

# NATIONAL ECONOMIC OUTLOOK

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## Executive Summary

### **Solid GDP Growth in the Third Quarter; October Job Growth Was Good, Even With GM Strike**

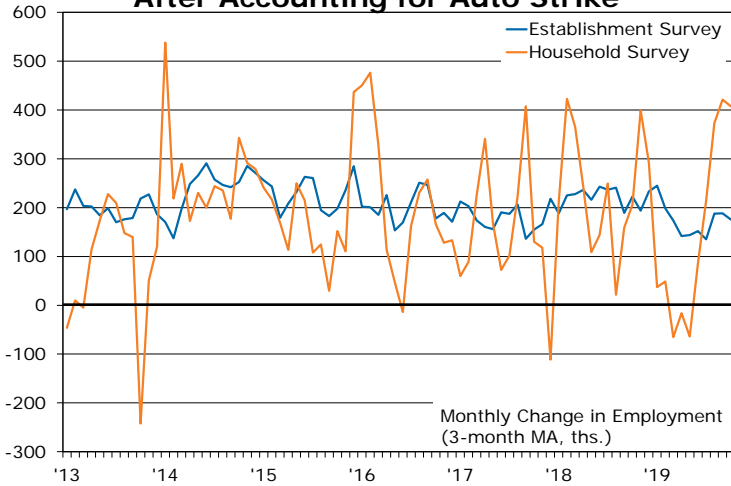
- Real GDP growth was 1.9 percent at an annual rate in the third quarter, according to the advance estimate from the Bureau of Economic Analysis. On a year-over-year basis real GDP growth was 2.0 percent in the third quarter, down from above 3 percent in the middle of 2018. Consumer spending growth remains solid thanks to job gains and rising wages. But business fixed investment fell in the second and third quarters of 2019 due to uncertainty surrounding trade, as well as the ongoing problems at Boeing. However, residential investment, primarily homebuilding and renovations, rose a strong 5.1 percent annualized in the third quarter in response to lower mortgage rates, the first increase in seven quarters.
- Job growth was 128,000 in October, well above the consensus expectation of 85,000. Job growth was solid despite the autoworkers' strike against GM; employment in motor vehicle and parts manufacturing fell by 42,000 over the month. There were also very large upward revisions to job growth in August and September of a combined 95,000. Despite the GM strike job growth has averaged 176,000 over the past three months, above the pace of 168,000 per month in the year through March 2019, taking into account preliminary revisions. Returning GM workers will boost employment in November. The unemployment rate rose a bit to 3.6 percent in October; September's 3.5 percent rate was the lowest since December 1969. The details behind the increase in the unemployment rate were positive, with increases in both employment in the household survey (different from the survey of employers) and in the labor force. Average hourly earnings were up 3.0 percent in October from one year earlier, as the tight labor market leads to pay hikes.
- As widely expected, the Federal Open Market Committee reduced the fed funds rate on October 30 by 0.25 percentage point, to a range of 1.50 to 1.75 percent. This was the third consecutive FOMC meeting (since late July) with a 0.25 percentage point cut in the funds rate. The rate is now down to its lowest level since the spring of 2018, when the central bank was gradually tightening monetary policy. With the recent cuts to the fed funds rate monetary policy is now a mild positive for economic growth. Fed officials have signaled that they do not expect to cut the fed funds rate again in the near term.

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

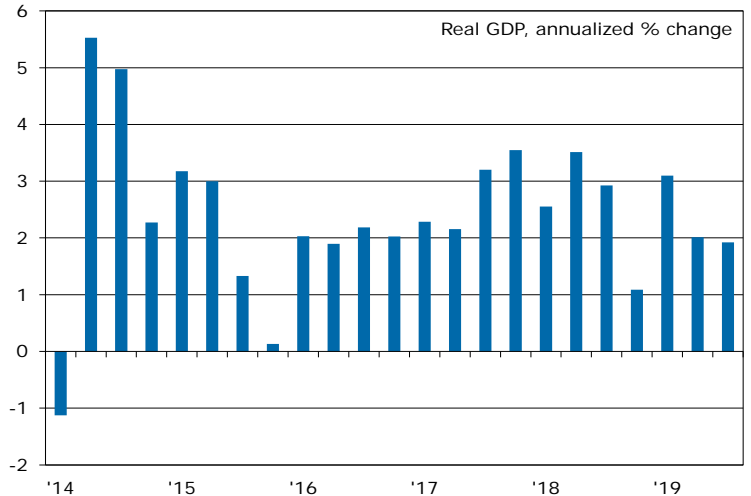
	3Q'19p	4Q'19f	1Q'20f	2Q'20f	3Q'20f	4Q'20f	1Q'21f	2018a	2019f	2020f	2021f
<b>Output &amp; Prices</b>											
Real GDP (Chained 2012 Billions \$)	19113	19197	19273	19346	19436	19538	19640	18638	19065	19398	19778
Percent Change Annualized	1.9	1.8	1.6	1.5	1.9	2.1	2.1	2.9	2.3	1.8	2.0
CPI (1982-84 = 100)	256.3	257.5	258.6	259.7	260.9	262.2	263.5	251.1	255.6	260.4	265.7
Percent Change Annualized	1.8	2.0	1.7	1.7	1.9	2.0	2.1	2.4	1.8	1.9	2.0
<b>Labor Markets</b>											
Payroll Jobs (Millions)	151.6	152.0	152.3	152.5	152.7	153.0	153.4	149.1	151.4	152.6	153.8
Percent Change Annualized	1.4	1.1	0.7	0.5	0.6	0.8	0.9	1.7	1.5	0.8	0.8
Unemployment Rate (Percent)	3.6	3.6	3.7	3.7	3.8	3.8	3.8	3.8	3.6	3.8	3.8
<b>Interest Rates (Percent)</b>											
Federal Funds	2.18	1.68	1.60	1.60	1.60	1.60	1.60	1.78	2.15	1.60	1.60
Treasury Note, 10-year	1.80	1.82	1.89	1.91	1.92	1.94	1.95	2.91	2.15	1.92	1.97
a = actual    f = forecast    p = preliminary    *Please see the Expanded Table for more forecast series.											



## Good October Job Growth, Especially After Accounting for Auto Strike



## Slower But Still-Solid Growth in the Third Quarter



## Strong Consumer Fundamentals Will Support a Good Holiday Sales Season

Households are in good financial shape heading into the end of 2019 and continue to boost their spending. With the current economic expansion now the longest in U.S. history and the unemployment rate near a 50-year low, the strong job market is the biggest positive for the economy. Holiday sales should be up by about 4.5 percent this year compared to 2018, although risks are weighted to the downside. With inflation low most of the gain will come from greater sales volumes, as opposed to higher prices.

The biggest driver of solid holiday sales growth in 2019 will be the strong labor market. Job growth has slowed over the past couple of years but is still running at a monthly pace of around 160,000 in the second half of this year, well above that needed to keep up with underlying growth in the labor force. As a result the job market continues to tighten. The unemployment rate hit a 50-year low of 3.5 percent in September, before increasing slightly to 3.6 percent in October. Other measures, including PNC's fall 2019 survey of small and mid-size business owners and executives, also indicate a very tight job market. The competition for workers is also boosting wages. According to the employment cost index, which measures labor costs and accounts for changes in the industrial and occupational mix of employment, and thus is a good measure of compensation growth for an individual worker, total wages and salaries were up 2.9 percent in the third quarter of 2019 from one year earlier, well above the pace of inflation. Other measures of compensation also show growth of around 3 percent over the past year. So not only are there more people working, but workers are also enjoying larger paychecks, even after adjusting for higher prices.

Another positive for consumer spending at the end of 2019 is record household wealth. House prices are at an all-time high, and have increased about 4 percent over the past year, while the stock market is near a record high. Greater wealth gives households, particularly stock-holding households, more spending power. Other positives for holiday sales are low interest rates, a high household savings rate, low household debt relative to income, and decent access to credit.

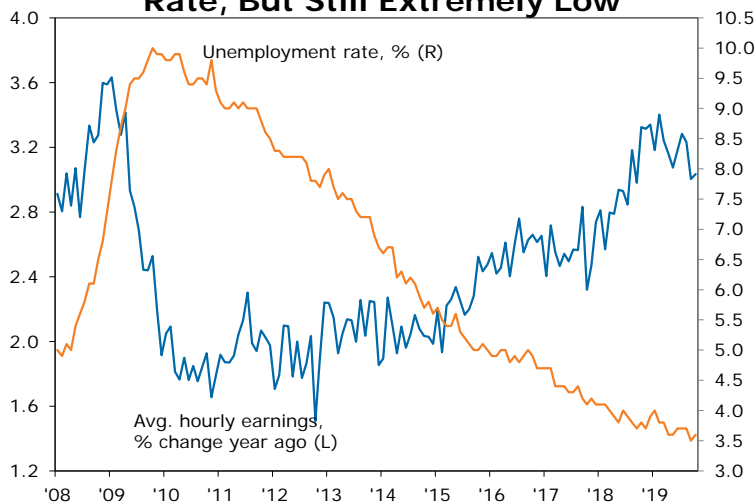
There are some negatives for consumers, however, many of them tied to the ongoing U.S.-China trade war. Manufacturing is weak at the end of the year due to slower global growth, a strong U.S. dollar, and the trade dispute and associated business uncertainty. Consumer confidence fell in November, although it remains very high on an historical basis. Another negative is the fading impact of the 2018 personal income tax cut. And while there is little hard data yet on the impact of new tariffs on the prices of imports from China, higher costs for imported goods could be a drag on holiday spending. Overall inflation remains quite low, however, with prices for durable goods down over the past year, and prices for nondurable goods basically flat. One potential downside for holiday spending is a shorter sales season given this year's late Thanksgiving.

With the positives for consumers far outweighing the negatives, PNC expects holiday sales to be up 4.5 percent in 2019 compared to 2018. This will outpace sales growth of around 4 percent last year, but lag the more than 5 percent increase in 2017. About 4 percentage points of the increase in sales this year will come from greater volumes, with inflation accounting for just 0.5 percentage point. As in previous years, growth will be much stronger for internet retailers than for traditional brick-and-mortar stores.

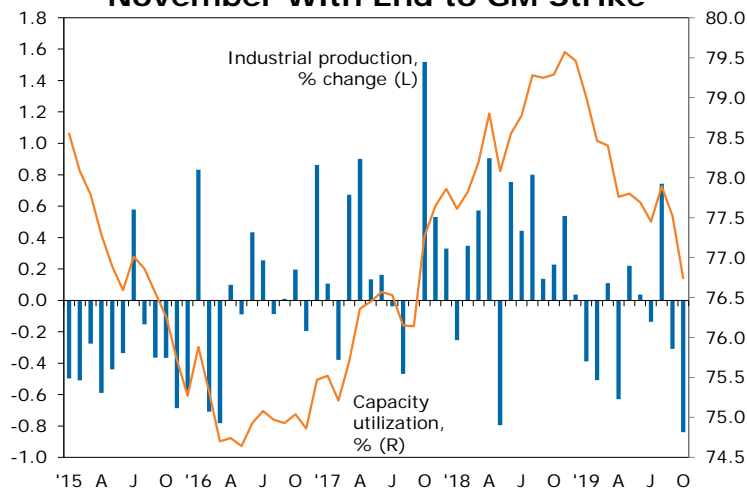
With consumers still in good shape, the current economic expansion which is already the longest in U.S. history, will last well into 2020. Growth will slow in the near term, however, due to trade and related uncertainties and a weaker global expansion. Real GDP growth will soften from its current 2 percent pace to around 1.7 percent on a year-over-year basis in mid-2020. Monthly job growth will slow to around 70,000 by mid-2020, then gradually pick back up. The unemployment rate will remain very low, but increase slightly as economic growth slows, ending this year at 3.6 percent and next year at 3.8 percent. With monetary policy slightly stimulative for growth the Federal Open Market Committee will keep the fed funds rate in its current range of 1.50 to 1.75 percent throughout 2020. Risks are weighted to the downside, although a quick resolution to the U.S.-China trade war is a significant upside risk.

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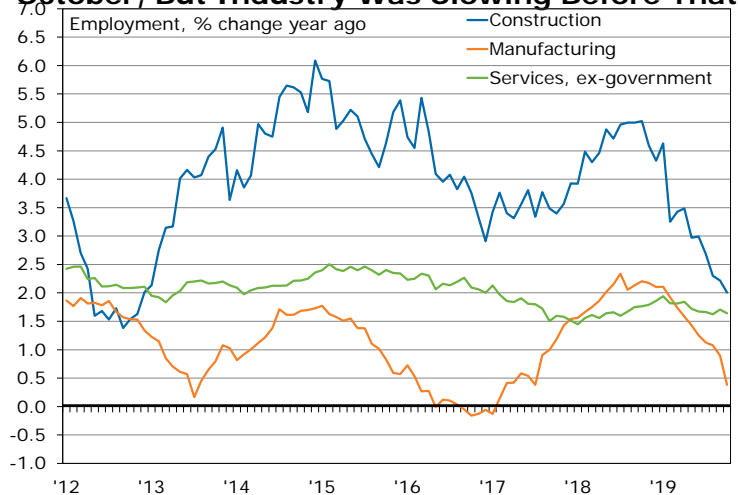
## Slightly Higher October Unemployment Rate, But Still Extremely Low



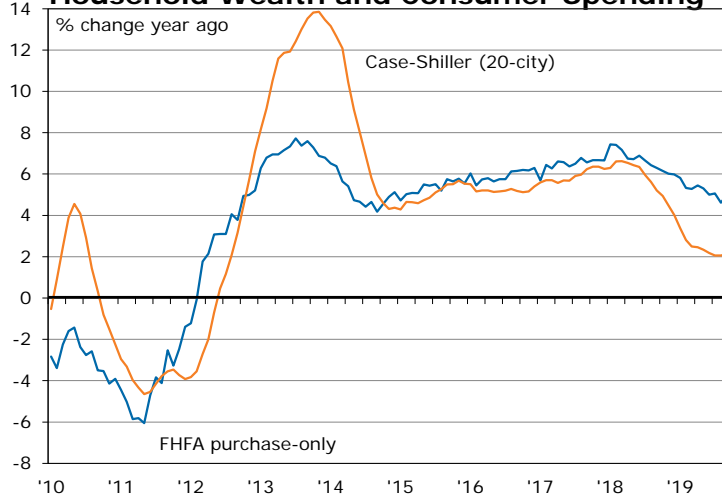
## Industrial Output Should Rebound in November With End to GM Strike



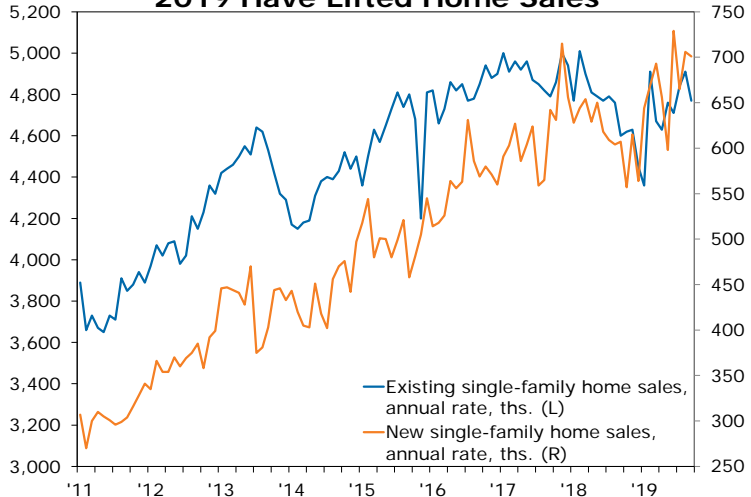
## Auto Strike a Drag on Manufacturing Jobs in October, But Industry Was Slowing Before That



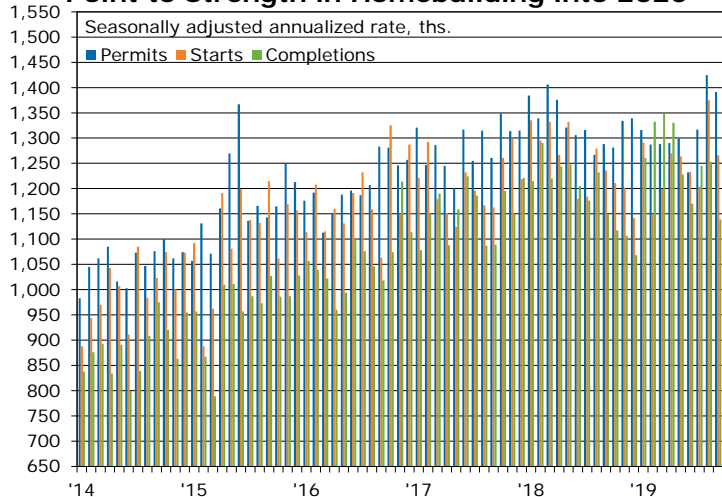
## Moderate Growth in House Prices Is Good for Household Wealth and Consumer Spending



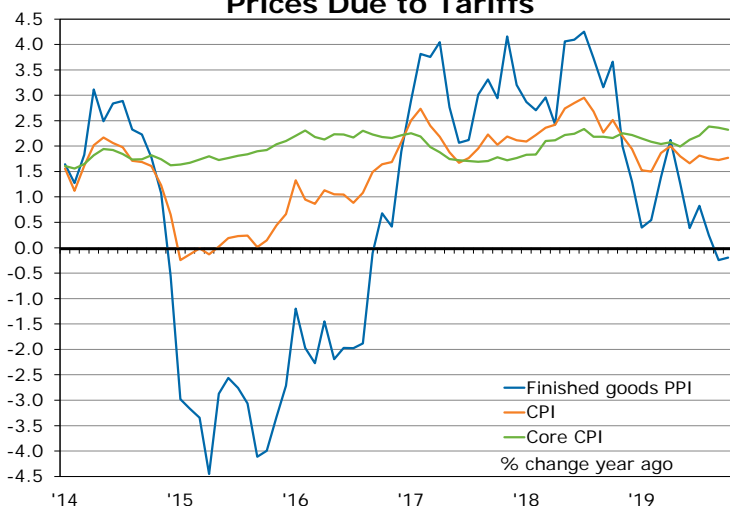
## Lower Mortgage Rates in 2019 Have Lifted Home Sales



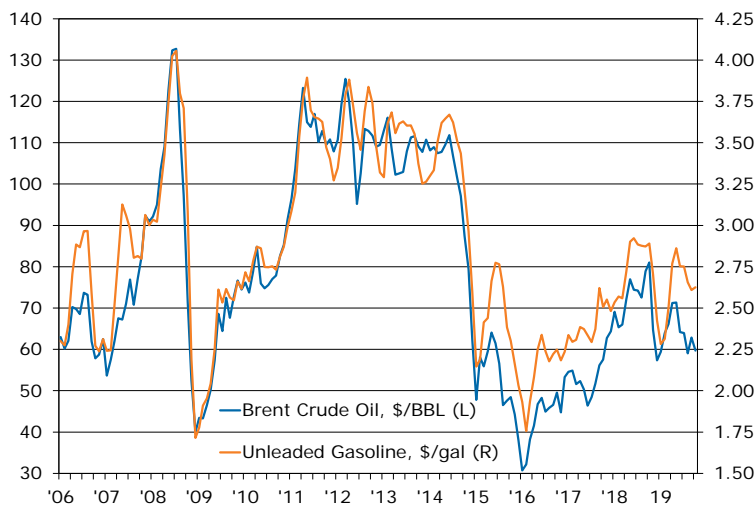
## Higher Construction Permits in Late 2019 Point to Strength in Homebuilding into 2020



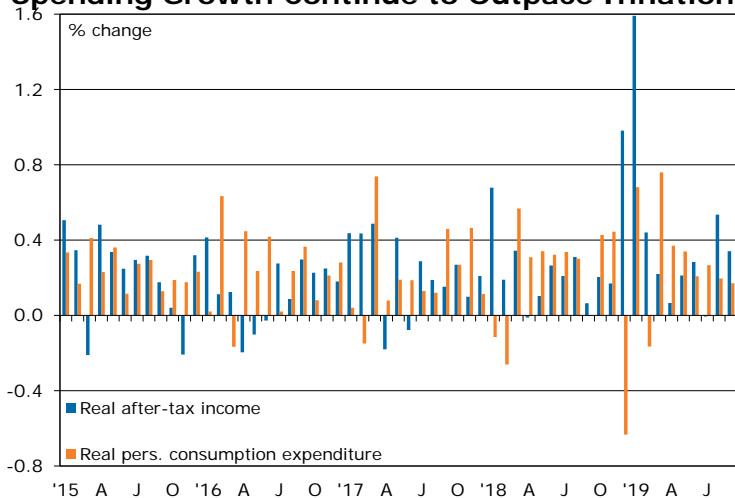
## No Sign Yet of Higher Consumer Prices Due to Tariffs



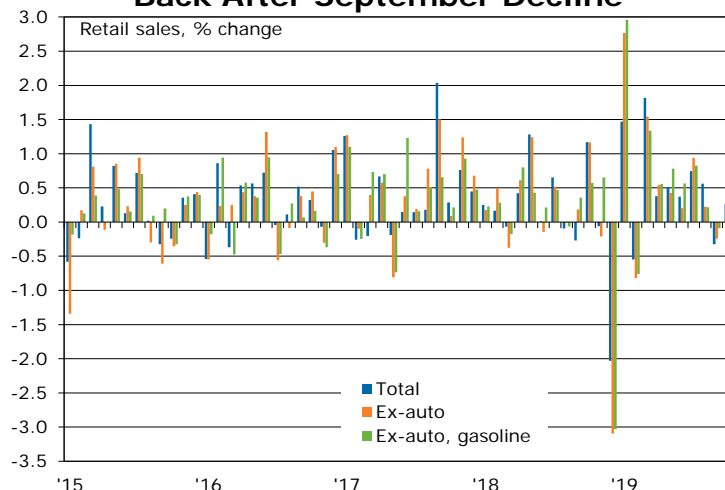
## Low Energy Prices Are Containing Overall Inflation



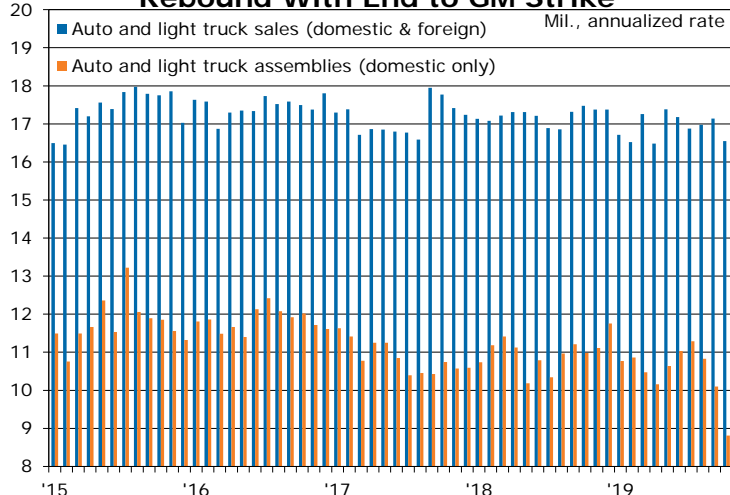
## With Strong Job Market, Consumer Income and Spending Growth Continue to Outpace Inflation



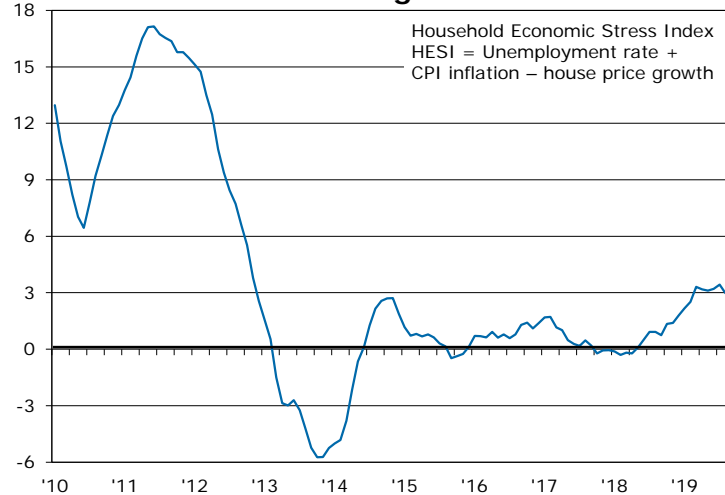
## October Retail Sales Bounced Back After September Decline



## Auto Production Will Quickly Rebound With End to GM Strike



## Household Economic Stress Index Not Indicating Recession



# NATIONAL ECONOMIC OUTLOOK

PNC Economics Group  
November 2019

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

	3Q'19p	4Q'19f	1Q'20f	2Q'20f	3Q'20f	4Q'20f	1Q'21f	2018a	2019f	2020f	2021f
<b>Output</b>											
Nominal GDP (Billions \$)	21526	21706	21889	22070	22273	22494	22727	20580	21418	22181	23069
Percent Change Annualized	3.5	3.4	3.4	3.3	3.7	4.0	4.2	5.4	4.1	3.6	4.0
Real GDP (Chained 2012 Billions \$)	19113	19197	19273	19346	19436	19538	19640	18638	19065	19398	19778
Percent Change Annualized	1.9	1.8	1.6	1.5	1.9	2.1	2.1	2.9	2.3	1.8	2.0
Pers. Consumption Expenditures	13344	13396	13447	13504	13562	13626	13692	12945	13273	13535	13783
Percent Change Annualized	2.9	1.6	1.5	1.7	1.7	1.9	2.0	3.0	2.5	2.0	1.8
Nonresidential Fixed Investment	2738	2743	2757	2769	2782	2798	2817	2692	2751	2776	2847
Percent Change Annualized	-3.0	0.8	1.9	1.7	2.0	2.3	2.7	6.4	2.2	0.9	2.5
Residential Investment	594	602	610	613	614	614	616	603	594	613	620
Percent Change Annualized	5.1	5.6	5.3	2.2	0.1	0.1	1.4	-1.5	-1.5	3.2	1.1
Change in Private Inventories	69	39	31	21	27	35	43	48	73	29	47
Net Exports	-986	-961	-958	-954	-946	-941	-943	-920	-968	-950	-948
Government Expenditures	3313	3336	3345	3351	3356	3365	3374	3224	3301	3354	3389
Percent Change Annualized	2.0	2.9	1.1	0.7	0.6	1.1	1.0	1.7	2.4	1.6	1.0
Industrial Prod. Index (2012 = 100)	109.5	109.4	109.8	110.2	110.5	111.0	111.3	108.6	109.5	110.4	111.8
Percent Change Annualized	1.2	-0.5	1.5	1.3	1.4	1.5	1.3	3.9	0.8	0.8	1.3
Capacity Utilization (Percent)	77.6	77.5	77.8	78.1	78.4	78.8	79.1	78.7	77.9	78.3	79.5
<b>Prices</b>											
CPI (1982-84 = 100)	256.3	257.5	258.6	259.7	260.9	262.2	263.5	251.1	255.6	260.4	265.7
Percent Change Annualized	1.8	2.0	1.7	1.7	1.9	2.0	2.1	2.4	1.8	1.9	2.0
Core CPI Index (1982-84 = 100)	264.1	265.5	266.9	268.1	269.4	270.8	272.3	257.6	263.2	268.8	274.5
Percent Change Annualized	3.0	2.1	2.1	1.9	2.0	2.1	2.1	2.1	2.2	2.1	2.1
PCE Price Index (2012 = 100)	109.9	110.4	110.8	111.3	111.7	112.2	112.7	108.1	109.7	111.5	113.5
Percent Change Annualized	1.5	1.8	1.4	1.5	1.6	1.7	1.9	2.1	1.4	1.6	1.8
Core PCE Price Index (2012 = 100)	112.0	112.5	113.1	113.6	114.1	114.6	115.2	109.9	111.7	113.8	116.0
Percent Change Annualized	2.2	1.9	2.0	1.7	1.8	1.8	2.0	1.9	1.7	1.9	1.9
GDP Price Index (2012 = 100)	112.6	113.1	113.6	114.1	114.6	115.1	115.7	110.4	112.3	114.3	116.6
Percent Change Annualized	1.6	1.6	1.8	1.8	1.8	1.9	2.1	2.4	1.7	1.8	2.0
Crude Oil, WTI (\$/Barrel)	56.4	57.2	57.0	56.7	57.0	57.4	58.0	64.8	57.1	57.0	59.0
<b>Labor Markets</b>											
Payroll Jobs (Millions)	151.6	152.0	152.3	152.5	152.7	153.0	153.4	149.1	151.4	152.6	153.8
Percent Change Annualized	1.4	1.1	0.7	0.5	0.6	0.8	0.9	1.7	1.5	0.8	0.8
Unemployment Rate (Percent)	3.6	3.6	3.7	3.7	3.8	3.8	3.8	3.8	3.6	3.8	3.8
Average Weekly Hours, Prod. Works.	33.6	33.5	33.5	33.5	33.5	33.5	33.5	33.7	33.6	33.5	33.5
<b>Personal Income</b>											
Average Hourly Earnings (\$)	23.59	23.80	24.00	24.21	24.41	24.61	24.81	22.70	23.48	24.31	25.10
Percent Change Annualized	3.8	3.6	3.5	3.4	3.3	3.3	3.3	3.0	3.4	3.5	3.3
Real Disp. Income (2012 Billions \$)	15075	15154	15240	15316	15386	15455	15521	14556	15019	15349	15620
Percent Change Annualized	2.9	2.1	2.3	2.0	1.8	1.8	1.7	4.0	3.2	2.2	1.8
<b>Housing</b>											
Housing Starts (Ths., Ann. Rate)	1282	1379	1404	1421	1423	1411	1413	1250	1282	1415	1421
Ext. Home Sales (Ths., Ann. Rate)	5433	5505	5599	5610	5649	5691	5729	5341	5358	5637	5737
New SF Home Sales (Ths., Ann. Rate)	691	746	756	758	762	756	743	615	692	758	744
Case/Shiller HPI (Jan. 2000 = 100)	211.1	213.4	215.5	217.5	219.4	221.4	223.3	205.7	213.4	221.4	228.9
Percent Change Year Ago	3.6	3.7	4.0	4.2	4.0	3.7	3.6	4.9	3.7	3.7	3.4
<b>Consumer</b>											
Household Economic Stress Index	1.8	1.8	1.7	1.3	1.7	1.9	2.1	0.5	1.8	1.6	2.3
Auto Sales (Millions)	17.0	16.7	16.7	16.7	16.7	16.7	16.8	17.2	16.9	16.7	16.8
Consumer Credit (Billions \$)	4137	4174	4207	4241	4278	4318	4359	4010	4174	4318	4492
Percent Change Year Ago	4.6	4.1	3.8	3.4	3.4	3.5	3.6	4.7	4.1	3.5	4.0
<b>Interest Rates (Percent)</b>											
Prime Rate	5.30	4.83	4.75	4.75	4.75	4.75	4.75	4.90	5.28	4.75	4.75
Federal Funds	2.18	1.68	1.60	1.60	1.60	1.60	1.60	1.78	2.15	1.60	1.60
3-Month Treasury Bill	2.02	1.62	1.55	1.51	1.47	1.42	1.39	1.97	2.11	1.49	1.39
10-Year Treasury Note	1.80	1.82	1.89	1.91	1.92	1.94	1.95	2.91	2.15	1.92	1.97
30-Year Fixed Mortgage	3.66	3.73	3.75	3.73	3.71	3.69	3.66	4.54	3.94	3.72	3.59
a = actual f = forecast p = preliminary											

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