

MARKET EXPECTATIONS SURVEY

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The US economy added 312,000 jobs in December, the biggest one-month gain since February. There were also combined upward revisions to job growth in October and November of 58,000. Job growth averaged 254,000 per month in the final quarter and 220,000 per month for all of 2018 (equals 2.64 million new jobs last year), up from 182,000 in 2017 (equals 2.19 million jobs) and the best pace since 2015.

The unemployment rate rose to 3.9 percent in December from 3.7 percent in November. However, the primary reason for the higher unemployment rate was a big increase of 419,000 in the labor force. The labor force participation rate rose from 62.9 percent in November to 63.1 percent in December, the highest it has been since early 2014. Employment in the household survey (different from the survey of employers) rose by 142,000 in December. The entry of more workers into the job market is a very positive sign about the strength of the labor market in generating job opportunities.

Average hourly earnings rose 0.4 in December from November, with year-over-year growth of 3.2 percent (rounded up from 3.153 percent). The tight labor market is pushing employers to raise wages. Workers' wages are finally rising well in excess of inflation which is being held in check by lower gasoline prices this winter.

The stock market's "recession obsession" in the United States is overblown. The labor market is in excellent shape, with very good monthly job gains and a tightening job market leading to stronger wage growth. Job growth is set to slow in 2019 as the tight labor market constrains hiring, but should remain strong enough to push the unemployment rate lower (to 3.4 percent at the end of the year) and keep wage increases at just over 3 percent. This means that consumer spending will continue to increase throughout 2019.

Economic growth will slow this year as the stimulus from federal tax cuts and spending increases fades and higher interest rates weigh on industries like housing, autos, and capital equipment, but the current expansion will officially become the longest in US history in mid-2019. Risks are weighted to the downside, however, including geopolitical concerns and potential trade wars. One upside risk is stronger labor force growth than expected, which would allow for stronger job growth this year.

The super solid December jobs report is juxtaposed with soft inflation data coming for December and January 2019 only partly from lower gasoline prices. This is the best of both worlds for consumers! Also, the FOMC should pause rate hikes in first half of this year since strong growth can co-exist with inflation below FOMC's 2% target. Fed patience is a virtue! That was the message today from Fed Chairman Powell.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
<p>Fed Funds Rate Target Range Mid-Point <i>(after the FOMC meeting on 1/30/19)</i> Range: 2.25 to 2.50 percent Median: 2.38 percent</p>	<p>1.88%</p>	<p>No rate hike at the late-January meeting and Chairman Powell will hold a press conference after every meeting. Chairman Powell signaled a rate hike pause which we think will last until late-summer.</p>

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Nov Factory Orders (1/7, Monday) Range: -1.2 to 1.0 percent Median: 0.4 percent	-2.1% (Oct)	<u>Up</u> 0.4 percent. Shipments <u>up</u> 0.3 percent.
Dec ISM-NMI (1/7, Monday) Range: 56.0 to 60.3 percent Median: 59.0 percent	60.7% (Nov)	<u>Down</u> to a still strong 57.5.
Nov Trade Balance (1/8, Tuesday) Range: -\$55.5 to -\$51.6 billion Median: -\$54.0 billion	-\$55.5B (Oct)	A <u>narrowing</u> to \$-54.0 on lower imported crude oil prices.
Nov Consumer Credit (1/8, Tuesday) Range: \$12.7 to \$20.0 billion Median: \$15.8 billion	\$25.4B (Oct)	<u>Up</u> \$18 billion.
Dec CPI (1/11, Friday) Range: -0.2 to 0.4 percent Median: -0.1 percent	0.0% (Nov)	<u>Down</u> 0.1 percent as gasoline prices <u>fall</u> by 7.0 percent. The rise from a year ago slows to 1.9 percent.
Dec CPI (ex-food & energy) (1/11, Friday) Range: -0.2 to 0.2 percent Median: 0.2 percent	0.2% (Nov)	<u>Up</u> 0.2 percent. The rise from a year ago stays at 2.2 percent.
Dec PPI (1/15, Tuesday) Range: -0.2 to 0.1 percent Median: -0.1 percent	0.1% (Nov)	<u>Down</u> 0.2 percent with gasoline prices <u>down</u> 11 percent.
Dec PPI (ex-food & energy) (1/15, Tuesday) Range: -0.1 to 0.2 percent Median: 0.2 percent	0.3% (Nov)	<u>Up</u> 0.2 percent.
Dec Retail Sales (1/16, Wednesday) Range: 0.0 to 0.5 percent Median: 0.3 percent	0.2% (Nov)	<u>Up</u> 0.1 percent. Vehicle sales rise modestly but gas station sales fall by 3.5 percent due to lower gasoline prices.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Dec Retail Sales (ex-auto) (1/16, Wednesday) Range: 0.0 to 0.4 percent Median: 0.3 percent	0.2% (Nov)	<u>Unchanged</u> . Control sales (excluding vehicle, building materials, gasoline station and restaurant sales) <u>up</u> a solid 0.5 percent reflecting strong holiday shopping.
Dec Export Price Index (1/16, Wednesday) Range: -1.1 to 0.1 percent Median: -0.5 percent	-0.9% (Nov)	<u>Up</u> 0.1 percent.
Dec Import Price Index (1/16, Wednesday) Range: -1.5 to -1.0 percent Median: -1.4 percent	-1.6% (Nov)	<u>Down</u> 0.7 percent reflecting a sharp decline in imported crude oil prices.
Nov Business Inventories (1/16, Wednesday) Range: 0.0 to 0.5 percent Median: 0.3 percent	0.6% (Oct)	<u>Up</u> 0.3 percent. Sales <u>up</u> 0.3 percent.
Dec Housing Starts (1/17, Thursday) Range: 1.200 to 1.263 million Median: 1.250 million	1.256M (Nov)	<u>Down</u> to 1.20 million as multi-family starts drop sharply. Building permits <u>down</u> to 1.25 million.
Dec Industrial Production (1/18, Friday) Range: 0.1 to 0.4 percent Median: 0.3 percent	0.6% (Nov)	<u>Up</u> a solid 0.4 percent reflecting a 0.5 percent <u>rise</u> in manufacturing output.
Dec Capacity Utilization (1/18, Friday) Range: 78.4 to 78.7 percent Median: 78.5 percent	78.5% (Nov)	<u>Up</u> to 78.7 percent.
Jan U Mich Consumer Sentiment (prelim) (1/18, Friday) Range: 95.5 to 98.0 Median: 97.3	98.3 (Dec)	<u>Down</u> to 95.5. The stock market decline is hurting confidence despite a strong jobs market and lower gasoline prices.

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MONTHLY CALENDAR OF ECONOMIC DATA

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Jan 2019

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY																																																																																		
Dec 31	Jan 1	2	3	4																																																																																		
<p>Chicago PMI (Dec)</p>	<p>New Year's Day (Markets Closed)</p> 		<p>ISM MFG INDEX</p> <table border="1"> <tr><td>Oct</td><td>57.7</td></tr> <tr><td>Nov</td><td>59.3</td></tr> <tr><td>Dec</td><td>54.1</td></tr> </table> <p>Autos Light</p> <table border="1"> <tr><th colspan="2">Dom</th><th colspan="2">For</th><th colspan="2">Truck</th><th colspan="2">Total</th></tr> <tr><td>Oct</td><td>4.1</td><td>1.6</td><td>11.8</td><td>17.5</td><td></td><td></td><td></td></tr> <tr><td>Nov</td><td>3.9</td><td>1.5</td><td>12.1</td><td>17.5</td><td></td><td></td><td></td></tr> <tr><td>Dec</td><td>3.9</td><td>1.5</td><td>12.2</td><td>17.6</td><td></td><td></td><td></td></tr> </table> <p>ADP Employment (Dec)</p>	Oct	57.7	Nov	59.3	Dec	54.1	Dom		For		Truck		Total		Oct	4.1	1.6	11.8	17.5				Nov	3.9	1.5	12.1	17.5				Dec	3.9	1.5	12.2	17.6				<p>EMPLOYMENT REPORT</p> <table border="1"> <tr><th colspan="2">U.Rate</th><th colspan="2">Jobs(000)</th></tr> <tr><td>Oct</td><td>3.8%</td><td>+274</td><td></td></tr> <tr><td>Nov</td><td>3.7</td><td>+176</td><td></td></tr> <tr><td>Dec</td><td>3.9</td><td>+312</td><td></td></tr> </table>	U.Rate		Jobs(000)		Oct	3.8%	+274		Nov	3.7	+176		Dec	3.9	+312																													
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