



MARKET EXPECTATIONS SURVEY

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- **Topline Consumer Price Index declined by 0.1% in December 2022**
- **The pace of gains in the Core Consumer Price Index (CPI), less Food & Energy, was steady at 0.3% in December 2022**
- **Services inflation accelerated in December 2022 to a 0.6% monthly gain**
- **Housing & Food price growth remained cause for concern to close out 2022, up 0.7% and 0.3%, respectively**

A “blue moon” was spotted in the inflationary sky in December. The topline Consumer Price Index (CPI) for December 2022 was DOWN by 0.1% in seasonally-adjusted terms versus the month prior, the first decline since the start of the pandemic in April 2020. A huge decline in gasoline prices helped drive the topline measure down. The December reading translates to a 6.5% year-over-year gain in topline prices, down from 7.1% in November. Hurdles remain in achieving the Federal Reserve’s goal of a sustained 2.0% pace for consumer price inflation, but the December reading provides little cause for concern that inflation is not securely on the right path toward that goal.

Core CPI – which excludes volatile Food and Energy prices, and which the Federal Reserve eyes most closely when setting monetary policy – saw its monthly growth rate rise modestly to 0.3% in December 2022, up from 0.2% in November. At a 3.7% annualized growth pace in December, Core CPI suggests that the Fed will remain comfortable communicating that the fight against inflation is not over, and that further interest rates hikes are on the cards. But there inflationary pressures upstream from consumer prices have clearly eased. Producer prices are showing no signs of reacceleration, thanks in large part to relatively tame energy markets. And while energy prices are excluded from the Core CPI measure, their impact in virtually every facet of consumer prices, from raw materials inputs to transportation of goods to market, remains notable. With waning supply-side price inflationary pressures entrenched and consumer demand likely to fall off in early 2023, Core CPI should remain on a path toward the Fed’s goal.

The Housing component of the CPI index remains a concern for overall consumer price inflation. Housing CPI, which includes rents, household furnishings, and energy bills, rose at an annualized pace of 8.9% for December 2022. This component of the CPI measure is the largest influence on prices by weight, accounting for over 40% of the total index. Homebuying has collapsed in 2022, with existing home sales falling to a sales pace not seen since 2011. The upshot here is that fewer household budgets are taking on the expenses encompassed by the still-accelerating Housing component of CPI. But for the many who purchased homes in 2020 and 2021, rising costs will continue to erode household finances, which sets the stage for consumers hitting a wall in their spending capacity by mid-2023.

Services CPI inflation accelerated in December 2022 to a 0.6% month-over-month pace. This is up from 0.3% in November, and is the strongest monthly result for this component metric since September 2022 (+0.8%). Services spending represents the destination for much of the U.S. expenditure of “excess savings” accumulated during the pandemic, when stimulus funds were distributed but were not able to be spent due to government mandated business closures and travel restrictions. Estimates suggest that that mountain of savings declined from \$2.1 trillion to less than \$1.0 trillion in 2022 as pent-up demand for travel and recreation was expressed. Job creation remained strong through the end of 2022, and so consumer sentiment should push that savings level lower still, and Services prices will continue to see strong upward demand-side pressure as a result. This CPI component will likely remain a touchpoint for Federal Reserve officials’ commentary as they continue to communicate that they do not consider the fight against inflation to be complete, and that tighter monetary policy conditions are warranted.

Energy prices continued to provide relief to U.S. consumers in December 2022. Gasoline prices fell by 9.4% for the month, and are now *down* by 1.5% year over year. On a related note, the Transportation component of topline CPI was down for a second consecutive month in December, falling by 2.5% after declining by 1.1% in November. Used vehicle prices played a significant role in this move, posting their own sixth consecutive month of declines (-2.5% in December 2022). So while Housing and Food & Beverage prices continue to erode consumer discretionary spending as necessities whose prices continue to rise, there is some offset as households’ transportation expenses continue along their path toward pre-pandemic norms.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Fed Funds Rate Target Range Mid-Point (after the FOMC meeting on 2/1/23) Range: 4.63 to 4.88 percent Median: 4.63 percent	4.38 percent	We expect a 25 bps funds rate hike to a 4.50-4.75% target range at the FOMC's Feb. 1 meeting, followed by another 25 bps rate hike to a "terminal" target range of 4.75-5.00% at the FOMC's March 22 meeting. We expect the FOMC to hold the funds rate there until the first of many 25 bps rate cuts start in December 2023.
Dec Retail Sales (1/18, Wednesday) Range: -2.1 to 0.0 percent Median: -0.9 percent	-0.6% (Nov)	Total retail sales are unchanged, held down by lower vehicle and gasoline sales.
Dec Retail Sales (ex-auto) (1/18, Wednesday) Range: -1.9 to 0.4 percent Median: -0.5 percent	-0.2% (Nov)	Ex-auto sales rise by 0.3% and control sales (excluding vehicle, building materials, gasoline and restaurant sales) up a decent 0.7% reflecting a good finish to the holiday sales season, especially for dining out.
Dec PPI (1/18, Wednesday) Range: -0.3 to 0.1 percent Median: -0.1 percent	0.3% (Nov)	Down 0.2% with gasoline prices down near 10%.
Dec PPI (ex-food & energy) (1/18, Wednesday) Range: -0.1 to 0.3 percent Median: 0.1 percent	0.3% (Nov)	Up 0.3%.
Dec Industrial Production (1/18, Wednesday) Range: -0.4 to 0.2 percent Median: -0.1 percent	-0.2% (Nov)	Down 0.2%. Manufacturing production fell 0.3% reflecting declines in new vehicle and nondurable goods output.
Dec Capacity Utilization (1/18, Wednesday) Range: 79.3 to 79.8 percent Median: 79.6 percent	79.7% (Nov)	Down to 79.4%.
Nov Business Inventories (1/18, Wednesday) Range: 0.1 to 0.4 percent Median: 0.4 percent	0.3% (Oct)	Up 0.4%. Sales fell 0.6%.
Dec Housing Starts (1/19, Thursday) Range: 1.300 to 1.414 million Median: 1.360 million	1.427M (Nov)	Down to 1.39 million. Building permits up to 1.40 million.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Initial Claims, Week of 1/14/23 (1/19, Thursday) Range: 200K to 222K Median: 210K	205K (1/7/23)	Up to 222K.
Dec Existing Home Sales (1/20, Friday) Range: 3.860 to 4.098 million Median: 3.940 million	4.090M (Nov)	Down to 3.90 million.
Dec Leading Indicators (1/23, Monday) Range: -0.7 to 0.5 percent Median: -0.7 percent	-1.0% (Nov)	Up 0.2%, the first rise in six months.
Q4 GDP Advance Report (1/26, Thursday) Range: 2.0 to 3.0 percent Median: 2.6 percent	3.2% (Q3 3 rd est)	Up 2.5%.
Q4 Chain Price Index Advance Report (1/26, Thursday) Range: 2.6 to 4.0 percent Median: 3.2 percent	4.4% (Q3 3 rd est)	Up 3.0% reflecting the much slower inflation rate in the fourth quarter.
Dec Durable Goods Orders (1/26, Thursday) Range: -2.1 to 3.4 percent Median: 1.8 percent	-2.1% (Nov)	Up 3.4% on a surge in civilian aircraft orders to close out 2022. Shipments up 0.5%.
Dec Advance Trade in Goods (1/26, Thursday) Range: -\$93.0 to -\$84.0 billion Median: -\$87.0 billion	-82.9B (Nov)	A widening to -\$85.0 billion.
Dec New Home Sales (1/26, Thursday) Range: 0.610 to 0.650 million Median: 0.615 million	0.640M (Nov)	Down to 0.610 million.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Dec Personal Income (1/27, Friday) Range: 0.0 to 0.5 percent Median: 0.2 percent	0.4% (Nov)	Up 0.2%.
Dec Personal Consumption Expend. (1/27, Friday) Range: -0.1 to 0.3 percent Median: -0.1 percent	0.1% (Nov)	Up 0.3% reflecting modest holiday goods sales but strong holiday services (travel and entertainment) sales. The total PCE inflation index was flat and slowed to 5.0% Y/Y. The core PCE inflation index rose by 0.3% and slowed to 4.4% Y/Y.
Jan U Mich Consumer Sentiment (final) (1/27, Friday) Range: 59.0 to 65.0 Median: 64.6	64.6 (Jan prelim)	Up to 60.

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MONTHLY CALENDAR OF ECONOMIC DATA

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Jan 2023

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY																																																																													
<p>Jan 2</p> <p>New Years Day (Observed) (All markets closed)</p>	<p>3</p> <p>CONSTRUCTION SPENDING</p> <table> <tr><td>Sept</td><td>0.5%</td></tr> <tr><td>Oct</td><td>-0.2</td></tr> <tr><td>Nov</td><td>0.2</td></tr> </table>	Sept	0.5%	Oct	-0.2	Nov	0.2	<p>4</p> <p>ISM MFG INDEX</p> <table> <tr><td>Oct</td><td>50.2</td></tr> <tr><td>Nov</td><td>49.0</td></tr> <tr><td>Dec</td><td>48.4</td></tr> </table>	Oct	50.2	Nov	49.0	Dec	48.4	<p>5</p> <p>TRADE BALANCE(\$B)</p> <table> <tr><td>Sept</td><td>-\$74.1</td></tr> <tr><td>Oct</td><td>-\$77.8</td></tr> <tr><td>Nov</td><td>-\$61.5</td></tr> </table>	Sept	-\$74.1	Oct	-\$77.8	Nov	-\$61.5	<p>6</p> <p>EMPLOYMENT REPORT</p> <table> <tr><th colspan="2">U.Rate</th><th>Jobs(000)</th></tr> <tr><td>Oct</td><td>3.7%</td><td>+263</td></tr> <tr><td>Nov</td><td>3.6</td><td>+256</td></tr> <tr><td>Dec</td><td>3.5</td><td>+223</td></tr> </table> <p>MANUFACTURERS'</p> <table> <tr><th>Ship</th><th>Inv</th><th>Orders</th></tr> <tr><td>Sept</td><td>0.3</td><td>0.1</td><td>0.3</td></tr> <tr><td>Oct</td><td>0.2</td><td>0.4</td><td>0.4</td></tr> <tr><td>Nov</td><td>-0.6</td><td>0.0</td><td>-1.8</td></tr> </table> <p>ISM NON-MFG INDEX</p> <table> <tr><td>Oct</td><td>54.4</td></tr> <tr><td>Nov</td><td>56.5</td></tr> <tr><td>Dec</td><td>49.6</td></tr> </table>	U.Rate		Jobs(000)	Oct	3.7%	+263	Nov	3.6	+256	Dec	3.5	+223	Ship	Inv	Orders	Sept	0.3	0.1	0.3	Oct	0.2	0.4	0.4	Nov	-0.6	0.0	-1.8	Oct	54.4	Nov	56.5	Dec	49.6																										
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