

NATIONAL ECONOMIC OUTLOOK

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Executive Summary

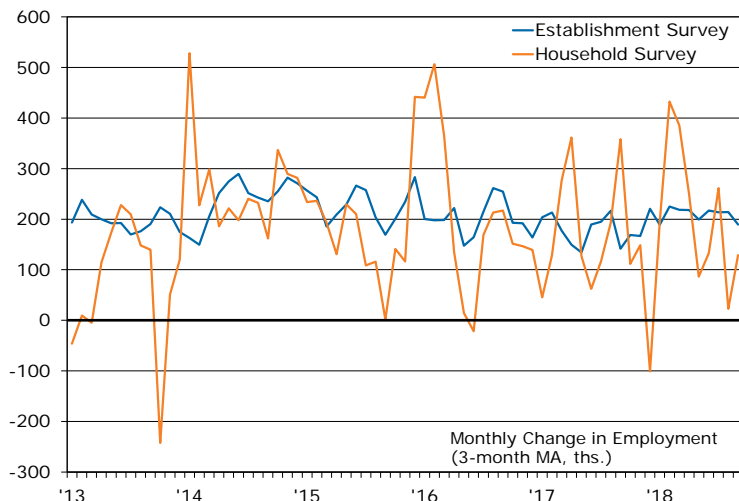
Stock Market Turmoil and Higher Interest Rates, But U.S. Economy Remains in Good Shape

- On September 26 the Federal Open Market Committee raised the federal funds rate by a quarter of a percentage point, to a range of 2.00 to 2.25 percent. The biggest change from the previous statement, on August 1, was the removal of a sentence saying that “The stance of monetary policy remains accommodative, thereby supporting strong labor market conditions and a sustained return to 2 percent inflation.” That means that many FOMC members now think that the fed funds rate is close to, if not at, the “neutral” rate where monetary policy neither adds to nor subtracts from growth. As the fed funds rate approaches the neutral rate, FOMC members may be more cautious about pushing the rate higher, concerned about making monetary policy contractionary. That being said, the statement and recent Fed speeches indicate that further rate hikes are coming.
- The U.S. economy added 134,000 jobs in September, below the consensus expectation for an increase of 185,000. Hurricane Florence weighed on job growth over the month, with the weakest job growth since September of last year. There was a large combined upward revision to job growth in July and August of 87,000. The U.S. economy has added an average of 208,000 jobs per month so far in 2018, well above last year’s pace of 182,000. The unemployment rate fell 0.2 percentage point in September to 3.7 percent; this is the lowest the rate has been since late 1969. The broader U-6 unemployment rate (unemployed, underemployed and too discouraged to look for a job) rose 0.1 percentage point in September to 7.5 percent, but remains near a cyclical low.
- After hitting record highs in early September, U.S. stock market indices have fallen over the past month. Stock price volatility—up and down movement in prices—has also increased, although only to historically normal levels. There are a number of reasons for the recent decline in stock prices: higher interest rates, concern about the impact of tariffs on corporate profits, weak earnings reports, political uncertainty ahead of the midterm election, geopolitical concerns, higher labor costs, and profit-taking after strong gains over the past few years. However, the downturn in stock prices does not mean that a recession is imminent. Although there are a few soft spots, the fundamentals for the U.S. remain solid; consumers, in particular, are in excellent shape, with consumer confidence at an 18-year high.

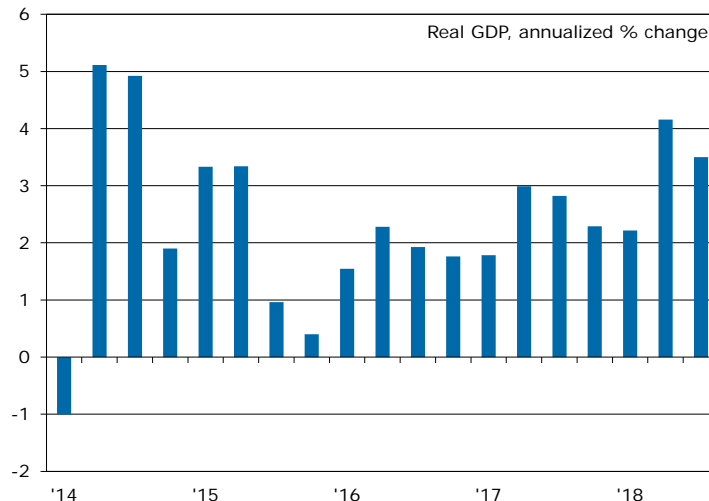
Baseline U.S. Economic Outlook, Summary Table*

	1Q'18a	2Q'18a	3Q'18f	4Q'18f	1Q'19f	2Q'19f	3Q'19f	4Q'19f	2017a	2018f	2019f	2020f
Output & Prices												
Real GDP (Chained 2012 Billions \$)	18324	18512	18667	18834	18981	19117	19245	19349	18051	18584	19173	19565
Percent Change Annualized	2.2	4.2	3.4	3.6	3.2	2.9	2.7	2.2	2.2	3.0	3.2	2.0
CPI (1982-84 = 100)	249.4	250.5	252.1	253.3	254.8	256.5	258.1	259.8	245.1	251.3	257.3	263.7
Percent Change Annualized	3.5	1.7	2.6	2.0	2.4	2.6	2.6	2.6	2.1	2.5	2.4	2.5
Labor Markets												
Payroll Jobs (Millions)	148.1	148.7	149.3	149.9	150.5	151.0	151.5	151.9	146.6	149.0	151.2	152.7
Percent Change Annualized	1.7	1.7	1.7	1.6	1.5	1.4	1.3	1.1	1.6	1.6	1.5	1.0
Unemployment Rate (Percent)	4.1	3.9	3.8	3.7	3.6	3.5	3.5	3.4	4.4	3.9	3.5	3.5
Interest Rates (Percent)												
Federal Funds	1.45	1.74	1.92	2.21	2.38	2.41	2.66	2.88	1.00	1.83	2.58	2.88
Treasury Note, 10-year	2.76	2.92	2.92	3.28	3.33	3.32	3.30	3.29	2.33	2.97	3.31	3.28
a = actual f = forecast p = preliminary * Please see the Expanded Table for more forecast series.												

Job Growth Remains Above Its 2017 Pace



Stronger Growth in Mid-2018



Small and Mid-Sized Business Owners Feel a Slight Chill in the Air, But Still Confident

Historic optimism about the national economy from the spring (50 percent) chilled slightly this fall (40 percent), but remains well above fall 2017 (29 percent), according to the PNC Economic Outlook, a semiannual telephone survey of small and middle-market business owners and executives. Four out of 10 business leaders described their outlook for the national economy as optimistic, the second-highest rating in the 15-year survey. Optimism about their local economies and their own companies also remains near record highs, although it has slipped slightly since the spring.

Small and mid-size business leaders expect wages and hiring to remain near the record highs reported in spring 2018 as the second-longest economic expansion in U.S. history continues. 46 percent expect to increase wages (vs. 49 percent in spring 2018), while the number planning to decrease workers' wages remains at a survey low of 2 percent.

Nearly two-thirds (64 percent) of business leaders expect increased sales, dropping marginally from spring 2018 (69 percent). Expectations for increased profits are the second-highest on record (59 percent), only outpaced by spring 2018 (64 percent). Businesses anticipating a decrease in profits remains at a historic low (6 percent).

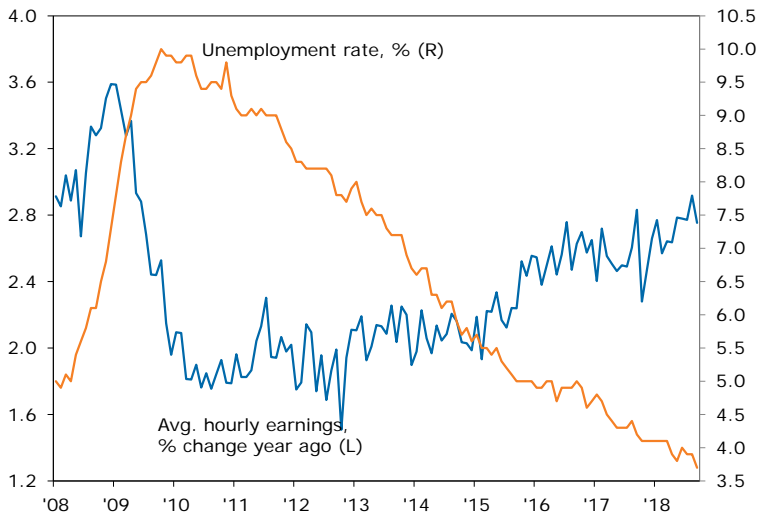
The number of business leaders forecasting rising prices in the next six months gained momentum. More than half (53 percent vs. 41 percent in spring 2018) anticipate suppliers charging more; 45 percent (vs. 29 percent in spring 2018) plan to charge their customers more. Of those planning to raise the prices they charge customers, (45 percent) anticipate a one- to two-percent hike, while 25 percent anticipate a 5 percent or more increase. Increasing business, favorable market conditions and rising labor costs are among the key drivers of higher pricing. Only 3 percent of businesses anticipate lowering prices.

Four out of 10 (41 percent) respondents report currently selling items or services to or buying items or services from other countries to some extent. The percentages are significantly higher for manufacturers (59 percent) and wholesalers/retailers (47 percent). However, only 8 percent of all respondents characterize the volume of that trade as "large." When asked to choose sides on increasing U.S. tariffs on other countries' goods based upon what's best for their own business, 41 percent are in support (33 percent in spring 2017) and 31 percent are opposed (32 percent in spring 2017); more than a quarter of business leaders (27 percent) are uncertain.

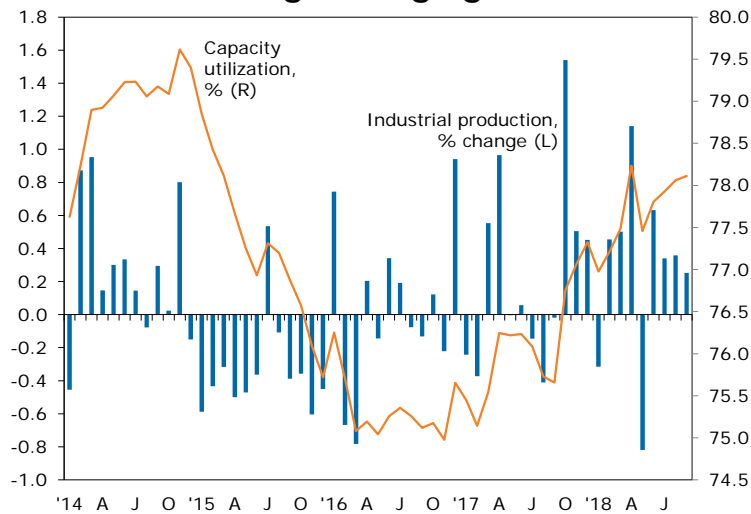
As a result of tariffs, four out of 10 anticipate paying higher prices to suppliers. Three out of 10 business leaders (31 percent) expect to increase the prices they charge their customers should the United States impose increased tariffs on other countries' goods, but nearly half (47 percent) expect no impact. Nearly half of business leaders (48 percent) do not expect any impact on company sales, with 18 percent anticipating increased sales and only 8 percent decreased sales.

With businesses confident about the outlook the U.S. economic expansion will continue through at least mid-2019. Real U.S. GDP growth will be above 3 percent annualized in the second half of 2018 and early 2019. Business investment and consumer spending are both getting boosts from tax cuts; a large increase in federal government spending is also a near-term positive. Assuming no significant disruptions trade will be a slight negative as growth in imports is stronger than growth in exports. Growth will slow in 2019 as fiscal stimulus wears off. Monthly job growth this year will average close to 200,000, but will slow in 2019 because of the tight labor market. The unemployment rate will continue to move lower, to around 3.4 percent by the end of next year. The Federal Open Market Committee will raise the federal funds rate at its December meeting to a range of 2.25 to 2.50 percent, and then continue with gradual rate increases in 2019. Inflation may move temporarily above the Federal Reserve's objective of 2 percent, but not much higher.

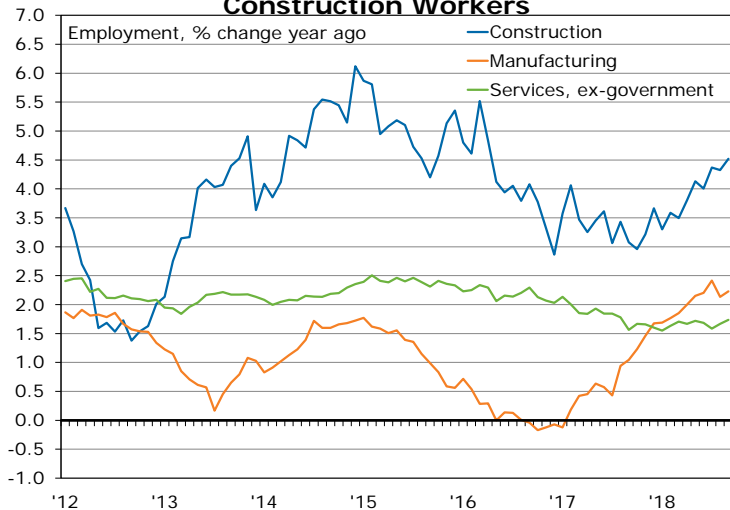
Lowest Unemployment Rate in Almost Five Decades



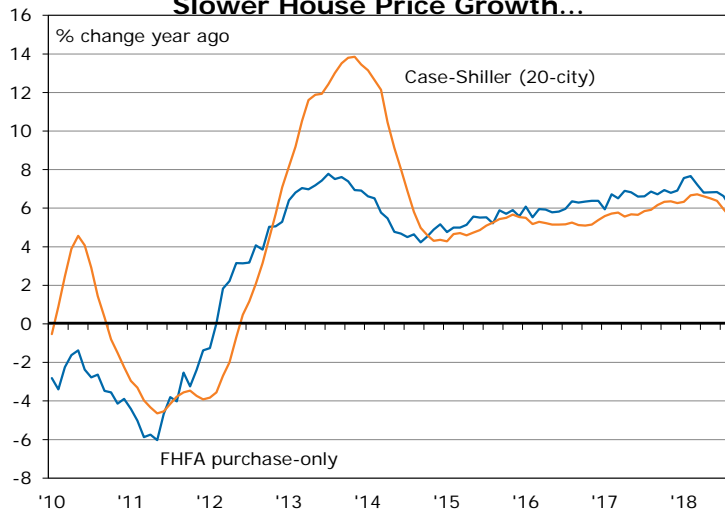
Manufacturing Is Staging a Comeback



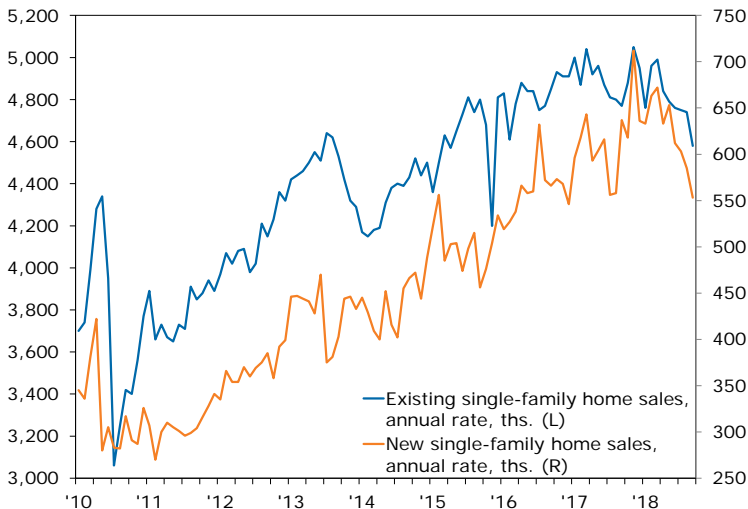
Tight Job Market for Manufacturing, Construction Workers



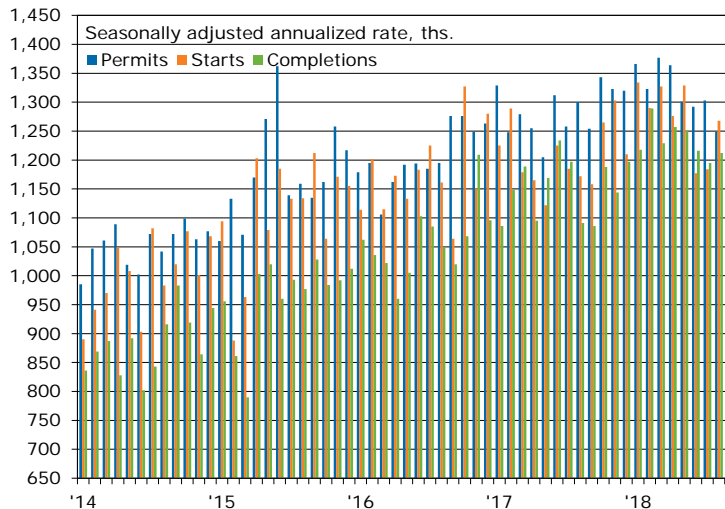
With Higher Mortgage Rates, Slower House Price Growth...



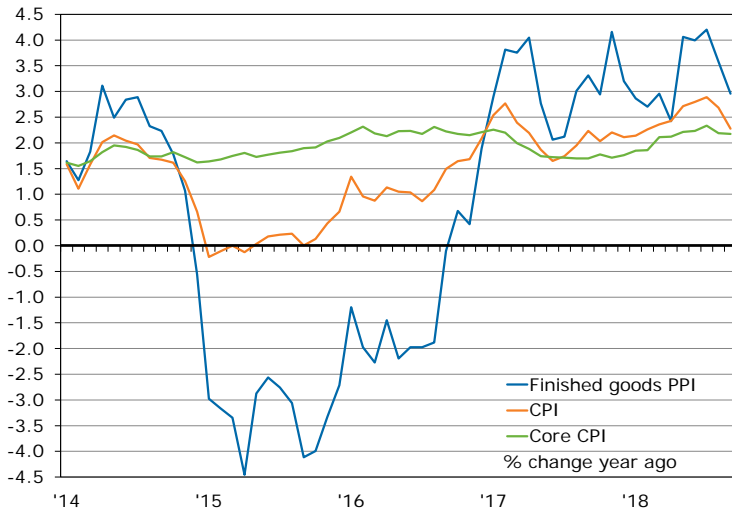
...A Definite Slowing in Home Sales...



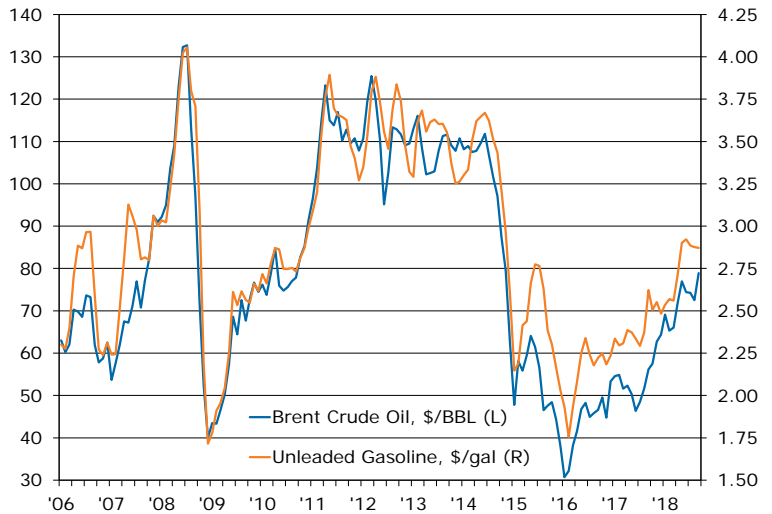
...And Softer Homebuilding



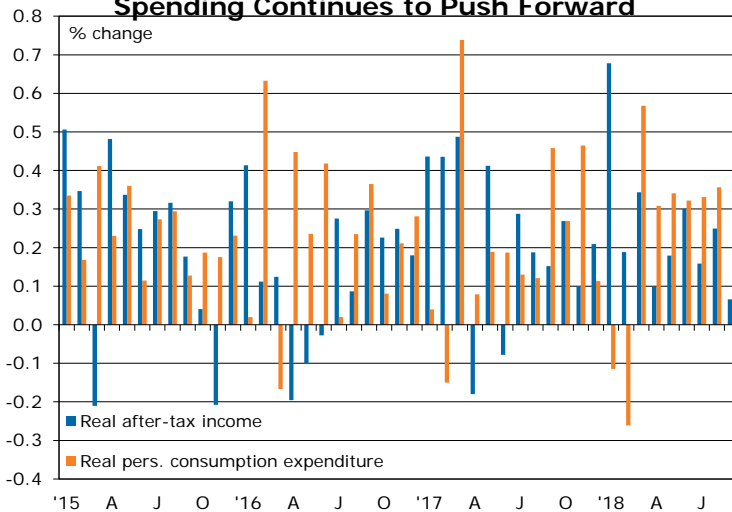
Tariffs Have Not Pushed Up Inflation Yet



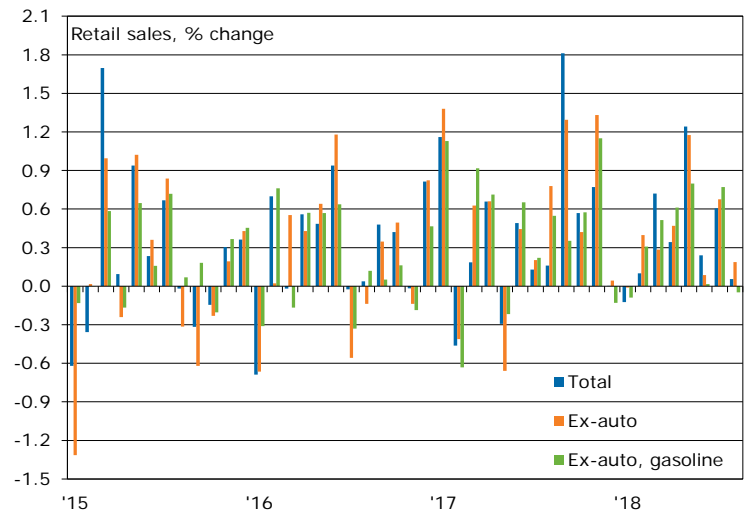
Gasoline Prices Have Levelled Off in Recent Months



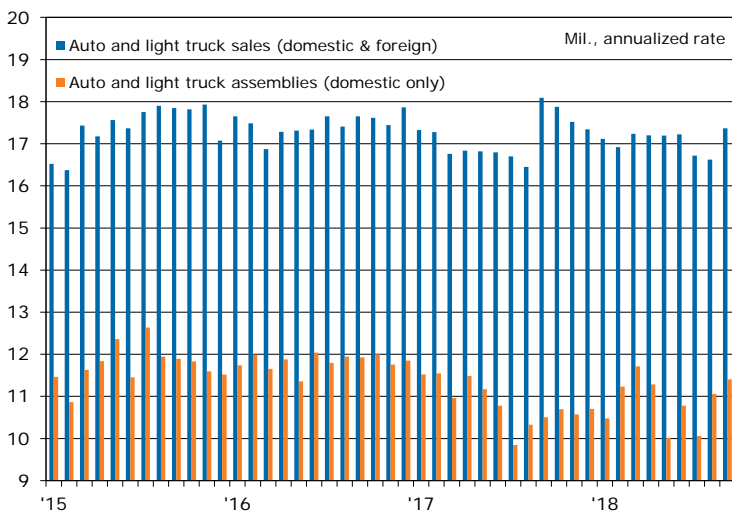
With Good Fundamentals, Consumer Spending Continues to Push Forward



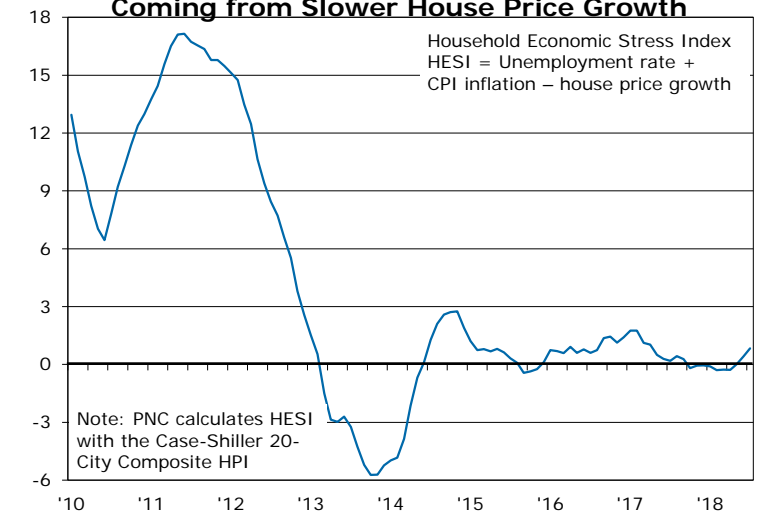
Retail Sales Will Bounce Back in October



Consumers Continue to Buy Cars and Light Trucks



Small Increase in Household Stress Coming from Slower House Price Growth



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PNC Economics Group
October, 2018

Baseline U.S. Economic Outlook, Expanded Table

	1Q'18a	2Q'18a	3Q'18f	4Q'18f	1Q'19f	2Q'19f	3Q'19f	4Q'19f	2017a	2018f	2019f	2020f
Output												
Nominal GDP (Billions \$)	20041	20412	20693	20987	21278	21548	21823	22073	19485	20533	21681	22644
Percent Change Annualized	4.3	7.6	5.6	5.8	5.7	5.2	5.2	4.7	4.2	5.4	5.6	4.4
Real GDP (Chained 2012 Billions \$)	18324	18512	18667	18834	18981	19117	19245	19349	18051	18584	19173	19565
Percent Change Annualized	2.2	4.2	3.4	3.6	3.2	2.9	2.7	2.2	2.2	3.0	3.2	2.0
Pers. Consumption Expenditures	12723	12842	12952	13037	13121	13197	13271	13340	12559	12888	13232	13500
Percent Change Annualized	0.5	3.8	3.5	2.7	2.6	2.3	2.3	2.1	2.5	2.6	2.7	2.0
Nonresidential Fixed Investment	2654	2710	2733	2776	2814	2848	2877	2901	2538	2718	2860	2941
Percent Change Annualized	11.5	8.7	3.5	6.4	5.6	4.9	4.1	3.4	5.3	7.1	5.2	2.8
Residential Investment	615	613	614	617	620	621	624	628	611	615	623	636
Percent Change Annualized	-3.4	-1.3	0.5	2.2	1.6	1.0	1.8	2.3	3.3	0.6	1.3	2.1
Change in Private Inventories	30	-37	4	23	31	43	55	51	23	5	45	46
Net Exports	-902	-841	-887	-907	-922	-934	-944	-947	-859	-884	-937	-947
Government Expenditures	3152	3172	3199	3234	3266	3289	3310	3324	3130	3189	3297	3336
Percent Change Annualized	1.5	2.5	3.4	4.5	3.9	2.9	2.5	1.7	-0.1	1.9	3.4	1.2
Industrial Prod. Index (2012 = 100)	105.9	107.3	108.0	108.9	109.8	110.5	111.2	111.6	103.7	107.5	110.8	112.4
Percent Change Annualized	2.5	5.1	2.9	3.4	3.2	2.7	2.3	1.7	1.6	3.7	3.0	1.5
Capacity Utilization (Percent)	77.2	77.8	78.4	79.0	79.6	80.1	80.6	80.9	76.1	78.1	80.3	81.4
Prices												
CPI (1982-84 = 100)	249.4	250.5	252.1	253.3	254.8	256.5	258.1	259.8	245.1	251.3	257.3	263.7
Percent Change Annualized	3.5	1.7	2.6	2.0	2.4	2.6	2.6	2.6	2.1	2.5	2.4	2.5
Core CPI Index (1982-84 = 100)	255.7	256.9	258.5	260.0	261.5	263.2	264.8	266.4	252.2	257.8	264.0	270.3
Percent Change Annualized	3.0	1.8	2.5	2.4	2.4	2.5	2.5	2.4	1.8	2.2	2.4	2.4
PCE Price Index (2012 = 100)	107.5	108.1	108.5	109.0	109.7	110.2	110.9	111.5	106.1	108.3	110.6	113.0
Percent Change Annualized	2.5	2.0	1.8	1.8	2.3	2.2	2.3	2.3	1.8	2.1	2.1	2.2
Core PCE Price Index (2012 = 100)	109.2	109.8	110.4	111.0	111.7	112.3	113.0	113.6	108.0	110.1	112.6	115.1
Percent Change Annualized	2.2	2.1	2.3	2.2	2.3	2.3	2.3	2.3	1.6	2.0	2.3	2.2
GDP Price Index (2012 = 100)	109.4	110.3	110.9	111.5	112.2	112.8	113.5	114.2	107.9	110.5	113.2	115.9
Percent Change Annualized	2.0	3.3	2.2	2.2	2.5	2.3	2.5	2.5	1.9	2.4	2.4	2.4
Crude Oil, WTI (\$/Barrel)	62.9	68.1	69.7	69.4	70.3	71.2	72.1	72.9	50.8	67.5	71.6	73.9
Labor Markets												
Payroll Jobs (Millions)	148.1	148.7	149.3	149.9	150.5	151.0	151.5	151.9	146.6	149.0	151.2	152.7
Percent Change Annualized	1.7	1.7	1.7	1.6	1.5	1.4	1.3	1.1	1.6	1.6	1.5	1.0
Unemployment Rate (Percent)	4.1	3.9	3.8	3.7	3.6	3.5	3.5	3.4	4.4	3.9	3.5	3.5
Average Weekly Hours, Prod. Works.	33.7	33.8	33.7	33.7	33.7	33.7	33.8	33.7	33.7	33.7	33.7	33.7
Personal Income												
Average Hourly Earnings (\$)	22.40	22.58	22.74	22.93	23.12	23.32	23.51	23.70	22.05	22.66	23.41	24.18
Percent Change Annualized	2.8	3.3	3.0	3.3	3.4	3.4	3.3	3.3	2.3	2.8	3.3	3.3
Real Disp. Income (2012 Billions \$)	14219	14306	14398	14495	14562	14635	14704	14770	13949	14355	14668	14959
Percent Change Annualized	4.4	2.5	2.6	2.7	1.9	2.0	1.9	1.8	2.6	2.9	2.2	2.0
Housing												
Housing Starts (Ths., Ann. Rate)	1317	1261	1218	1240	1265	1280	1290	1297	1208	1259	1283	1312
Ext. Home Sales (Ths., Ann Rate)	5507	5413	5300	5391	5472	5515	5545	5571	5536	5403	5526	5624
New SF Home Sales (Ths., Ann Rate)	656	635	615	615	623	629	633	634	616	630	630	635
Case/Shiller HPI (Jan. 2000 = 100)	199.8	202.0	202.8	203.9	205.0	206.1	207.2	208.4	191.6	202.1	206.7	211.3
Percent Change Year Ago	6.4	6.4	5.4	3.9	2.6	2.0	2.2	2.2	5.8	5.5	2.2	2.2
Consumer												
Household Economic Stress Index	0.0	0.2	1.2	2.3	3.1	3.9	3.7	3.7	0.7	0.9	3.6	3.8
Auto Sales (Millions)	17.1	17.2	16.9	16.7	16.7	16.8	16.7	16.7	17.1	17.0	16.7	16.6
Consumer Credit (Billions \$)	3862	3899	3961	4020	4072	4120	4168	4217	3755	3936	4144	4344
Percent Change Annualized	3.3	3.8	6.5	6.2	5.2	4.8	4.8	4.7	5.6	4.8	5.3	4.8
Interest Rates (Percent)												
Prime Rate	4.53	4.80	5.01	5.28	5.50	5.53	5.78	6.00	4.10	4.90	5.70	6.00
Federal Funds	1.45	1.74	1.92	2.21	2.38	2.41	2.66	2.88	1.00	1.83	2.58	2.88
3-Month Treasury Bill	1.58	1.87	2.07	2.30	2.44	2.56	2.67	2.79	0.95	1.96	2.62	2.87
10-Year Treasury Note	2.76	2.92	2.92	3.28	3.33	3.32	3.30	3.29	2.33	2.97	3.31	3.28
30-Year Fixed Mortgage	4.27	4.54	4.57	4.93	4.98	4.97	4.95	4.94	3.99	4.58	4.96	4.93
a = actual f = forecast p = preliminary												

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