

February 5, 2018

MARKET EXPECTATIONS SURVEY

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Establishment employment increased by 200,000 in January, another month of solid job growth. This was slightly better than the consensus expectation of an increase of 180,000 and PNC’s forecast of 165,000. Job growth over the past three months has averaged a good 192,000. The unemployment rate held steady at 4.1 percent, where it has been for the past four months; this is the lowest the rate has been since late 2000.

This report includes the annual benchmark revisions to historical data. These revisions show a bit stronger job growth than previously reported of 181,000 per month in 2017, up from the previously reported 171,000 per month. But job growth has been gradually slowing over the past few years as the tight job market has made it more difficult to hire.

Job growth was broad-based across industries in January. Goods-producing industries added 57,000 jobs over the month, while private service-providing industries added 139,000. Retail trade employment, which fell through much of 2017, rose by 15,000 in January. Government employment rose by 4,000 over the month.

Average hourly earnings rose 0.3 percent in January from December. More importantly, they were up 2.9 percent in January from one year earlier; this was the fastest pace in almost nine years. It appears that wage growth is finally starting to accelerate with the tight job market. This is also evident in other measures of wages, such as the employment cost index.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Fed Funds Rate Target Range Mid-Point <i>(after the FOMC meeting on 3/21/18)</i> Range: 1.25 to 1.50 percent Median: 1.375 percent	1.13%	Jay Powell will Chair his first meeting on March 20-21 and we expect the economic and inflation data could justify a 25 bps funds rate hike at that meeting. The Fed funds future market’s current odds of a March rate hike are 85 percent. The FOMC may not want to miss that “opportunity” for a rate hike.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Jan ISM-NMI (2/5, Monday) Range: 55.5 to 57.5 percent Median: 56.6 percent	55.9% (Dec)	A slight <u>decline</u> to 55.5.
Dec Trade Balance (2/6, Tuesday) Range: -\$53.0 to -\$51.0 billion Median: -\$52.0 billion	-\$50.5B (Nov)	A <u>widening</u> to -\$51.5 billion.
Dec Consumer Credit (2/7, Wednesday) Range: \$16.0 to \$23.3 billion Median: \$19.4 billion	\$28.0B (Nov)	<u>Up</u> \$22 billion helping to finance strong holiday sales.
Jan CPI (2/14, Wednesday) Range: 0.3 to 0.4 percent Median: 0.3 percent	0.1% (Dec)	<u>Up</u> 0.3 percent. Gasoline prices <u>up</u> nearly 1 percent with a much bigger rise to come in February and March.
Jan CPI (ex-food & energy) (2/14, Wednesday) Range: 0.1 to 0.3 percent Median: 0.2 percent	0.3% (Dec)	<u>Up</u> 0.3 percent.
Jan Retail Sales (2/14, Wednesday) Range: 0.0 to 0.5 percent Median: 0.2 percent	0.4% (Dec)	<u>Unchanged.</u> Cold weather held down retail sales as consumers paused to pay off credit cards from very strong holiday sales. Tax cuts in February will help lift retail sales this month.
Jan Retail Sales (ex-auto) (2/14, Wednesday) Range: 0.1 to 0.5 percent Median: 0.3 percent	0.4% (Dec)	<u>Up</u> 0.1 percent. Control sales, which go into GDP, <u>up</u> 0.3 percent
Jan Business Inventories (2/14, Wednesday) Range: 0.2 to 0.4 percent Median: 0.2 percent	0.4% (Dec)	<u>Up</u> 0.2 percent. Sales <u>up</u> 0.5 percent so a rebuilding of diminished inventories will lift manufacturing production this quarter.
Jan PPI (2/15, Thursday) Range: 0.3 to 0.4 percent Median: 0.3 percent	-0.1% (Dec)	<u>Up</u> 0.3 percent, lifted by higher gasoline prices.
Jan PPI (ex-food & energy) (2/15, Thursday) Range: 0.1 to 0.2 percent Median: 0.2 percent	0.1% (Dec)	<u>Up</u> 0.2 percent.
Jan Industrial Production (2/15, Thursday) Range: 0.1 to 0.4 percent Median: 0.3 percent	0.9% (Dec)	<u>Up</u> 0.4 percent. A solid 0.3 percent <u>rise</u> in manufacturing production and cold weather lifted output.
Jan Capacity Utilization (2/15, Thursday) Range: 77.9 to 78.3 percent Median: 78.1 percent	77.9% (Dec)	<u>Up</u> to 78.1 percent.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Jan Housing Starts (2/16, Friday) Range: 1.200 to 1.235 million Median: 1.210 million	1.192M (Dec)	A rise of 2 percent to 1.21 million, temporarily held back by cold weather.
Jan Export Price Index (2/16, Friday) Range: 0.2 to 0.4 percent Median: 0.3 percent	-0.1% (Dec)	<u>Up</u> 0.3 percent.
Jan Import Price Index (2/16, Friday) Range: 0.4 to 0.6 percent Median: 0.6 percent	0.1% (Dec)	<u>Up</u> 0.6 percent lifted by higher imported oil prices.
Feb U. Mich Consumer Sentiment (prelim) (2/16, Friday) Range: 94.2 to 96.0 Median: 95.3	94.4 (Jan)	<u>Up</u> to 95.5.

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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Jan/Feb 2018

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<p>PERSONAL</p> <table border="1"> <thead> <tr> <th></th> <th>Income</th> <th>Spending</th> </tr> </thead> <tbody> <tr> <td>Oct</td> <td>0.4%</td> <td>0.1%</td> </tr> <tr> <td>Nov</td> <td>0.3</td> <td>0.5</td> </tr> <tr> <td>Dec</td> <td>0.4</td> <td>0.3</td> </tr> </tbody> </table>		Income	Spending	Oct	0.4%	0.1%	Nov	0.3	0.5	Dec	0.4	0.3	<p>CASE-SHILLER HPI 20-City Composite(SA)</p> <table border="1"> <thead> <tr> <th></th> <th>M/M</th> <th>Y/Y</th> </tr> </thead> <tbody> <tr> <td>Sept</td> <td>1.0%</td> <td>6.2%</td> </tr> <tr> <td>Oct</td> <td>0.7</td> <td>6.3</td> </tr> <tr> <td>Nov</td> <td>0.8</td> <td>6.4</td> </tr> </tbody> </table> <p>CB CONSUMER CONFIDENCE</p> <table border="1"> <thead> <tr> <th></th> <th>Total</th> <th>Current</th> <th>Expect</th> </tr> </thead> <tbody> <tr> <td>Nov</td> <td>128.6</td> <td>154.9</td> <td>111.0</td> </tr> <tr> <td>Dec</td> <td>123.1</td> <td>156.5</td> <td>100.8</td> </tr> <tr> <td>Jan</td> <td>125.4</td> <td>155.3</td> <td>105.5</td> </tr> </tbody> </table>		M/M	Y/Y	Sept	1.0%	6.2%	Oct	0.7	6.3	Nov	0.8	6.4		Total	Current	Expect	Nov	128.6	154.9	111.0	Dec	123.1	156.5	100.8	Jan	125.4	155.3	105.5	<p>Employment Cost Index</p> <table border="1"> <thead> <tr> <th></th> <th>Total</th> <th>W&S</th> <th>Fringes</th> </tr> </thead> <tbody> <tr> <td>4Q'16</td> <td>0.5</td> <td>0.5</td> <td>0.5</td> </tr> <tr> <td>1Q'17</td> <td>0.8</td> <td>0.8</td> <td>0.7</td> </tr> <tr> <td>2Q'17</td> <td>0.5</td> <td>0.5</td> <td>0.6</td> </tr> <tr> <td>3Q'17</td> <td>0.7</td> <td>0.7</td> <td>0.8</td> </tr> <tr> <td>4Q'17</td> <td>0.6</td> <td>0.5</td> <td>0.5</td> </tr> </tbody> </table> <p style="text-align: center;">2/1</p> <p>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>Nov</td> <td>4.5</td> <td>1.8</td> <td>11.2</td> <td>17.5</td> </tr> <tr> <td>Dec</td> <td>4.3</td> <td>1.8</td> <td>11.8</td> <td>17.9</td> </tr> <tr> <td>Jan</td> <td>4.0</td> <td>1.7</td> <td>11.4</td> <td>17.2</td> </tr> </tbody> </table> <p>ADP Employment (Jan) Chicago PMI (Jan) FOMC Statement - 2pm</p>		Total	W&S	Fringes	4Q'16	0.5	0.5	0.5	1Q'17	0.8	0.8	0.7	2Q'17	0.5	0.5	0.6	3Q'17	0.7	0.7	0.8	4Q'17	0.6	0.5	0.5		Dom	For	Truck	Total	Nov	4.5	1.8	11.2	17.5	Dec	4.3	1.8	11.8	17.9	Jan	4.0	1.7	11.4	17.2	<p>Nonfarm Business (Q4 1st) Productivity & Costs</p> <table border="1"> <thead> <tr> <th></th> <th>Productivity</th> <th>Unit Labor Costs</th> </tr> </thead> <tbody> <tr> <td>4Q'16</td> <td>1.3</td> <td>-5.7</td> </tr> <tr> <td>1Q'17</td> <td>0.1</td> <td>4.8</td> </tr> <tr> <td>2Q'17</td> <td>1.5</td> <td>-1.2</td> </tr> <tr> <td>3Q'17</td> <td>2.7</td> <td>-0.1</td> </tr> <tr> <td>4Q'17(1st)</td> <td>-0.1</td> <td>2.0</td> </tr> </tbody> </table> <p>ISM MFG INDEX</p> <table border="1"> <tbody> <tr> <td>Nov</td> <td>58.2%</td> </tr> <tr> <td>Dec</td> <td>59.3</td> </tr> <tr> <td>Jan</td> <td>59.1</td> </tr> </tbody> </table> <p>CONSTRUCTION SPENDING</p> <table border="1"> <tbody> <tr> <td>Oct</td> <td>0.1%</td> </tr> <tr> <td>Nov</td> <td>0.6</td> </tr> <tr> <td>Dec</td> <td>0.7</td> </tr> </tbody> </table>		Productivity	Unit Labor Costs	4Q'16	1.3	-5.7	1Q'17	0.1	4.8	2Q'17	1.5	-1.2	3Q'17	2.7	-0.1	4Q'17(1st)	-0.1	2.0	Nov	58.2%	Dec	59.3	Jan	59.1	Oct	0.1%	Nov	0.6	Dec	0.7	<p>EMPLOYMENT REPORT</p> <table border="1"> <thead> <tr> <th></th> <th>U.Rate</th> <th>Jobs(000)</th> </tr> </thead> <tbody> <tr> <td>Nov</td> <td>4.1</td> <td>+216</td> </tr> <tr> <td>Dec</td> <td>4.1</td> <td>+160</td> </tr> <tr> <td>Jan</td> <td>4.1</td> <td>+200</td> </tr> </tbody> </table> <p>MANUFACTURERS' Ship Inv Orders</p> <table border="1"> <thead> <tr> <th></th> <th>Ship</th> <th>Inv</th> <th>Orders</th> </tr> </thead> <tbody> <tr> <td>Oct</td> <td>0.8%</td> <td>0.3%</td> <td>0.4%</td> </tr> <tr> <td>Nov</td> <td>1.4</td> <td>0.5</td> <td>1.7</td> </tr> <tr> <td>Dec</td> <td>0.6</td> <td>0.5</td> <td>1.7</td> </tr> </tbody> </table> <p>U of M Jan Consumer Sentiment (Final)</p>		U.Rate	Jobs(000)	Nov	4.1	+216	Dec	4.1	+160	Jan	4.1	+200		Ship	Inv	Orders	Oct	0.8%	0.3%	0.4%	Nov	1.4	0.5	1.7	Dec	0.6	0.5	1.7
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<p>Federal Budget (Jan)</p>		<p>EXISTING HOME SALES(000)</p> <table border="1"> <tbody> <tr> <td>Nov</td> <td>5,780</td> </tr> <tr> <td>Dec</td> <td>5,570</td> </tr> <tr> <td>Jan</td> <td></td> </tr> </tbody> </table> <p>President's Day Markets Closed</p>	Nov	5,780	Dec	5,570	Jan		<p>LEADING INDICATORS</p> <table border="1"> <tbody> <tr> <td>Nov</td> <td>0.5%</td> </tr> <tr> <td>Dec</td> <td>0.6</td> </tr> <tr> <td>Jan</td> <td></td> </tr> </tbody> </table>	Nov	0.5%	Dec	0.6	Jan																																																																																																																																				
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