

# NATIONAL ECONOMIC OUTLOOK

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## Executive Summary

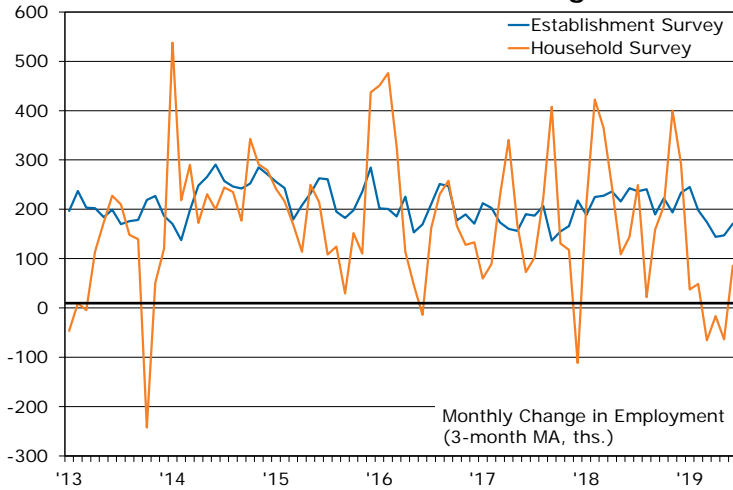
### **Much Better June Job Growth; Incomes and Consumer Spending Remain Solid**

- After a weak May jobs report, the U.S. labor market rebounded in June, with job gains of 224,000. The private sector added 191,000 jobs, while government employment rose by 33,000. May job growth was revised down to 72,000, from 75,000, and April job growth to 216,000, from 224,000. Job growth has averaged 172,000 per month so far this year, down from 223,000 last year, but still well above the pace needed to keep up with underlying growth in the labor force. The unemployment rate rose to 3.7 percent in June, from 3.6 percent in April and May, which was a 49-year low. However, the increase in the unemployment rate came from an increase in the labor force of 335,000 over the month, as more people looked for work, drawn in by rising wages and the tight job market. Wage growth remains solid with the tight labor market, but has not accelerated in 2019. Year-over-year growth in wages was 3.1 percent for a second straight month in June, down from a cyclical peak of 3.4 percent in February.
- Personal income rose a solid 0.5 percent in May, unadjusted for inflation, besting expectations for a 0.3 percent increase. Most of the increase came from higher interest income; labor market income was up 0.2 percent in May. Personal income rose 0.5 percent in April (unrevised). After-tax income also rose 0.5 percent in May. Adjusted for inflation and taxes, personal income was up 0.3 percent in May. Inflation-adjusted disposable income was up 2.3 percent in May from one year earlier.
- Consumer spending rose 0.4 percent in May before inflation, following a 0.6 percent increase in April. There was a big jump in durable goods spending in May (up 1.7 percent), while nondurable goods spending fell slightly. Services spending rose 0.4 percent. With spending growth slightly softer than income growth, the savings rate rose to 6.2 percent in May, from 6.1 percent in April. Households are not overextended; the savings rate is well above where it was heading into the Great Recession. Inflation-adjusted spending rose 0.2 percent in May, and was up 2.7 percent from one year earlier. Consumers remain in good shape in mid-2019. With the economy adding jobs and a tight labor market boosting wages, household incomes are rising. This, in turn, is supporting commensurate gains in spending. Consumer spending accounts for about two-thirds of U.S. GDP.

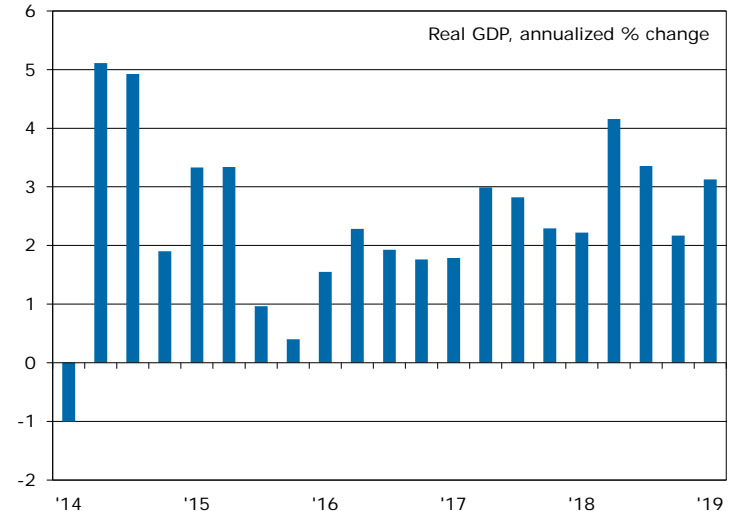
### ***Baseline U.S. Economic Outlook, Summary Table\****

	1Q'19a	2Q'19p	3Q'19f	4Q'19f	1Q'20f	2Q'20f	3Q'20f	4Q'20f	2018a	2019f	2020f	2021f
<b>Output &amp; Prices</b>												
Real GDP (Chained 2012 Billions \$)	18910	19003	19103	19188	19277	19360	19439	19514	18566	19051	19398	19712
Percent Change Annualized	3.1	2.0	2.1	1.8	1.9	1.7	1.7	1.6	2.9	2.6	1.8	1.6
CPI (1982-84 = 100)	253.3	255.3	256.8	258.2	259.6	260.9	262.3	263.7	251.1	255.9	261.6	267.2
Percent Change Annualized	0.9	3.2	2.4	2.1	2.2	2.1	2.1	2.1	2.4	1.9	2.2	2.1
<b>Labor Markets</b>												
Payroll Jobs (Millions)	150.7	151.1	151.5	151.8	152.1	152.3	152.5	152.8	149.1	151.3	152.4	153.4
Percent Change Annualized	1.7	1.2	1.0	0.7	0.7	0.6	0.6	0.6	1.7	1.5	0.8	0.7
Unemployment Rate (Percent)	3.9	3.6	3.6	3.7	3.7	3.7	3.8	3.8	3.8	3.7	3.8	4.0
<b>Interest Rates (Percent)</b>												
Federal Funds	2.40	2.40	2.21	1.96	1.88	1.88	1.88	1.88	1.83	2.24	1.88	2.08
Treasury Note, 10-year	2.65	2.33	2.06	2.19	2.21	2.21	2.23	2.28	2.91	2.31	2.23	2.53
a = actual    f = forecast    p = preliminary    *Please see the Expanded Table for more forecast series.												

## Somewhat Slower Job Growth in 2019, But Labor Market Continues to Tighten



## GDP Growth to Slow from Strong First Quarter Pace



## Now Longest Expansion in U.S. History, But With Risks to the Downside, Fed Set to Cut Rates in 2019

The current economic expansion is now the longest in U.S. history. The expansion started in June 2009, according to the National Bureau of Economic Research, and has surpassed the previous longest expansion, which lasted 120 months, ending in March 2001. But while the U.S. economy is still growing, the risk of near-term recession has increased over the first half of 2019, in large part due to soft global growth and trade uncertainty. However, with inflation very low, the Federal Open Market Committee is set to cut the fed funds rate later this year; this should help keep the expansion going into 2020.

In some respects the U.S. economy is doing well. Consumers in particular are in good shape. With the labor market continuing to add jobs at a steady clip, the unemployment rate below 4 percent for a year and just above a 49-year low, and solid wage growth, household income is rising steadily, well above the rate of inflation. Other positives for consumers are low debt relative to income, falling interest rates, and rising stock prices and home values. After slower job growth in May, the June jobs report confirms that the labor market is holding up, and consumers should continue to boost their spending into 2020.

The corporate sector is still solid, but some cracks are showing. Profit margins have narrowed because of slower overall economic growth and rising wages. Businesses have taken on a great deal of debt during the expansion, and could be vulnerable during a downturn. Traditional retailers remain under pressure from the ongoing expansion of online sales.

Fiscal policy is moving from being a positive for growth in 2018 to being more neutral for growth this year. The positive impact of the big corporate and personal income tax cuts passed at the end of 2017 is fading, and an increase in federal government spending enacted last year is providing less of a boost to growth than expected. Fiscal policy is set to turn contractionary in 2020.

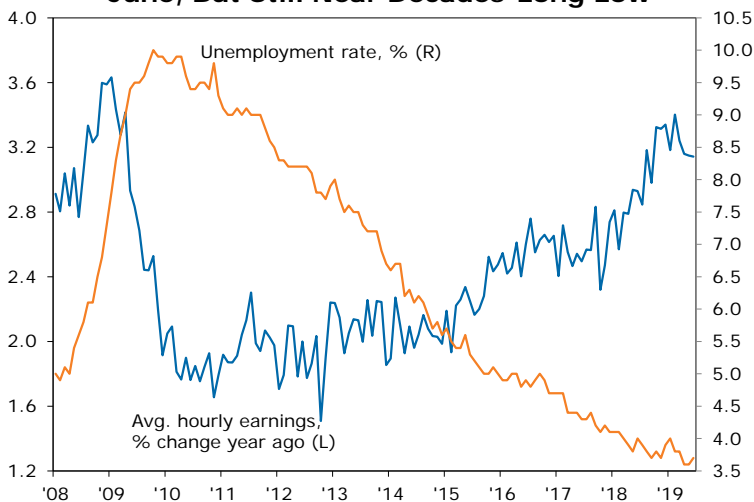
The biggest drag, however, is on the international side. Global economic growth has slowed in 2019 in part because of country-specific factors: recessions in Turkey and Argentina, Brexit uncertainty in the United Kingdom, new auto emissions standards in Germany, and an impending tax increase in Japan. Chinese growth has also slowed, in part because of trade tensions with the U.S. With weaker global growth and the U.S. dollar strengthening since 2018, U.S. manufacturing growth has slowed, with the ISM manufacturing index at its lowest level since 2016, and just slightly above the 50 mark that indicates expansion.

More concerning is that risks to the U.S. outlook have shifted heavily to the downside this year. These include the possibility of an all-out trade war with China, the potential for tariffs on imported autos that would hit U.S. consumers, a hard Brexit between the U.K. and the European Union, and a big drop in stock prices that would spook consumers and businesses. But one downside risk has faded with President Trump backing away from threatened tariffs on Mexican imports over immigration.

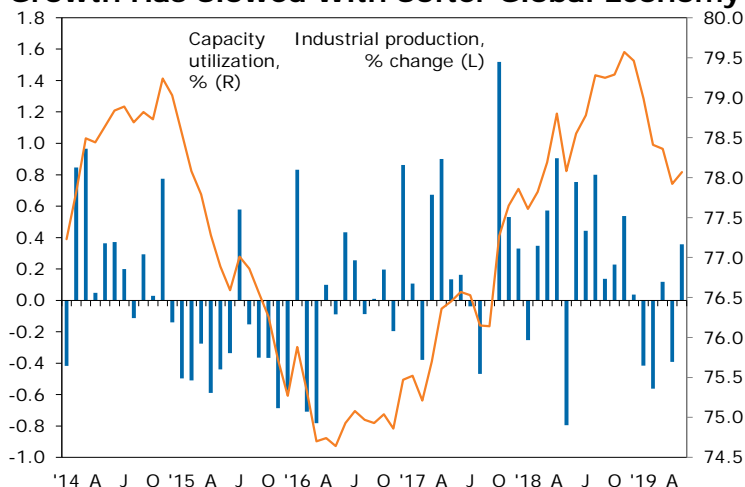
Support to economic growth will come this year from lower interest rates. The Federal Open Market Committee looks poised to cut the federal funds rate at the end of July, and PNC expects another rate cut in October, which would bring the fed funds rate from its current range of 2.25 to 2.50 percent to a range of 1.75 to 2.00 percent by the end of 2019. These precautionary rate cuts will help reduce the risk of recession and offset any potential negative shocks to the U.S. economy.

With monetary policy turning modestly positive for growth, the current U.S. expansion will last at least into 2020. However, with fading fiscal stimulus and a tight labor market, real GDP growth will slow throughout this year and next. Monthly job growth will slow to around 140,000 late this year and below 100,000 by the end of 2020 because of the tight labor market. The unemployment rate may fall a bit in the second half of 2019, but will eventually start to increase with slower U.S. growth, settling in over the longer run at somewhat above 4 percent.

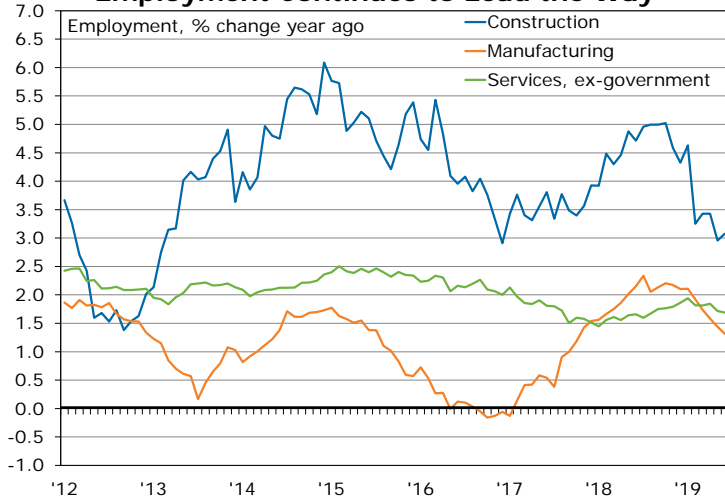
**Unemployment Rate Up Slightly in June, But Still Near Decades-Long Low**



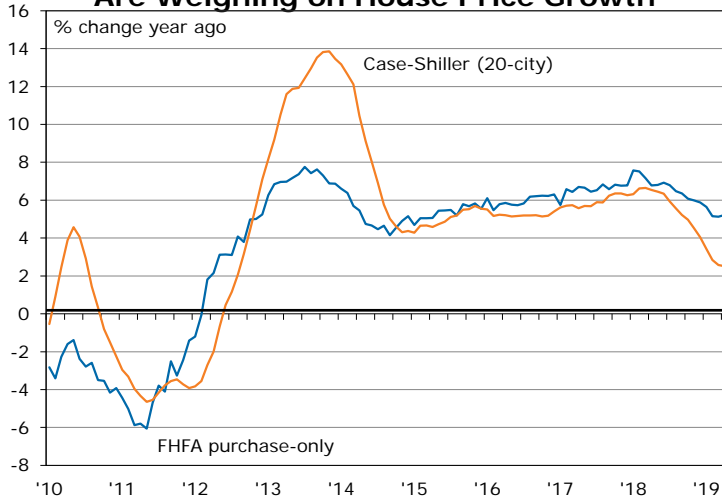
**U.S. Industrial Sector Still Expanding, But Growth Has Slowed With Softer Global Economy**



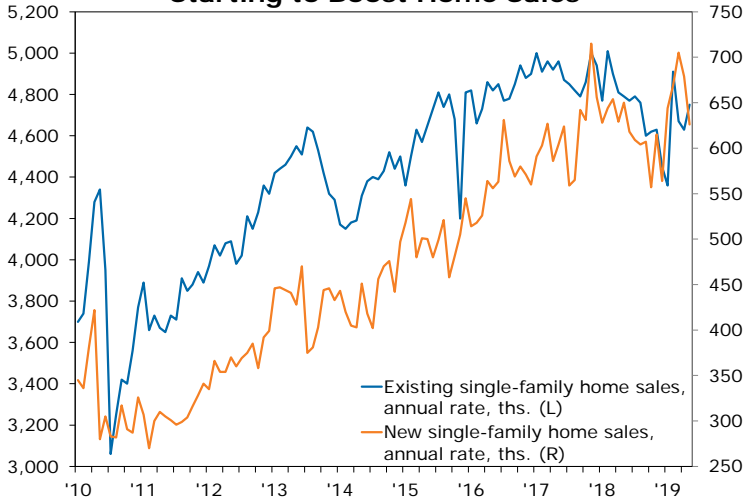
**Even With Drag from Retail, Services Employment Continues to Lead the Way**



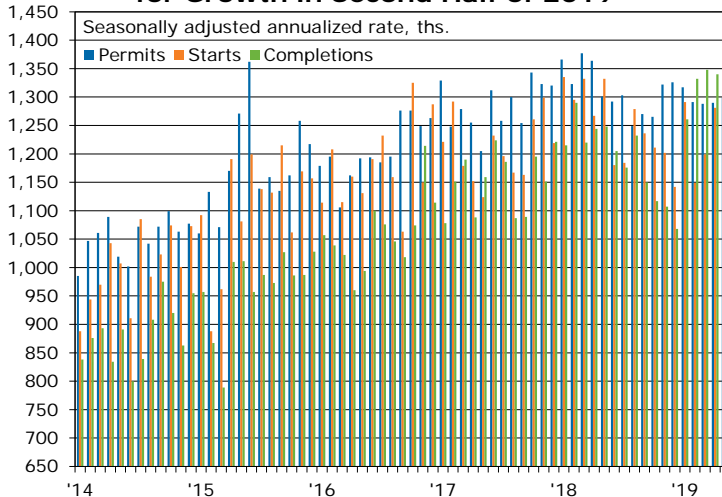
**Reduced Tax Incentives for Homeownership Are Weighing on House Price Growth**



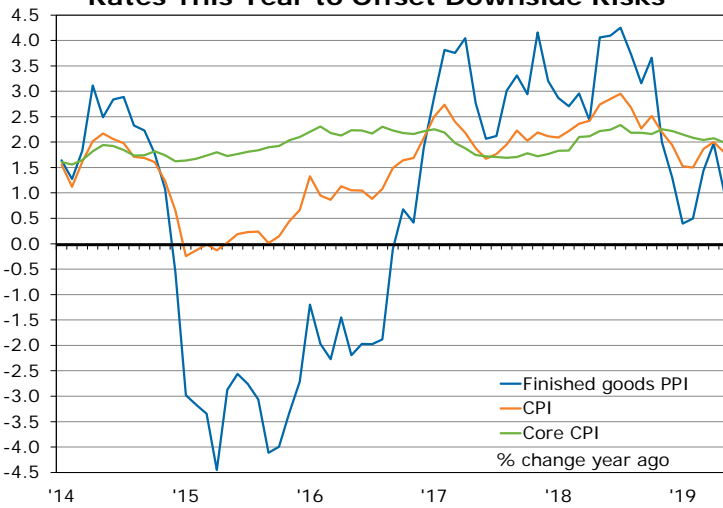
**Lower Mortgage Rates Are Starting to Boost Home Sales**



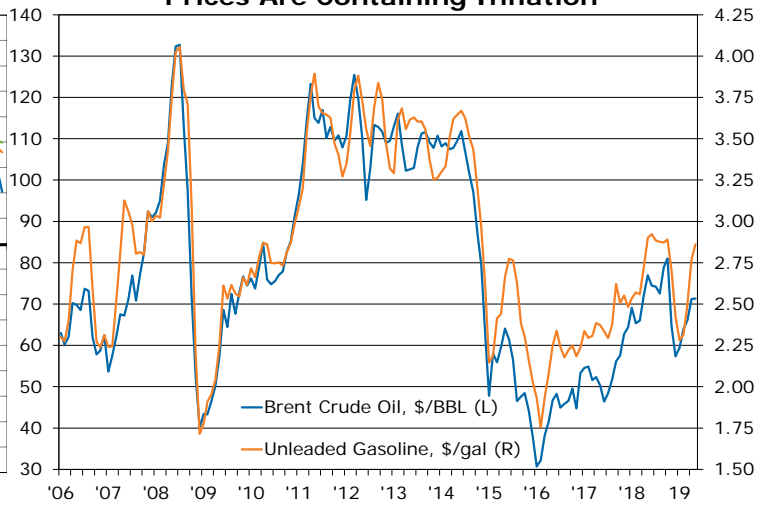
**Homebuilding Will Be a Positive for Growth in Second Half of 2019**



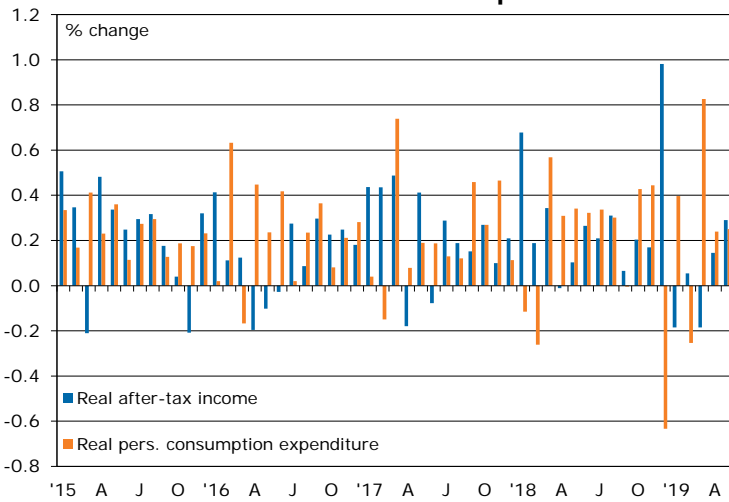
**With Inflation Slowing in 2019, Fed Will Cut Rates This Year to Offset Downside Risks**



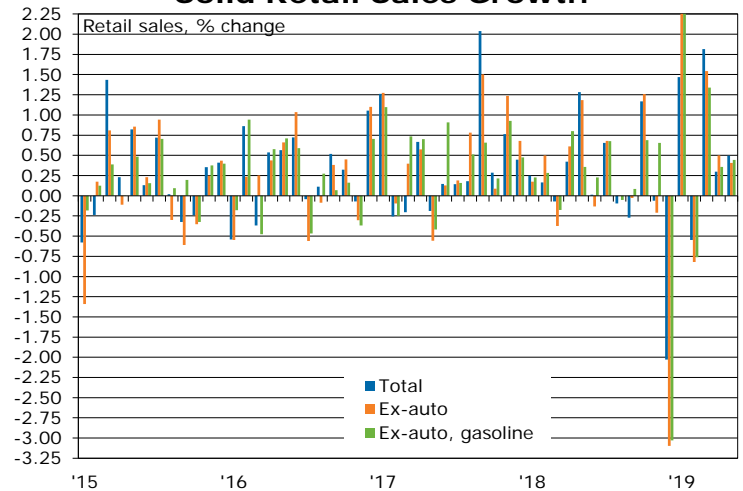
**Falling Year-Over-Year Energy Prices Are Containing Inflation**



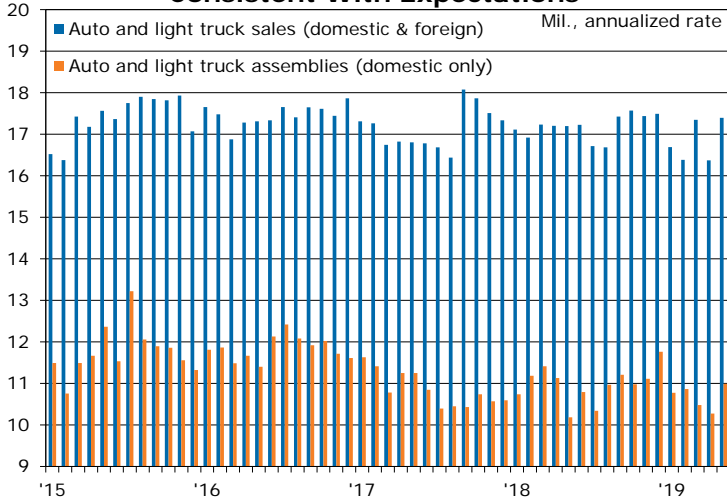
**Rising Household Incomes Are Key to Continued Economic Expansion**



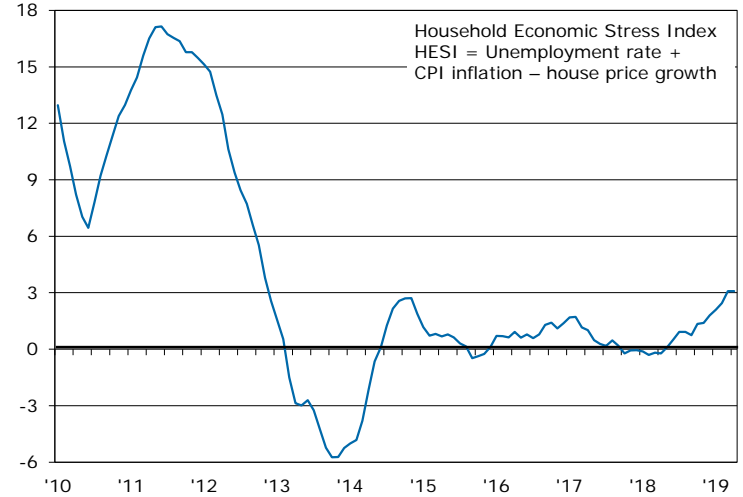
**Three Straight Months of Solid Retail Sales Growth**



**Modest Slowing in 2019 Auto Sales, Consistent With Expectations**



**Very Low Household Stress Despite Slower House Price Growth**



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PNC Economics Group  
July, 2019

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

	1Q'19a	2Q'19p	3Q'19f	4Q'19f	1Q'20f	2Q'20f	3Q'20f	4Q'20f	2018a	2019f	2020f	2021f
<b>Output</b>												
Nominal GDP (Billions \$)	21060	21280	21492	21696	21907	22112	22315	22515	20494	21382	22212	23051
Percent Change Annualized	3.8	4.3	4.0	3.8	4.0	3.8	3.7	3.6	5.2	4.3	3.9	3.8
Real GDP (Chained 2012 Billions \$)	18910	19003	19103	19188	19277	19360	19439	19514	18566	19051	19398	19712
Percent Change Annualized	3.1	2.0	2.1	1.8	1.9	1.7	1.7	1.6	2.9	2.6	1.8	1.6
Pers. Consumption Expenditures	13062	13147	13222	13293	13356	13418	13472	13523	12888	13181	13442	13658
Percent Change Annualized	0.9	2.6	2.3	2.2	1.9	1.9	1.6	1.5	2.6	2.3	2.0	1.6
Nonresidential Fixed Investment	2794	2835	2863	2878	2896	2910	2923	2935	2714	2842	2916	2976
Percent Change Annualized	4.4	6.1	3.9	2.1	2.6	1.9	1.8	1.8	6.9	4.7	2.6	2.1
Residential Investment	597	604	610	614	618	620	624	628	609	606	622	636
Percent Change Annualized	-2.0	4.2	4.3	2.7	2.5	1.6	2.3	2.5	-0.3	-0.5	2.7	2.2
Change in Private Inventories	123	64	43	28	27	23	22	21	45	64	23	28
Net Exports	-905	-913	-922	-933	-937	-933	-925	-919	-912	-918	-929	-913
Government Expenditures	3211	3237	3259	3280	3289	3294	3296	3297	3176	3247	3294	3298
Percent Change Annualized	2.8	3.3	2.7	2.6	1.0	0.6	0.3	0.1	1.5	2.2	1.4	0.1
Industrial Prod. Index (2012 = 100)	109.7	110.8	111.2	111.4	111.7	111.9	112.0	112.1	108.6	110.8	111.9	112.4
Percent Change Annualized	-2.2	3.9	1.6	0.6	0.9	0.7	0.4	0.4	3.9	2.0	1.0	0.4
Capacity Utilization (Percent)	78.6	79.3	79.6	79.7	79.9	80.1	80.2	80.3	78.7	79.3	80.1	80.5
<b>Prices</b>												
CPI (1982-84 = 100)	253.3	255.3	256.8	258.2	259.6	260.9	262.3	263.7	251.1	255.9	261.6	267.2
Percent Change Annualized	0.9	3.2	2.4	2.1	2.2	2.1	2.1	2.1	2.4	1.9	2.2	2.1
Core CPI Index (1982-84 = 100)	261.0	262.3	263.6	264.9	266.3	267.7	269.1	270.6	257.6	263.0	268.5	274.2
Percent Change Annualized	2.3	2.0	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
PCE Price Index (2012 = 100)	109.0	109.8	110.3	110.8	111.3	111.8	112.2	112.8	108.2	110.0	112.0	114.1
Percent Change Annualized	0.5	2.8	1.8	1.8	1.8	1.8	1.8	1.8	2.0	1.6	1.9	1.9
Core PCE Price Index (2012 = 100)	111.1	111.6	112.0	112.5	113.0	113.6	114.1	114.6	110.0	111.8	113.8	116.0
Percent Change Annualized	1.2	1.8	1.8	1.8	1.8	1.9	1.9	1.9	1.9	1.6	1.8	2.0
GDP Price Index (2012 = 100)	111.4	112.0	112.5	113.1	113.6	114.2	114.8	115.4	110.4	112.2	114.5	116.9
Percent Change Annualized	0.6	2.2	1.9	2.0	2.1	2.0	2.0	2.1	2.3	1.7	2.0	2.1
Crude Oil, WTI (\$/Barrel)	54.7	60.0	63.6	64.3	64.9	65.5	66.3	67.2	64.8	60.6	66.0	69.3
<b>Labor Markets</b>												
Payroll Jobs (Millions)	150.7	151.1	151.5	151.8	152.1	152.3	152.5	152.8	149.1	151.3	152.4	153.4
Percent Change Annualized	1.7	1.2	1.0	0.7	0.7	0.6	0.6	0.6	1.7	1.5	0.8	0.7
Unemployment Rate (Percent)	3.9	3.6	3.6	3.7	3.7	3.7	3.8	3.8	3.8	3.7	3.8	4.0
Average Weekly Hours, Prod. Works.	33.7	33.6	33.7	33.7	33.7	33.7	33.6	33.6	33.7	33.7	33.7	33.6
<b>Personal Income</b>												
Average Hourly Earnings (\$)	23.18	23.37	23.56	23.75	23.94	24.14	24.32	24.51	22.70	23.47	24.23	24.99
Percent Change Annualized	3.2	3.4	3.2	3.3	3.3	3.3	3.2	3.2	3.0	3.4	3.3	3.1
Real Disp. Income (2012 Billions \$)	14561	14608	14691	14770	14839	14904	14961	15016	14341	14657	14930	15153
Percent Change Annualized	2.0	1.3	2.3	2.2	1.9	1.8	1.6	1.5	2.8	2.2	1.9	1.5
<b>Housing</b>												
Housing Starts (Ths., Ann. Rate)	1213	1236	1259	1258	1254	1245	1252	1261	1250	1241	1253	1281
Ext. Home Sales (Ths., Ann Rate)	5207	5286	5380	5476	5553	5548	5581	5606	5341	5337	5572	5625
New SF Home Sales (Ths., Ann Rate)	673	685	700	701	700	692	695	698	615	690	696	703
Case/Shiller HPI (Jan. 2000 = 100)	207.3	208.9	210.9	213.0	215.0	216.9	218.9	220.9	205.8	213.0	220.9	228.6
Percent Change Year Ago	3.9	3.5	3.6	3.5	3.7	3.8	3.8	3.7	4.9	3.5	3.7	3.5
<b>Consumer</b>												
Household Economic Stress Index	1.6	2.0	2.0	2.3	2.5	2.1	2.1	2.2	0.5	2.0	2.2	2.4
Auto Sales (Millions)	16.8	17.0	17.0	17.1	17.2	17.1	17.1	17.0	17.2	17.0	17.1	16.9
Consumer Credit (Billions \$)	4052	4087	4126	4167	4205	4244	4285	4326	4009	4167	4326	4500
Percent Change Year Ago	5.0	4.8	4.3	3.9	3.8	3.8	3.9	3.8	4.7	3.9	3.8	4.0
<b>Interest Rates (Percent)</b>												
Prime Rate	5.50	5.50	5.33	5.08	5.00	5.00	5.00	5.00	4.90	5.35	5.00	5.20
Federal Funds	2.40	2.40	2.21	1.96	1.88	1.88	1.88	1.88	1.83	2.24	1.88	2.08
3-Month Treasury Bill	2.42	2.33	2.06	1.75	1.72	1.72	1.72	1.72	1.95	2.14	1.72	1.89
10-Year Treasury Note	2.65	2.33	2.06	2.19	2.21	2.21	2.23	2.28	2.91	2.31	2.23	2.53
30-Year Fixed Mortgage	4.37	4.01	3.79	3.93	3.94	3.93	3.93	3.96	4.54	4.02	3.94	4.16
a = actual f = forecast p = preliminary												

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