

October 6, 2017

MARKET EXPECTATIONS SURVEY

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The September jobs report was skewed by Hurricanes Harvey and Irma, with mixed results that should be discounted. (Neither the employer survey nor the household survey includes results for Puerto Rico and the Virgin Islands, so Hurricane Maria did not impact the numbers.) The US economy lost 33,000 jobs in September, the first outright decline in employment since September 2010. The average consensus expectation was for job growth of 100,000, but estimates were all over the map. The private sector lost 40,000 jobs over the month, while government employment rose by 7,000. There was an upward revision to job growth in August (to 169,000 from 156,000) but a downward revision to July (to 138,000 from 189,000), for a total net downward revision of 38,000. Job growth has averaged 91,000 over the past three months, and 148,000 so far in 2017, down from the pace of 187,000 per month for all of last year.

The unemployment rate fell to 4.2 percent in September from 4.4 percent in August; this is the lowest unemployment rate since February 2001. The hurricanes appear to have had little impact on the unemployment rate. The number of jobs in the household survey of employment (different from the survey of employers) rose by a whopping 906,000, the biggest one-month jump since November 2013. The labor force grew by 575,000 in September, a vote of confidence in the job market. The labor force participation rate jumped 0.2 percentage point over the month to 63.1 percent, its highest since early 2014, although it remains well below its pre-recession level. The broader U-6 unemployment rate (unemployed, underemployed and too discouraged to look for a job) dropped to 8.3 percent in September from 8.6 percent in August, the lowest since mid-2009.

Wages surged in September, up 0.5 percent for the month (0.45 percent before rounding) and up 2.9 percent from one year earlier. This was the strongest year-over-year wage growth since mid-2009. However, September wage growth was likely overstated because of the hurricanes. There were huge job losses over the month in leisure/hospitality services, which is a low-paying industry and prevalent in Florida, and the decline there skewed September wages. But average hourly earnings were revised higher in both July and August, and so the tightening labor market is pushing up wages.

The US economy expanded 3.1 percent at an annual rate in the second quarter, according to the third estimate from the Bureau of Economic Analysis. This is slightly higher than the 3.0 percent growth reported in the second estimate; the preliminary estimate was 2.6 percent. In the third estimate there was an upward revision to investment in inventories. Growth in the first quarter was 1.2 percent. On a year-over-year basis real GDP was up 2.2 percent in the second quarter.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Fed Funds Rate Target Range Mid-Point <i>(after the FOMC meeting on 11/1/17)</i> Range: 1.00 to 1.25 percent Median: 1.125 percent	0.88%	Chair Yellen and a supermajority of FOMC members favor a 25 basis point rate hike in December. President Trump said he will make a decision on nominating the next Fed Chair in the next month. The top candidates, from most likely to least likely, are Kevin Warsh, Gary Cohn, Janet Yellen and Jerome Powell...

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Sept PPI (10/12, Thursday) Range: 0.3 to 0.5 percent Median: 0.4 percent	0.2% (Aug)	<u>Up</u> 0.4%. Wholesale gasoline prices up at least 5%.
Sept PPI (ex-food & energy) (10/12, Thursday) Range: 0.1 to 0.3 percent Median: 0.2 percent	0.2% (Aug)	<u>Up</u> 0.2%.
Sept CPI (10/13, Friday) Range: 0.4 to 0.7 percent Median: 0.6 percent	0.4% (Aug)	<u>Up</u> 0.7%. Retail gasoline prices up close to 14% (but heading back down since mid-September).
Sept CPI (ex-food & energy) (10/13, Friday) Range: 0.1 to 0.2 percent Median: 0.2 percent	0.2% (Aug)	<u>Up</u> 0.2%.
Sept Retail Sales (10/13, Friday) Range: 0.7 to 2.5 percent Median: 1.5 percent	-0.2% (Aug)	<u>Up</u> 2.0%. A huge rise in vehicle sales (replacing those destroyed in the hurricanes) and a huge rise in gasoline station sales all due to higher prices.
Sept Retail Sales (ex-auto) (10/13, Friday) Range: 0.1 to 1.2 percent Median: 0.8 percent	0.2% (Aug)	<u>Up</u> 1.0%. Control sales, which go into GDP, <u>up</u> a solid 0.4%.
Aug Business Inventories (10/13, Friday) Range: 0.2 to 0.7 percent Median: 0.6 percent	0.2% (July)	<u>Up</u> 0.7%. Sales <u>up</u> 0.3%.
Oct. Mich. Consumer Sentiment (prelim) (10/13, Friday) Range: 93.5 to 96.0 Median: 95.4	95.1 (Sept)	<u>Down</u> to 93.5.
Sept Export Price Index (10/17, Tuesday) Range: -0.1 to 0.5 percent Median: 0.5 percent	0.6% (Aug)	<u>Down</u> 0.1%.
Sept Import Price Index (10/17, Tuesday) Range: 0.2 to 0.9 percent Median: 0.5 percent	0.6% (Aug)	<u>Up</u> 0.2%.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Sept Industrial Production (10/17, Tuesday) Range: -0.4 to 0.5 percent Median: -0.1 percent	-0.9% (Aug)	<u>Up</u> 0.5%, partially reversing the decline in August due to Hurricane Harvey but still reflecting disruptions from Hurricanes Irma and Maria.
Sept Capacity Utilization (10/17, Tuesday) Range: 75.0 to 76.4 percent Median: 76.1 percent	76.1% (Aug)	<u>Up</u> to 76.4%.
Sept Housing Starts (10/18, Wednesday) Range: 1.142 to 2.000 million Median: 1.198 million	1.180M (Aug)	<u>Down</u> to 1.15 million, still reflecting the impacts of the hurricanes.
Sept Leading Indicators (10/19, Thursday) Range: -0.1 to 0.3 percent Median: 0.2 percent	0.4% (Aug)	<u>Up</u> 0.1%.
Sept Existing Home Sales (10/20, Friday) Range: 5.280 to 5.400 million Median: 5.316 million	5.350M (Aug)	<u>Down</u> to 5.30 million, still reflecting the impacts of the hurricanes.

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MONTHLY CALENDAR OF ECONOMIC DATA

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MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY																																																																														
<p>2</p> <p>CONSTRUCTION SPENDING</p> <p>June -0.8%</p> <p>July -1.2</p> <p>Aug 0.5</p> <p>ISM MFG INDEX</p> <p>July 56.3%</p> <p>Aug 58.8</p> <p>Sept 60.8</p>	<p>3</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>July</td> <td>4.5</td> <td>1.8</td> <td>10.5</td> <td>16.8</td> </tr> <tr> <td>Aug</td> <td>4.4</td> <td>1.7</td> <td>10.0</td> <td>16.1</td> </tr> <tr> <td>Sept</td> <td>4.9</td> <td>1.9</td> <td>11.8</td> <td>18.6</td> </tr> </tbody> </table>		Dom	For	Truck	Total	July	4.5	1.8	10.5	16.8	Aug	4.4	1.7	10.0	16.1	Sept	4.9	1.9	11.8	18.6	<p>4</p> <p>ISM NON-MFG INDEX</p> <p>July 53.9</p> <p>Aug 55.3</p> <p>Sept 59.8</p> <p>ADP Employment (Sept)</p>	<p>5</p> <p>TRADE BALANCE (\$B)</p> <p>June -\$43.5</p> <p>July -\$43.6</p> <p>Aug -\$42.4</p> <p>MANUFACTURERS'</p> <table border="1"> <thead> <tr> <th></th> <th>Ship</th> <th>Inv</th> <th>Orders</th> </tr> </thead> <tbody> <tr> <td>June</td> <td>0.1%</td> <td>0.3%</td> <td>3.2%</td> </tr> <tr> <td>July</td> <td>0.2</td> <td>0.4</td> <td>-3.3</td> </tr> <tr> <td>Aug</td> <td>0.5</td> <td>0.4</td> <td>1.2</td> </tr> </tbody> </table>		Ship	Inv	Orders	June	0.1%	0.3%	3.2%	July	0.2	0.4	-3.3	Aug	0.5	0.4	1.2	<p>6</p> <p>EMPLOYMENT REPORT</p> <table border="1"> <thead> <tr> <th></th> <th>U.Rate</th> <th>Jobs(000)</th> </tr> </thead> <tbody> <tr> <td>July</td> <td>4.3</td> <td>+138</td> </tr> <tr> <td>Aug</td> <td>4.4</td> <td>+169</td> </tr> <tr> <td>Sept</td> <td>4.2</td> <td>-33</td> </tr> </tbody> </table> <p>CONSUMER CREDIT(\$B)</p> <p>June +\$11.5</p> <p>July +\$17.7</p> <p>Aug +\$13.1</p>		U.Rate	Jobs(000)	July	4.3	+138	Aug	4.4	+169	Sept	4.2	-33																														
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