

MARKET EXPECTATIONS SURVEY

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The US economy added 304,000 jobs in January, despite the government shutdown, far better than expectations for an increase of 170,000. Federal government workers who were on furlough or working without pay because of the partial government shutdown were counted as employed in the employer survey of jobs. There were combined downward revisions to job growth in November and December of 71,000, but the three-month moving average of job growth through January 2019 was a very good 241,000/month.

The unemployment rate rose to 4.0 percent in January from 3.9 percent in December. The unemployment rate rose largely because federal government workers on furlough were counted as unemployed (on temporary layoff) in the household survey of employment (different from the survey of employers). The unemployment rate should decline in February as those federal employees go back to work. The labor force participation rate rose 0.1 percentage point in January to 63.2 percent, the highest it has been since mid-2013.

Average hourly earnings rose 0.1 in January; growth was likely held back by the shutdown. Year-over-year wage growth was 3.2 percent in January, down slightly from 3.3 percent in December, but still close to the best pace since 2009. The tight labor market is pushing employers to raise wages.

The US labor market appears to have weathered the government shutdown and continues to tighten. Perhaps somewhat surprisingly, the private sector continued to hire at a strong pace. Job growth in January was well above expectations. Although December's big gain was revised lower, the trend is still very strong. The unemployment rate rose slightly over the month as furloughed federal government workers were counted as unemployed, but the rate should resume its downward trend throughout 2019.

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 will slow over 2019 as the tight labor market constrains hiring, but should remain strong enough to push the unemployment rate lower (to 3.5 percent at the end of the year) and wages higher. This means that consumer spending will continue to increase throughout 2019. Overall 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 and will keep going and going. 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.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Fed Funds Rate Target Range Mid-Point <i>(after the FOMC meeting on 3/20/19)</i> Range: 2.25 to 2.50 percent Median: 2.38 percent	1.88%	The FOMC's Jan. 30 meeting Statement was double barreled dovish on rates and balance sheet shrinkage. At his media conference, Chairman Powell cited plenty of reasons for the FOMC to be very, very "patient" on next funds rate hike (or cut) and possibly tapering the pace of balance sheet run-off (from \$50 billion/month currently). We still expect a rate hike in the late-summer.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Q4 Real GDP (TBD) Range: to Median:	3.4% (Q3)	<u>Up</u> 2.8 percent. Strong consumer spending carried the economy forward in the fourth quarter.
Q4 GDP Price Index (TBD) Range: to Median:	1.8% (Q3)	<u>Up</u> 1.3 percent.
Dec Factory Orders (TBD) Range: 0.1 to 1.5 percent Median: 0.7 percent	N/A (Nov)	<u>Up</u> 1.0 percent on strength in civilian aircraft orders. Shipments <u>up</u> 0.3 percent.
Nov Trade Balance (TBD) Range: -\$56.5 to -\$49.5 billion Median: -\$54.5 billion	NA (Oct)	A <u>narrowing</u> to -\$53.5 billion on lower prices of imported oil.
Jan ISM-NMI (2/5, Tuesday) Range: 56.0 to 58.5 percent Median: 57.0 percent	57.6% (Dec)	<u>Down</u> slightly to a still strong 57.5.
Q4 Nonfarm Productivity (Prelim.) (TBD) Range: 1.1 to 2.5 percent Median: 1.6 percent	2.3% (Q3)	<u>Up</u> 1.3 percent.
Q4 Unit Labor Costs (Prelim.) (TBD) Range: 1.0 to 2.0 percent Median: 1.7 percent	0.9% (Q3)	<u>Up</u> 2.0 percent.
Dec Consumer Credit (2/7, Thursday) Range: \$14.5 to \$23.0 billion Median: \$17.5 billion	\$22.1B (Nov)	<u>Up</u> \$16.0 billion.
Jan CPI (2/13, Wednesday) Range: -0.1 to 0.2 percent Median: 0.1 percent	-0.1% (Dec)	<u>Up</u> 0.1 percent. A 4 percent decline in gasoline prices dampened the rise in total consumer prices.
Jan CPI (ex-food & energy) (2/13, Wednesday) Range: 0.1 to 0.3 percent Median: 0.2 percent	0.2% (Dec)	<u>Up</u> 0.3 percent.
Jan PPI (2/14, Thursday) Range: 0.1 to 0.2 percent Median: 0.1 percent	-0.2% (Dec)	<u>Up</u> 0.1 percent held in check by lower gasoline prices.

Jan PPI (ex-food & energy) (2/14, Thursday) Range: 0.1 to 0.2 percent Median: 0.2 percent	-0.1% (Dec)	<u>Up</u> 0.2 percent.
December Retail Sales (TBD) Range: 0.1 to 0.2 percent Median: 0.1 percent	0.2% (Nov)	<u>Up</u> 0.1 percent. Lower gasoline prices held down retail sales but freed-up spending on other holiday items.
December Retail Sales (ex-auto) (TBD) Range: 0.0 to 0.3 percent Median: 0.1 percent	0.2% (Nov)	<u>Unchanged</u> . Control sales (excluding building materials, gasoline and restaurant sales) <u>rose</u> by a strong 0.5 percent reflecting the strong holiday sales season.
Jan Export Price Index (2/15, Friday) Range: -0.4 to 0.3 percent Median: -0.4 percent	-0.6% (Dec)	<u>Up</u> 0.3 percent.
Jan Import Price Index (2/15, Friday) Range: -0.4 to 0.2 percent Median: 0.1 percent	-1.0% (Dec)	<u>Down</u> 0.1 percent as imported oil prices stabilized.
Jan Industrial Production (2/15, Friday) Range: -0.2 to 0.2 percent Median: 0.1 percent	0.3% (Dec)	<u>Down</u> 0.2 percent as a sharp drop in vehicle assemblies pushed manufacturing output down 0.7 percent. Utility usage jumped in the late-month polar vortex.
Jan Capacity Utilization (2/15, Friday) Range: 78.5 to 78.7 percent Median: 78.6 percent	78.7% (Dec)	<u>Down</u> to 78.5 percent.
Nov Business Inventories (TBD) Range: 0.0 to 0.2 percent Median: 0.1 percent	0.6% (Oct)	<u>Up</u> 0.2 percent. Sales were <u>flat</u> .
Feb U of Mich Consumer Sentiment (Prelim) (2/15, Friday) Range: 93.0 to 94.5 Median: 94.0	90.7 (Jan)	A <u>rebound</u> to 94 helped by rising stock prices and the end of the Fed government partial shutdown.

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MONTHLY CALENDAR OF ECONOMIC DATA

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Jan/Feb 2019

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY																																																																																				
<p>21</p> <p>Martin Luther King Jr. Day (U.S. Markets Closed)</p>	<p>22</p> <p>EXISTING HOME SALES(000)</p> <table> <tr><td>Oct</td><td>5,220</td></tr> <tr><td>Nov</td><td>5,330</td></tr> <tr><td>Dec</td><td>4,990</td></tr> </table>	Oct	5,220	Nov	5,330	Dec	4,990	<p>23</p>	<p>24</p> <p>LEADING INDICATORS</p> <table> <tr><td>Oct</td><td>-0.3%</td></tr> <tr><td>Nov</td><td>0.2</td></tr> <tr><td>Dec</td><td>-0.1</td></tr> </table> <p>Unemployment Claims (000)</p> <table> <tr><td>Oct</td><td>Nov</td><td>Dec</td><td>Jan</td></tr> <tr><td>215</td><td>214</td><td>233</td><td>216</td></tr> <tr><td>210</td><td>221</td><td>206</td><td>212</td></tr> <tr><td>216</td><td>225</td><td>217</td><td>200</td></tr> <tr><td>215</td><td>235</td><td>221</td><td>253</td></tr> <tr><td></td><td></td><td>233</td><td></td></tr> </table>	Oct	-0.3%	Nov	0.2	Dec	-0.1	Oct	Nov	Dec	Jan	215	214	233	216	210	221	206	212	216	225	217	200	215	235	221	253			233		<p>25</p> <p>ADV DURABLE GOODS</p> <table> <tr><td></td><td>Total</td><td>Ex-Transp</td></tr> <tr><td>Oct</td><td>-4.3%</td><td>0.4%</td></tr> <tr><td>Nov</td><td>0.8</td><td>-0.3</td></tr> <tr><td>Dec</td><td>NA</td><td>NA</td></tr> </table> <p>NEW HOME SALES(000)</p> <table> <tr><td>Oct</td><td>562</td></tr> <tr><td>Nov</td><td>657</td></tr> <tr><td>Dec</td><td>NA</td></tr> </table>		Total	Ex-Transp	Oct	-4.3%	0.4%	Nov	0.8	-0.3	Dec	NA	NA	Oct	562	Nov	657	Dec	NA																														
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<p>4</p> <p>MANUFACTURERS' Ship Inv Orders</p> <table> <tr><td>Oct</td><td>-0.1%</td><td>0.1%</td><td>-2.1%</td></tr> <tr><td>Nov</td><td>NA</td><td>NA</td><td>NA</td></tr> <tr><td>Dec</td><td></td><td></td><td></td></tr> </table> <p>GROSS DOMESTIC PRODUCT</p> <p>4th Qtr (1st estimate)</p> <table> <tr><td></td><td>Real GDP</td><td>Price Index</td></tr> <tr><td>1Q'18</td><td>2.2%</td><td>2.0%</td></tr> <tr><td>2Q'18</td><td>4.2</td><td>3.0</td></tr> <tr><td>3Q'18</td><td>3.4</td><td>1.8</td></tr> <tr><td>4Q18(1st)</td><td></td><td></td></tr> </table>	Oct	-0.1%	0.1%	-2.1%	Nov	NA	NA	NA	Dec					Real GDP	Price Index	1Q'18	2.2%	2.0%	2Q'18	4.2	3.0	3Q'18	3.4	1.8	4Q18(1 st)			<p>5</p> <p>TRADE BALANCE (\$B)</p> <table> <tr><td>Oct</td><td>-\$55.5</td></tr> <tr><td>Nov</td><td>NA</td></tr> <tr><td>Dec</td><td></td></tr> </table> <p>ISM NON-MFG INDEX</p> <table> <tr><td>Nov</td><td>60.7</td></tr> <tr><td>Dec</td><td>57.6</td></tr> <tr><td>Jan</td><td></td></tr> </table>	Oct	-\$55.5	Nov	NA	Dec		Nov	60.7	Dec	57.6	Jan		<p>6</p> <p>Nonfarm Business (Q4 1st)</p> <p>Productivity & Costs</p> <table> <tr><td></td><td>Productivity</td><td>Unit Labor Costs</td></tr> <tr><td>1Q'18</td><td>0.3</td><td>3.4</td></tr> <tr><td>2Q'18</td><td>3.0</td><td>-2.8</td></tr> <tr><td>3Q'18</td><td>2.3</td><td>0.9</td></tr> <tr><td>Q4'18(1st)</td><td></td><td></td></tr> </table>		Productivity	Unit Labor Costs	1Q'18	0.3	3.4	2Q'18	3.0	-2.8	3Q'18	2.3	0.9	Q4'18(1 st)			<p>7</p> <p>CONSUMER CREDIT(\$B)</p> <table> <tr><td>Oct</td><td>+\$25.0</td></tr> <tr><td>Nov</td><td>+\$22.1</td></tr> <tr><td>Dec</td><td></td></tr> </table>	Oct	+\$25.0	Nov	+\$22.1	Dec		<p>8</p>																								
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