

MARKET EXPECTATIONS SURVEY

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The consumer price index rose 0.2 percent in April. This was below PNC’s forecast, and the consensus expectation, for a 0.3 percent increase. Core inflation, excluding volatile food and energy prices, was 0.1 percent in April, below the consensus and the smallest increase since November. Energy prices rose 1.4 percent in April, including a 3.0 percent increase in gasoline prices. **An even bigger rise in gasoline prices is ongoing in May leading into the Memorial Day weekend when gasoline prices will top \$3.00 per gallon for the first time since Memorial Day 2014.**

On a year-ago basis overall inflation was 2.5 percent in April, up from 2.4 percent in March. Inflation slowed in the first half of 2017 to 1.6 percent year-over-year, but has gradually accelerated since then. Core inflation was 2.1 percent in April from one year earlier, the same pace as in March but up from 1.7 percent in mid-2017.

Despite soft monthly numbers in April, inflation is picking up on a year-over-year basis as weak readings from early 2017 become the comparison period. Inflation is not yet a concern for the Federal Reserve, but inflation pressures are gradually building. In particular wage growth is accelerating as the tight labor market leads businesses to raise pay.

Inflation is essentially at the Federal Open Market Committee’s 2 percent goal using a different measure, the personal consumption expenditures price index. The FOMC will not be concerned if inflation moves temporarily above this goal, but wants to prevent a rapid acceleration that would move inflation well above 2 percent. To avoid this, the FOMC will continue to gradually raise the federal funds rate to take some of the heat off the tightening labor market.

PNC expects the FOMC to raise the federal funds rate by one-quarter of a percentage point at its next meeting in mid-June, to a range of 1.75 to 2.00 percent. PNC then expects one more rate increase in 2018, at the end of the year. However, risks are to the upside; if job growth remains strong and wage growth continues to accelerate, the FOMC could raise the funds rate three more times in 2018.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Fed Funds Rate Target Range Mid-Point <i>(after the FOMC meeting on 6/13/18)</i> Range: 1.75 to 2.00 percent Median: 1.875 percent	1.13%	We confidently expect the FOMC will hike the funds rate another 25 bps to a 1.75-2.00 percent target range at their June 12-13 meeting. Fed funds futures odds of a rate hike are virtually 100 percent!
Apr Retail Sales (5/15, Tuesday) Range: 0.2 to 0.6 percent Median: 0.3 percent	0.6% (Mar)	<u>U</u> p 0.3 percent. A decline in vehicle sales holds back a bigger rise.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Apr Retail Sales (ex-auto) (5/15, Tuesday) Range: 0.3 to 0.8 percent Median: 0.5 percent	0.2% (Mar)	<u>Up</u> a solid 0.5 percent. Control sales (excluding vehicles, building materials, gasoline and restaurant sales) up 0.3 percent. After a weak start to this year, consumer spending is rebounding this spring boosted by more jobs and take-home pay (helped by tax cuts), high confidence and better weather. Reports of the consumers' demise are once again greatly exaggerated!
March Business Inventories (5/15, Tuesday) Range: 0.1 to 0.6 percent Median: 0.1 percent	0.6% (Feb)	<u>Up</u> 0.6 percent. Sales <u>up</u> 0.5 percent so inventories remain in line with sales.
Apr Housing Starts (5/16, Wednesday) Range: 1.260 to 1.365 million Median: 1.318 million	1.319M (Mar)	<u>Down</u> to 1.26 million. Building permits <u>down</u> to 1.30 million.
Apr Industrial Production (5/16, Wednesday) Range: 0.1 to 0.9 percent Median: 0.5 percent	0.5% (Mar)	<u>Up</u> a solid 0.5 percent. Manufacturing output <u>up</u> 0.4 percent despite a decline in auto production. Mining and utility output both <u>up</u> 1.0 percent.
Apr Capacity Utilization (5/16, Wednesday) Range: 78.0 to 78.9 percent Median: 78.4 percent	78.0% (Mar)	<u>Up</u> to 78.3 percent.
Apr Leading Indicators (5/17, Thursday) Range: -0.1 to 0.5 percent Median: 0.4 percent	0.3% (Mar)	A temporary <u>decline</u> of 0.1 percent. The coincident index <u>up</u> 0.1 percent.
Apr New Home Sales (5/23, Wednesday) Range: 0.665 to 0.711 million Median: 0.675 million	0.694M (Mar)	<u>Down</u> to a still solid 0.675 million in a strong start to the spring home sales season.
Apr Existing Home Sales (5/24, Thursday) Range: 5.500 to 5.620 million Median: 5.574 million	5.600M (Mar)	<u>Down</u> to 5.50 million as homes-for-sale inventory remains a constraining factor on sales. A sellers' market, which explains why prices keep rising at a 6 percent rate.
Apr Durable Goods Orders (5/25, Friday) Range: -2.2 to 3.0 percent Median: -1.1 percent	2.6% (Mar)	<u>Down</u> 1.8 percent as orders for civilian aircraft drop after two huge increases in March and February. Shipments <u>up</u> 0.1 percent. Ex-Transportation orders and shipments <u>up</u> 0.5 percent and 0.4 percent, respectively.
May U. Mich Consumer Sentiment (final) (5/25, Friday) Range: 98.0 to 99.5 Median: 99.0	98.8 (Apr)	<u>Up</u> to 99.3.

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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May/June 2018

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