

# NATIONAL ECONOMIC OUTLOOK

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## Executive Summary

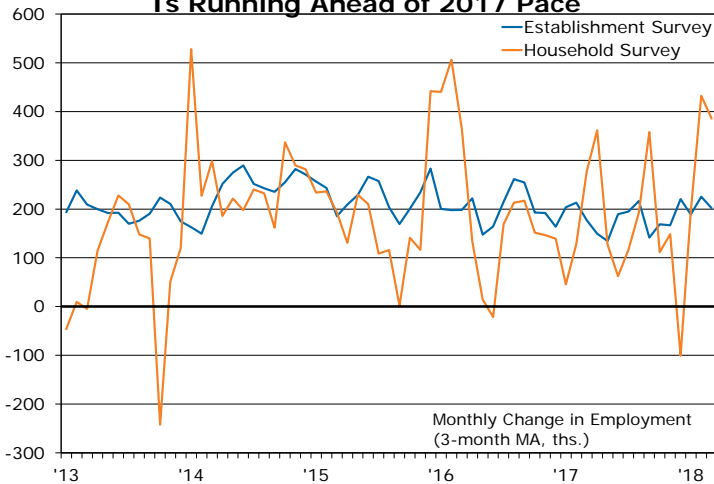
### **Fed Raises Rates Again, Next Increase in June; Slower March Job Growth, But Labor Market Still Great**

- On March 21 the Federal Open Market Committee raised the federal funds rate by one-quarter of a percentage point to a range of 1.50 to 1.75 percent; this was the sixth time the FOMC has raised the fed funds rate since the current tightening cycle began in late 2015. The median value of the “dot plot,” which shows FOMC participants’ expectations for the federal funds rate over the next few years, indicates two more fed funds rate hikes this year, although three is also a possibility. In its April forecast PNC expects the next fed funds rate increase to come in June; in the March forecast, that next rate hike was in September. PNC then expects the next increase to come at the end of 2018, for a total of three for the year, consistent with the dot plot.
- Job growth slowed in March, with the U.S. economy adding just 103,000 jobs over the month; this followed a huge gain of 326,000 in February. But job growth in 2018 so far has averaged 202,000 per month, up from the pace of 182,000 for all of 2017. The unemployment rate was 4.1 percent for a sixth straight month in March; this is the lowest the unemployment rate has been since late 2000. Average hourly earnings were up 2.7 percent from one year earlier in March, and were up better than 3 percent at an annual rate in the first quarter of 2018. The increasingly tight labor market is forcing businesses to raise pay to retain and attract workers.
- Retail sales rose a solid 0.6 percent in March; this was the first increase since November. The details were weaker; sales excluding autos rose 0.2 percent, and sales excluding autos and gasoline rose 0.3 percent. Control retail sales—sales excluding restaurants, autos, gasoline, and building materials, and which go into nominal consumer spending in GDP—were also up 0.3 percent. Sales of autos and parts rose 2.0 percent in March, but other segments were softer. On a year-over-year basis overall retail sales were up 4.5 percent in March, up from 4.1 percent growth in February and the fastest pace since December. Control sales were up 3.9 percent in March, down from 4.2 percent in February and 5.7 percent in November. Consumer spending is growing at a moderate pace. The fundamentals are good: more jobs, rising wages with the tight job market, and continued low inflation. Reduced tax withholdings and thus larger paychecks from the recently enacted personal income tax cuts will also be a positive for consumer spending this year.

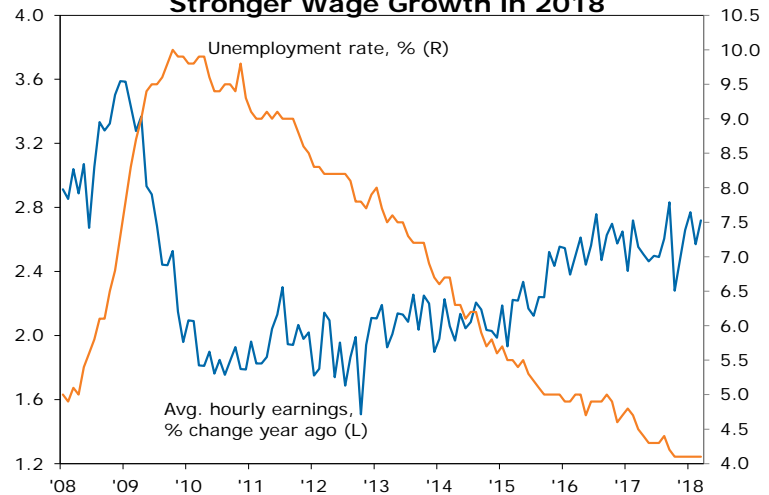
### **Baseline U.S. Economic Outlook, Summary Table\***

	1Q'18f	2Q'18f	3Q'18f	4Q'18f	1Q'19f	2Q'19f	3Q'19f	4Q'19f	2017a	2018f	2019f	2020f
<b>Output &amp; Prices</b>												
Real GDP (Chained 2009 Billions \$)	17362	17498	17633	17775	17907	18025	18127	18220	17096	17567	18070	18429
Percent Change Annualized	1.8	3.2	3.1	3.3	3.0	2.6	2.3	2.1	2.3	2.8	2.9	2.0
CPI (1982-84 = 100)	249.4	250.4	251.6	252.9	254.2	255.6	257.0	258.4	245.1	251.1	256.3	262.0
Percent Change Annualized	3.5	1.6	1.9	2.0	2.2	2.2	2.2	2.2	2.1	2.4	2.1	2.2
<b>Labor Markets</b>												
Payroll Jobs (Millions)	148.1	148.6	149.1	149.6	150.0	150.3	150.6	150.9	146.6	148.9	150.5	151.4
Percent Change Annualized	1.7	1.5	1.4	1.3	1.1	0.8	0.8	0.7	1.6	1.5	1.1	0.6
Unemployment Rate (Percent)	4.1	3.9	3.8	3.6	3.5	3.5	3.5	3.5	4.4	3.9	3.5	3.6
<b>Interest Rates (Percent)</b>												
Federal Funds	1.45	1.64	1.65	1.93	2.17	2.42	2.52	2.52	1.00	1.67	2.41	2.52
Treasury Note, 10-year	2.76	2.91	2.99	3.13	3.26	3.36	3.41	3.37	2.33	2.95	3.35	3.26
a = actual    f = forecast    p = preliminary    * Please see the Expanded Table for more forecast series.												

**Job Growth So Far This Year  
Is Running Ahead of 2017 Pace**



**With Tight Labor Market,  
Stronger Wage Growth in 2018**



## PNC Small Business Survey Points to Expansion Throughout 2018

Optimism is running at historic highs in all categories evaluated by PNC in the 15-year history of the PNC Economic Outlook, a semiannual telephone survey of small and medium-size business owners and executives. Exactly one-half of respondents describe their outlook for the national economy as optimistic in spring 2018, a significant increase compared to the fall 2017 survey (29 percent). Across-the-board record optimism is reflected by the 85 percent of all respondents who select a positive emotion to describe how they feel about the business climate during the next six months: hope (39 percent), enthusiasm (37 percent) and joy (9 percent). This is a moderate increase from the fall of 2016 (pre-election) when 74 percent of respondents reported positive emotions. The number feeling fear, despair or anger remains in the single digits.

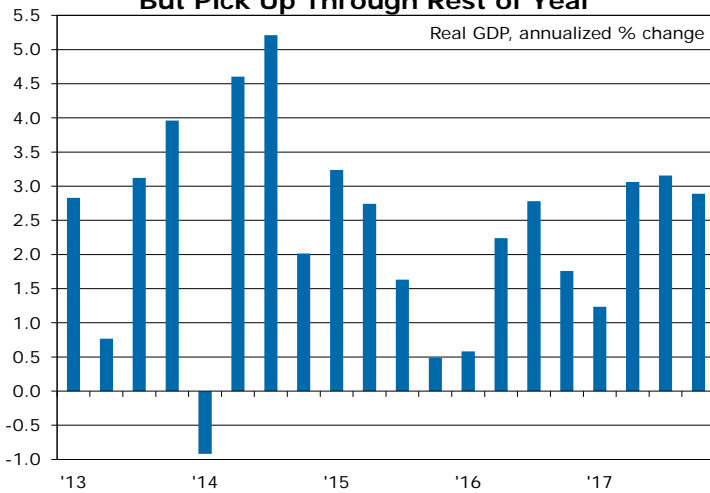
Small businesses are a key source of economic activity and employment, and owners' perceptions can be a good indicator of what is to come. The overall findings from the biannual survey, which began in 2003, confirm that the U.S. economic expansion, now almost nine years old and the second-longest in U.S. history, will continue throughout 2018. Nearly seven out of 10 (69 percent) small and mid-size business leaders anticipate increased sales during the next six months, a significant increase from the fall. Two-thirds (64 percent) of respondents expect increased profits, exceeding the prior high (59 percent) set in spring 2005. Most significant is the jump in the number of business leaders who expect to charge their own customers higher prices (41 percent, up from 29 percent in fall 2017), citing increasing business and favorable market conditions as the primary reasons.

In addition, six out of 10 business leaders (61 percent) expect demand for their company's products or services to increase in the next six months, up from 51 percent in fall 2017. While a majority (51 percent) report a good balance between the volume of business and their capacity to handle that volume, 14 percent report having more work than they can handle without adding some capacity.

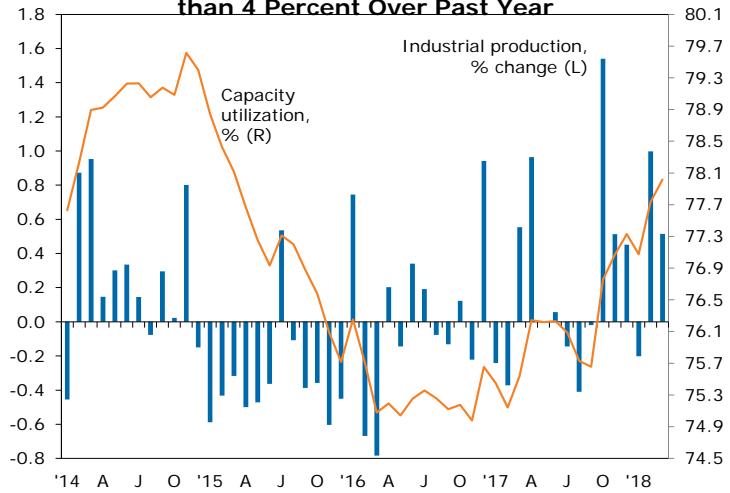
Hiring and compensation registered some of the largest increases compared to fall 2017. Wages have remained stuck in the slow lane while the U.S. economy zipped along in the fast lane. Finally, there are signs that wage growth may be accelerating this spring: half (49 percent) of business leaders anticipate increasing their employee compensation in the next six months (compared to 37 percent in fall 2017). This is the highest share since fall 2007 (51 percent) and good news for the American workforce. In addition, one-third (32 percent) expect to add full-time staff (25 percent in fall 2017) and 25 percent note plans to hire part-time staff, a significant bump compared to 15 percent in fall 2017. Four out of 10 (40 percent) say it is harder to hire qualified employees today compared to six months ago, with the biggest challenge being lack of experience or skill. One-fifth (22 percent) of respondents attribute the lack of hiring to doing more work in other ways like automation, artificial intelligence or outsourcing, representing a significant increase compared to 14 percent in fall 2017.

With record business confidence and support from personal and corporate income tax cuts and increased federal spending, real U.S. GDP growth will accelerate to above 3 percent on a year-over-year basis by early 2019. Business investment and consumer spending will both get boosts from the tax cuts, and the housing market will continue to improve. Growth will then slow in 2019 as fiscal stimulus wears off. Job growth this year will maintain its 2018 pace of around 180,000 per month, and the unemployment rate will move lower, to around 3.5 percent by early 2019. The tighter job market will lead to faster wage growth, providing additional support to consumer spending. The expanding global economy is currently a positive for U.S. growth, but trade restrictions from the U.S. and retaliation from its major trading partners are a significant downside risk.

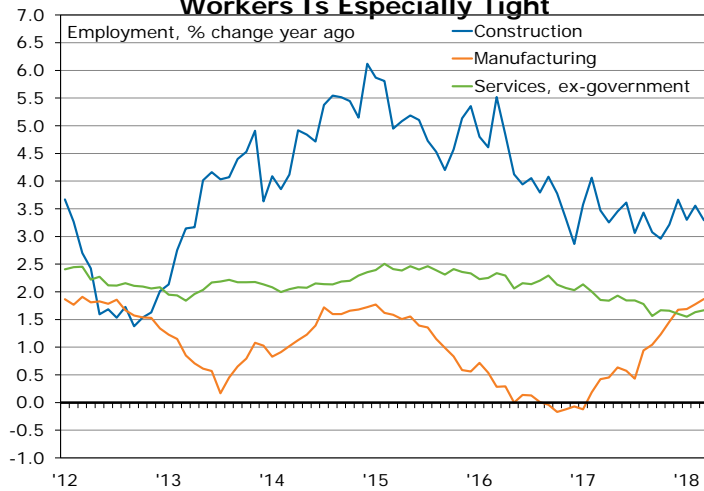
**Growth Set to Slow in Early 2018, But Pick Up Through Rest of Year**



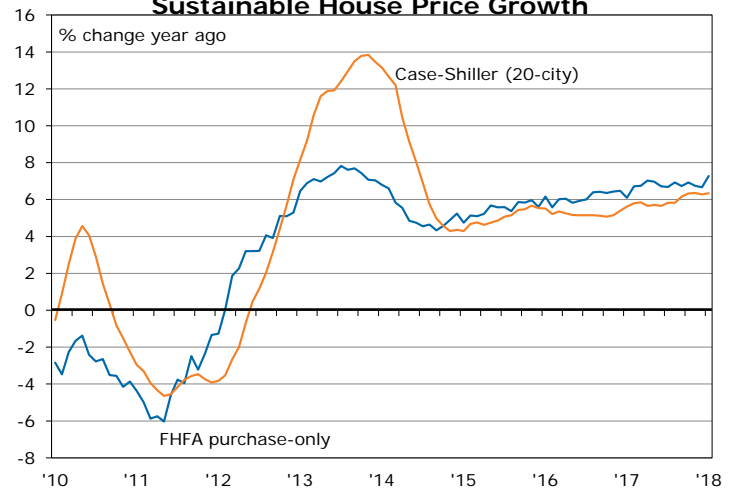
**Industrial Output Up More than 4 Percent Over Past Year**



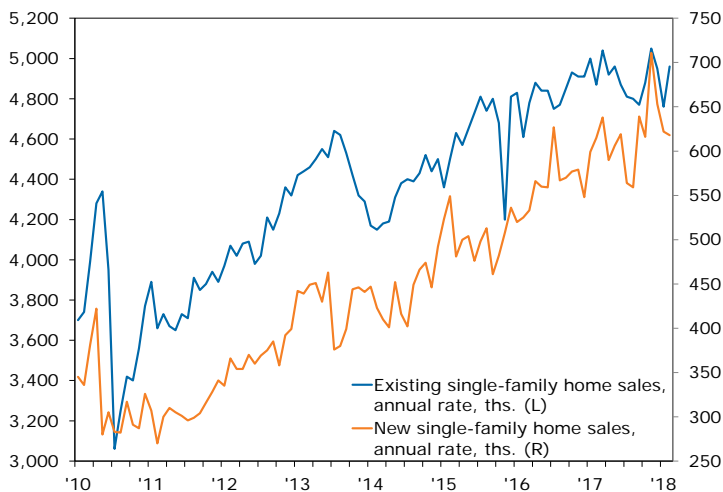
**Job Market for Construction Workers Is Especially Tight**



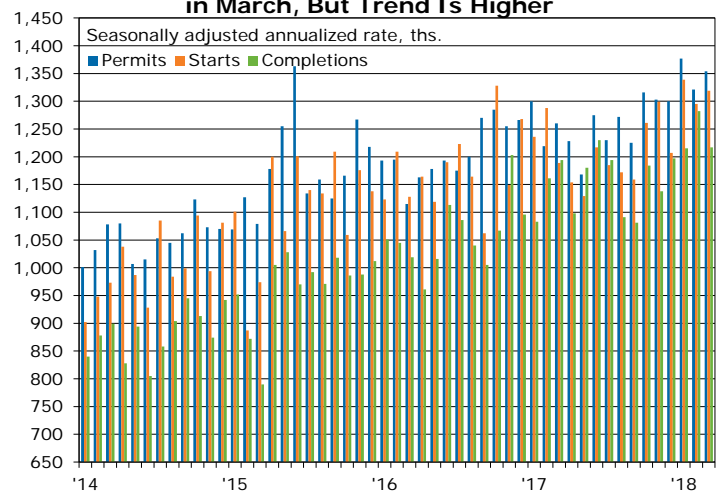
**Five Straight Years of Sustainable House Price Growth**



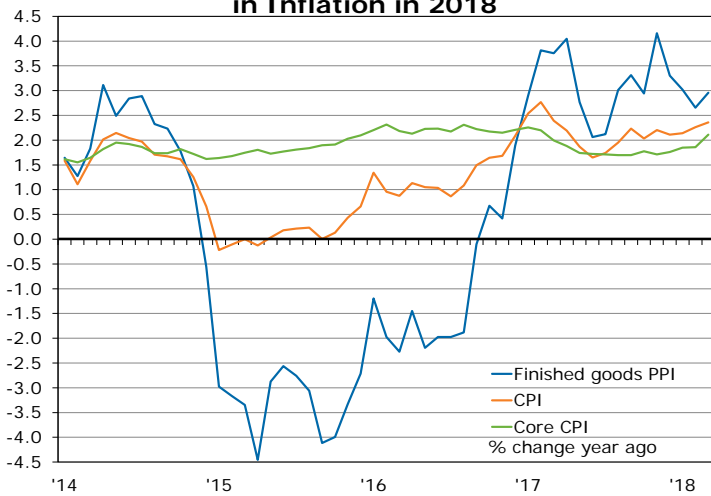
**Expect Further Home Sale Gains in 2018**



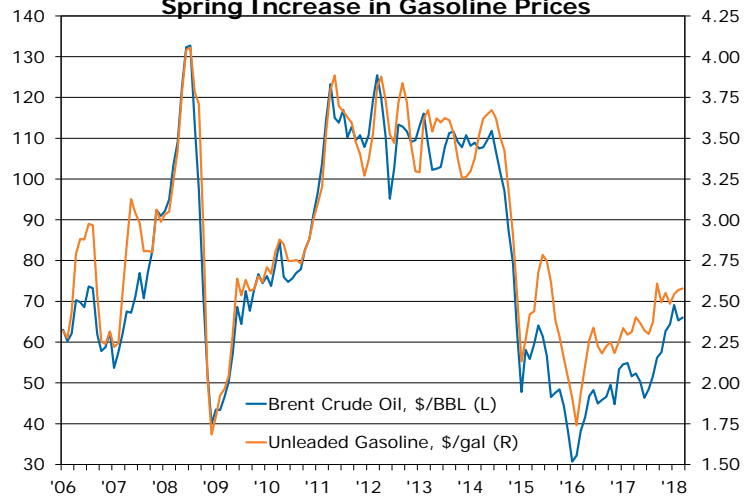
**Starts and Permits Were Down in March, But Trend Is Higher**



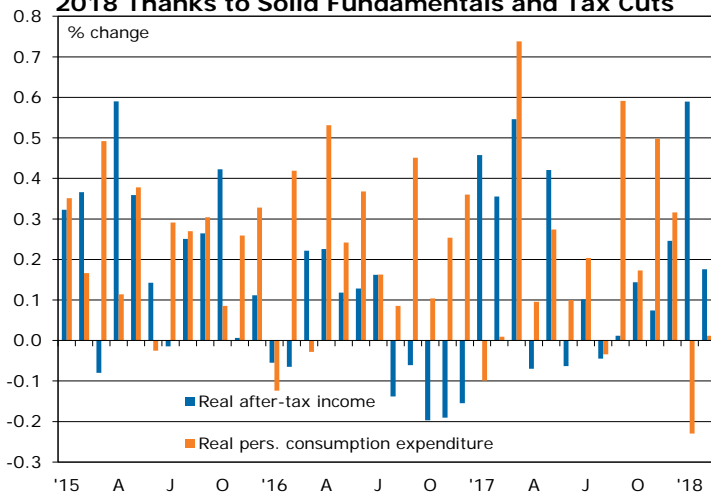
### Expect a Gradual Strengthening in Inflation in 2018



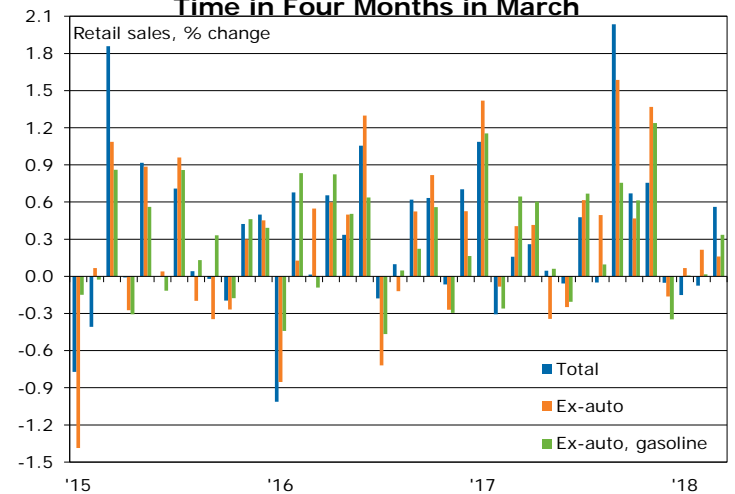
### Falling Oil Prices Working Against Usual Spring Increase in Gasoline Prices



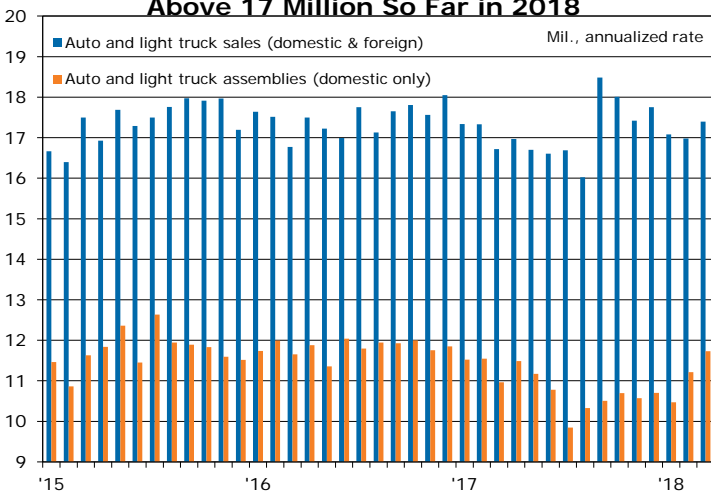
### Consumer Spending Will Continue to Improve in 2018 Thanks to Solid Fundamentals and Tax Cuts



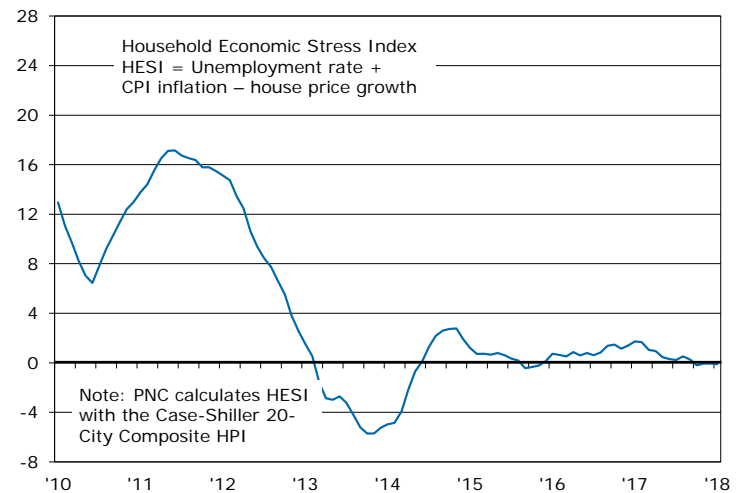
### Retail Sales Increased for First Time in Four Months in March



### Auto Sales Still Running at Above 17 Million So Far in 2018



### For Households, It's Steady as She Goes



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# NATIONAL ECONOMIC OUTLOOK

PNC Economics Group  
April, 2018

## Baseline U.S. Economic Outlook, Expanded Table

	1Q'18f	2Q'18f	3Q'18f	4Q'18f	1Q'19f	2Q'19f	3Q'19f	4Q'19f	2017a	2018f	2019f	2020f
<b>Output</b>												
Nominal GDP (Billions \$)	19987	20244	20497	20762	21023	21270	21503	21726	19391	20372	21381	22267
<b>Percent Change Annualized</b>	<b>4.8</b>	<b>5.3</b>	<b>5.1</b>	<b>5.3</b>	<b>5.1</b>	<b>4.8</b>	<b>4.4</b>	<b>4.2</b>	<b>4.1</b>	<b>5.1</b>	<b>4.9</b>	<b>4.1</b>
Real GDP (Chained 2009 Billions \$)	17362	17498	17633	17775	17907	18025	18127	18220	17096	17567	18070	18429
<b>Percent Change Annualized</b>	<b>1.8</b>	<b>3.2</b>	<b>3.1</b>	<b>3.3</b>	<b>3.0</b>	<b>2.6</b>	<b>2.3</b>	<b>2.1</b>	<b>2.3</b>	<b>2.8</b>	<b>2.9</b>	<b>2.0</b>
Pers. Consumption Expenditures	12072	12152	12230	12305	12374	12434	12494	12552	11891	12190	12463	12698
<b>Percent Change Annualized</b>	<b>1.2</b>	<b>2.7</b>	<b>2.6</b>	<b>2.5</b>	<b>2.3</b>	<b>2.0</b>	<b>1.9</b>	<b>1.9</b>	<b>2.8</b>	<b>2.5</b>	<b>2.2</b>	<b>1.9</b>
Nonresidential Fixed Investment	2390	2430	2475	2519	2557	2587	2615	2639	2314	2453	2600	2683
<b>Percent Change Annualized</b>	<b>4.2</b>	<b>6.8</b>	<b>7.6</b>	<b>7.3</b>	<b>6.2</b>	<b>4.9</b>	<b>4.3</b>	<b>3.7</b>	<b>4.7</b>	<b>6.0</b>	<b>6.0</b>	<b>3.2</b>
Residential Investment	614	613	617	623	630	637	641	645	598	617	638	654
<b>Percent Change Annualized</b>	<b>6.2</b>	<b>-0.5</b>	<b>2.4</b>	<b>4.2</b>	<b>4.6</b>	<b>4.0</b>	<b>2.8</b>	<b>2.3</b>	<b>1.8</b>	<b>3.2</b>	<b>3.4</b>	<b>2.4</b>
Change in Private Inventories	48	57	58	56	57	63	57	51	15	55	57	41
Net Exports	-692	-703	-718	-732	-745	-753	-758	-761	-622	-711	-754	-764
Government Expenditures	2933	2951	2973	3007	3037	3060	3081	3096	2903	2966	3068	3120
<b>Percent Change Annualized</b>	<b>1.6</b>	<b>2.4</b>	<b>3.1</b>	<b>4.6</b>	<b>4.0</b>	<b>3.0</b>	<b>2.8</b>	<b>2.0</b>	<b>0.1</b>	<b>2.2</b>	<b>3.5</b>	<b>1.7</b>
Industrial Prod. Index (2012 = 100)	107.4	108.3	109.0	109.6	110.1	110.5	110.8	111.1	105.1	108.6	110.7	111.9
<b>Percent Change Annualized</b>	<b>1.8</b>	<b>3.2</b>	<b>2.9</b>	<b>2.2</b>	<b>1.8</b>	<b>1.4</b>	<b>1.2</b>	<b>1.1</b>	<b>2.0</b>	<b>3.3</b>	<b>1.9</b>	<b>1.2</b>
Capacity Utilization (Percent)	77.9	78.4	78.6	78.8	79.1	79.1	79.1	79.1	76.5	78.4	79.1	79.0
<b>Prices</b>												
CPI (1982-84 = 100)	249.4	250.4	251.6	252.9	254.2	255.6	257.0	258.4	245.1	251.1	256.3	262.0
<b>Percent Change Annualized</b>	<b>3.5</b>	<b>1.6</b>	<b>1.9</b>	<b>2.0</b>	<b>2.2</b>	<b>2.2</b>	<b>2.2</b>	<b>2.2</b>	<b>2.1</b>	<b>2.4</b>	<b>2.1</b>	<b>2.2</b>
Core CPI Index (1982-84 = 100)	255.8	257.3	258.8	260.2	261.6	263.0	264.5	265.9	252.2	258.0	263.8	269.5
<b>Percent Change Annualized</b>	<b>3.0</b>	<b>2.5</b>	<b>2.3</b>	<b>2.2</b>	<b>2.2</b>	<b>2.2</b>	<b>2.2</b>	<b>2.2</b>	<b>1.8</b>	<b>2.3</b>	<b>2.2</b>	<b>2.2</b>
PCE Price Index (2009 = 100)	114.4	114.7	115.1	115.6	116.2	116.7	117.2	117.8	112.7	115.0	117.0	119.2
<b>Percent Change Annualized</b>	<b>3.2</b>	<b>1.3</b>	<b>1.5</b>	<b>1.7</b>	<b>1.9</b>	<b>1.9</b>	<b>1.9</b>	<b>1.9</b>	<b>1.7</b>	<b>2.0</b>	<b>1.7</b>	<b>1.9</b>
Core PCE Price Index (2009 = 100)	114.5	115.1	115.7	116.3	116.8	117.4	118.0	118.6	113.1	115.4	117.7	120.1
<b>Percent Change Annualized</b>	<b>2.5</b>	<b>2.2</b>	<b>2.1</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>1.5</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>
GDP Price Index (2009 = 100)	115.1	115.7	116.3	116.9	117.5	118.1	118.7	119.4	113.4	116.0	118.4	121.0
<b>Percent Change Annualized</b>	<b>3.0</b>	<b>2.1</b>	<b>2.0</b>	<b>2.0</b>	<b>2.1</b>	<b>2.1</b>	<b>2.2</b>	<b>2.2</b>	<b>1.8</b>	<b>2.3</b>	<b>2.1</b>	<b>2.2</b>
Crude Oil, WTI (\$/Barrel)	62.9	67.2	66.5	66.2	67.0	67.9	68.8	69.7	50.8	65.7	68.4	70.6
<b>Labor Markets</b>												
Payroll Jobs (Millions)	148.1	148.6	149.1	149.6	150.0	150.3	150.6	150.9	146.6	148.9	150.5	151.4
<b>Percent Change Annualized</b>	<b>1.7</b>	<b>1.5</b>	<b>1.4</b>	<b>1.3</b>	<b>1.1</b>	<b>0.8</b>	<b>0.8</b>	<b>0.7</b>	<b>1.6</b>	<b>1.5</b>	<b>1.1</b>	<b>0.6</b>
Unemployment Rate (Percent)	4.1	3.9	3.8	3.6	3.5	3.5	3.5	3.5	4.4	3.9	3.5	3.6
Average Weekly Hours, Prod. Works.	33.7	33.7	33.8	33.8	33.8	33.8	33.8	33.8	33.7	33.8	33.8	33.8
<b>Personal Income</b>												
Average Hourly Earnings (\$)	22.38	22.57	22.79	23.01	23.23	23.45	23.67	23.89	22.05	22.69	23.56	24.43
<b>Percent Change Annualized</b>	<b>2.5</b>	<b>3.4</b>	<b>4.0</b>	<b>3.9</b>	<b>3.9</b>	<b>3.8</b>	<b>3.8</b>	<b>3.8</b>	<b>2.3</b>	<b>2.9</b>	<b>3.9</b>	<b>3.7</b>
Real Disp. Income (2009 Billions \$)	12930	13031	13118	13198	13274	13348	13418	13487	12763	13070	13382	13659
<b>Percent Change Annualized</b>	<b>3.4</b>	<b>3.1</b>	<b>2.7</b>	<b>2.5</b>	<b>2.3</b>	<b>2.2</b>	<b>2.1</b>	<b>2.1</b>	<b>1.2</b>	<b>2.4</b>	<b>2.4</b>	<b>2.1</b>
<b>Housing</b>												
Housing Starts (Ths., Ann. Rate)	1318	1284	1305	1331	1354	1370	1378	1385	1208	1309	1371	1395
Ext. Home Sales (Ths., Ann. Rate)	5669	5666	5755	5849	5909	5946	5973	5998	5536	5735	5956	6045
New SF Home Sales (Ths., Ann. Rate)	680	666	678	694	706	713	717	721	617	680	714	722
Case/Shiller HPI (Jan. 2000 = 100)	198.9	201.0	202.6	203.7	204.7	205.5	206.4	207.3	191.7	201.5	206.0	210.0
<b>Percent Change Year Ago</b>	<b>5.8</b>	<b>5.8</b>	<b>5.2</b>	<b>3.7</b>	<b>2.9</b>	<b>2.3</b>	<b>1.9</b>	<b>1.8</b>	<b>5.9</b>	<b>5.1</b>	<b>2.2</b>	<b>1.9</b>
<b>Consumer</b>												
Household Economic Stress Index	0.6	0.7	1.1	2.2	2.5	3.3	3.8	3.9	0.6	1.1	3.4	3.9
Auto Sales (Millions)	17.2	17.1	17.1	17.1	17.0	16.9	16.9	16.9	17.2	17.1	16.9	16.8
Consumer Credit (Billions \$)	3864	3923	3981	4039	4097	4154	4213	4267	3759	3952	4183	4386
<b>Percent Change Annualized</b>	<b>2.4</b>	<b>6.3</b>	<b>6.0</b>	<b>6.0</b>	<b>5.9</b>	<b>5.6</b>	<b>5.8</b>	<b>5.2</b>	<b>5.6</b>	<b>5.1</b>	<b>5.8</b>	<b>4.9</b>
<b>Interest Rates (Percent)</b>												
Prime Rate	4.53	4.75	4.76	5.03	5.28	5.50	5.50	5.50	4.10	4.77	5.45	5.50
Federal Funds	1.45	1.64	1.65	1.93	2.17	2.42	2.52	2.52	1.00	1.67	2.41	2.52
3-Month Treasury Bill	1.58	1.85	1.95	2.13	2.29	2.43	2.51	2.46	0.95	1.88	2.42	2.42
10-Year Treasury Note	2.76	2.91	2.99	3.13	3.26	3.36	3.41	3.37	2.33	2.95	3.35	3.26
30-Year Fixed Mortgage	4.27	4.47	4.57	4.73	4.87	4.95	5.00	4.94	3.99	4.51	4.94	4.83
<b>a = actual    f = forecast    p = preliminary</b>												

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