

NATIONAL ECONOMIC OUTLOOK

Gus Faucher
Chief Economist

Stuart Hoffman
Senior Economic Advisor

William Adams
Senior Economist

Kurt Rankin
Economist

Abbey Omodunbi
Economist

THE PNC FINANCIAL SERVICES GROUP | The Tower at PNC Plaza | 300 Fifth Avenue | Pittsburgh, PA 15222-2401

Executive Summary

Slower But Still-Solid December Job Growth; Strongest Housing Starts in More Than a Decade

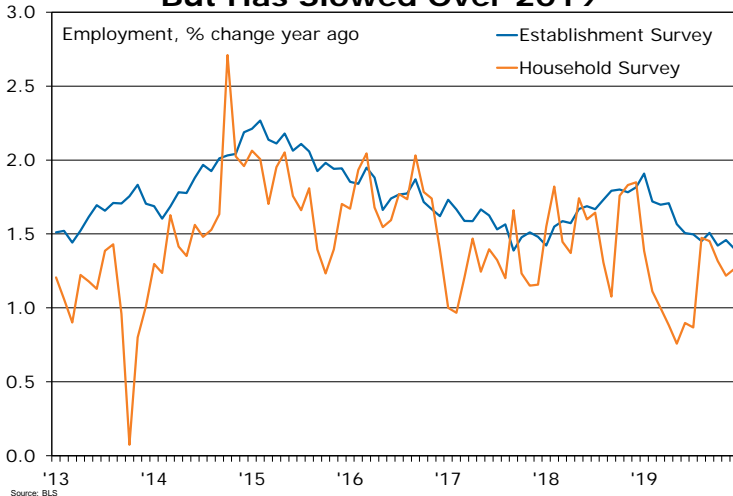
- After a huge increase in employment in November, December job growth of 145,000 was more in line with the rest of 2019. Job growth in October and November was revised down by a combined 14,000. Private-sector employment rose by 139,000 in December, with government job gains of 6,000. Job growth averaged 176,000 per month in 2019, down from 223,000 in 2018. The unemployment rate remained at a 50-year low of 3.5 percent in December, the lowest it has been in 50 years (it was also this low in September and November). December wage growth was disappointing, with average hourly earnings up just 0.1 percent over the month. On a year-ago basis the average wage was up 2.9 percent, the first time wage growth has been below 3 percent since mid-2018.
- Housing starts jumped a staggering 16.9 percent in December to 1.608 million at a seasonally-adjusted annualized rate. This was the highest level of housing starts since December 2006, when the housing market was imploding following the housing boom, and the biggest monthly increase since October 2016. For all of 2019 starts were 1.290 million, up 3.9 percent from 2018. Single-family starts were 1.055 million in December, up 11.2 percent from November, and the highest level since June 2007. Starts can be volatile, particularly during the winter, when weather can be a major factor. But the recent strength in starts reflects more than just the weather. The fundamentals for the housing market are very good: mortgage rates down sharply since early 2019, the lowest unemployment rate in 50 years, good job gains and wage growth, record-high stock prices, and a movement back to homeownership over the shift to renting in the wake of the Great Recession and housing bust.
- Industrial production fell 0.3 percent in December, the fourth decline in six months, and was down 1.0 percent from one year earlier. Manufacturing output rose 0.2 percent in December. The recent numbers have been skewed by the autoworkers strike against GM and then its resolution, but manufacturing output was basically flat throughout 2019. Slower global economic growth, trade tensions with China and associated uncertainty, a strong U.S. dollar, and low energy prices have all been drags. The industrial sector will take another huge hit in early 2020 with Boeing's temporary shutdown of production of the troubled 737 MAX airliner.

Baseline U.S. Economic Outlook, Summary Table*

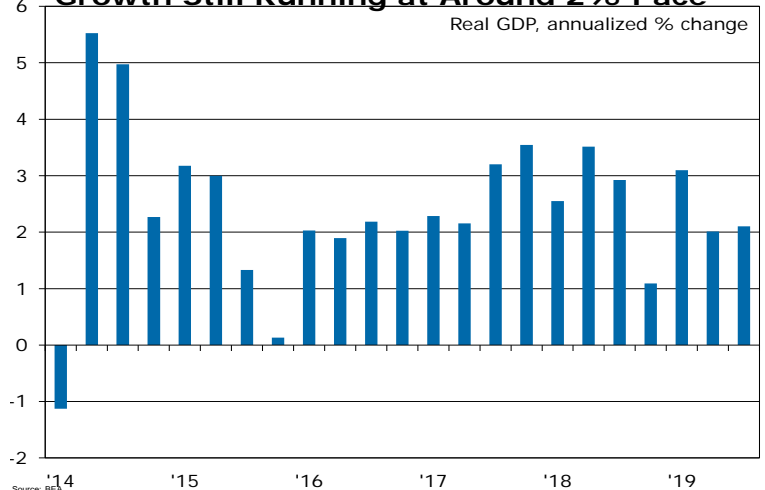
	3Q'19a	4Q'19f	1Q'20f	2Q'20f	3Q'20f	4Q'20f	1Q'21f	2018a	2019f	2020f	2021f
Output & Prices											
Real GDP (Chained 2012 Billions \$)	19121	19213	19270	19344	19444	19556	19658	18638	19071	19404	19796
Percent Change Annualized	2.1	1.9	1.2	1.6	2.1	2.3	2.1	2.9	2.3	1.7	2.0
CPI (1982-84 = 100)	256.3	257.8	258.9	260.0	261.2	262.5	263.9	251.1	255.6	260.7	266.0
Percent Change Annualized	1.8	2.5	1.7	1.7	1.9	2.0	2.1	2.4	1.8	2.0	2.0
Labor Markets											
Payroll Jobs (Millions)	151.6	152.2	152.5	152.6	152.9	153.1	153.5	149.1	151.4	152.8	154.0
Percent Change Annualized	1.4	1.5	0.7	0.5	0.6	0.8	0.9	1.7	1.6	0.9	0.8
Unemployment Rate (Percent)	3.6	3.5	3.6	3.7	3.8	3.8	3.8	3.8	3.5	3.8	3.8
Interest Rates (Percent)											
Federal Funds	2.19	1.64	1.55	1.55	1.55	1.55	1.60	1.83	2.16	1.55	1.60
10-Year Treasury Note	1.79	1.79	1.80	1.82	1.85	1.89	1.92	2.91	2.14	1.84	1.94
a = actual f = forecast p = preliminary *Please see the Expanded Table for more forecast series.											



Job Growth Still Good, But Has Slowed Over 2019



After 10 Years of Expansion, Real GDP Growth Still Running at Around 2% Pace



2020 Outlook: No Recession Thanks to Solid Consumers, But Slower Growth from Trade and Fiscal Policy

The current U.S. expansion started in June 2009 and is now more than 10 years old, making it the longest expansion in U.S. history, according to the National Bureau of Economic Research. With solid fundamentals, especially on the consumer side, and accommodative monetary policy from the Federal Reserve, the U.S. economy should avoid recession again in 2020, although growth will slow from its pace of the last couple of years and the unemployment rate will move a bit higher. Risks to the current outlook are weighted to the downside.

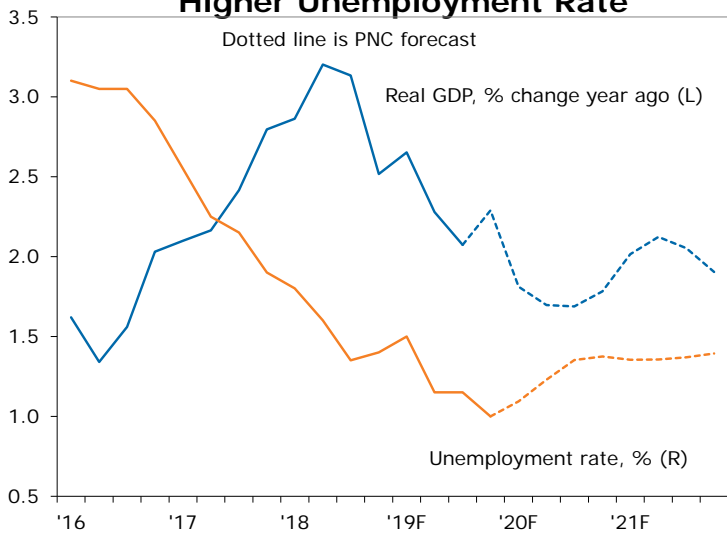
The biggest reason for optimism about the U.S. economy in 2020 is that consumers are in excellent shape. Since employment bottomed out in early 2010 the labor market has added 22.7 million jobs, and the total number is now 10 percent above its peak before the Great Recession. The unemployment rate fell to 3.5 percent at the end of 2019, the lowest it has been in 50 years, and other measures also show a very strong labor market. Income growth was slow to recover during the first few years of the expansion, but as the job market has gotten tighter more jobs, higher wages and low inflation have boosted households' inflation-adjusted earnings. Other positives for consumer spending at the beginning of 2020 include a high savings rate, low interest rates, low household debt burdens, and record household wealth thanks to all-time high stock prices and rising home values. Unlike in the run-up to the Great Recession, there are very few indications that households are stretched. With consumer spending accounting for two-thirds of U.S. GDP, as long as households remain in good shape, the broader economy should as well. The housing market will be another positive for economic growth in 2020, thanks to an uptick in residential construction due to a big drop in mortgage rates over the past year and increasing demand for homeownership. And after the Federal Reserve cut interest rates three times in the second half of 2019, consumer and business borrowing costs are low and monetary policy is a modest positive for growth this year.

However, growth will be slower in 2020 than it was in 2018 (real GDP growth of 2.9 percent) and 2019 (PNC forecast of 2.3 percent). Boeing's recent decision to temporarily halt production of its troubled 737 MAX airliner will shave about 0.4 percentage point off of annualized growth in the first quarter of this year. The global economy will also be a drag. World economic growth slowed in 2019, weighing on U.S. exports. And although the Phase One deal between the U.S. and China will boost U.S. exports and has reduced some of the uncertainty surrounding the trade outlook, there are still many thorny issues between the U.S. and China to resolve, as well as potential trade disputes with other major U.S. trading partners. This uncertainty surrounding trade will discourage near-term domestic business investment. Also, the tight labor market and a lack of available workers will constrain output growth. Another drag will come from reduced fiscal stimulus. Although the federal government will increase its purchases of goods and services this year, the big boost from the corporate and personal income tax cuts that took effect at the beginning of 2018 have faded, and the corporate income tax cut has done little to boost capital spending and support stronger longer-run economic growth. Given weak investment and Boeing's woes, the industrial side of the U.S. economy will remain soft through the first half of the year.

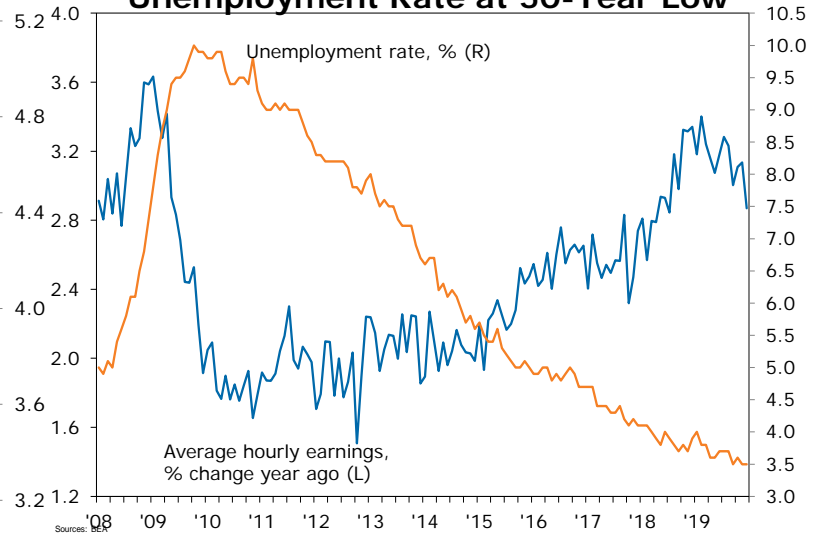
Risks for 2020 are to the downside. Global growth could be even weaker than expected, and Boeing's problems could persist. Geopolitical concerns, such as Iran, the coronavirus, impeachment, and the 2020 election, could make consumers and businesses more cautious. And a stock market correction could spook households and firms. But there is also some upside potential in 2020. Most importantly, stronger labor force growth than expected would allow businesses to maintain their current strong pace of hiring, leading to better economic growth.

U.S. real GDP growth will slow to 1.7 percent in 2020, somewhat below the economy's long-run potential, with noticeable weakness in the first half of the year. Monthly job growth will fall to below 100,000 by the second half of the year, but the labor market will remain tight, with the unemployment rate rising only slightly, to 3.8 percent by the end of 2020. With inflation still low the Federal Open Market Committee will keep the federal funds rate in its current range of 1.5 to 1.75 percent throughout 2020.

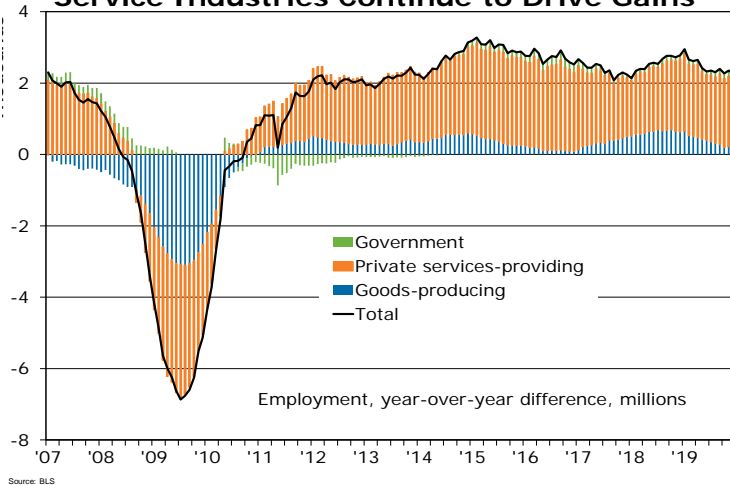
Slower Growth in 2020, With Slightly Higher Unemployment Rate



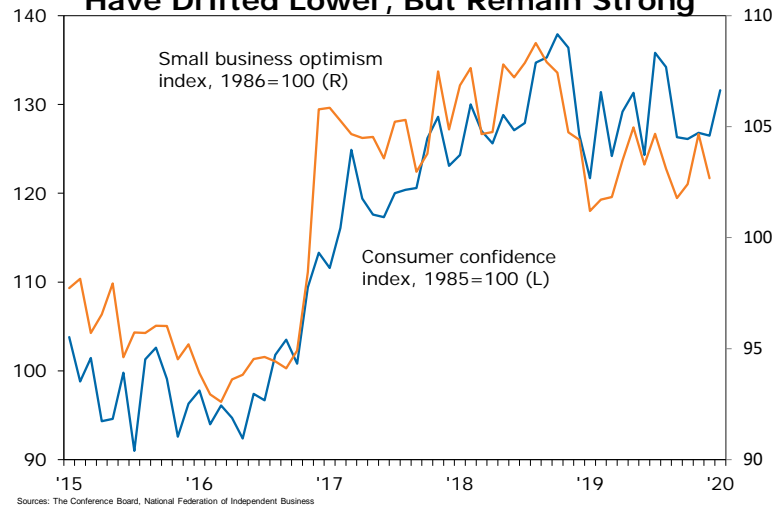
Wage Growth Slowed in 2019 Despite Unemployment Rate at 50-Year Low



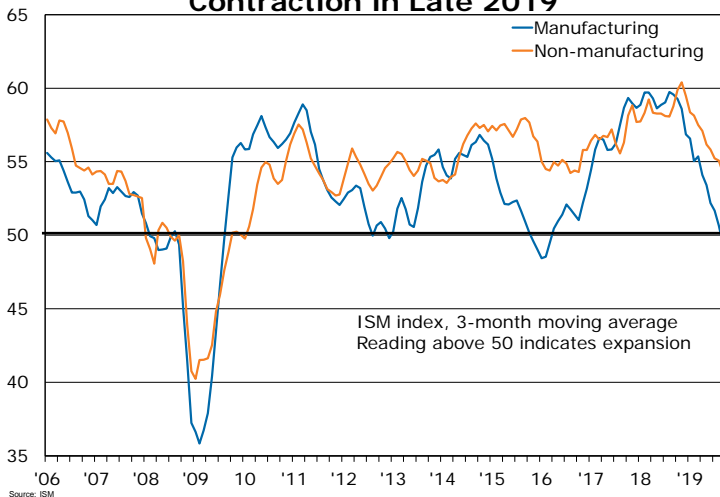
Job Softness in Goods Industries, But Service Industries Continue to Drive Gains



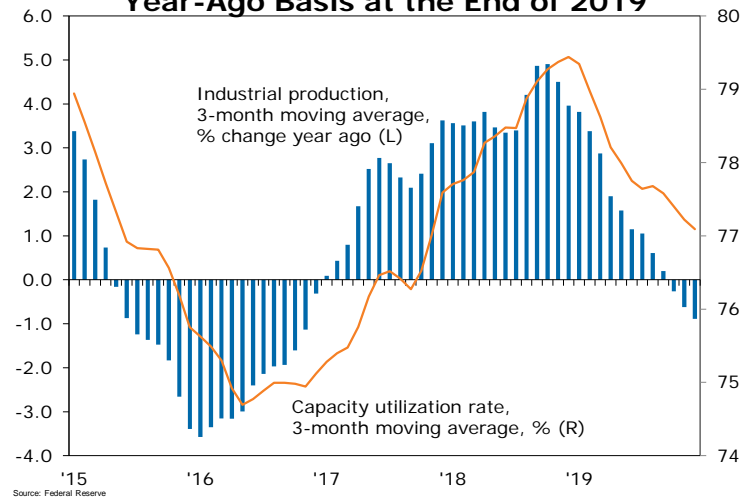
Consumer and Business Confidence Have Drifted Lower, But Remain Strong



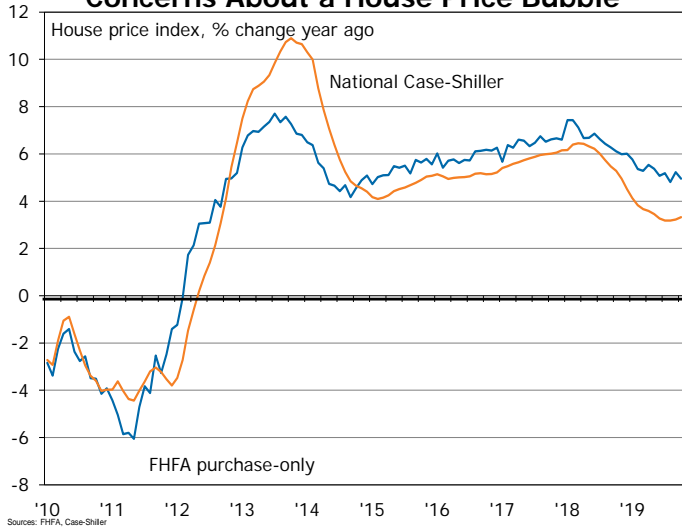
ISM Index Indicates Manufacturing Contraction in Late 2019



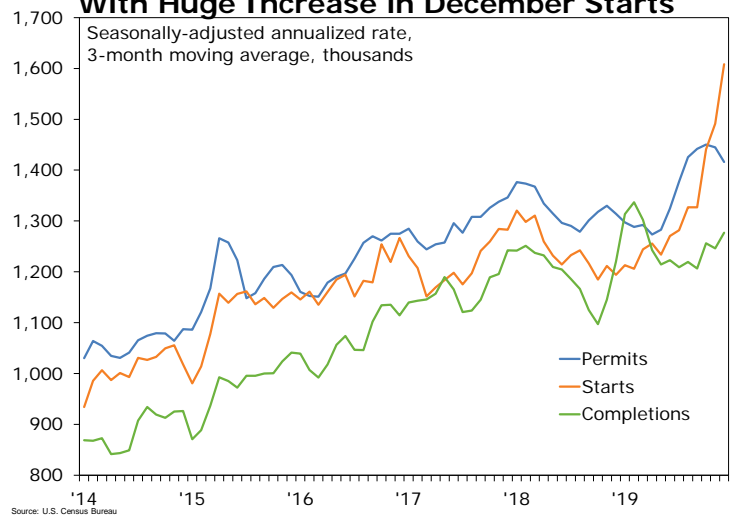
Industrial Production Down on Year-Ago Basis at the End of 2019



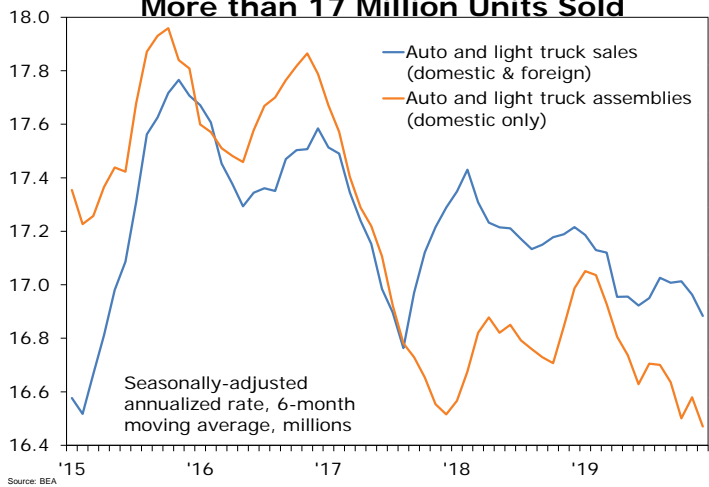
With Moderate Price Gains, No Concerns About a House Price Bubble



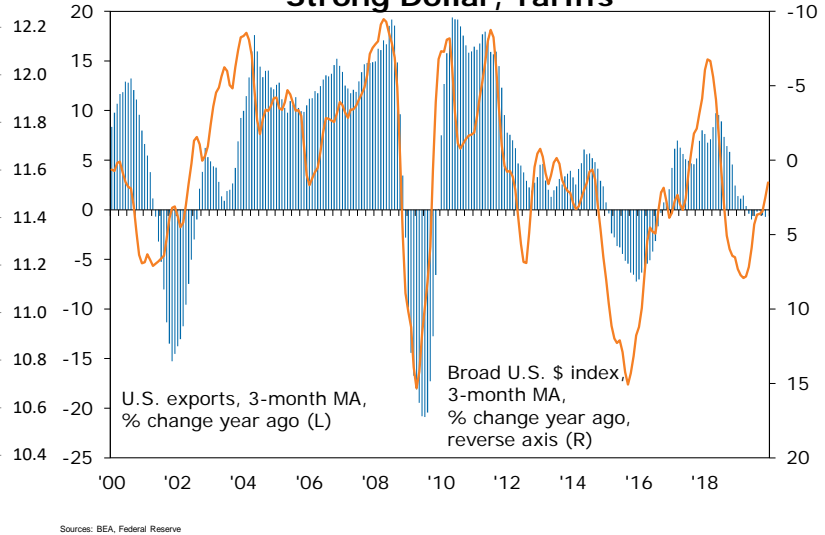
Homebuilding Picked Back Up in 2019, With Huge Increase in December Starts



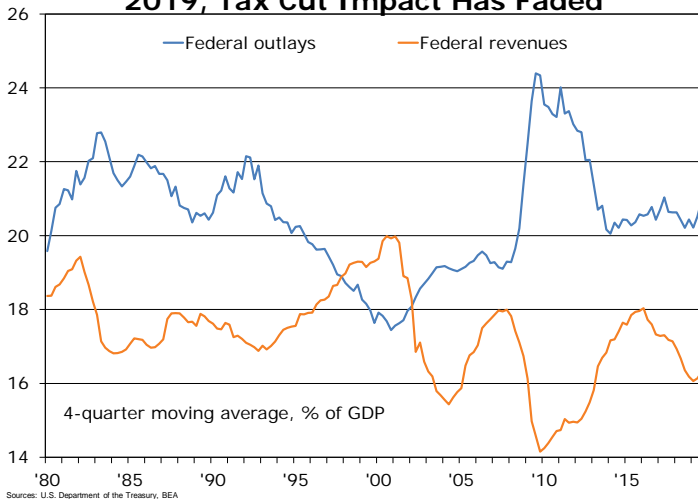
Car Sales Fell Over 2019, But Still More than 17 Million Units Sold



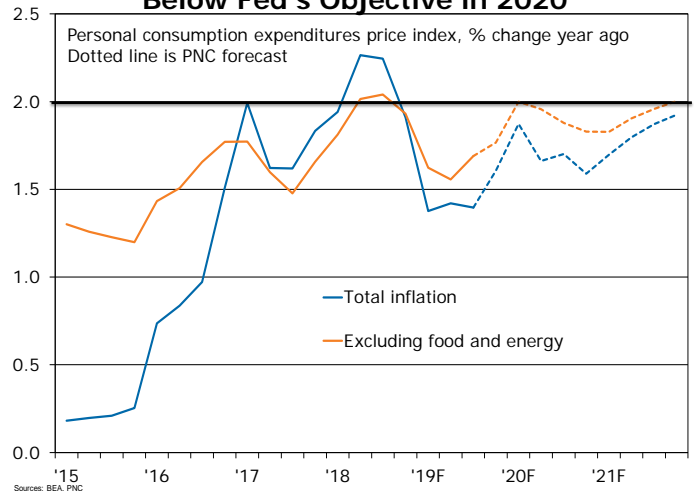
Exports Are Down With Strong Dollar, Tariffs



After Boosting Growth in 2018 and 2019, Tax Cut Impact Has Faded



Inflation Should Remain Below Fed's Objective in 2020



NATIONAL ECONOMIC OUTLOOK

PNC Economics Group
January 2020

Baseline U.S. Economic Outlook, Expanded Table

	3Q'19a	4Q'19f	1Q'20f	2Q'20f	3Q'20f	4Q'20f	1Q'21f	2018a	2019f	2020f	2021f
Output											
Nominal GDP (Billions \$)	21543	21747	21911	22096	22311	22545	22780	20580	21432	22216	23124
Percent Change Annualized	3.8	3.9	3.1	3.4	4.0	4.3	4.2	5.4	4.1	3.7	4.1
Real GDP (Chained 2012 Billions \$)	19121	19213	19270	19344	19444	19556	19658	18638	19071	19404	19796
Percent Change Annualized	2.1	1.9	1.2	1.6	2.1	2.3	2.1	2.9	2.3	1.7	2.0
Pers. Consumption Expenditures	13353	13411	13460	13516	13572	13636	13703	12945	13279	13546	13794
Percent Change Annualized	3.1	1.7	1.5	1.7	1.7	1.9	2.0	3.0	2.6	2.0	1.8
Nonresidential Fixed Investment	2743	2750	2764	2775	2789	2805	2825	2692	2754	2783	2855
Percent Change Annualized	-2.3	1.1	2.0	1.6	2.0	2.4	2.8	6.4	2.3	1.0	2.6
Residential Investment	594	602	610	614	615	615	617	603	593	613	621
Percent Change Annualized	4.6	5.6	5.4	2.6	0.6	0.3	1.5	-1.5	-1.6	3.3	1.2
Change in Private Inventories	69	40	12	7	23	40	47	48	74	20	52
Net Exports	-990	-965	-961	-956	-947	-943	-946	-920	-970	-952	-952
Government Expenditures	3310	3333	3343	3347	3351	3361	3370	3224	3300	3351	3385
Percent Change Annualized	1.7	2.8	1.2	0.5	0.5	1.1	1.1	1.7	2.3	1.5	1.0
Industrial Prod. Index (2012 = 100)	109.5	109.4	109.4	109.7	110.2	110.7	111.2	108.6	109.5	110.0	111.8
Percent Change Annualized	1.2	-0.2	-0.3	1.4	1.7	1.9	1.6	3.9	0.8	0.5	1.7
Capacity Utilization (Percent)	77.6	77.5	77.8	78.1	78.5	78.8	79.1	78.7	77.9	78.3	79.5
Prices											
CPI (1982-84 = 100)	256.3	257.8	258.9	260.0	261.2	262.5	263.9	251.1	255.6	260.7	266.0
Percent Change Annualized	1.8	2.5	1.7	1.7	1.9	2.0	2.1	2.4	1.8	2.0	2.0
Core CPI Index (1982-84 = 100)	264.1	265.6	267.0	268.2	269.6	271.0	272.4	257.6	263.2	268.9	274.6
Percent Change Annualized	3.0	2.2	2.1	1.9	2.0	2.1	2.1	2.1	2.2	2.2	2.1
PCE Price Index (2012 = 100)	109.9	110.5	110.9	111.3	111.8	112.3	112.8	108.1	109.7	111.6	113.6
Percent Change Annualized	1.5	2.2	1.5	1.5	1.6	1.7	1.9	2.1	1.5	1.7	1.8
Core PCE Price Index (2012 = 100)	112.0	112.6	113.1	113.6	114.1	114.6	115.2	109.9	111.7	113.9	116.1
Percent Change Annualized	2.1	2.0	2.0	1.7	1.8	1.8	2.0	1.9	1.7	1.9	1.9
GDP Price Index (2012 = 100)	112.7	113.2	113.7	114.2	114.7	115.3	115.9	110.4	112.4	114.5	116.8
Percent Change Annualized	1.7	1.9	1.9	1.8	1.8	1.9	2.1	2.4	1.8	1.9	2.0
Crude Oil, WTI (\$/Barrel)	56.4	56.9	57.0	56.7	57.0	57.4	58.0	64.8	57.0	57.0	59.0
Labor Markets											
Payroll Jobs (Millions)	151.6	152.2	152.5	152.6	152.9	153.1	153.5	149.1	151.4	152.8	154.0
Percent Change Annualized	1.4	1.5	0.7	0.5	0.6	0.8	0.9	1.7	1.6	0.9	0.8
Unemployment Rate (Percent)	3.6	3.5	3.6	3.7	3.8	3.8	3.8	3.8	3.5	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
Personal Income											
Average Hourly Earnings (\$)	23.59	23.76	24.00	24.20	24.40	24.60	24.81	22.70	23.48	24.30	25.11
Percent Change Annualized	3.9	2.9	4.0	3.5	3.3	3.3	3.3	3.0	3.4	3.5	3.3
Real Disp. Income (2012 Billions \$)	15043	15117	15202	15278	15349	15420	15487	14556	14993	15312	15586
Percent Change Annualized	2.9	2.0	2.3	2.0	1.9	1.9	1.7	4.0	3.0	2.1	1.8
Housing											
Housing Starts (Ths., Ann. Rate)	1282	1380	1406	1429	1434	1424	1426	1250	1282	1423	1433
Ext. Home Sales (Ths., Ann. Rate)	5427	5497	5592	5601	5636	5679	5719	5341	5354	5627	5730
New SF Home Sales (Ths., Ann. Rate)	699	717	741	744	749	743	730	615	687	744	731
Case/Shiller HPI (Jan. 2000 = 100)	210.2	212.5	214.7	216.7	218.6	220.6	222.5	205.7	212.5	220.6	228.1
Percent Change Year Ago	3.2	3.3	3.6	3.8	4.0	3.8	3.6	4.9	3.3	3.8	3.4
Consumer											
Household Economic Stress Index	2.2	2.2	2.2	1.8	1.7	1.8	2.1	0.5	2.0	1.9	2.3
Auto Sales (Millions)	17.0	16.9	16.9	16.8	16.8	16.8	16.9	17.2	16.9	16.8	16.9
Consumer Credit (Billions \$)	4145	4189	4232	4273	4317	4361	4407	4010	4189	4361	4552
Percent Change Year Ago	4.8	4.5	4.4	4.4	4.1	4.1	4.1	4.7	4.5	4.1	4.4
Interest Rates (Percent)											
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	2.19	1.64	1.55	1.55	1.55	1.55	1.60	1.83	2.16	1.55	1.60
3-Month Treasury Bill	2.00	1.59	1.49	1.44	1.40	1.38	1.37	1.95	2.09	1.43	1.37
10-Year Treasury Note	1.79	1.79	1.80	1.82	1.85	1.89	1.92	2.91	2.14	1.84	1.94
30-Year Fixed Mortgage	3.66	3.70	3.57	3.56	3.54	3.52	3.51	4.54	3.93	3.55	3.50
a = actual f = forecast p = preliminary											

Visit <http://www.pnc.com/economicreports> to view the full listing of economic reports published by PNC's economists.

Disclaimer: The material presented is of a general nature and does not constitute the provision of investment or economic advice to any person, or a recommendation to buy or sell any security or adopt any investment strategy. Opinions and forecasts expressed herein are subject to change without notice. Relevant information was obtained from sources deemed reliable. Such information is not guaranteed as to its accuracy. You should seek the advice of an investment professional to tailor a financial plan to your particular needs. © 2020 The PNC Financial Services Group, Inc. All rights reserved.

