

NATIONAL ECONOMIC OUTLOOK

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Executive Summary

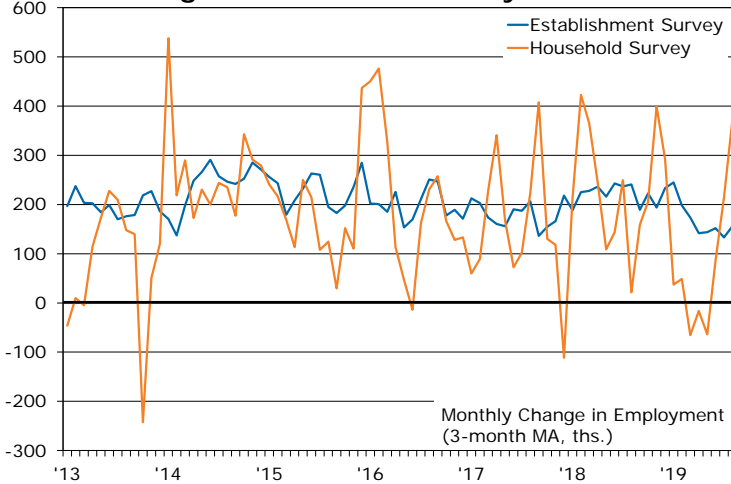
Job Growth Slows in August; Another Fed Rate Cut

- Job growth slowed in August to 130,000, and was also revised lower in June (178,000 jobs added) and July (159,000 jobs) by a combined 20,000. Job growth has averaged 156,000 over the past three months, down from 168,000 per month in the year through March 2019 (taking into account preliminary revisions). Private-sector job growth was soft in August at 96,000, down from an average of 124,000 in the previous three months. The unemployment rate held steady at 3.7 percent for a third straight month in August. Outside of a 3.6 percent rate in April and May, this is the lowest the unemployment rate has been in 50 years. One bright spot in August was income. Wage growth picked up as average hourly earnings rose 0.39 percent in August from July, the biggest one-month gain in a year. Wage growth was also revised higher in June and July. Year-over-year growth in wages was 3.2 percent in August, down from an upwardly revised 3.3 percent in July. Wage growth remains well above the pace of inflation.
- The Federal Open Market Committee cut the fed funds rate by 0.25 percentage point in mid-September, to a range of 1.75 to 2.00 percent. This followed a rate cut of the same size in late July. The September 18 FOMC statement noted that economic conditions remain solid, and that the most likely outcome is continued growth, but noted uncertainty about the outlook. Given this, and inflation that is lower than the central bank would like, the FOMC decided to cut the fed funds rate. In recent public statements Fed Chair Powell has discussed a “mid-cycle adjustment,” suggesting that the FOMC may cut rates a few times to support growth, but not engage in a full-blown easing cycle. There was more dissension than usual in September; one FOMC member favored a bigger rate cut, while two favored no rate cut.
- Housing data have been better in recent months. Housing starts rose 12 percent in August from July, including a 4 percent increase in single-family starts. Housing permits were also higher over the month, up 8 percent, including an almost 6 percent increase in single-family permits; this points to further increases in homebuilding in the near future. Existing home sales also rose in August. A decline in mortgage rates of more than one percentage point since the fall of 2018, as well as the good labor market, are boosting home sales and construction. Residential construction has been a negative for the economy for most of the past two years, but should contribute to growth in the third quarter.

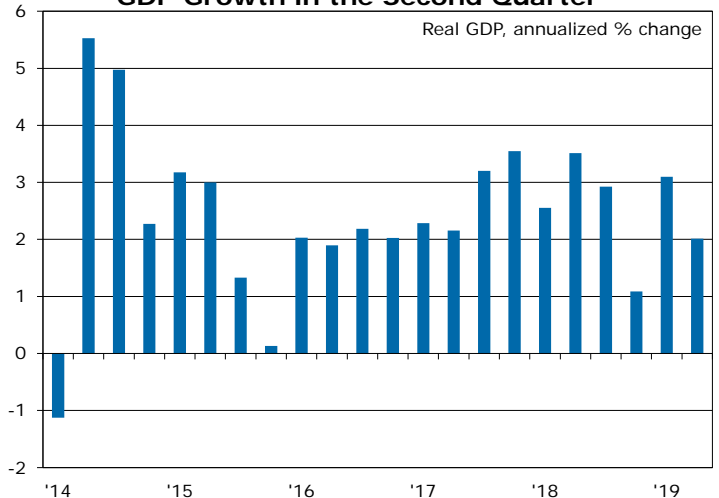
Baseline U.S. Economic Outlook, Summary Table*

	1Q'19a	2Q'19p	3Q'19f	4Q'19f	1Q'20f	2Q'20f	3Q'20f	4Q'20f	2018a	2019f	2020f	2021f
Output & Prices												
Real GDP (Chained 2012 Billions \$)	18927	19023	19126	19209	19278	19348	19434	19536	18638	19071	19399	19777
Percent Change Annualized	3.1	2.0	2.2	1.7	1.4	1.5	1.8	2.1	2.9	2.3	1.7	2.0
CPI (1982-84 = 100)	253.3	255.1	255.9	257.0	258.3	259.5	260.8	262.1	251.1	255.4	260.2	265.6
Percent Change Annualized	0.9	2.9	1.3	1.7	2.0	1.9	2.0	2.1	2.4	1.7	1.9	2.1
Labor Markets												
Payroll Jobs (Millions)	150.7	151.1	151.5	151.7	151.9	152.1	152.3	152.6	149.1	151.3	152.2	153.4
Percent Change Annualized	1.7	1.2	1.1	0.5	0.5	0.5	0.6	0.8	1.7	1.5	0.6	0.8
Unemployment Rate (Percent)	3.9	3.6	3.7	3.8	3.9	3.9	4.0	4.0	3.8	3.8	4.0	4.0
Interest Rates (Percent)												
Federal Funds	2.40	2.40	2.18	1.71	1.63	1.63	1.63	1.63	1.83	2.17	1.63	1.63
Treasury Note, 10-year	2.65	2.33	1.75	1.71	1.77	1.81	1.85	1.90	2.91	2.11	1.83	2.00
a = actual f = forecast p = preliminary *Please see the Expanded Table for more forecast series.												

Slower Job Growth This Year Still Enough to Push the Economy Forward



Consumers Lead Slower But Still Solid GDP Growth in the Second Quarter



Slower Near-Term Growth with Trade War, And Risks to the Outlook Are to the Downside

Global economic growth has slowed in 2019, and the trade war between the United States and China has intensified recently. In August President Trump announced higher tariffs on nearly all the \$510 billion of goods imports from China to the United States; some of the tariffs took effect on September 1, with others scheduled to take effect later this year. China responded with tariffs of its own on U.S. imports, as well as non-tariff barriers. Negotiations are ongoing and both sides have dialed back some of their actions and rhetoric, but the trade war will be a drag on U.S., global, and Chinese economic growth in the near term. Still, the current U.S. economic expansion, already the longest in history, is likely to continue at least into 2020.

On net the impact of the trade war on the U.S. economy will be negative. Some industries that face import competition will benefit. But the tariffs are a tax on imports from China, raising prices for households and businesses. These higher costs will weigh on consumer purchases of goods and services and business investment, not just on products from China, but on other products as well as higher prices reduce inflation-adjusted household income and corporate profits. At the same time higher Chinese tariffs will weigh on U.S. exports. The trade war could last much longer than the Trump administration expects. U.S. leverage over China is limited; exports from China to the U.S. over the last four quarters made up less than 4 percent of Chinese GDP, down from almost 9 percent in the middle of the last decade. Also, unlike in the U.S., the Chinese leadership does not have to face an electorate. And there is strong nationalist sentiment in China to take a hard line against the U.S. PNC's forecast assumes that there is no substantive trade deal between the U.S. and China until after the 2020 presidential election.

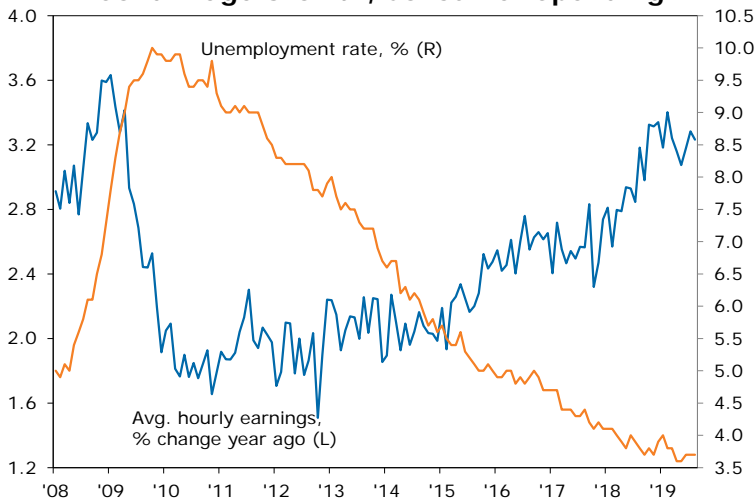
In addition to the direct effects, the unsettled outlook will be a weight on business spending, especially the longer it drags on. U.S. companies that import from China will be more reluctant to invest and hire if they don't know what tariffs will be and what prices they will be paying. Some companies will reconfigure their supply chains, sourcing imports from other countries, causing disruptions and raising costs.

Although the trade war will be a negative for the U.S. economy in the near term, the expansion should continue thanks to solid household fundamentals and support from the Federal Reserve; higher prices from the tariffs should only be a small speed bump. Consumer spending makes up more than two-thirds of the U.S. economy, and households are in excellent shape, with solid job growth and good wage gains as a result of the tight labor market. Overall consumer debt burdens are low, and the recent drop in interest rates will support household borrowing for big-ticket items. The housing market will be another positive for growth in the near term, with lower mortgage rates providing a boost.

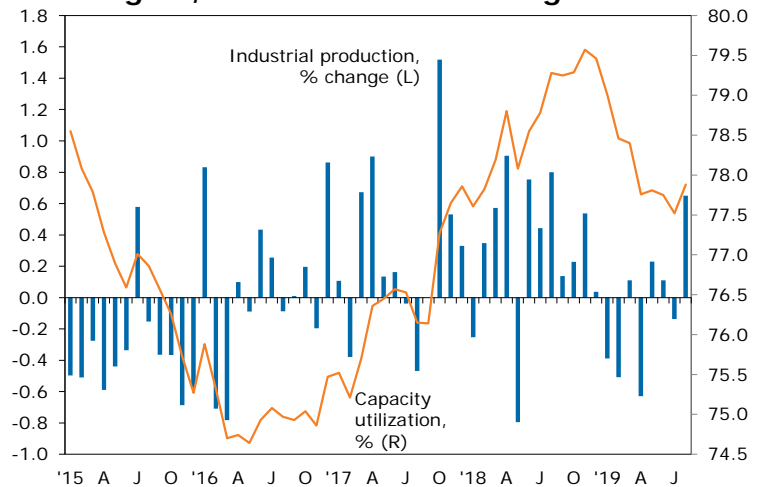
Still, there are major downside risks to the outlook. It is easy to see how miscalculations could cause the trade war to spiral out of control, causing much more significant damage to the U.S. and Chinese economies. A decision by the United Kingdom to leave the European Union without a withdrawal agreement could cause a worldwide recession, especially given already slowing global growth. And with impeachment heating up, political gridlock and uncertainty could cause U.S. consumers and businesses to pull back. PNC puts the risk of recession by the end of 2020 at a significant 40 percent, although the Trump administration has very strong incentives to pull out all the stops to avoid an economic contraction ahead of the 2020 election.

With the drag from the trade war and a fading boost from the 2018 tax cuts, real GDP growth will slow through the middle of 2020 to around 1.6 percent on a year-over-year basis, then reaccelerate in the second half of next year. Monthly job growth will slow to around 60,000 by mid-2020, then gradually pick back up. The unemployment rate will slowly increase, ending 2019 at around 3.8 percent and 2020 at around 4.0 percent. The Federal Open Market Committee will cut the fed funds rate one more time this year to guard against downside risks to the expansion, and then keep it in a range of 1.50 to 1.75 percent through 2020.

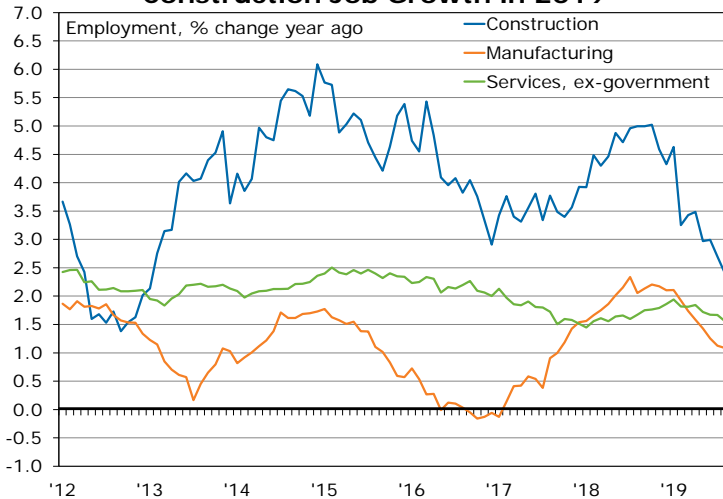
Tight Labor Market Is Supporting Solid Wage Growth, Consumer Spending



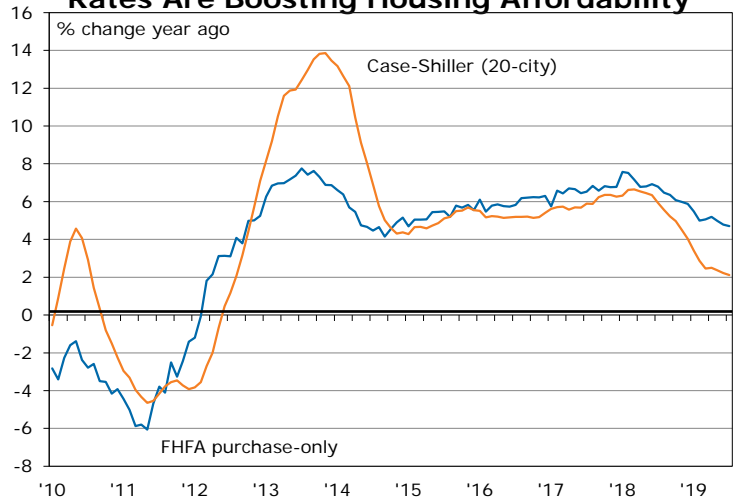
Solid Industrial Production Growth in August, But U.S. Manufacturing Is Soft



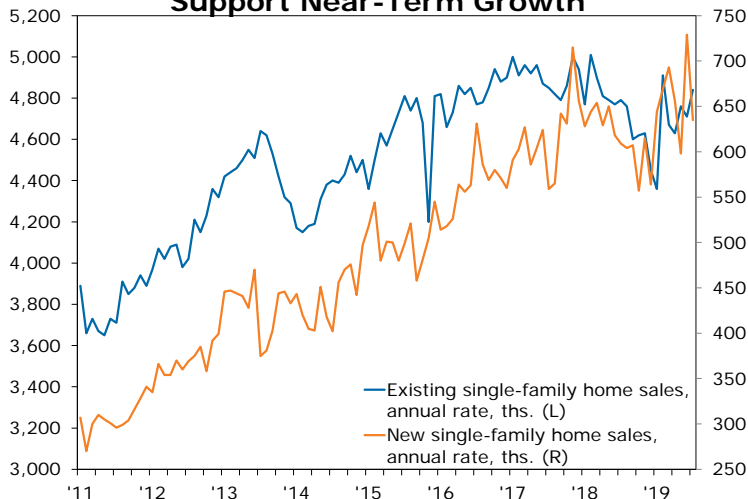
Significantly Slower Manufacturing, Construction Job Growth in 2019



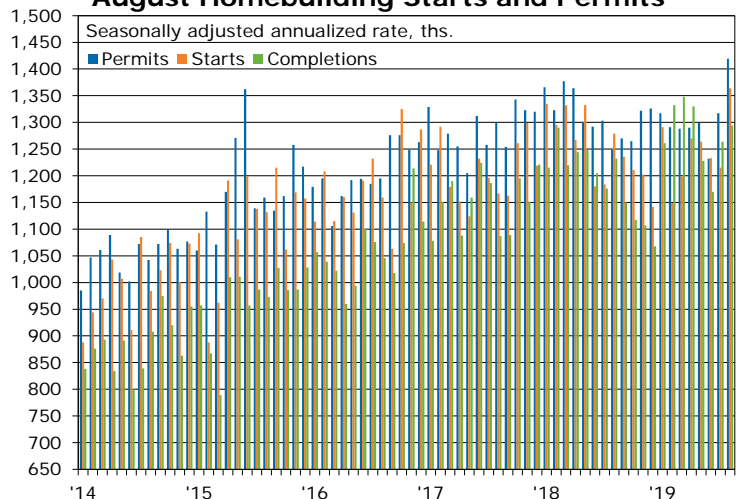
Slower House Price Growth, Lower Mortgage Rates Are Boosting Housing Affordability



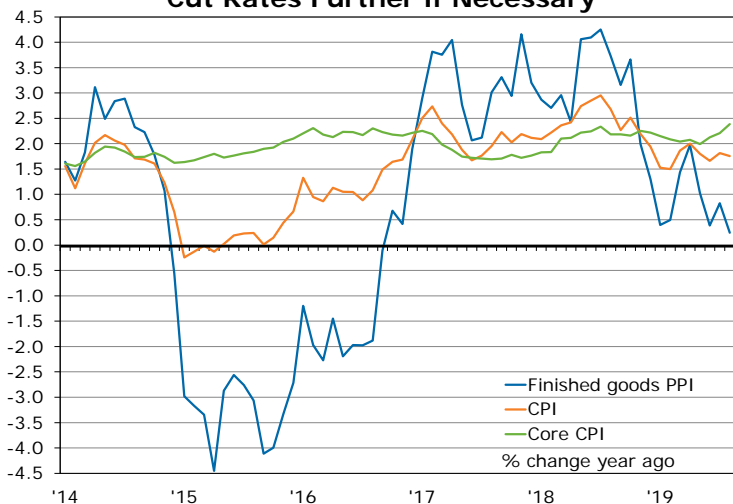
Rebound in Housing Will Support Near-Term Growth



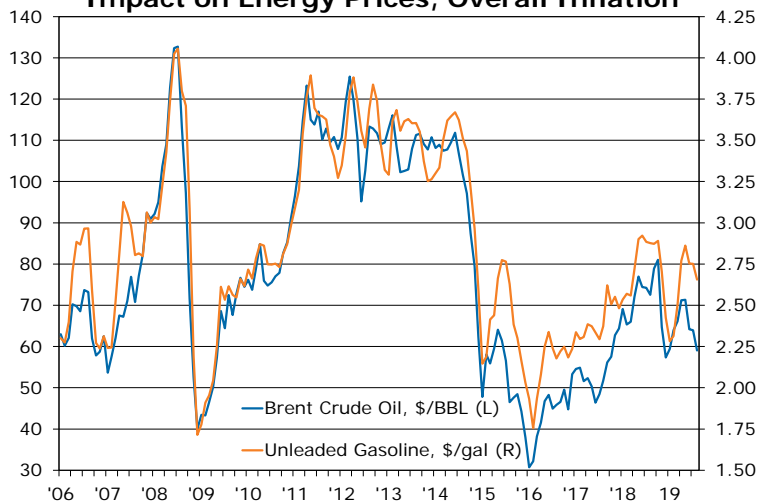
With Lower Mortgage Rates, Big Gains in August Homebuilding Starts and Permits



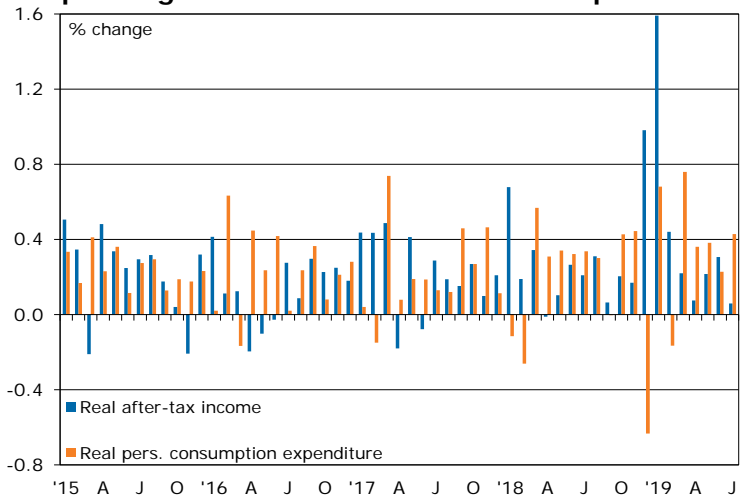
Low Inflation Gives Fed Room to Cut Rates Further if Necessary



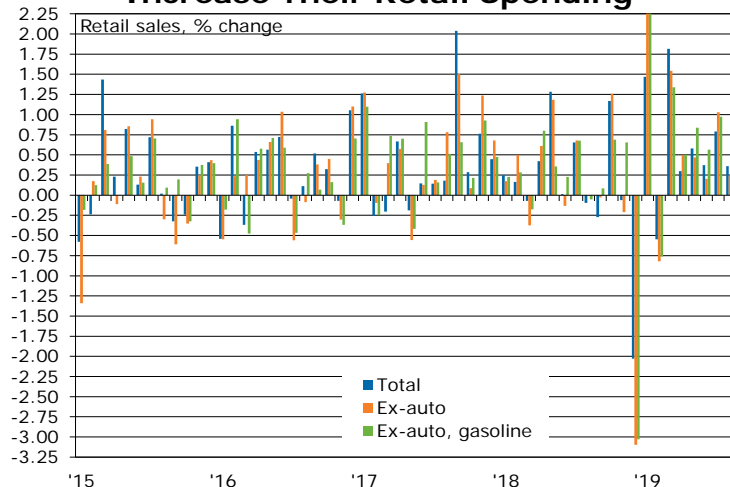
Saudi Arabia Attacks Will Have Little Impact on Energy Prices, Overall Inflation



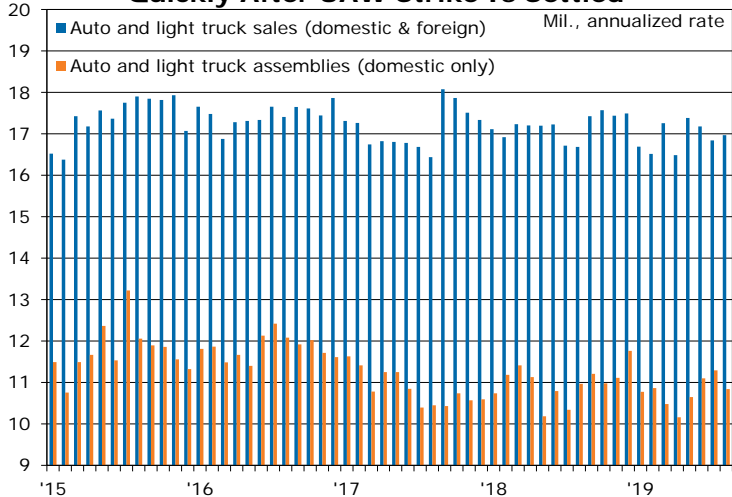
Continued Steady Gains in Household Incomes and Spending Remain at Core of Current Expansion



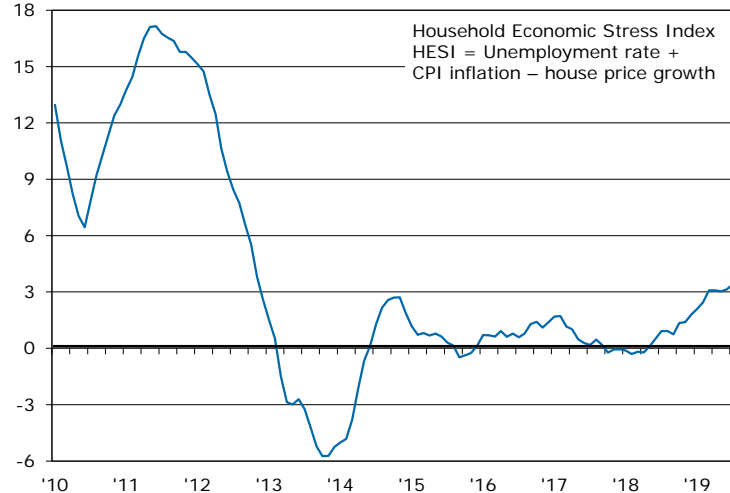
Consumers Continue to Steadily Increase Their Retail Spending



GM Likely to Make Up Lost Production Quickly After UAW Strike Is Settled



Nothing to Worry About in Household Economic Stress Index



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PNC Economics Group
September, 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
Output												
Nominal GDP (Billions \$)	21099	21339	21545	21720	21901	22084	22286	22510	20580	21426	22195	23095
Percent Change Annualized	3.9	4.6	3.9	3.3	3.4	3.4	3.7	4.1	5.4	4.1	3.6	4.1
Real GDP (Chained 2012 Billions \$)	18927	19023	19126	19209	19278	19348	19434	19536	18638	19071	19399	19777
Percent Change Annualized	3.1	2.0	2.2	1.7	1.4	1.5	1.8	2.1	2.9	2.3	1.7	2.0
Pers. Consumption Expenditures	13103	13253	13324	13373	13421	13475	13530	13592	12945	13263	13504	13745
Percent Change Annualized	1.1	4.7	2.2	1.5	1.4	1.6	1.7	1.8	3.0	2.5	1.8	1.8
Nonresidential Fixed Investment	2766	2761	2785	2793	2807	2816	2826	2841	2692	2776	2823	2891
Percent Change Annualized	4.4	-0.6	3.6	1.2	2.0	1.3	1.5	2.1	6.4	3.1	1.7	2.4
Residential Investment	591	587	597	606	609	614	618	622	603	595	616	630
Percent Change Annualized	-1.0	-2.9	6.6	6.4	2.3	3.2	2.4	2.7	-1.5	-1.3	3.5	2.3
Change in Private Inventories	116	69	67	36	26	17	21	30	48	72	23	44
Net Exports	-944	-983	-1006	-981	-976	-970	-962	-957	-920	-979	-966	-963
Government Expenditures	3258	3294	3318	3341	3349	3355	3360	3367	3224	3303	3358	3389
Percent Change Annualized	2.9	4.5	2.9	2.8	1.0	0.7	0.6	0.9	1.7	2.4	1.7	0.9
Industrial Prod. Index (2012 = 100)	109.8	109.2	109.7	109.8	110.2	110.6	110.9	111.3	108.6	109.6	110.8	112.3
Percent Change Annualized	-1.9	-2.1	1.8	0.6	1.4	1.2	1.3	1.6	3.9	1.0	1.0	1.4
Capacity Utilization (Percent)	78.6	77.8	78.1	78.2	78.5	78.8	79.1	79.4	78.7	78.2	79.0	80.1
Prices												
CPI (1982-84 = 100)	253.3	255.1	255.9	257.0	258.3	259.5	260.8	262.1	251.1	255.4	260.2	265.6
Percent Change Annualized	0.9	2.9	1.3	1.7	2.0	1.9	2.0	2.1	2.4	1.7	1.9	2.1
Core CPI Index (1982-84 = 100)	261.0	262.2	264.2	265.8	267.4	268.8	270.3	271.7	257.6	263.3	269.6	275.5
Percent Change Annualized	2.3	1.8	3.1	2.3	2.5	2.1	2.1	2.2	2.1	2.2	2.4	2.2
PCE Price Index (2012 = 100)	108.9	109.5	109.8	110.2	110.7	111.2	111.6	112.1	108.1	109.6	111.4	113.4
Percent Change Annualized	0.4	2.3	1.0	1.6	1.8	1.7	1.7	1.7	2.1	1.3	1.6	1.8
Core PCE Price Index (2012 = 100)	110.9	111.4	112.1	112.7	113.4	113.9	114.4	115.0	109.9	111.8	114.2	116.4
Percent Change Annualized	1.1	1.7	2.7	2.1	2.3	1.8	1.9	1.9	1.9	1.7	2.1	2.0
GDP Price Index (2012 = 100)	111.5	112.2	112.7	113.1	113.6	114.1	114.7	115.2	110.4	112.3	114.4	116.8
Percent Change Annualized	0.8	2.5	1.7	1.5	1.9	1.9	1.9	1.9	2.4	1.7	1.8	2.1
Crude Oil, WTI (\$/Barrel)	54.7	60.0	56.9	55.7	55.5	55.3	55.6	56.1	64.8	56.8	55.6	57.8
Labor Markets												
Payroll Jobs (Millions)	150.7	151.1	151.5	151.7	151.9	152.1	152.3	152.6	149.1	151.3	152.2	153.4
Percent Change Annualized	1.7	1.2	1.1	0.5	0.5	0.5	0.6	0.8	1.7	1.5	0.6	0.8
Unemployment Rate (Percent)	3.9	3.6	3.7	3.8	3.9	3.9	4.0	4.0	3.8	3.8	4.0	4.0
Average Weekly Hours, Prod. Works.	33.7	33.6	33.7	33.7	33.7	33.7	33.7	33.7	33.7	33.7	33.7	33.6
Personal Income												
Average Hourly Earnings (\$)	23.18	23.37	23.57	23.78	23.99	24.19	24.39	24.59	22.70	23.48	24.29	25.11
Percent Change Annualized	3.2	3.4	3.5	3.5	3.5	3.5	3.4	3.4	3.0	3.4	3.5	3.4
Real Disp. Income (2012 Billions \$)	14878	14970	15096	15185	15258	15331	15399	15469	14556	15032	15365	15637
Percent Change Annualized	4.5	2.5	3.4	2.4	2.0	1.9	1.8	1.8	4.0	3.3	2.2	1.8
Housing												
Housing Starts (Ths., Ann. Rate)	1213	1258	1306	1341	1355	1368	1372	1360	1250	1279	1364	1367
Ext. Home Sales (Ths., Ann. Rate)	5207	5287	5428	5505	5601	5615	5658	5698	5341	5357	5643	5745
New SF Home Sales (Ths., Ann. Rate)	669	662	683	699	707	715	713	704	615	678	710	703
Case/Shiller HPI (Jan. 2000 = 100)	207.3	208.7	211.0	213.4	215.6	217.6	219.6	221.5	205.8	213.4	221.5	228.8
Percent Change Year Ago	3.9	3.4	3.7	3.7	4.0	4.3	4.0	3.8	4.9	3.7	3.8	3.3
Consumer												
Household Economic Stress Index	1.6	2.1	1.7	1.8	1.8	1.3	1.8	2.2	0.5	1.8	1.8	2.7
Auto Sales (Millions)	16.8	17.0	17.0	16.8	16.8	16.9	16.9	17.0	17.2	16.9	16.9	17.0
Consumer Credit (Billions \$)	4052	4102	4137	4172	4202	4234	4271	4310	4010	4172	4310	4483
Percent Change Year Ago	5.0	5.1	4.6	4.0	3.7	3.2	3.2	3.3	4.7	4.0	3.3	4.0
Interest Rates (Percent)												
Prime Rate	5.50	5.50	5.30	4.83	4.75	4.75	4.75	4.75	4.90	5.28	4.75	4.75
Federal Funds	2.40	2.40	2.18	1.71	1.63	1.63	1.63	1.63	1.83	2.17	1.63	1.63
3-Month Treasury Bill	2.42	2.33	1.94	1.46	1.40	1.40	1.40	1.40	1.95	2.04	1.40	1.40
10-Year Treasury Note	2.65	2.33	1.75	1.71	1.77	1.81	1.85	1.90	2.91	2.11	1.83	2.00
30-Year Fixed Mortgage	4.37	4.01	3.67	3.62	3.62	3.62	3.62	3.62	4.54	3.91	3.62	3.63
a = actual f = forecast p = preliminary												

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