		Productivity	Unit Labor	Costs	2Q'17	1.6		-0.3	3Q'17	2.3		2.8	4Q'17	-0.3		2.3	1Q'18	0.3		3.4	2Q'18(1 st)	2.9		-0.9	2Q'18(2 nd)	2.9		-1.0	<p>EMPLOYMENT REPORT</p> <table border="1"> <thead> <tr> <th></th> <th>U.Rate</th> <th>Jobs(000)</th> </tr> </thead> <tbody> <tr> <td>June</td> <td>4.0</td> <td>+208</td> </tr> <tr> <td>July</td> <td>3.9</td> <td>+147</td> </tr> <tr> <td>Aug</td> <td>3.9</td> <td>+201</td> </tr> </tbody> </table>		U.Rate	Jobs(000)	June	4.0	+208	July	3.9	+147	Aug	3.9	+201														
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