

NATIONAL ECONOMIC OUTLOOK

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Executive Summary

U.S. Economy Solid Ahead of COVID-19

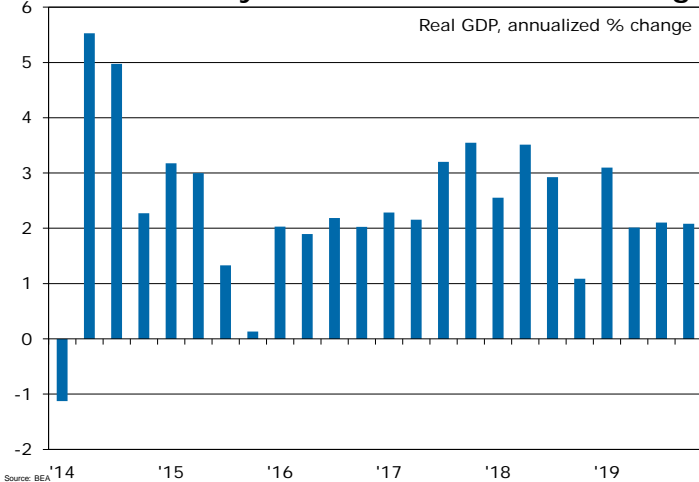
- The U.S. economy (real GDP) expanded at a 2.1 percent annualized rate in the fourth quarter of 2019, according to the Bureau of Economic Analysis. This was the same pace as in the third quarter. For all of 2019, averaged across the four quarters, the U.S. economy grew 2.3 percent, down from 2.9 percent growth in 2018. On a year-over-year basis real GDP growth was also 2.3 percent in the fourth quarter. Growth has slowed since mid-2018, but is still running at a pace allowing for improvement in the labor market. Consumer spending growth slowed somewhat in the fourth quarter, after unsustainable gains in the middle of 2019, but continued to increase at a solid rate. A big increase in homebuilding at the end of the year was another positive for fourth quarter growth, as was a smaller trade deficit. Business fixed investment spending declined for a third straight quarter, however, subtracting from growth.
- The labor market is in excellent shape in early 2020. The U.S. economy added 225,000 jobs in January, besting the consensus forecast of 155,000. The private sector added 206,000 jobs over the month, while government employment was up by 19,000, supported by hiring for Census 2020. Goods-producing industries added 32,000 jobs, with a big gain in construction employment but manufacturing job losses of 12,000. Private service-providing industries added 174,000 jobs in January. The three-month moving average of job growth was 211,000 through January. Average hourly earnings rose 0.2 percent in January, and were up 3.1 percent from one year earlier. The unemployment rate rose slightly to 3.6 percent, from a 50-year low of 3.5 percent in November and December.
- As expected, on January 29 the Federal Open Market Committee kept the fed funds rate unchanged in a range of 1.50 to 1.75 percent, in a unanimous decision. However, the accompanying statement was released well before the extent of the COVID-19 (coronavirus) outbreak was clear. The statement was about as uneventful as they come. The committee made no change to policy, made only two minor tweaks to the statement, and did not indicate where it sees policy heading in the near term. In December the FOMC's last Summary of Economic Projects, or "dot plot," indicated that the committee expects the fed funds rate to remain in its current range throughout 2020; there was nothing in the January 29 statement to show anything different.

Baseline U.S. Economic Outlook, Summary Table*

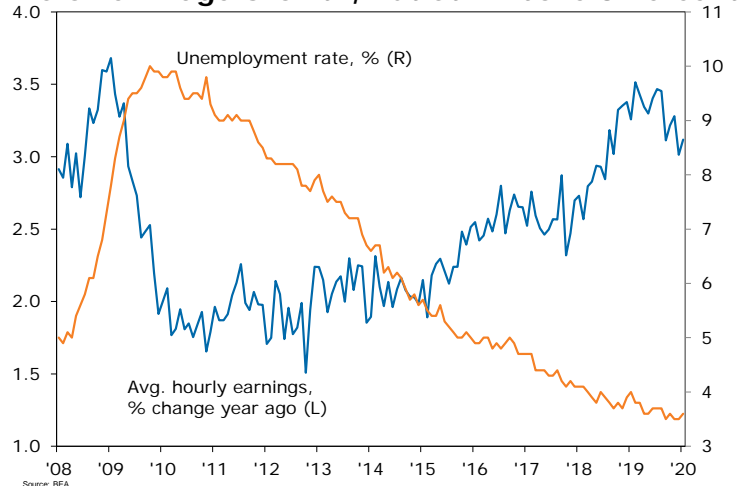
	4Q'19p	1Q'20f	2Q'20f	3Q'20f	4Q'20f	1Q'21f	2019p	2020f	2021f	2022f
Output & Prices										
Real GDP (Chained 2012 Billions \$)	19220	19276	19331	19432	19524	19630	19073	19391	19780	20176
Percent Change Annualized	2.1	1.2	1.2	2.1	1.9	2.2	2.3	1.7	2.0	2.0
CPI (1982-84 = 100)	257.9	258.3	259.4	260.5	261.8	263.1	255.7	260.0	265.3	271.2
Percent Change Annualized	2.6	0.7	1.6	1.8	2.0	2.1	1.8	1.7	2.0	2.2
Labor Markets										
Payroll Jobs (Millions)	151.8	152.2	152.8	152.9	153.1	153.4	150.9	152.8	153.9	155.2
Percent Change Annualized	1.6	1.2	1.5	0.3	0.5	0.9	1.4	1.2	0.8	0.8
Unemployment Rate (Percent)	3.5	3.5	3.5	3.5	3.6	3.7	3.5	3.6	3.6	3.7
Interest Rates (Percent)										
Federal Funds	1.64	1.58	1.60	1.60	1.60	1.60	2.16	1.60	1.60	1.61
10-Year Treasury Note	1.79	1.69	1.71	1.78	1.81	1.85	2.14	1.75	1.90	2.08
a = actual f = forecast p = preliminary *Please see the Expanded Table for more forecast series.										



U.S. Economy Ends 2019 on a Solid Footing



Slower Wage Growth, But Still Above 3 Percent



With COVID-19 U.S. Economic Growth to Slow in First Half of 2020, But No Recession Expected

Although U.S. economic fundamentals are solid in early 2020, the outbreak of COVID-19 (coronavirus) in a number of countries has scrambled the global and U.S. economic outlooks. As of late February PNC expects COVID-19 to contribute to a significant slowing in U.S. economic growth in the first half of 2020, but not cause an outright recession. However, there is a great deal of uncertainty surrounding the spread of COVID-19, the situation is very fluid, and the economic damage could be much larger than currently expected. PNC will continue to update its U.S. economic forecast as more information on COVID-19 becomes available.

The COVID-19 outbreak started in China, and that nation has borne the largest impact. The government cancelled public celebrations of the January Lunar New Year holiday; imposed restrictions on travel in regions with a population of over 50 million; extended the official holiday to delay the restart of factories, other businesses, and schools; and discouraged migrant workers throughout the country from traveling, delaying their return to workplaces from their hometowns. Consumers are avoiding restaurants, public transportation, and public spaces, and cancelling domestic and international travel, and workers are avoiding their workplaces when possible; this change in behavior has been national, not just in the most affected regions. As a result PNC has reduced its forecast for Chinese real GDP growth in the first quarter of 2020 to 4.3 percent on a year-over-year basis, from 6 percent prior to the outbreak. This implies an outright contraction in the Chinese economy in the beginning of 2020; China does not report GDP on an individual quarterly basis. PNC then expects a quick rebound in growth in China through the rest of 2020.

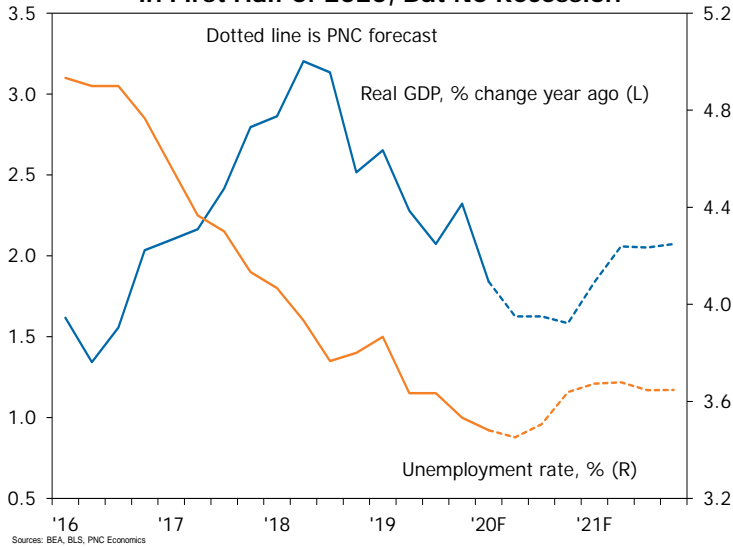
With outbreaks spreading to South Korea, Japan, Italy, and Iran, COVID-19 is a significant problem for one-quarter of the global economy, and financial markets are now pricing in a much higher risk of disruption to the global and U.S. economies. The S&P 500 fell by almost 11 percent over four days in late February, and interest rates on U.S. long-term Treasuries fell to record lows at the end of the month.

In addition to the direct risk of a U.S. outbreak, COVID-19 could indirectly hit the U.S. economy through supply chain disruptions. Many U.S. manufacturers use inputs from China, South Korea, Japan, and Italy in their own processes, and supply problems could force U.S. firms to halt production. U.S. industries particularly susceptible include transportation equipment manufacturing, computer and electronics manufacturing, heavy equipment manufacturing, and those that are heavy users of industrial chemicals. International tourism to the U.S. is also likely to take a hit. Although COVID-19 will weigh on near-term U.S. growth, the underlying fundamentals remain solid. The timeliest data—weekly initial unemployment insurance claims and confidence surveys—so far show no COVID-19 impact in the U.S.

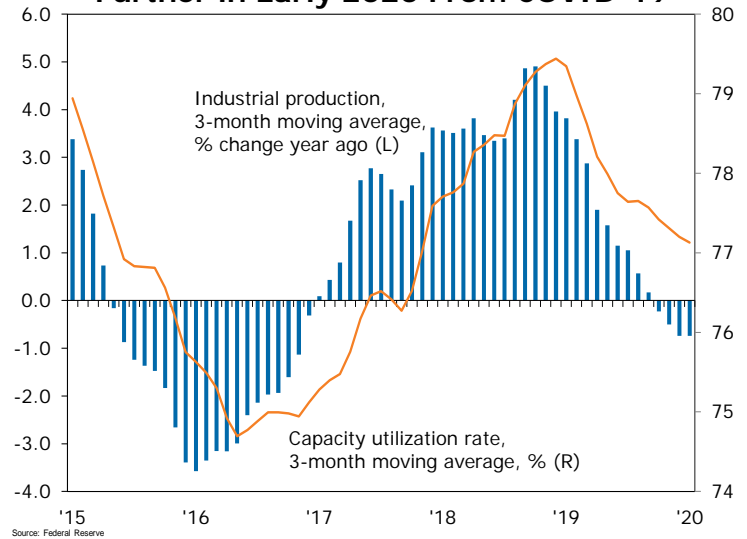
With the COVID-19 outbreak, as well as Boeing's decision to temporarily halt production of the 737 MAX, PNC is forecasting real GDP growth of 1.2 percent on an annualized basis in the first half of 2020, down from an expectation of 1.5 percent in PNC's December 2019 forecast. Growth is then expected to bounce back in the second half of the year as the COVID-19 impact fades, to around 2 percent. Assuming PNC's forecast holds and growth slows in the first half of 2020 but the economic damage from COVID-19 is contained, PNC expects the Federal Open Market Committee to keep the fed funds rate in its current range of 1.50 to 1.75 percent throughout 2020. Job growth will slow somewhat in 2020 as economic growth softens, but hiring will get a temporary boost in the spring from the census. The job market will remain tight, with the unemployment rate around 3.5 percent throughout the year. Inflation will slow in early 2020 as the COVID-19 outbreak has pushed down prices for oil and other commodities.

U.S. economic growth could be much worse than this, however, if the COVID-19 outbreak is more severe than expected. PNC is currently estimating a one-in-three probability of a U.S. recession this year, up from one-in-five before the recent spread of COVID-19. If the hit to the U.S. economy from COVID-19 is worse than expected, fed funds rate cuts this year are inevitable.

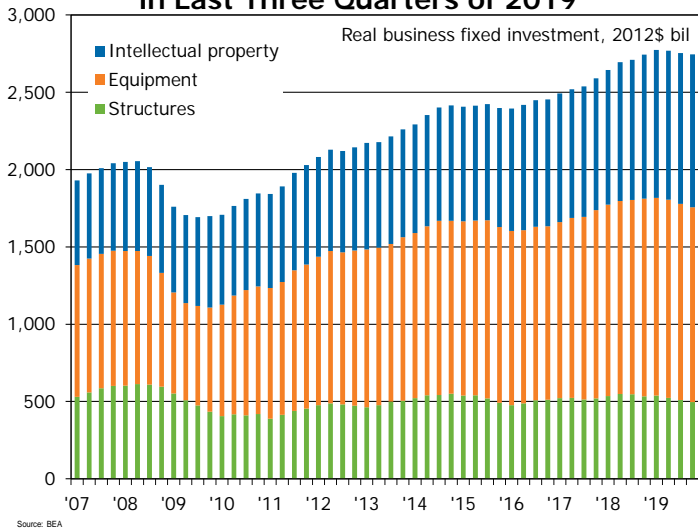
COVID-19, Boeing, Will Weigh on U.S. Growth in First Half of 2020, But No Recession



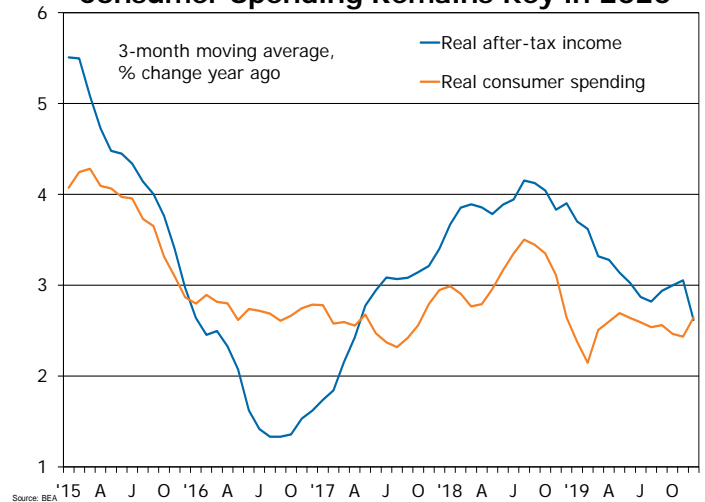
U.S. Industrial Sector Will Slow Further in Early 2020 From COVID-19



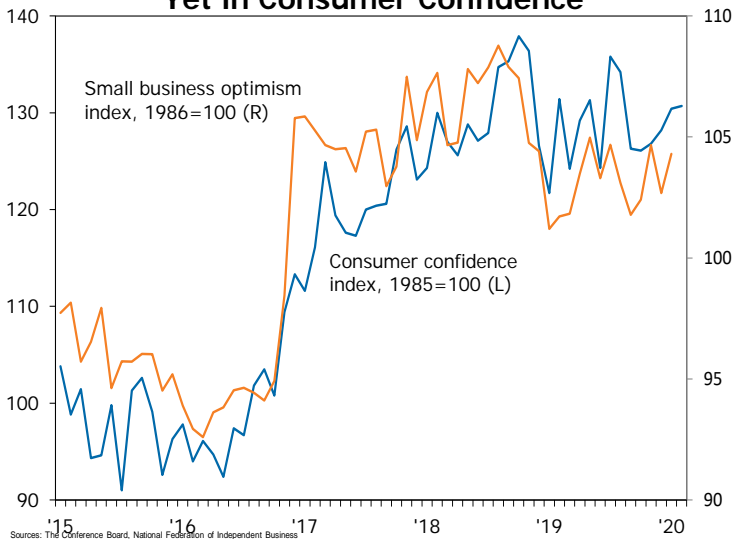
Business Fixed Investment Fell in Last Three Quarters of 2019



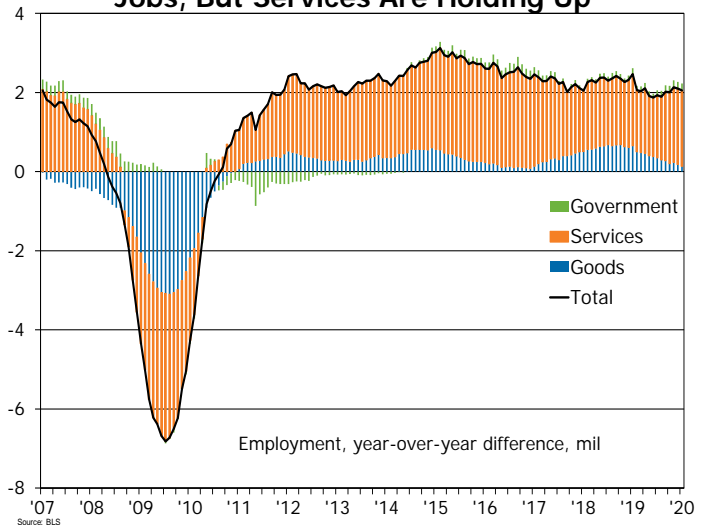
Consumer Spending Remains Key in 2020



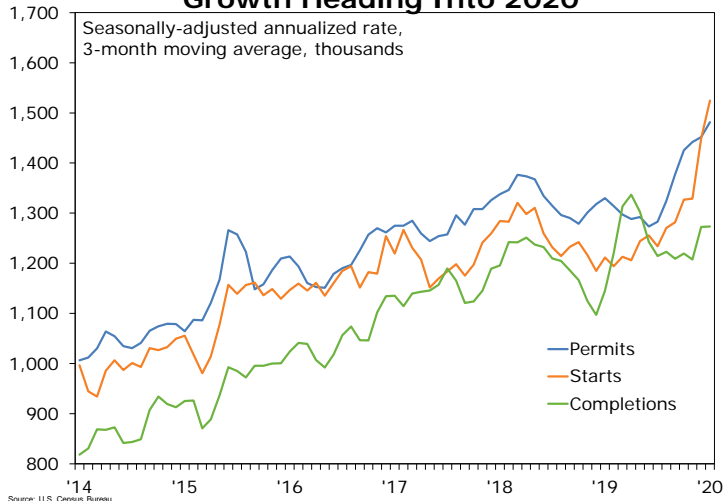
COVID-19 Hasn't Shown Up Yet in Consumer Confidence



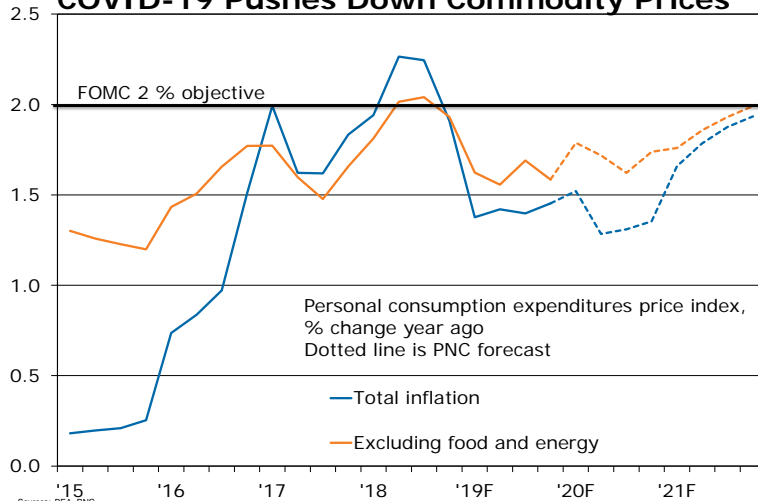
Goods Industries Not Adding Jobs, But Services Are Holding Up



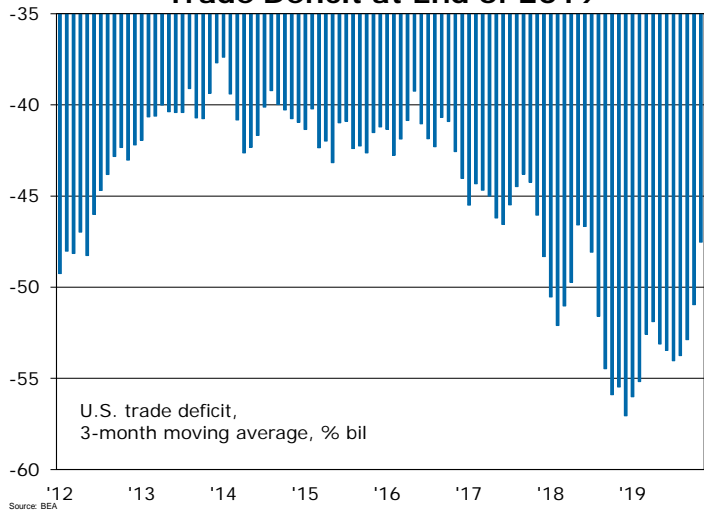
Homebuilding a Source of Growth Heading Into 2020



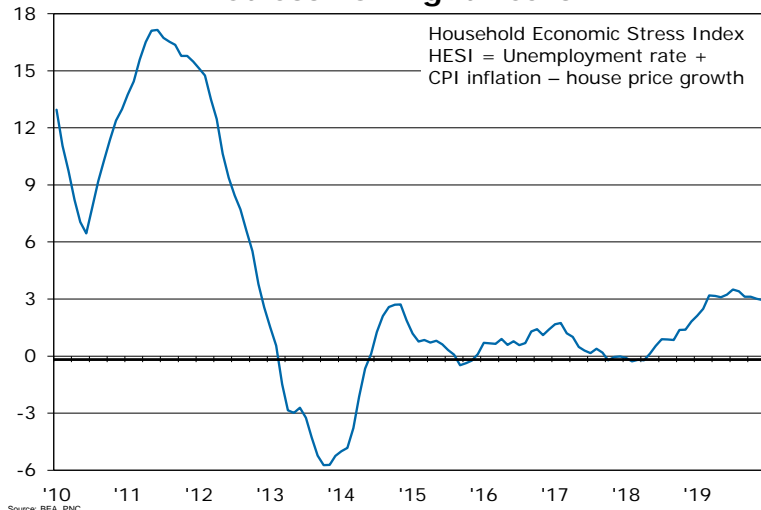
Inflation Will Slow in Early 2020 as COVID-19 Pushes Down Commodity Prices



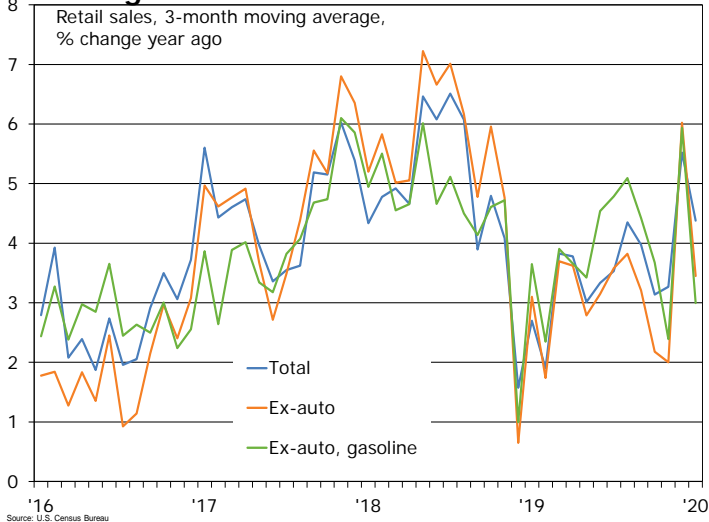
Tariffs Help Reduce U.S. Trade Deficit at End of 2019



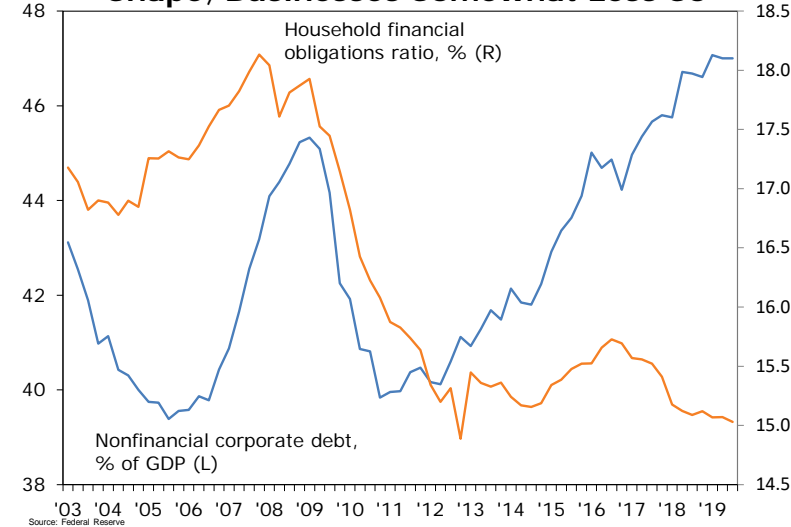
Low Household Economic Stress For Eight Years



Strong Retail Sales Gains Extend Into 2020



Consumer Balance Sheets in Great Shape; Businesses Somewhat Less So



Baseline U.S. Economic Outlook, Expanded Table

	4Q'19p	1Q'20f	2Q'20f	3Q'20f	4Q'20f	1Q'21f	2019p	2020f	2021f	2022f
Output										
Nominal GDP (Billions \$)	21734	21880	22035	22245	22456	22690	21429	22154	23044	24016
Percent Change Annualized	3.6	2.7	2.9	3.9	3.8	4.2	4.1	3.4	4.0	4.2
Real GDP (Chained 2012 Billions \$)	19220	19276	19331	19432	19524	19630	19073	19391	19780	20176
Percent Change Annualized	2.1	1.2	1.2	2.1	1.9	2.2	2.3	1.7	2.0	2.0
Pers. Consumption Expenditures	13412	13464	13519	13581	13640	13706	13280	13551	13799	14034
Percent Change Annualized	1.8	1.5	1.7	1.8	1.8	2.0	2.6	2.0	1.8	1.7
Nonresidential Fixed Investment	2732	2728	2726	2741	2759	2781	2750	2738	2819	2918
Percent Change Annualized	-1.5	-0.6	-0.3	2.2	2.7	3.3	2.1	-0.4	2.9	3.5
Residential Investment	602	610	615	616	617	619	594	615	622	632
Percent Change Annualized	5.8	5.6	3.1	1.0	0.4	1.2	-1.5	3.6	1.2	1.5
Change in Private Inventories	6	-22	-21	2	6	11	65	-9	15	20
Net Exports	-902	-886	-894	-899	-899	-898	-954	-895	-901	-900
Government Expenditures	3332	3345	3350	3354	3365	3374	3299	3353	3389	3435
Percent Change Annualized	2.7	1.5	0.6	0.5	1.3	1.1	2.3	1.6	1.1	1.4
Industrial Prod. Index (2012 = 100)	109.3	108.5	108.5	109.0	109.4	109.9	109.4	108.9	110.6	112.3
Percent Change Annualized	-0.5	-2.9	-0.2	1.8	1.6	1.7	0.8	-0.5	1.6	1.6
Capacity Utilization (Percent)	77.1	76.9	76.8	77.2	77.5	77.8	77.8	77.1	78.3	79.5
Prices										
CPI (1982-84 = 100)	257.9	258.3	259.4	260.5	261.8	263.1	255.7	260.0	265.3	271.2
Percent Change Annualized	2.6	0.7	1.6	1.8	2.0	2.1	1.8	1.7	2.0	2.2
Core CPI Index (1982-84 = 100)	265.5	266.8	268.0	269.2	270.6	272.0	263.2	268.7	274.2	280.3
Percent Change Annualized	2.1	2.0	1.7	1.9	2.0	2.1	2.2	2.1	2.1	2.2
PCE Price Index (2012 = 100)	110.4	110.5	110.9	111.4	111.8	112.4	109.7	111.2	113.2	115.4
Percent Change Annualized	1.6	0.7	1.4	1.6	1.7	1.9	1.4	1.4	1.8	2.0
Core PCE Price Index (2012 = 100)	112.4	112.9	113.3	113.8	114.3	114.9	111.7	113.6	115.7	118.1
Percent Change Annualized	1.3	1.9	1.6	1.7	1.8	1.9	1.6	1.7	1.9	2.0
GDP Price Index (2012 = 100)	113.1	113.5	114.0	114.5	115.0	115.6	112.4	114.2	116.5	119.0
Percent Change Annualized	1.5	1.5	1.7	1.7	1.9	2.0	1.8	1.7	2.0	2.2
Crude Oil, WTI (\$/Barrel)	56.9	52.0	51.8	52.2	52.8	53.5	57.0	52.2	54.7	57.8
Labor Markets										
Payroll Jobs (Millions)	151.8	152.2	152.8	152.9	153.1	153.4	150.9	152.8	153.9	155.2
Percent Change Annualized	1.6	1.2	1.5	0.3	0.5	0.9	1.4	1.2	0.8	0.8
Unemployment Rate (Percent)	3.5	3.5	3.5	3.5	3.6	3.7	3.5	3.6	3.6	3.7
Average Weekly Hours, Prod. Works.	33.5	33.6	33.5	33.5	33.5	33.5	33.6	33.5	33.5	33.5
Personal Income										
Average Hourly Earnings (\$)	23.80	24.01	24.23	24.43	24.63	24.84	23.51	24.33	25.14	25.94
Percent Change Annualized	3.0	3.6	3.6	3.4	3.4	3.3	3.5	3.5	3.3	3.2
Real Disp. Income (2012 Billions \$)	15100	15204	15285	15354	15422	15489	14989	15316	15589	15849
Percent Change Annualized	1.5	2.8	2.2	1.8	1.8	1.7	3.0	2.2	1.8	1.7
Housing										
Housing Starts (Ths., Ann. Rate)	1441	1470	1494	1498	1486	1486	1298	1487	1496	1511
Ext. Home Sales (Ths., Ann Rate)	5443	5543	5561	5602	5649	5687	5341	5589	5695	5713
New SF Home Sales (Ths., Ann Rate)	699	723	726	730	724	711	682	726	711	713
Case/Shiller HPI (Jan. 2000 = 100)	212.5	214.6	216.5	218.4	220.4	222.3	212.5	220.4	228.1	235.5
Percent Change Year Ago	3.3	3.6	3.8	3.9	3.7	3.6	3.3	3.7	3.5	3.2
Consumer										
Household Economic Stress Index	2.3	1.9	1.3	1.2	1.4	1.9	2.0	1.5	2.2	2.6
Auto Sales (Millions)	16.7	16.7	16.7	16.7	16.6	16.6	16.9	16.7	16.7	16.7
Consumer Credit (Billions \$)	4197	4238	4280	4325	4369	4413	4197	4369	4555	4759
Percent Change Year Ago	4.7	4.6	4.5	4.3	4.1	4.1	4.7	4.1	4.3	4.5
Interest Rates (Percent)										
Prime Rate	4.83	4.75	4.75	4.75	4.75	4.75	5.28	4.75	4.75	4.76
Federal Funds	1.64	1.58	1.60	1.60	1.60	1.60	2.16	1.60	1.60	1.61
3-Month Treasury Bill	1.59	1.57	1.57	1.56	1.54	1.52	2.09	1.56	1.49	1.54
10-Year Treasury Note	1.79	1.69	1.71	1.78	1.81	1.85	2.14	1.75	1.90	2.08
30-Year Fixed Mortgage	3.70	3.57	3.53	3.51	3.50	3.50	3.93	3.53	3.50	3.63
a = actual f = forecast p = preliminary										

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