

NATIONAL ECONOMIC OUTLOOK

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Executive Summary

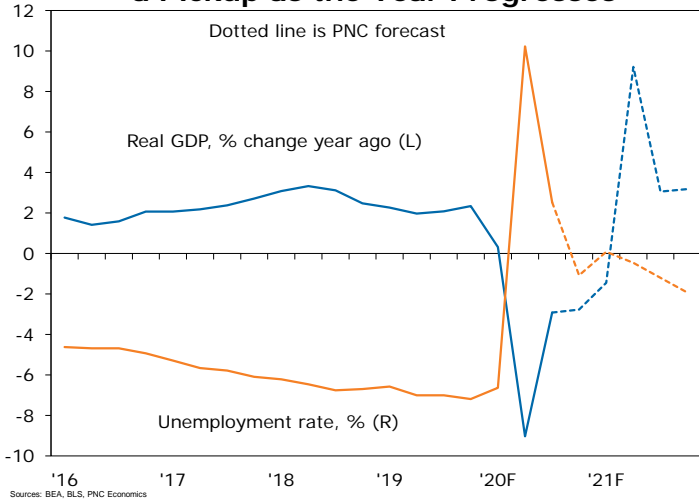
Record GDP Growth in Third Quarter, But Job Gains Slowing at the End of 2020

- Real GDP increased 33.4% at an annualized rate in the third quarter, by far the strongest growth on record. This does not mean the economy grew by one-third in the third quarter; instead, this means that if the economy maintained this pace of growth for an entire year the economy would be 33.4% larger at the end of that year. On a simple percentage basis growth was 7.5% in the third quarter. Real GDP is the broadest measure of economic activity; it is output of final goods and services, adjusted for inflation. This record gain in the third quarter followed a record drop of 31.4% annualized in the second quarter (9.0% unannualized), which was on top of a 5.0% annualized decline in the first quarter (1.3% unannualized). All told, real GDP shrank by 10.1% unannualized between the fourth quarter of 2019 and the second quarter of 2020. Even with the record increase, in the third quarter of 2020 real GDP was still 3.4% smaller than it was in the fourth quarter of 2019. To put this in context, a 3.4% decline in output would be the third-worst U.S. recession since World War II. During the Great Recession of 2007 to 2009, real GDP declined a total of 4.0% over six quarters. (The PNC December forecast was prepared before the last revision to third quarter GDP).
- Consumer spending, supported by stimulus efforts, led the third quarter rebound. Fixed business investment was also strong, with all of improvement coming from equipment; investment in structures and in intellectual property (like software and research and development) both fell in the third quarter. Residential fixed investment was also a large contributor to growth as homebuilding rebounded.
- The U.S. economy added 245,000 jobs in November, the fifth straight month of slower job growth. The labor market continues to improve, although job growth has slowed dramatically from earlier in the recovery. The U.S. economy lost 22 million jobs in March and April, and has since added back 12 million jobs. But after adding an average of 2.7 million jobs per month in May through August, job growth has averaged just over 500,000 per month in September through November. The unemployment rate fell to 6.7% in November, from 6.9% in October. After peaking at 14.7% in April, the unemployment rate has fallen for seven straight months, although it remains well above the 3.5% rate before the pandemic in early 2020.

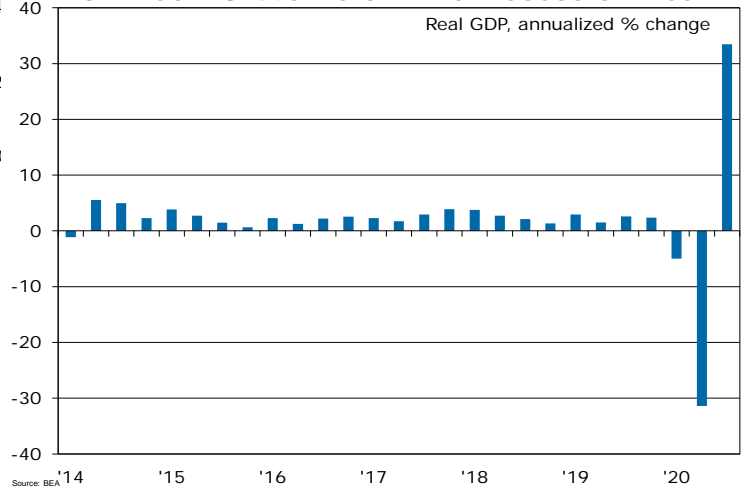
Baseline U.S. Economic Outlook, Summary Table*

	3Q'20a	4Q'20f	1Q'21f	2Q'21f	3Q'21f	4Q'21f	2019a	2020f	2021f	2022f
Output & Prices										
Real GDP (<i>Chained 2012 Billions \$</i>)	18584	18721	18734	18896	19151	19317	19092	18405	19025	19638
Percent Change Annualized	33.1	3.0	0.3	3.5	5.5	3.5	2.2	-3.6	3.4	3.2
CPI (<i>1982-84 = 100</i>)	259.5	260.7	261.6	262.4	263.6	264.6	255.7	258.8	263.0	267.6
Percent Change Annualized	5.2	1.9	1.3	1.3	1.8	1.5	1.8	1.2	1.6	1.7
Labor Markets										
Payroll Jobs (<i>Millions</i>)	140.8	142.8	143.1	144.1	145.7	146.8	150.9	142.3	144.9	149.3
Percent Change Annualized	23.0	5.7	1.0	2.7	4.7	2.9	1.4	-5.7	1.8	3.0
Unemployment Rate (<i>Percent</i>)	8.8	6.9	7.5	7.2	6.8	6.4	3.7	8.1	7.0	5.7
Interest Rates (Percent)										
Federal Funds	0.09	0.09	0.07	0.07	0.07	0.07	2.16	0.37	0.07	0.07
10-Year Treasury Note	0.65	0.85	0.95	1.06	1.16	1.27	2.14	0.89	1.11	1.47
a = actual f = forecast p = preliminary *Please see the Expanded Table for more forecast series.										

Slower Growth in Early 2021, Then a Pickup as the Year Progresses



Record Growth in Third Quarter, But Real GDP Still 3.4% Below Pre-Recession Peak



Slower Growth in Early 2021 as Virus Cases Rise, But Vaccine Raises Hopes for Strong Recovery

After record real GDP growth in the third quarter of 2020, the pace of improvement in the U.S. economy has slowed noticeably at the end of the year, in large part due to record-high coronavirus cases. Growth is likely to weaken further in early 2021 as the virus continues to spread. But with the distribution of two vaccines to prevent COVID-19 underway, the prospects for the rest of 2021 look much brighter. One wildcard at the end of 2020 remains political haggling over a much-needed stimulus bill.

Most measures of economic activity have weakened at the end of 2020 due to the continuing spread of the coronavirus. Caseloads have hit record highs, and hospitalizations and deaths from COVID-19 have increased dramatically over the past couple of months. Healthcare systems in many parts of the country are under intense pressure. As a result consumers have turned more cautious and state and local governments have imposed more restrictions on economic activity, although in a more targeted way than they did earlier in the year. After a record gain in the third quarter, consumer spending, which makes up two-thirds of U.S. GDP, was flat in October and fell 0.4% in November. Job growth slowed in five straight months through November, and rising initial claims for unemployment insurance in recent weeks point to rising layoffs and even weaker job growth in December. Very timely data on credit card spending, daily travel, restaurant reservations, and similar measure have softened as the year comes to a close. With no apparent letup in cases, this weakness is likely to persist into early 2021.

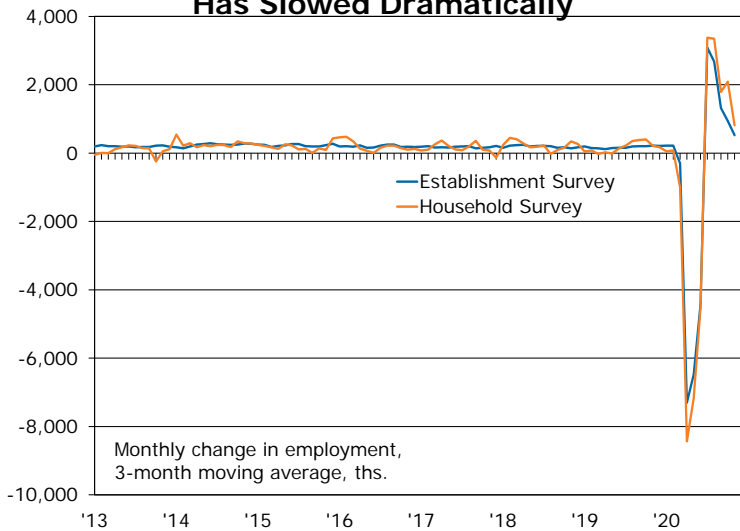
But conditions are set to improve through the rest of 2021. The FDA has authorized emergency use of two vaccines to prevent COVID-19, with more approvals on the way. Vaccinations of healthcare workers have begun, and as production ramps up vaccinations of other high-risk groups will begin, and then eventually spread to the general public. Caseloads should start to fall as more people are inoculated, supporting consumer confidence. If businesses think the pandemic will end sometime in 2021, they are less likely to cut back on investment and headcount. Hope for a vaccine could make consumers more willing to spend, especially on big-ticket items like homes and cars, where sales are already strong.

More importantly, rapid distribution of a vaccine and a faster end to the pandemic would support long-run U.S. economic growth. If hope is on the horizon, businesses are more likely to ride it out until conditions improve. The big fear was that the pandemic would force huge structural changes throughout the economy as some business models became unsustainable, in industries like restaurants, entertainment, and air travel. This type of restructuring is slow and incredibly costly, and also results in big job losses as firms lay off workers. Reemployment for these workers would be difficult as they would need to switch industries; learn new skills, which takes time; and often take pay cuts. This restructuring would also litter the economy with unproductive investments, in equipment, buildings, and technologies, weighing on growth until new investments would arise to take their place. These risks are greatly lessened now.

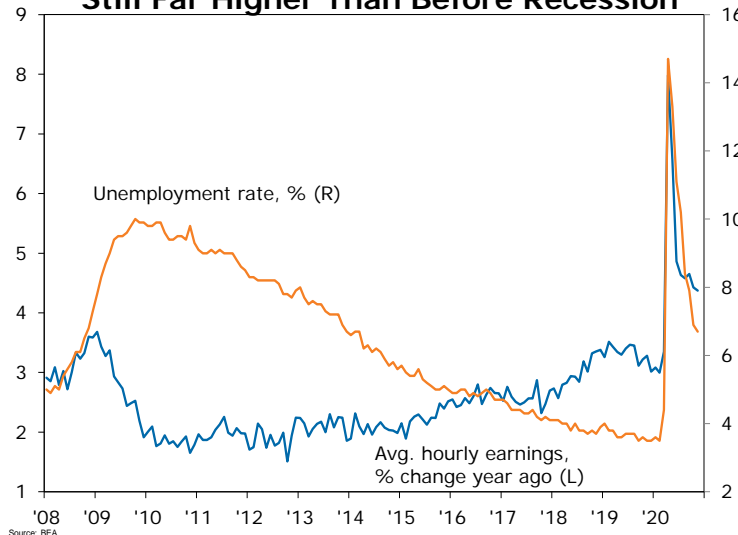
But while hope is on the horizon, Congress and the Trump administration continue to argue over a much-needed economic stimulus bill. Twelve million of the unemployed are set to lose their benefits without action, which would be a big drag on consumer spending in early 2021. Small and medium-sized businesses need aid to remain open until the pandemic begins to recede. The \$900 billion stimulus bill that Congress passed, but that President Trump has not yet signed as of Christmas Eve, would go a long way in supporting the U.S. economy through a very difficult time in early 2021.

PNC's baseline forecast assumes that President Trump eventually signs the stimulus bill of around \$900 billion. With support from fiscal stimulus and the Federal Reserve keeping interest rates extremely low, the economy should avoid an outright contraction in the first quarter of 2021, although growth will slow significantly. Growth should bounce back in the spring, however, as the vaccine allows for stronger economic activity. Real GDP will return to its pre-recession level by the end of 2021. The unemployment rate will fall slightly in 2021, and then at a faster pace in 2022 as the economy continues to improve. The Federal Open Market Committee is expected to keep the federal funds rate in its current near-zero range until at least 2024 to support a strong labor market recovery.

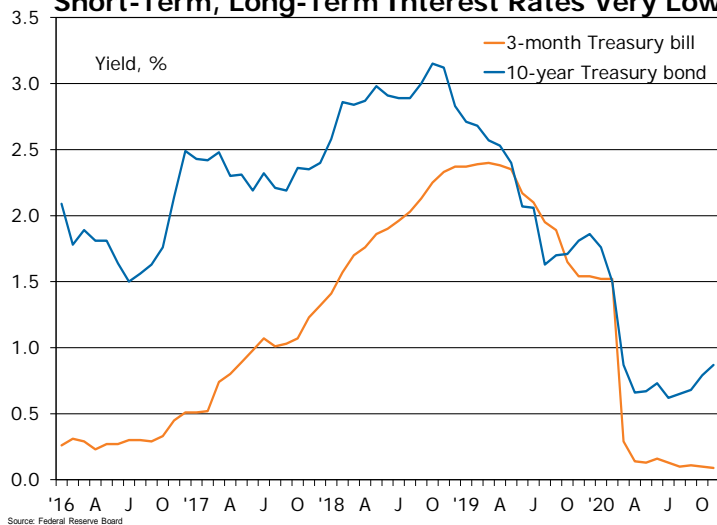
After Initial Surge, Job Growth Has Slowed Dramatically



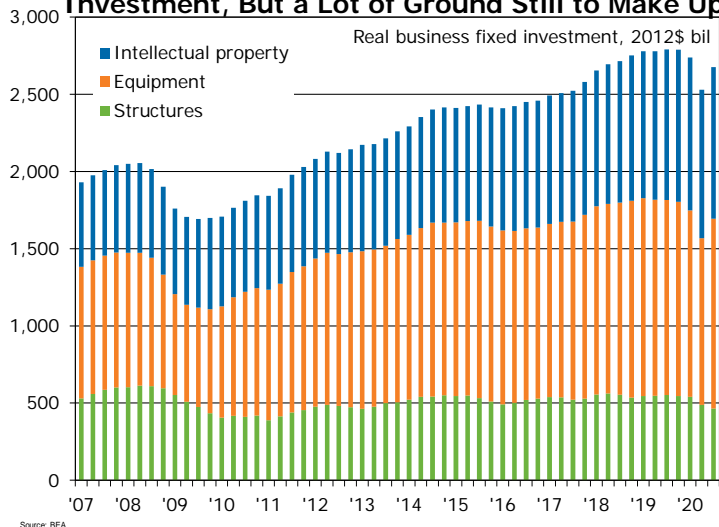
Unemployment Rate Has Fallen, But Still Far Higher Than Before Recession



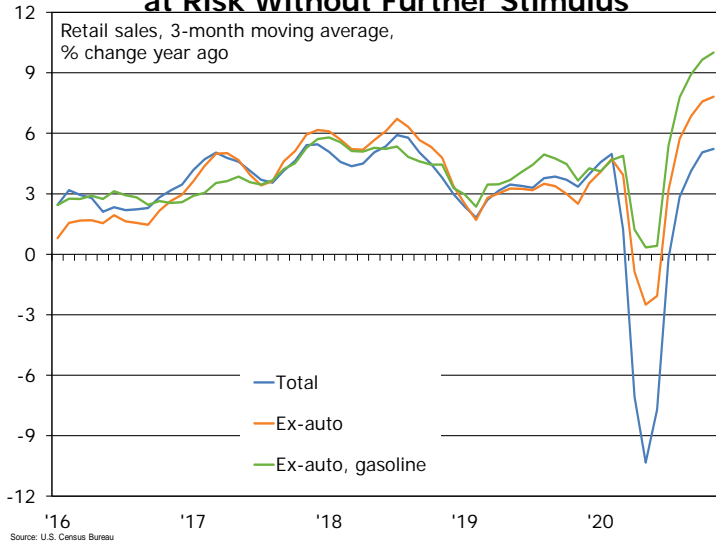
Federal Reserve Doing Its Part By Keeping Short-Term, Long-Term Interest Rates Very Low



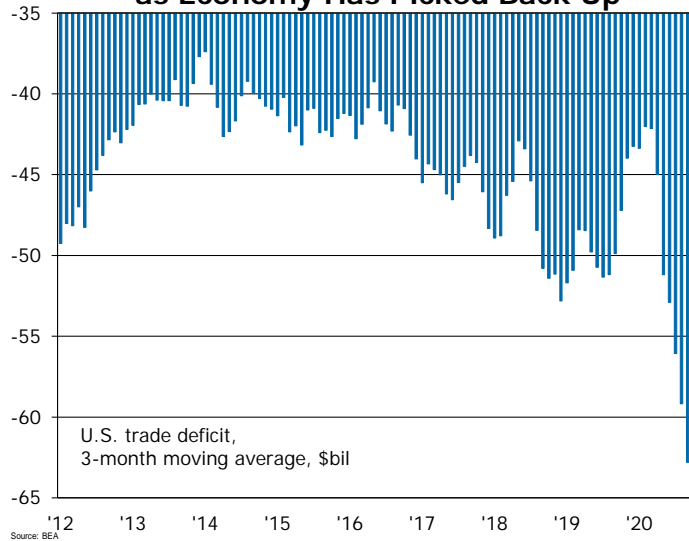
Third Quarter Recovery in Business Fixed Investment, But a Lot of Ground Still to Make Up



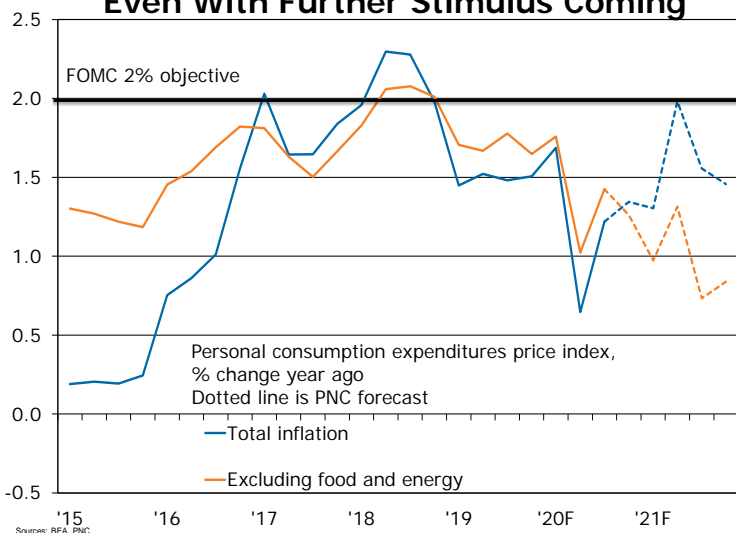
Strong Rebound in Retail Sales at Risk Without Further Stimulus



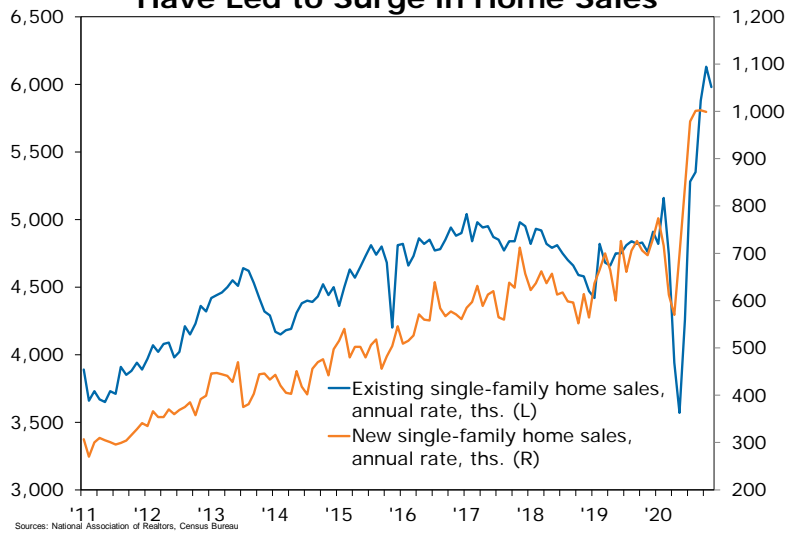
Trade Deficit Has Widened Even as Economy Has Picked Back Up



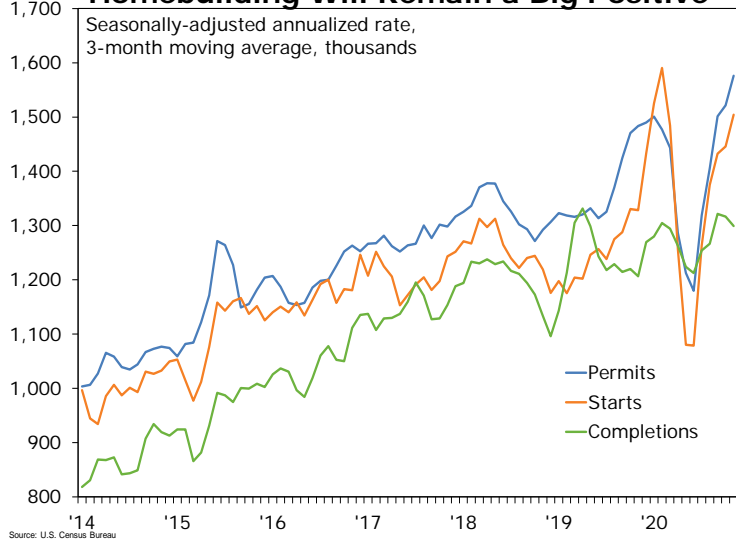
Little Risk of High Inflation, Even With Further Stimulus Coming



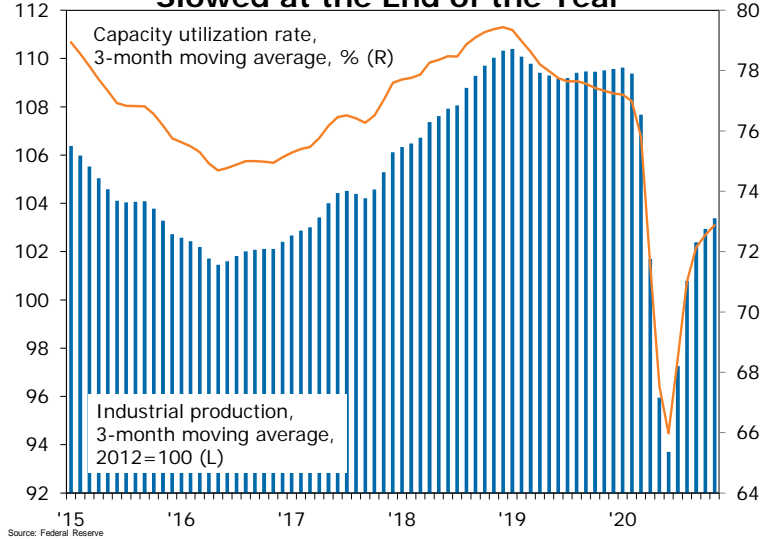
Extremely Low Mortgage Rates Have Led to Surge in Home Sales



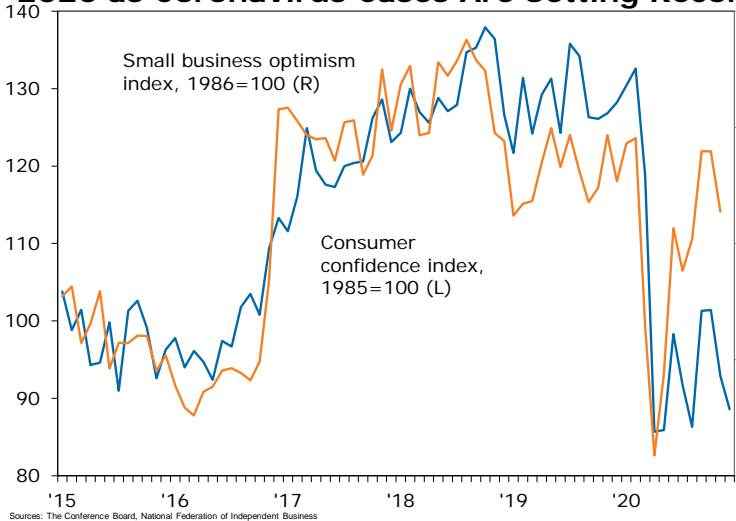
Even With Softer Growth in Early 2021, Homebuilding Will Remain a Big Positive



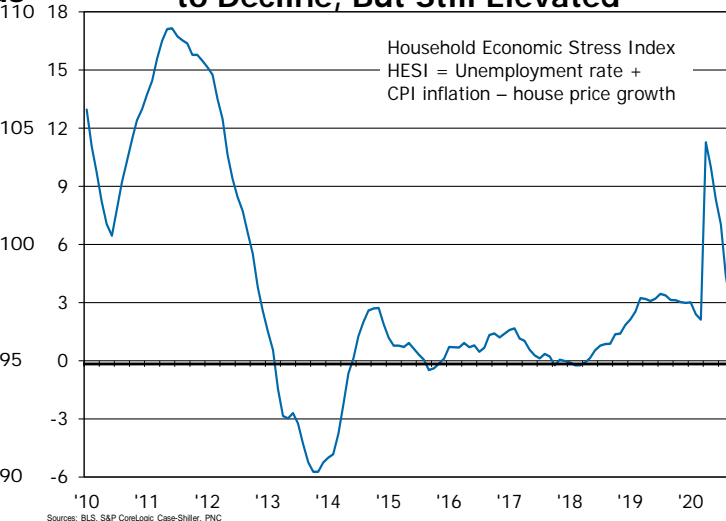
Growth in Industrial Output Has Slowed at the End of the Year



Consumer Confidence Has Taken a Hit at End of 2020 as Coronavirus Cases Are Setting Records



Household Economic Stress Continues to Decline, But Still Elevated



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PNC Economics Group
December 2020

Baseline U.S. Economic Outlook, Expanded Table

	3Q'20a	4Q'20f	1Q'21f	2Q'21f	3Q'21f	4Q'21f	2019a	2020f	2021f	2022f
Output										
Nominal GDP (Billions \$)	21157	21416	21518	21801	22202	22488	21433	20914	22002	23137
Percent Change Annualized	38.0	5.0	1.9	5.4	7.6	5.3	4.0	-2.4	5.2	5.2
Real GDP (Chained 2012 Billions \$)	18584	18721	18734	18896	19151	19317	19092	18405	19025	19638
Percent Change Annualized	33.1	3.0	0.3	3.5	5.5	3.5	2.2	-3.6	3.4	3.2
Pers. Consumption Expenditures	12916	12981	12969	13078	13255	13357	13240	12719	13165	13513
Percent Change Annualized	40.6	2.0	-0.4	3.4	5.5	3.1	2.4	-3.9	3.5	2.6
Nonresidential Fixed Investment	2653	2659	2667	2712	2767	2826	2777	2643	2743	2938
Percent Change Annualized	21.8	0.8	1.3	6.8	8.3	8.8	2.9	-4.8	3.8	7.1
Residential Investment	645	682	688	706	708	711	602	634	703	724
Percent Change Annualized	62.3	25.1	3.3	11.1	1.1	1.6	-1.7	5.4	10.9	3.0
Change in Private Inventories	-4	15	25	27	36	17	49	-89	26	37
Net Exports	-1016	-995	-957	-932	-910	-894	-918	-893	-923	-885
Government Expenditures	3327	3316	3279	3243	3233	3237	3304	3340	3248	3248
Percent Change Annualized	-4.9	-1.3	-4.4	-4.3	-1.2	0.5	2.3	1.1	-2.7	0.0
Industrial Prod. Index (2012 = 100)	102.1	104.0	104.2	104.9	106.0	106.5	109.5	101.8	105.4	107.8
Percent Change Annualized	41.4	7.5	0.9	2.6	4.2	2.2	0.9	-7.0	3.5	2.3
Capacity Utilization (Percent)	71.9	74.0	74.9	76.0	77.2	78.1	77.8	71.9	76.6	79.1
Prices										
CPI (1982-84 = 100)	259.5	260.7	261.6	262.4	263.6	264.6	255.7	258.8	263.0	267.6
Percent Change Annualized	5.2	1.9	1.3	1.3	1.8	1.5	1.8	1.2	1.6	1.7
Core CPI Index (1982-84 = 100)	268.6	269.2	269.6	270.1	271.0	271.7	263.2	267.6	270.6	273.6
Percent Change Annualized	4.4	0.9	0.6	0.7	1.3	1.0	2.2	1.7	1.1	1.1
PCE Price Index (2012 = 100)	111.5	112.0	112.3	112.6	113.2	113.6	109.9	111.2	112.9	115.0
Percent Change Annualized	3.7	2.0	1.1	1.1	2.0	1.6	1.5	1.2	1.6	1.8
Core PCE Price Index (2012 = 100)	113.8	114.0	114.1	114.3	114.6	114.9	111.9	113.4	114.5	115.8
Percent Change Annualized	3.5	0.7	0.5	0.6	1.2	1.1	1.7	1.4	1.0	1.1
GDP Price Index (2012 = 100)	113.8	114.4	114.9	115.4	115.9	116.4	112.3	113.6	115.6	117.8
Percent Change Annualized	3.7	1.9	1.6	1.8	2.0	1.7	1.8	1.2	1.8	1.9
S&P Stock Price Index	3321.6	3480.5	3567.0	3505.0	3443.0	3381.0	2912.5	3200.0	3474.0	3425.0
Crude Oil, WTI (\$/Barrel)	40.9	43.5	45.0	46.0	47.0	48.0	57.0	39.7	46.5	49.3
Labor Markets										
Payroll Jobs (Millions)	140.8	142.8	143.1	144.1	145.7	146.8	150.9	142.3	144.9	149.3
Percent Change Annualized	23.0	5.7	1.0	2.7	4.7	2.9	1.4	-5.7	1.8	3.0
Unemployment Rate (Percent)	8.8	6.9	7.5	7.2	6.8	6.4	3.7	8.1	7.0	5.7
Average Weekly Hours, Prod. Works.	34.1	34.2	34.1	34.0	33.9	33.9	33.6	33.9	33.9	33.8
Personal Income										
Average Hourly Earnings (\$)	24.7	24.6	24.4	24.2	24.1	24.1	23.5	24.6	24.2	24.4
Percent Change Annualized	-3.4	-1.5	-4.0	-2.8	-1.6	0.5	3.5	4.5	-1.5	1.0
Real Disp. Income (2012 Billions \$)	15918	15529	15633	15459	15430	15434	14883	15783	15489	15771
Percent Change Annualized	-16.0	-9.4	2.7	-4.4	-0.7	0.1	2.2	6.1	-1.9	1.8
Housing										
Housing Starts (Ths., Ann. Rate)	1440	1509	1659	1595	1587	1579	1295	1378	1605	1632
Ext. Home Sales (Ths., Ann Rate)	6137	6454	5769	5928	5883	5962	5330	5597	5885	5648
New SF Home Sales (Ths., Ann Rate)	994.0	1113.6	1273.1	1272.3	1248.6	1242.3	684.8	877.7	1259.1	1216.4
Case/Shiller HPI (Jan. 2000 = 100)	222.5	225.6	225.8	226.3	226.7	226.8	212.7	225.6	226.8	229.5
Percent Change Year Ago	5.8	6.1	4.7	3.9	1.9	0.5	3.4	6.1	0.5	1.2
Consumer										
Auto Sales (Millions)	15.3	16.9	16.8	17.5	17.4	17.3	17.0	14.6	17.2	16.4
Consumer Credit (Billions \$)	4161	4152	4219	4268	4322	4377	4185	4152	4377	4623
Percent Change Year Ago	0.4	-0.8	0.5	3.2	3.9	5.4	4.6	-0.8	5.4	5.6
Interest Rates (Percent)										
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	5.28	3.54	3.25	3.25
Federal Funds	0.09	0.09	0.07	0.07	0.07	0.07	2.16	0.37	0.07	0.07
3-Month Treasury Bill	0.10	0.08	0.07	0.10	0.12	0.12	2.09	0.35	0.10	0.12
10-Year Treasury Note	0.65	0.85	0.95	1.06	1.16	1.27	2.14	0.89	1.11	1.47
30-Year Fixed Mortgage	2.95	2.77	2.74	2.84	2.93	3.03	3.93	3.11	2.88	3.20
<i>a = actual f = forecast p = preliminary</i>										

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