

MARKET EXPECTATIONS SURVEY

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Personal income rose 0.1 percent in July, the smallest increase since September 2018. Labor income rose 0.2 percent over the month, while there was a big drop in interest income (-1.8 percent) as interest rates fell over the month. After-tax income rose 0.3 percent in July, as tax payments declined. Adjusting for inflation, after-tax income rose 0.1 percent in July, while spending rose 0.4 percent.

Consumer spending rose 0.6 percent in July, the biggest increase since April. A big 1.1 percent increase in spending on nondurable goods led the way, but there were also solid increases in consumer spending on durable goods (0.6 percent) and services (0.5 percent). With spending up more than after-tax income, the saving rate fell to 7.7 percent in July from 8.0 percent in June; it was still well above the 4 percent rate heading into the Great Recession.

Both the overall personal consumption expenditures price index and the core PCE price index (excluding food and energy) rose 0.2 percent in July, in line with recent trends. On a year-ago basis overall PCE inflation was 1.4 percent, up from 1.3 percent in June. Core inflation was 1.6 percent year-over-year in July, unchanged from June. Both of these measures are well below the Federal Reserve's 2 percent inflation objective.

Despite the concerns about the ongoing trade war between the U.S. and China and slower global economic growth, consumers remain in good shape, continuing to push the U.S. economy forward. Although income growth was softer in July, it should pick back up over the next couple of months as it was held back by some one-time factors, including a big drop in interest rates. Over the past year after-tax income has risen a solid 3.0 percent after inflation, while consumer spending has increased 2.7 percent.

Economic growth is likely to slow later in 2019, however, as the trade war between the U.S. and China heats up. Fifteen percent tariffs on imports of about \$125 billion Chinese goods to the U.S. and 5 percent tariffs on U.S. exports to China took effect on September 1, with another round to hit in both October and December. Unlike the tariffs the Trump administration imposed earlier this year, these tariffs will hit consumers harder, boosting prices and weighing on spending. In addition, China has imposed retaliatory tariffs on imports from the U.S., which will hit U.S. industries like agriculture, crude oil and autos. As a result, economic growth in the U.S. will slow over the next few quarters as consumers adjust to higher prices and businesses adjust to disrupted supply chains and reduced exports to China. Overall slower global economic growth will also be a near-term drag on the U.S. economy.

With inflation stuck well below the Federal Reserve's 2 percent objective, the Federal Open Market Committee will cut the fed funds rate again in mid-September by one-quarter of a percentage point, to a range of 1.75 to 2.00 percent, following a similar cut at the end of July. This cut will be to offset any potential drags from the trade war and slower global growth. PNC then expects another 0.25 percentage point cut in the fed funds rate in October, which would bring the rate to 1.50 to 1.75 percent holding there through the end of 2019. With the Fed easing, the U.S. economy should avoid an outright recession. Another positive is that consumer saving is high, giving them flexibility in adjusting to slower growth and higher prices from the trade war. Inflation may pick up briefly as higher tariff work their way through the system, but then should ease again as the tariffs are expected to have only a one-time effect on prices.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Fed Funds Rate Target Range Mid-Point <i>(after the FOMC meeting on 9/19/19)</i> Range: 1.50 to 2.00 percent Median: 1.88 percent	2.38%	At their upcoming September 18-19 meeting, we expect the Federal Open Market Committee will again cut the fed funds rate by 25 bps to a 1.75 to 2.00 percent target range. They will likely again cite global economic and financial "uncertainties" and muted inflation pressures as reasons to cut the funds rate. Fed funds futures are pricing in a nearly unanimous 97 percent chance of a 25 bps rate reduction at the September 19 FOMC meeting.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Aug ISM (9/3, Tuesday) Range: 50.4 to 52.0 percent Median: 51.3 percent	51.2% (July)	<u>Down</u> slightly to 51.
July Construction Spending (9/3, Tuesday) Range: 0.0 to 0.8 percent Median: 0.3 percent	-1.3% (June)	<u>Up</u> 0.6 percent.
July Trade Balance (9/4, Wednesday) Range: -\$57.0 to -\$52.9 billion Median: -\$54.0 billion	-\$55.2B (June)	A <u>narrowing</u> to -\$53.5 billion.
Aug ADP Employment Survey (9/5, Thursday) Range: 125,000 to 180,000 Median: 150,000	156 (July)	<u>Up</u> 150,000.
Q2 Nonfarm Productivity (Revised) (9/5, Thursday) Range: 1.6 to 2.3 percent Median: 2.2 percent	2.3% (Q2 1st est)	A slight <u>downward</u> revision to 2.1 percent.
Q2 Unit Labor Costs (Revised) (9/5, Thursday) Range: 1.8 to 2.6 percent Median: 2.4 percent	2.4% (Q2 1st est)	A slight <u>upward</u> revision to 2.5 percent.
July Factory Orders (9/5, Thursday) Range: 0.5 to 1.8 percent Median: 1.2 percent	0.6% (June)	<u>Up</u> 1.3 percent. Shipments down 0.2 percent.
Aug ISM-NMI (9/5, Thursday) Range: 52.5 to 55.3 percent Median: 54.0 percent	53.7% (July)	<u>Down</u> to 53.3.
Aug Nonfarm Payrolls (9/6, Friday) Range: 130,000 to 210,000 Median: 210,000	164K (July)	<u>Up</u> 160,000.
Aug Private Nonfarm Payrolls (9/6, Friday) Range: 120,000 to 180,000 Median: 150,000	148K (July)	<u>Up</u> 150,000.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Aug Manufacturing Payrolls (9/6, Friday) Range: 1,000 to 10,000 Median: 5,000	16K (July)	<u>Down</u> 5,000.
Aug Unemployment Rate (9/6, Friday) Range: 3.6 to 3.7 percent Median: 3.7 percent	3.7% (July)	Rounded <u>down</u> to 3.6 percent.
Aug Average Hourly Earnings (9/6, Friday) Range: 0.2 to 0.3 percent Median: 0.3 percent	0.3% (July)	<u>Up</u> 0.3 percent and edging <u>up</u> to 3.2 percent from a year ago.
Aug Hours Worked (9/6, Friday) Range: 34.3 to 34.4 hours Median: 34.4 hours	34.3hrs (July)	<u>Up</u> to 34.4 hours.

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MONTHLY CALENDAR OF ECONOMIC DATA

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Aug/Sept 2019

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
19	20	21	22	23
		EXISTING HOME SALES(000) May 5,360 June 5,290 July 5,420	LEADING INDICATORS May -0.1% June -0.1 July 0.5 Unemployment Claims (000) May June July Aug 228 219 208 211 212 222 216 221 212 217 207 211 218 229 217 215 222	NEW HOME SALES(000) May 602 June 728 July 635
26	27	28	29	30
ADV DURABLE GOODS Total Ex-Transp May -2.3% 0.4% June 1.8 0.8 July 2.1 -0.4	CASE-SHILLER HPI 20-City Composite(SA) M/M Y/Y Apr 0.0% 2.5% May 0.1 2.4 June 0.0 2.1 CB CONSUMER CONFIDENCE Total Current Expect June 124.3 164.3 97.6 July 135.8 170.9 112.4 Aug 135.1 177.2 107.0		GROSS DOMESTIC PRODUCT 2nd Qtr (2nd estimate) Real GDP Price Index 2Q'18 3.5% 3.2% 3Q'18 2.9 2.0 4Q'18 1.1 1.6 1Q'19 3.1 1.1 2Q'19(1 st) 2.1 2.4 2Q'19(2 nd) 2.0 2.4	PERSONAL Income Spending May 0.4% 0.5% June 0.5 0.3 July 0.1 0.6 Chicago PMI Aug U Mich Consumer Sentiment (final)
2	3	4	5	6
Labor Day All markets closed	ISM MFG INDEX June 51.7% July 51.2 Aug CONSTRUCTION SPENDING May -0.5% June -1.3 July	Autos Light Dom For Truck Total June 3.7 1.4 12.1 17.2 July 3.5 1.3 12.2 17.0 Aug TRADE BALANCE (\$B) May -\$55.3 June -\$55.2 July Aug ADP Employment Survey	Nonfarm Business (Q2 2nd) Productivity & Costs Productivity Unit Labor Costs 2Q'18 1.8 -1.6 3Q'18 1.2 1.6 4Q'18 0.1 0.6 1Q'19 3.5 5.5 2Q'19(1 st) 2.3 2.4 2Q'19(2 nd) MANUFACTURERS' Ship Inv Orders May 0.1% 0.2% -1.3% June 0.4 0.2 0.6 July ISM NON-MFG INDEX June 55.1 July 53.7 Aug	EMPLOYMENT REPORT U.Rate Jobs(000) June 3.7% +193 July 3.7 +164 Aug Chicago PMI Aug U Mich Consumer Sentiment (final)
9	10	11	12	13
CONSUMER CREDIT(\$B) May +\$17.8 June +\$14.6 July		PRODUCER PRICE INDEX Total Core June 0.1% 0.0% July 0.2 -0.1 Aug	CONSUMER PRICE INDEX Total Core June 0.1% 0.3% July 0.3 0.3 Aug	RETAIL SALES Total Ex-Autos June 0.3% 0.3% July 0.7 1.0 Aug MFG and TRADE Inv Sales May 0.3% -0.1% June 0.0 0.1 July Import Price Index (Aug) Sept U Mich Consumer Sentiment (prelim)