

April 9, 2018

MARKET EXPECTATIONS SURVEY

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The U.S. economy added just 103,000 jobs in March, well below the consensus forecast of 195,000. The private sector added 102,000 jobs in March, with government employment up by 1,000. February job growth was revised up by 13,000 to 326,000 (the best month for job growth since October 2015), and January job growth was revised down by 63,000 to 176,000; there was combined downward revision to job growth over the two months of 50,000. Despite the soft March number so far in 2018 the U.S. economy has added an average of 202,000 jobs; this is an acceleration from the monthly average of 182,000 in 2017.

The unemployment held steady at 4.1 percent in March for a sixth straight month. The number of jobs in the household survey of employment (different from the survey of employers) fell by 37,000 in March, but this followed average gains of more than 580,000 in the first two months of this year. The labor force contracted by 158,000 in March, but this also came after huge increases in January and February (average of more than 660,000). The labor force participation rate fell to 62.9 percent in March from 63.0 percent in February. The broader U-6 unemployment rate (unemployed, underemployed and too discouraged to look for a job) fell from 8.2 percent to 8.0 percent, matching its cyclical low.

After strong gains in most industries in February, job growth was mixed in March. Construction employment fell by 15,000, but that followed a huge increase of 65,000 in February and was the first decline in almost one year. Manufacturing employment rose by 22,000 the latest in a string of solid increases. Private service-providing industries added 87,000 jobs in March, down from 214,000 in February. Average hourly earnings rose 0.3 percent in March. Year-over-year growth in wages picked up slightly to 2.7 percent in March from 2.6 percent in February. With a small increase in jobs, a steady workweek, and moderate growth in wages, aggregate weekly earnings were up 0.3 percent in March, which will result in a moderate real income gain over the month; the consumer price index likely fell 0.1 percent with gasoline prices down close to 5 percent.

Despite the softer jobs report the labor market is very strong in early 2018. PNC expects job growth of around 190,000 per month this year, slightly ahead of last year's pace. Stimulus from the recent corporate and personal income tax cuts, as well as an increase in federal spending, will boost the economy and labor market in 2018. Wage growth will accelerate this year as employers compete for workers; PNC's spring 2018 survey of small and medium-sized businesses finds that one-half of firms expect to raise compensation over the next six months. Higher wages could bring more people into the job market.

Although job growth slowed in March, the strong labor market in the first quarter of this year will likely lead the Federal Open Market Committee to raise the federal funds rate by one-quarter of a percentage point at its mid-June meeting, to a range of 1.75 to 2.00 percent. Inflation has been well below the FOMC's 2 percent goal for years, but the tight job market is raising concerns that building wage pressures could lead to higher inflation. The FOMC will try to let some of the steam off the economy, concerned that an overheating labor market will push inflation past the committee's 2 percent goal. The current economic expansion, which began in June 2009, is now in its 106th month, tying it for the second-longest expansion in US economic history. With the solid job market it has a decent shot of becoming the longest expansion ever; the current longest expansion lasted 120 months, from 1991 to 2001.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Fed Funds Rate Target Range Mid-Point (after the FOMC meeting on 5/2/18) Range: 1.50 to 1.75 percent Median: 1.625 percent	1.13%	No rate hike at the May 1-2 FOMC meeting but we think the FOMC will hike the funds rate another 25 bps at their June 12-13 meeting.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Mar PPI (4/10, Tuesday) Range: 0.0 to 0.2 percent Median: 0.2 percent	0.2% (Feb)	<u>Up</u> 0.2 percent.
Mar PPI (ex-food & energy) (4/10, Tuesday) Range: 0.2 to 0.3 percent Median: 0.2 percent	0.4% (Feb)	<u>Up</u> 0.2 percent.
Mar CPI (4/11, Wednesday) Range: -0.2 to 0.2 percent Median: 0.0 percent	0.2% (Feb)	<u>Down</u> 0.1 percent due to a 5 percent decline in gasoline prices. This decline has already been reversed in early April. The Y/Y rise in the CPI will move up to 2.4 percent.
Mar CPI (ex-food & energy) (4/11, Wednesday) Range: 0.1 to 0.2 percent Median: 0.2 percent	0.2% (Feb)	<u>Up</u> 0.1 percent. The Y/Y rise will move up to 2.0 percent.
Mar Export Price Index (4/12, Thursday) Range: 0.0 to 0.3 percent Median: 0.3 percent	0.2% (Feb)	<u>Up</u> 0.2 percent.
Mar Import Price Index (4/12, Thursday) Range: -0.1 to 0.5 percent Median: 0.2 percent	0.4% (Feb)	<u>Up</u> 0.1 percent.
Apr U. Mich Consumer Sentiment (prelim) (4/13, Friday) Range: 98.0 to 102.0 Median: 101.0	101.4 (Mar)	Edging up to a strong 101.5.
Mar Retail Sales (4/16, Monday) Range: 0.2 to 0.6 percent Median: 0.3 percent	-0.1% (Feb)	<u>Up</u> 0.5 percent with strength in vehicles sales.
Mar Retail Sales (ex-auto) (4/16, Monday) Range: 0.0 to 0.4 percent Median: 0.4 percent	0.2% (Feb)	<u>Up</u> 0.2 percent as lower gasoline prices dragged down sales as gas stations. Control sales (excluding vehicles, building materials, gasoline and restaurant sales) <u>rose</u> a solid 0.5 percent.
Feb Business Inventories (4/16, Monday) Range: 0.2 to 0.7 percent Median: 0.6 percent	0.6% (Jan)	<u>Up</u> 0.6 percent. Sales <u>up</u> 0.3 percent.
Mar Housing Starts (4/17, Tuesday) Range: 1.200 to 1.283 million Median: 1.264 million	1.236M (Feb)	<u>Up</u> 2.0 percent to 1.26 million. Building permits <u>rose</u> 1.5 percent to 1.32 million.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Mar Industrial Production (4/17, Tuesday) Range: 0.1 to 0.5 percent Median: 0.3 percent	0.9% (Feb)	<u>Up</u> 0.2 percent. Manufacturing output was <u>flat</u> .
Mar Capacity Utilization (4/17, Tuesday) Range: 77.6 to 78.3 percent Median: 77.8 percent	77.7% (Feb)	<u>Up</u> to 77.8 percent.
Mar Leading Indicators (4/19, Thursday) Range: 0.1 to 0.4 percent Median: 0.3 percent	0.6% (Feb)	<u>Up</u> 0.1 percent. The coincident index <u>rose</u> 0.2 percent.

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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<p>Apr 2</p> <p>ISM MFG INDEX</p> <table border="1"> <tr><td>Jan</td><td>59.1%</td></tr> <tr><td>Feb</td><td>60.8</td></tr> <tr><td>Mar</td><td>59.3</td></tr> </table> <p>CONSTRUCTION SPENDING</p> <table border="1"> <tr><td>Dec</td><td>1.6%</td></tr> <tr><td>Jan</td><td>0.0</td></tr> <tr><td>Feb</td><td>0.1</td></tr> </table>	Jan	59.1%	Feb	60.8	Mar	59.3	Dec	1.6%	Jan	0.0	Feb	0.1	<p>3</p> <table border="1"> <tr><th colspan="2">Autos</th><th colspan="2">Light</th></tr> <tr><th>Dom</th><th>For</th><th>Truck</th><th>Total</th></tr> <tr><td>Jan</td><td>4.1</td><td>1.7</td><td>11.4</td><td>17.2</td></tr> <tr><td>Feb</td><td>3.9</td><td>1.8</td><td>11.3</td><td>17.0</td></tr> <tr><td>Mar</td><td>3.9</td><td>1.7</td><td>11.9</td><td>17.5</td></tr> </table>	Autos		Light		Dom	For	Truck	Total	Jan	4.1	1.7	11.4	17.2	Feb	3.9	1.8	11.3	17.0	Mar	3.9	1.7	11.9	17.5	<p>4</p> <p>ISM NON-MFG INDEX</p> <table border="1"> <tr><td>Jan</td><td>59.9</td></tr> <tr><td>Feb</td><td>59.5</td></tr> <tr><td>Mar</td><td>58.8</td></tr> </table> <p>MANUFACTURERS'</p> <table border="1"> <tr><th>Ship</th><th>Inv</th><th>Orders</th></tr> <tr><td>Dec</td><td>0.7%</td><td>0.7%</td><td>1.8%</td></tr> <tr><td>Jan</td><td>0.7</td><td>0.4</td><td>-1.3</td></tr> <tr><td>Feb</td><td>0.2</td><td>0.3</td><td>1.2</td></tr> </table> <p>ADP Employment (Mar)</p>	Jan	59.9	Feb	59.5	Mar	58.8	Ship	Inv	Orders	Dec	0.7%	0.7%	1.8%	Jan	0.7	0.4	-1.3	Feb	0.2	0.3	1.2	<p>5</p> <p>TRADE BALANCE (\$B)</p> <table border="1"> <tr><td>Dec</td><td>-\$53.9</td></tr> <tr><td>Jan</td><td>-\$56.7</td></tr> <tr><td>Feb</td><td>-\$57.6</td></tr> </table>	Dec	-\$53.9	Jan	-\$56.7	Feb	-\$57.6	<p>6</p> <p>EMPLOYMENT REPORT</p> <table border="1"> <tr><th colspan="2">U.Rate</th><th>Jobs(000)</th></tr> <tr><td>Jan</td><td>4.1</td><td>+176</td></tr> <tr><td>Feb</td><td>4.1</td><td>+326</td></tr> <tr><td>Mar</td><td>4.1</td><td>+103</td></tr> </table> <p>CONSUMER CREDIT(\$B)</p> <table border="1"> <tr><td>Dec</td><td>+\$19.0</td></tr> <tr><td>Jan</td><td>+\$15.6</td></tr> <tr><td>Feb</td><td>+\$10.6</td></tr> </table>	U.Rate		Jobs(000)	Jan	4.1	+176	Feb	4.1	+326	Mar	4.1	+103	Dec	+\$19.0	Jan	+\$15.6	Feb	+\$10.6										
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<p>23</p> <p>EXISTING HOME SALES(000)</p> <table border="1"> <tr><td>Jan</td><td>5,380</td></tr> <tr><td>Feb</td><td>5,540</td></tr> <tr><td>Mar</td><td></td></tr> </table>	Jan	5,380	Feb	5,540	Mar		<p>24</p> <p>CASE-SHILLER HPI</p> <p>20-City Composite(SA)</p> <table border="1"> <tr><th>M/M</th><th>Y/Y</th></tr> <tr><td>Dec</td><td>0.7%</td><td>6.3%</td></tr> <tr><td>Jan</td><td>0.5</td><td>6.2</td></tr> <tr><td>Feb</td><td></td><td></td></tr> </table> <p>NEW HOME SALES(000)</p> <table border="1"> <tr><td>Jan</td><td>622</td></tr> <tr><td>Feb</td><td>618</td></tr> <tr><td>Mar</td><td></td></tr> </table> <p>CB CONSUMER CONFIDENCE</p> <table border="1"> <tr><th>Total</th><th>Current</th><th>Expect</th></tr> <tr><td>Feb</td><td>130.0</td><td>161.2</td><td>109.2</td></tr> <tr><td>Mar</td><td>127.7</td><td>159.9</td><td>106.2</td></tr> <tr><td>Apr</td><td></td><td></td><td></td></tr> </table>	M/M	Y/Y	Dec	0.7%	6.3%	Jan	0.5	6.2	Feb			Jan	622	Feb	618	Mar		Total	Current	Expect	Feb	130.0	161.2	109.2	Mar	127.7	159.9	106.2	Apr				<p>25</p>	<p>26</p> <p>ADV DURABLE GOODS</p> <table border="1"> <tr><th>Total</th><th>Ex-Transp</th></tr> <tr><td>Jan</td><td>-3.5%</td><td>-0.2%</td></tr> <tr><td>Feb</td><td>3.1</td><td>1.2</td></tr> <tr><td>Mar</td><td></td><td></td></tr> </table>	Total	Ex-Transp	Jan	-3.5%	-0.2%	Feb	3.1	1.2	Mar			<p>27</p> <p>GROSS DOMESTIC PRODUCT</p> <p>1st Qtr (1st estimate)</p> <table border="1"> <tr><th colspan="2">Real GDP</th><th>Price</th></tr> <tr><th colspan="3">Index</th></tr> <tr><td>2Q'17</td><td>3.1%</td><td>1.0%</td></tr> <tr><td>3Q'17</td><td>3.2</td><td>2.1</td></tr> <tr><td>4Q'17(3rd)</td><td>2.9</td><td>2.3</td></tr> <tr><td>1Q'18(1st)</td><td></td><td></td></tr> </table> <p>Employment Cost Index</p> <table border="1"> <tr><th>Total</th><th>W&S</th><th>Fringes</th></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> <tr><td>1Q'18</td><td></td><td></td><td></td></tr> </table> <p>U of M Apr Consumer Sentiment (Final)</p>	Real GDP		Price	Index			2Q'17	3.1%	1.0%	3Q'17	3.2	2.1	4Q'17(3 rd)	2.9	2.3	1Q'18(1 st)			Total	W&S	Fringes	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	1Q'18			
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