July 2020

NATIONAL ECONOMIC OUTLOOK

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Executive Summary

Economy Has Picked Up, But Level of Activity Is Still Far Below Pre-Pandemic Level

- Economic activity in the United States has picked up from its low in April, but remains well below its February, pre-recession level. Consumer spending, homebuilding, home sales, and industrial production are all up over the past couple of months. However, increasing cases of coronavirus in recent weeks could become a drag on the economy.

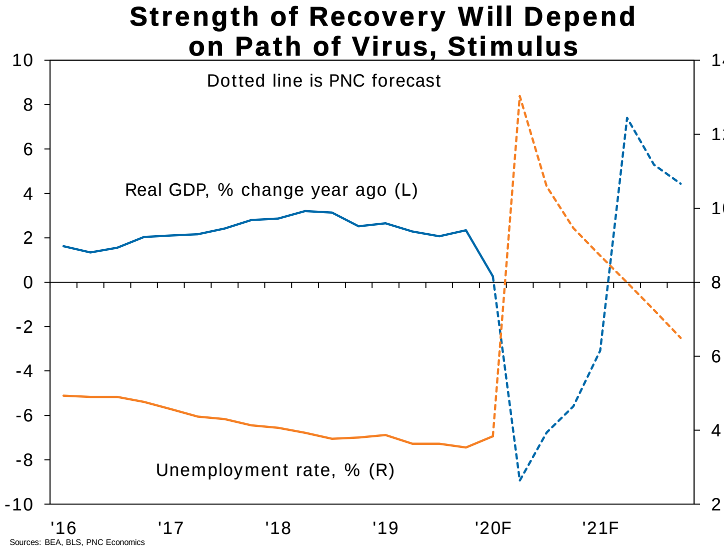
- Most importantly, the United States added a record 4.8 million jobs in June, confirmation that the economy has started to recover from the Viral Recession. This was the most jobs added in a single month in the history of the series, going back to 1939. The previous record was in May 2020, when the economy added 2.70 million jobs according to the survey of employers (revised up from 2.51 million). While the economy has added an astounding 7.5 million jobs over the past two months, it lost almost 22.2 million jobs in March and April combined (April's job losses were revised lower to 20.8 million, still the worst month on record by far). The economy has recovered only about one-third of the job lost over those two months; thus employment is still down by 14.7 million, or 9.6 percent, from its February peak. The unemployment rate dropped to 11.1 percent in June, from 13.3 percent in May and 14.7 percent in April, which was by far the highest rate since the Great Depression. The rapid decline in the unemployment rate over the past two months has been unprecedented, but the rate is still far above its 3.5 percent level in early 2020. It is also above the previous post-World War II high of 10.8 percent in 1982, and the 10.0 percent peak during the Great Recession a decade ago.

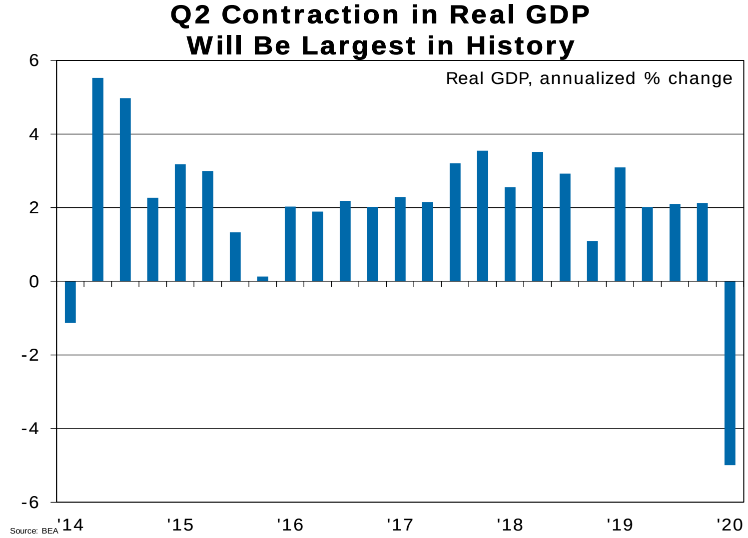
- According to the Federal Reserve's Beige Book, covering activity in the six weeks through July 6, economic activity was picking up through most of the country, but it "remained well below where it was prior to the COVID-19 pandemic." Areas of improvement included consumer spending, manufacturing, professional and business services, transportation, and home sales. Construction was still weak, but had picked up in some parts of the country. Commercial real estate activity was still "at a low level." There was further contraction in the energy sector due to "limited demand and oversupply." The agricultural sector was weak. There was still a huge amount of uncertainty about near-term conditions, "as contacts grappled with how long the COVID-19 pandemic would continue and the magnitude of its economic implications."

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

	1Q'20a	2Q'20f	3Q'20f	4Q'20f	1Q'21f	2Q'21f	2019a	2020f	2021f	2022f
Output & Prices										
Real GDP (*Chained 2012 Billions $*)	18977	17322	17826	18147	18392	18604	19073	18068	18679	19269
Percent Change Annualized	**-5.0**	**-30.6**	**12.2**	**7.4**	**5.5**	**4.7**	**2.3**	**-5.3**	**3.4**	**3.2**
CPI (*1982-84 = 100*)	258.6	256.3	258.1	258.6	259.2	260.0	255.7	257.9	260.6	265.6
Percent Change Annualized	**1.2**	**-3.5**	**2.9**	**0.8**	**1.0**	**1.2**	**1.8**	**0.9**	**1.0**	**1.9**
Labor Markets										
Payroll Jobs (*Millions*)	151.9	133.7	139.8	143.1	144.9	146.3	150.9	142.1	146.5	149.8
Percent Change Annualized	**0.4**	**-40.0**	**19.5**	**9.6**	**5.3**	**3.8**	**1.4**	**-5.8**	**3.1**	**2.2**
Unemployment Rate (*Percent*)	3.8	13.0	10.6	9.5	8.7	8.0	3.7	9.2	7.6	5.7
Interest Rates (Percent)										
Federal Funds	1.23	0.06	0.07	0.07	0.07	0.07	2.16	0.36	0.07	0.10
10-Year Treasury Note	1.37	0.69	0.65	0.73	0.81	0.89	2.15	0.86	0.93	1.29

a = actual f = forecast p = preliminary **Please see the Expanded Table for more forecast series.*





Strength of Recovery from Viral Recession Depends on Path of Virus, Stimulus Efforts

A recovery from the Viral Recession is underway in the United States, but the strength of that recovery remains highly uncertain. PNC is forecasting a solid rebound in the economy over the next few years, with real (inflation-adjusted) GDP returning to its pre-recession level in the first half of 2022 and the unemployment rate falling rapidly. But the strength of the recovery will depend on efforts to contain the spread of the coronavirus and the extent of fiscal stimulus.

In the spring, the initial spread of the coronavirus led consumers to stay at home, states to impose stay-at-home orders, and worksites to shutter. This caused a steep contraction in economic activity as households cut back on their spending, business output plummeted, and tens of millions of workers lost their jobs. PNC expects real GDP to have declined 10 percent (unannualized) in the first half of 2020. To put this in perspective, during the Great Recession a decade ago, until now the worst U.S. economic downturn since the Great Depression, real GDP fell a total of 4 percent over six quarters.

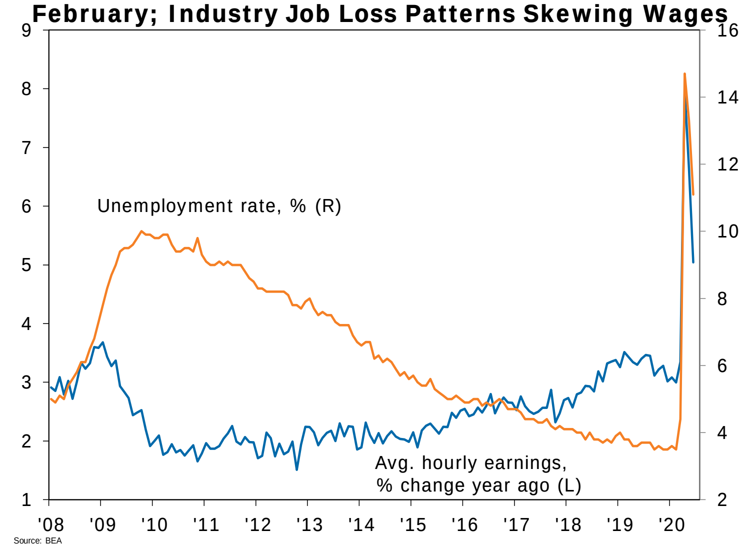
But now nascent recoveries in the global and U.S. economies are underway. In the United States consumer spending has picked up, firms have reopened, and businesses are increasing production as states have relaxed restrictions on economic activity. The labor market has improved dramatically since April, although unemployment is still historically high and layoffs remain exceedingly elevated. PNC expects the economic recovery to continue for at least a few years as conditions gradually return to normal, consumers steadily increase their spending and the unemployed return to work, either to their pre-recession jobs or to new ones. But that forecast depends on two crucial assumptions. The first is that the spread of the coronavirus is contained in the near term, and then a vaccine is developed over the next year. The second is that policymakers provide sufficient fiscal stimulus to support a strong economic recovery.

Both of these assumptions are at risk, however. The pickup in coronavirus cases in many parts of the country is very concerning. Many states are reimposing restrictions on economic activity, although in a more targeted way than earlier in the crisis. But even without state mandates, continued spread of the virus is deterring consumers from spending and weighing heavily on industries such as travel and tourism, restaurants, and in-person entertainment. As long as people are reluctant to be in large groups, the recovery will be soft.

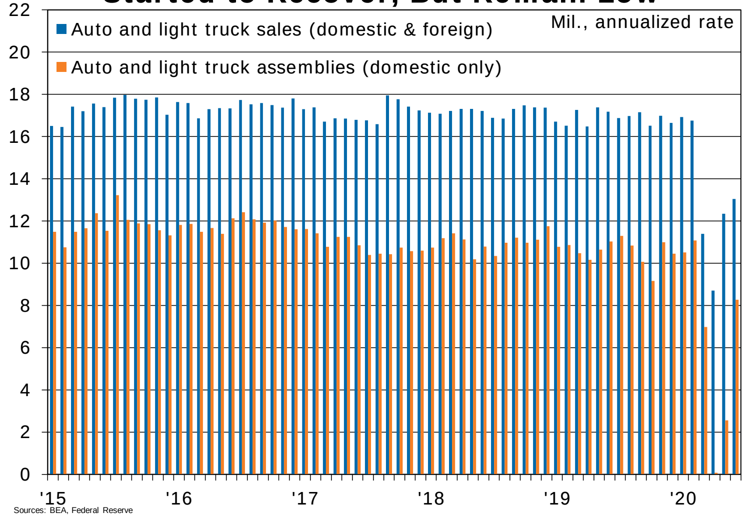
In addition, fiscal stimulus is at risk of fading. Early in the crisis Congress passed legislation providing one-time stimulus payments to most households, made more people eligible for unemployment insurance, and increased benefits for all UI recipients by a flat $600 per week, on top of regular state payments. This provided a huge boost to household income, allowing consumers to increase their spending in May and again in June despite record-high unemployment. But the boost from the stimulus payments is fading, and the extra $600 in unemployment is set to expire on July 31. If these payments do expire aggregate household income would fall by about $75 billion a month, which is likely to lead to a drop in consumer spending and weigh on the recovery. Some in Congress are balking at providing more stimulus, concerned about the rising national debt and labor supply disincentives; some of the unemployed have a higher income now than they did while working. But with interest rates on Treasury securities near record lows it makes sense for the federal government to borrow now to ensure a strong economic recovery that would make it easier for the government to meet its obligations over the longer run. And Congress should be able to structure extra aid to the unemployed to ensure that they have also have an incentive to look for work. PNC's July forecast assumes that Congress does provide additional fiscal stimulus, although at a lower level than over the past few months, allowing for a strong recovery in consumer spending, which makes up two-thirds of U.S. GDP.

Assuming the spread of the virus is contained and Congress passes additional fiscal stimulus, PNC's baseline forecast calls for economic growth that is well above its long-run trend in the second half of 2020 and throughout 2021. Even so, real GDP is not expected to return to its pre-recession level until the first half of 2022. The unemployment rate will fall below 10 percent later this year, and end 2021 at above 6 percent and 2022 at above 5 percent. Inflation will remain consistently below the Federal Reserve's 2 percent objective in the near term as excess capacity throughout the economy limits businesses' pricing power, allowing the central bank to maintain highly expansionary monetary policy, including keeping the fed funds rate in its current near-zero range into 2023.

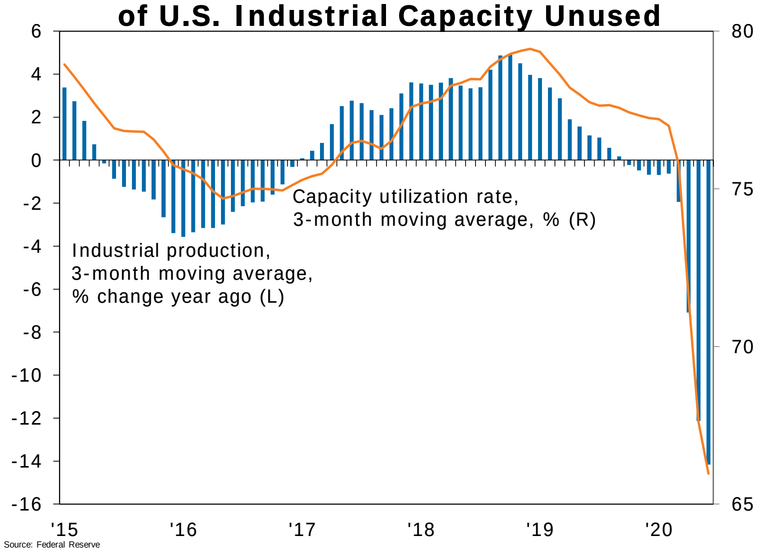
Unemployment Rate Fell in June But Still Way Up from February; Industry Job Loss Patterns Skewing Wages



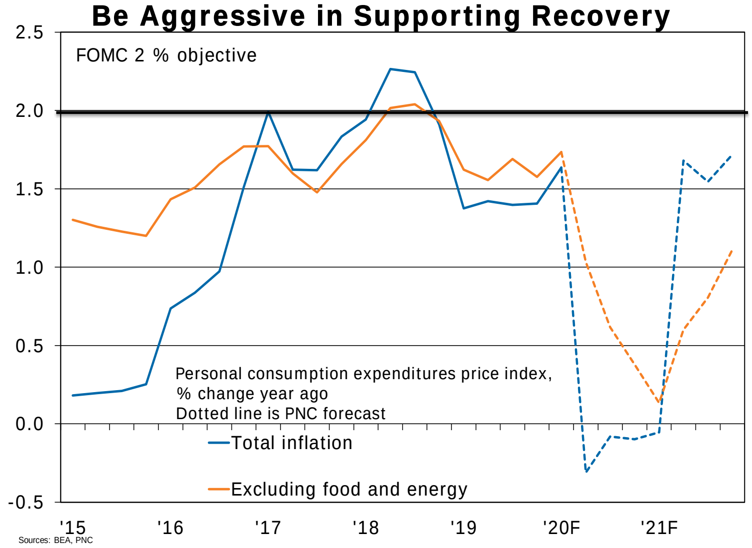
Auto Sales and Production Have Started to Recover, But Remain Low



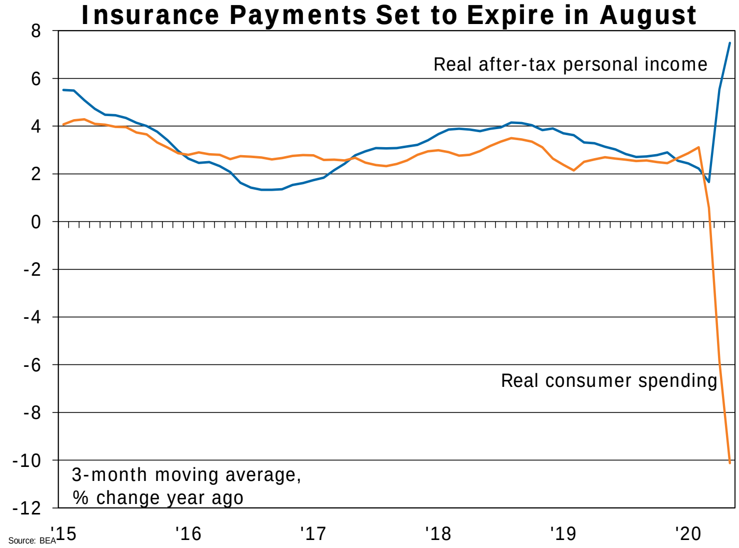
Little Pricing Power With One-Third of U.S. Industrial Capacity Unused



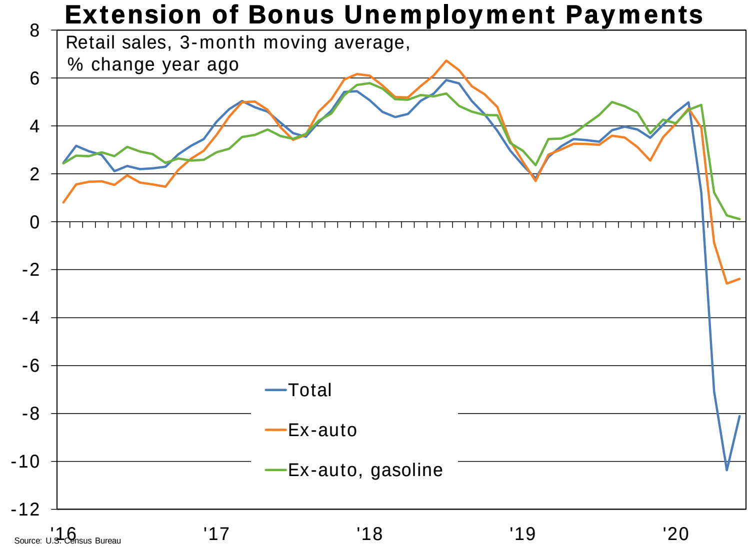
With Very Low Inflation, Policymakers Should Be Aggressive in Supporting Recovery



Income Gains at Risk with Bonus Unemployment Insurance Payments Set to Expire in August



Continued Recovery in Retail Sales Depends on Extension of Bonus Unemployment Payments



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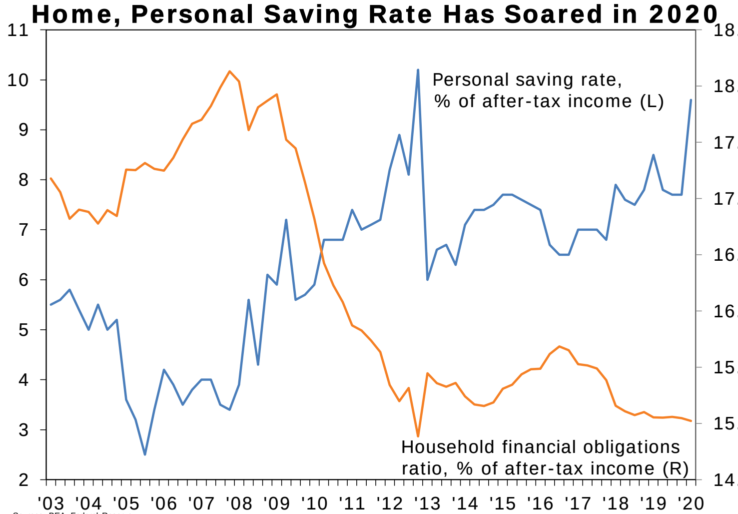
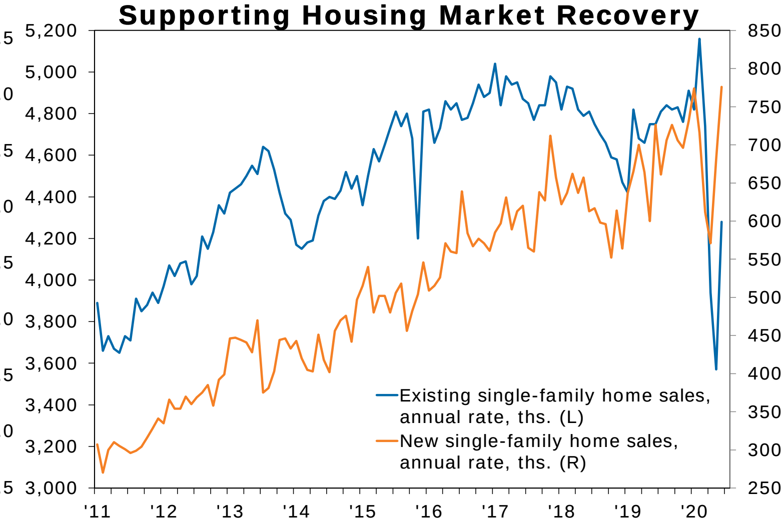
With Stimulus Payments, Consumers Staying at Home, Personal Saving Rate Has Soared in 2020



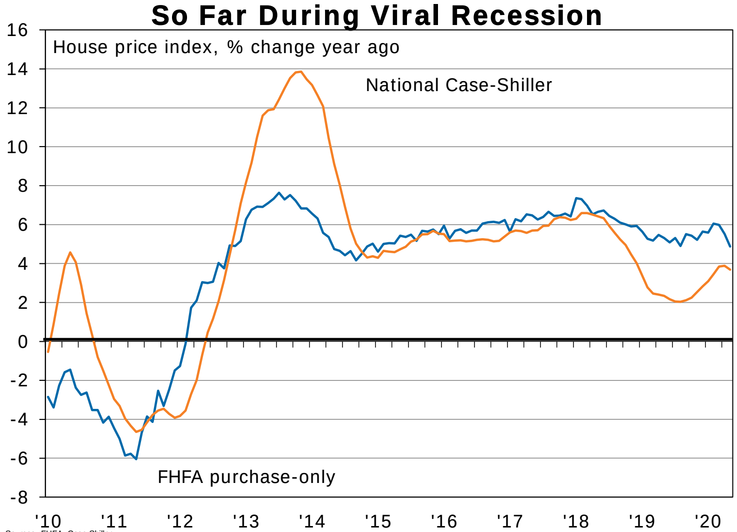
Sources: BEA, Federal Reserve

Record-Low Mortgage Rates Supporting Housing Market Recovery



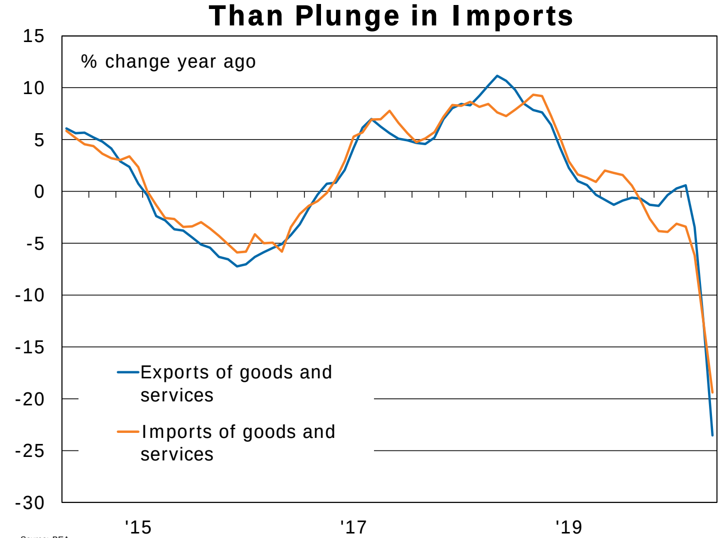
Sources: National Association of Realtors, Census Bureau

House Prices Have Held Up So Far During Viral Recession



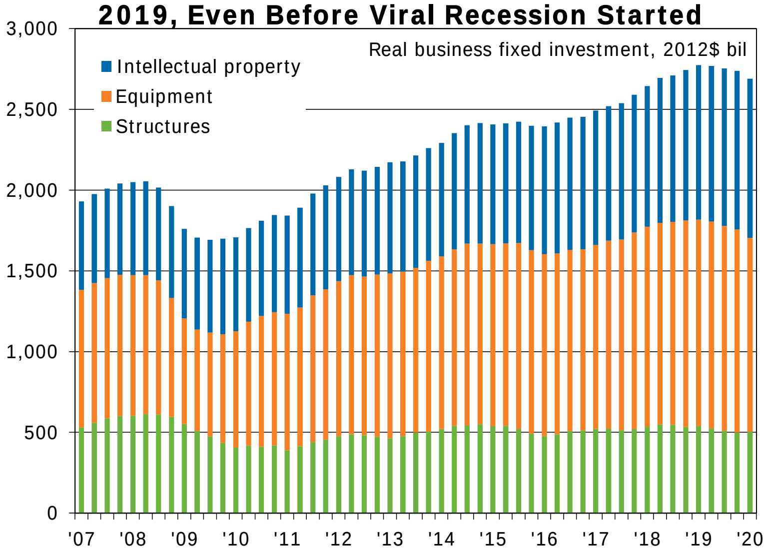
Sources: FHFA, Case-Shiller

Plunge in Exports Greater Than Plunge in Imports



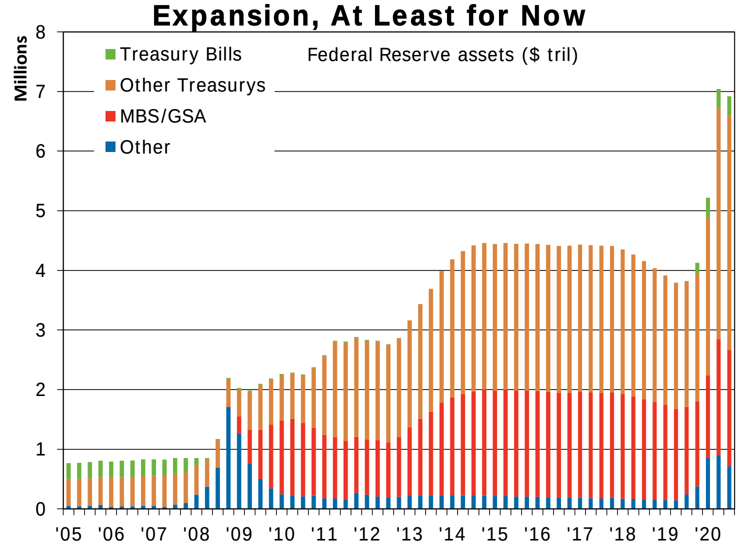
Source: BEA

Business Fixed Investment Was Falling Throughout 2019, Even Before Viral Recession Started



Source: BEA

Halt in Fed Balance Sheet Expansion, At Least for Now



Source: Federal Reserve

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Baseline U.S. Economic Outlook, Expanded Table

	1Q'20a	2Q'20f	3Q'20f	4Q'20f	1Q'21f	2Q'21f	2019a	2020f	2021f	2022f
Output										
Nominal GDP (Billions $)	21540	19645	20231	20641	20978	21286	21428	20514	21427	22539
Percent Change Annualized	**-3.4**	**-30.8**	**12.5**	**8.3**	**6.7**	**6.0**	**4.1**	**-4.3**	**4.5**	**5.2**
Real GDP (Chained 2012 Billions $)	18977	17322	17826	18147	18392	18604	19073	18068	18679	19269
Percent Change Annualized	**-5.0**	**-30.6**	**12.2**	**7.4**	**5.5**	**4.7**	**2.3**	**-5.3**	**3.4**	**3.2**
Pers. Consumption Expenditures	13179	11833	12204	12486	12713	12904	13280	12425	12960	13341
Percent Change Annualized	**-6.8**	**-35.0**	**13.1**	**9.6**	**7.5**	**6.1**	**2.6**	**-6.4**	**4.3**	**2.9**
Nonresidential Fixed Investment	2681	2484	2506	2544	2576	2602	2748	2554	2622	2809
Percent Change Annualized	**-6.4**	**-26.3**	**3.6**	**6.2**	**5.1**	**4.2**	**2.1**	**-7.1**	**2.7**	**7.1**
Residential Investment	629	583	618	636	640	635	594	617	632	629
Percent Change Annualized	**18.2**	**-26.0**	**25.8**	**12.7**	**2.4**	**-3.2**	**-1.5**	**3.8**	**2.4**	**-0.4**
Change in Private Inventories	-75	-201	-168	-122	-86	-60	67	-141	-42	50
Net Exports	-817	-822	-818	-902	-963	-986	-954	-839	-1007	-1093
Government Expenditures	3340	3404	3444	3465	3472	3469	3299	3413	3475	3494
Percent Change Annualized	**1.1**	**7.9**	**4.8**	**2.4**	**0.9**	**-0.4**	**2.3**	**3.5**	**1.8**	**0.6**
Industrial Prod. Index (2012 = 100)	107.6	93.7	95.1	97.7	98.9	99.7	109.5	98.5	100.0	102.5
Percent Change Annualized	**-6.9**	**-42.6**	**6.2**	**11.1**	**5.0**	**3.4**	**0.9**	**-10.0**	**1.5**	**2.5**
Capacity Utilization (Percent)	75.6	66.0	67.4	70.0	71.7	73.2	77.8	69.7	73.8	77.5
Prices										
CPI (1982-84 = 100)	258.6	256.3	258.1	258.6	259.2	260.0	255.7	257.9	260.6	265.6
Percent Change Annualized	**1.2**	**-3.5**	**2.9**	**0.8**	**1.0**	**1.2**	**1.8**	**0.9**	**1.0**	**1.9**
Core CPI Index (1982-84 = 100)	266.8	265.7	265.8	266.1	266.7	267.5	263.2	266.1	268.0	272.5
Percent Change Annualized	**2.0**	**-1.6**	**0.2**	**0.4**	**0.9**	**1.2**	**2.2**	**1.1**	**0.7**	**1.7**
PCE Price Index (2012 = 100)	110.7	109.2	109.8	110.2	110.6	111.0	109.7	110.0	111.3	113.7
Percent Change Annualized	**1.3**	**-5.2**	**2.4**	**1.3**	**1.5**	**1.5**	**1.4**	**0.3**	**1.2**	**2.1**
Core PCE Price Index (2012 = 100)	112.8	112.6	112.7	112.8	113.0	113.2	111.7	112.7	113.5	115.3
Percent Change Annualized	**1.7**	**-0.9**	**0.4**	**0.3**	**0.7**	**0.9**	**1.6**	**0.9**	**0.7**	**1.6**
GDP Price Index (2012 = 100)	113.5	113.4	113.5	113.7	114.1	114.4	112.3	113.5	114.7	117.0
Percent Change Annualized	**1.6**	**-0.3**	**0.3**	**0.9**	**1.1**	**1.3**	**1.7**	**1.1**	**1.0**	**2.0**
S&P Stock Price Index	3069.3	2928.8	3057.0	3006.5	3111.5	3165.0	2912.5	3015.4	3190.5	3390.4
Crude Oil, WTI ($/Barrel)	46.3	28.1	40.3	42.8	44.9	46.7	57.0	39.3	47.6	60.0
Labor Markets										
Payroll Jobs (Millions)	151.9	133.7	139.8	143.1	144.9	146.3	150.9	142.1	146.5	149.8
Percent Change Annualized	**0.4**	**-40.0**	**19.5**	**9.6**	**5.3**	**3.8**	**1.4**	**-5.8**	**3.1**	**2.2**
Unemployment Rate (Percent)	3.8	13.0	10.6	9.5	8.7	8.0	3.7	9.2	7.6	5.7
Average Weekly Hours, Prod. Works.	33.6	33.8	33.8	33.7	33.6	33.7	33.6	33.7	33.7	33.8
Personal Income										
Average Hourly Earnings ($)	24.0	24.9	24.9	24.5	24.2	24.1	23.5	24.6	24.2	24.6
Percent Change Annualized	**3.0**	**17.1**	**0.0**	**-6.8**	**-5.5**	**-1.4**	**3.5**	**4.6**	**-1.8**	**1.9**
Real Disp. Income (2012 Billions $)	15124	16467	15286	14877	14554	14155	14979	15439	14243	14374
Percent Change Annualized	**0.9**	**40.5**	**-25.8**	**-10.3**	**-8.4**	**-10.5**	**2.9**	**3.1**	**-7.7**	**0.9**
Housing										
Housing Starts (*Ths., Ann. Rate*)	1484	1044	1170	1419	1505	1415	1295	1279	1420	1475
Ext. Home Sales (*Ths., Ann Rate*)	5483	4583	6280	6482	6432	5919	5330	5707	5844	4644
New SF Home Sales (*Ths., Ann Rate*)	700.7	430.3	653.0	766.4	806.0	744.9	684.8	637.6	753.0	759.1
Case/Shiller HPI (*Jan. 2000 = 100*)	215.8	213.1	210.5	209.3	208.3	209.8	212.7	209.3	216.2	223.1
Percent Change Year Ago	**4.2**	**2.2**	**0.2**	**-1.6**	**-3.5**	**-1.6**	**3.4**	**-1.6**	**3.3**	**3.2**
Consumer										
Auto Sales (Millions)	15.0	11.4	15.0	15.9	16.5	16.6	16.9	14.3	16.4	16.0
Consumer Credit (Billions $)	4202	4043	3987	3986	4054	4109	4186	3986	4214	4444
Percent Change Year Ago	**3.8**	**-1.2**	**-3.8**	**-4.8**	**-3.5**	**1.6**	**4.6**	**-4.8**	**5.7**	**5.5**
Interest Rates (Percent)										
Prime Rate	4.40	3.25	3.25	3.25	3.25	3.25	**5.29**	**3.54**	**3.25**	**3.25**
Federal Funds	1.23	0.06	0.07	0.07	0.07	0.07	**2.16**	**0.36**	**0.07**	**0.10**
3-Month Treasury Bill	1.08	0.14	0.12	0.12	0.12	0.12	**2.06**	**0.37**	**0.12**	**0.12**
10-Year Treasury Note	1.37	0.69	0.65	0.73	0.81	0.89	**2.15**	**0.86**	**0.93**	**1.29**
30-Year Fixed Mortgage	3.51	3.23	2.99	2.96	2.95	2.95	**3.93**	**3.17**	**2.95**	**3.06**

a = actual f = forecast p = preliminary

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