

NATIONAL ECONOMIC OUTLOOK

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Executive Summary

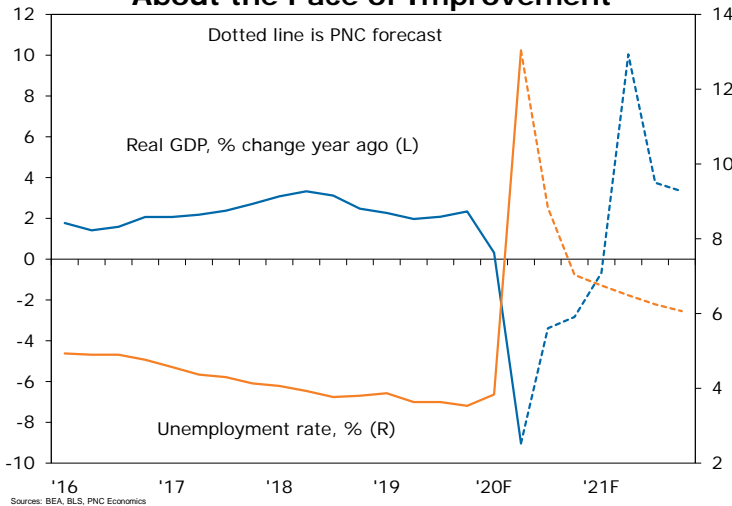
Solid, But Slower September Job Growth; Housing Market Driver of Recovery

- In the last employment report before the November election, the U.S. economy added 661,000 jobs in September, according to a survey of employers. Job growth remains solid as the economy continues to recover from the Viral Recession, but the pace of job gains has steadily slowed since June. Job growth in August was revised higher by about 100,000 to 1.489 million, while July job growth was revised slightly lower to 1.761 million. After losing 22.2 million jobs in March and April, the U.S. has added back 11.4 million, or just over one-half of those lost.
- The unemployment rate fell to 7.9 percent in September, from 8.4 percent in August and a peak of 14.7 percent in April. But the rate of decline in the unemployment rate has also been slowing. And the drop in the unemployment rate in September came for the wrong reason, largely from an exodus of discouraged workers from the job market. Almost 700,000 people dropped out of the labor force in September. The labor force participation rate, the share of adults either working or looking for work, fell to 61.4 percent in September from 61.7 percent in August, a worrisome sign. In particular, the labor force participation rate for women fell sharply from 56.1 percent in August to 55.6 percent in September, likely due to childcare difficulties; the corresponding rate for men fell by only 0.1 percentage point over the month. A permanent reduction in women's labor force participation because of the pandemic would be a significant drag on long-run economic growth.
- Housing starts rose 1.9 percent in September to 1.415 million at a seasonally-adjusted annualized rate, including an 8.5 percent increase in single-family starts, to 1.108 million. New residential construction permits rose 5.2 percent in September to 1.533 million; this is the highest level of permits since early 2007, when the housing boom was turning into the housing bust. Single-family permits rose almost 8 percent over the month. Homebuilding is leading the nascent recovery from the Viral Recession. Starts and permits plummeted in the late winter and early spring as the pandemic shuttered construction sites, but have since rebounded sharply as homebuilding has resumed. Permits, which are a leading indicator of residential construction, are at their highest levels in more than a decade, with single-family permits showing particular strength.

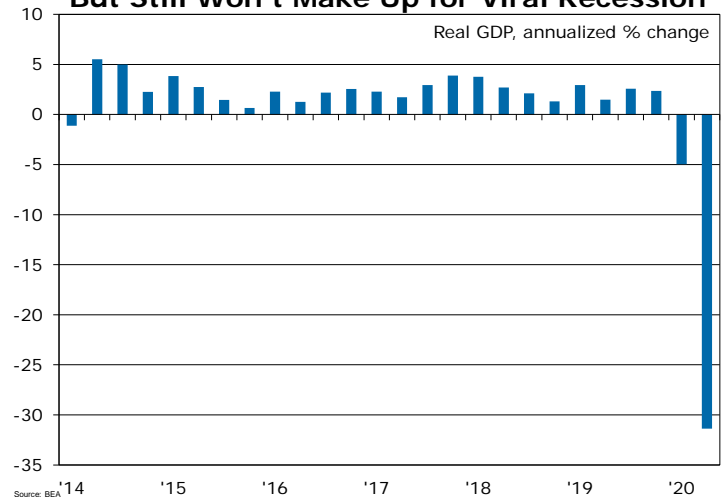
Baseline U.S. Economic Outlook, Summary Table*

	2Q'20a	3Q'20f	4Q'20f	1Q'21f	2Q'21f	3Q'21f	2019a	2020f	2021f	2022f
Output & Prices										
Real GDP (Chained 2012 Billions \$)	17303	18493	18709	18882	19041	19186	19092	18379	19110	19610
Percent Change Annualized	-31.4	30.5	4.8	3.7	3.4	3.1	2.2	-3.7	4.0	2.6
CPI (1982-84 = 100)	256.3	259.5	260.6	261.4	262.5	263.9	255.7	258.7	263.2	268.5
Percent Change Annualized	-3.5	5.2	1.6	1.3	1.7	2.1	1.8	1.2	1.7	2.0
Labor Markets										
Payroll Jobs (Millions)	133.7	140.8	143.0	144.0	144.8	145.7	150.9	142.3	145.3	148.5
Percent Change Annualized	-40.0	22.9	6.4	2.8	2.4	2.4	1.4	-5.7	2.1	2.3
Unemployment Rate (Percent)	13.0	8.8	7.0	6.8	6.5	6.2	3.7	8.2	6.4	5.6
Interest Rates (Percent)										
Federal Funds	0.06	0.09	0.07	0.07	0.07	0.07	2.16	0.37	0.07	0.07
10-Year Treasury Note	0.68	0.65	0.76	0.82	0.84	0.86	2.14	0.87	0.85	0.96
a = actual f = forecast p = preliminary *Please see the Expanded Table for more forecast series.										

Recovery Underway, But Lots of Uncertainty About the Pace of Improvement



Third Quarter Real GDP Growth to Set a Record But Still Won't Make Up for Viral Recession



PNC Small and Mid-Size Business Survey: PPP a Lifeline, More Stimulus Needed

The economic recovery from the Viral Recession continues, but the path ahead remains highly uncertain. The strength of the recovery will depend on the progression of the pandemic and whether Congress appropriates more fiscal stimulus. But it will also depend on how well small and mid-sized businesses weather the ongoing economic turmoil. These businesses have fewer resources than their larger counterparts, including smaller reserves and less access to credit. If the pandemic and soft economy force many small and mid-sized businesses to close, the recovery would be weaker and the improvement in the job market slower.

According to PNC's recently released semiannual survey of small and mid-sized businesses, assistance from the federal government in the early stages of the pandemic was extremely helpful. About one-half of the businesses surveyed applied for the Paycheck Protection Program, which provided very low interest loans to small and mid-sized businesses to cover payrolls, rent and utilities; if the business is able to maintain its workforce and pay levels, some or all of the loan may be forgiven. Of those firms that applied for PPP funding, 97 percent reported that the funding was important to their business, including 69 percent who reported that it was extremely important.

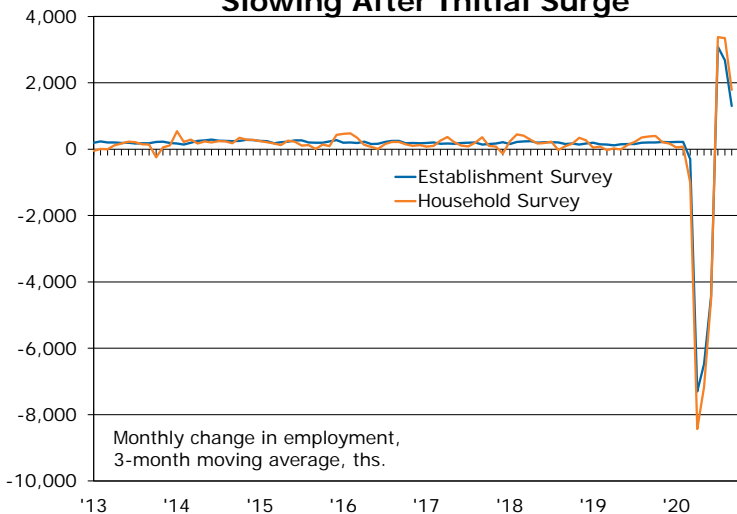
But as vital to economic recovery as the PPP program has been, many small and medium-sized businesses still need additional aid if they are to survive the pandemic and rocky economy. Of the businesses surveyed, 15 percent reported that they are facing major challenges to stay in business, while another 42 percent reported that they are facing challenges but are stable. Nearly one-third (31 percent) of the businesses in the survey reported that they could only operate for a year or less under current economic conditions, including 16 percent who reported that they could operate for only six months or less. Three-quarters of those surveyed reported that they do not expect conditions to go back to normal over the next six months, and almost one-quarter expect it will take more than a year; 20 percent do not think conditions will ever return to normal. Not surprisingly, given the concern about the recovery, 55 percent of the respondents said that additional stimulus was important for their own businesses, including 32 percent that said it was very important.

Exactly one-half of businesses reported a decline in sales compared to pre-COVID-19, with almost one-quarter (24 percent) reporting that sales were down by more than 50 percent. Only 15 percent of respondents reported higher sales compared to before the pandemic. The drop in business activity over recent months forced many firms to take drastic measures including workforce reductions; nearly four in ten have cut workers since the start of the pandemic, although 87 percent of those considered the decrease as temporary or a furlough. In fact, a majority (58 percent) of the businesses that had temporary layoffs or furloughs have already begun rehiring. Sales and profit expectations for the next six months are down significantly compared to the spring survey, which was conducted before the pandemic hit the U.S. Just over one-third (35 percent) expect an increase in sales over the next half-year, down from nearly six in ten in the spring. Only 30 percent expect profits to increase over the next six months, down from almost one-half in the spring.

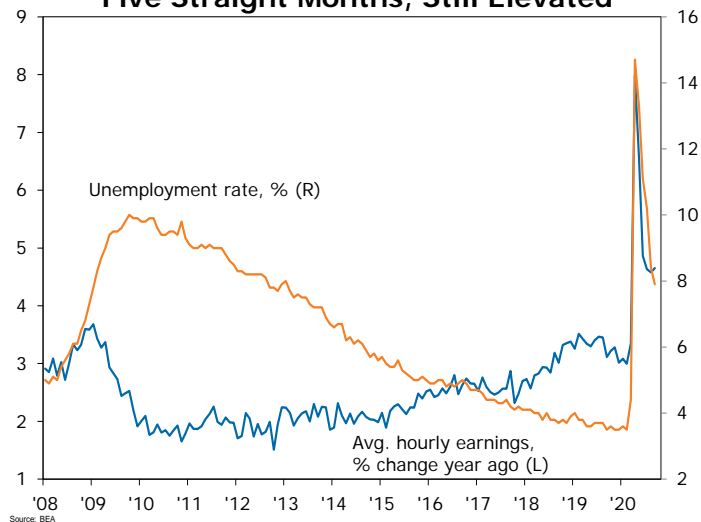
Businesses are making major changes to their operations including increased use of technology, according to the survey, eight in ten (79 percent) reported that they have made adaptations to their business in response to COVID-19, including safety changes (69 percent) in the form of new policies and procedures or physical modifications; one-third have adopted work-from-home policies. One-half of businesses reported increased use of technology since the outbreak began. The pandemic has also forced many to shake up their product lineups to better align with consumers' new habits, with one-third of business owners making product-related changes.

Thanks to support from fiscal stimulus and reopenings, real GDP growth in the third quarter will set a record, at better than 30 percent at an annualized rate. But growth will slow substantially in the fourth quarter and throughout 2021. Real GDP is not expected to return to its pre-recession level until the end of 2021. The unemployment rate will fall to around 7 percent at the end of this year and 6 percent at the end of 2021. Given that the rate was 3.5 percent in early 2020, the economy will be dealing with elevated unemployment for years to come. 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. Risks to the outlook are weighted to the downside, including continued spread of the coronavirus, an inability of Congress to pass additional fiscal stimulus, and uncertainty surrounding the presidential election.

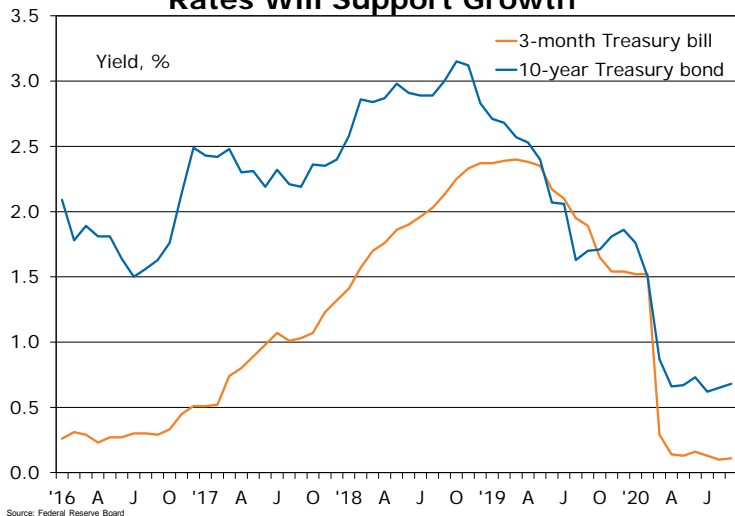
Job Growth Still Solid, But Slowing After Initial Surge



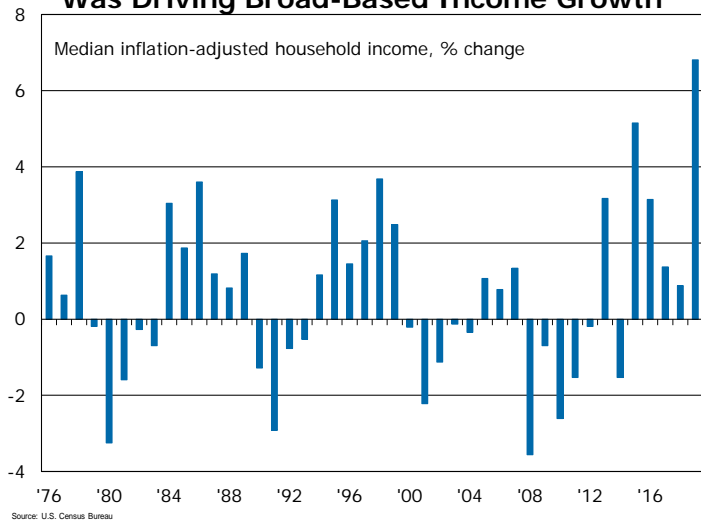
Unemployment Rate Has Fallen for Five Straight Months, Still Elevated



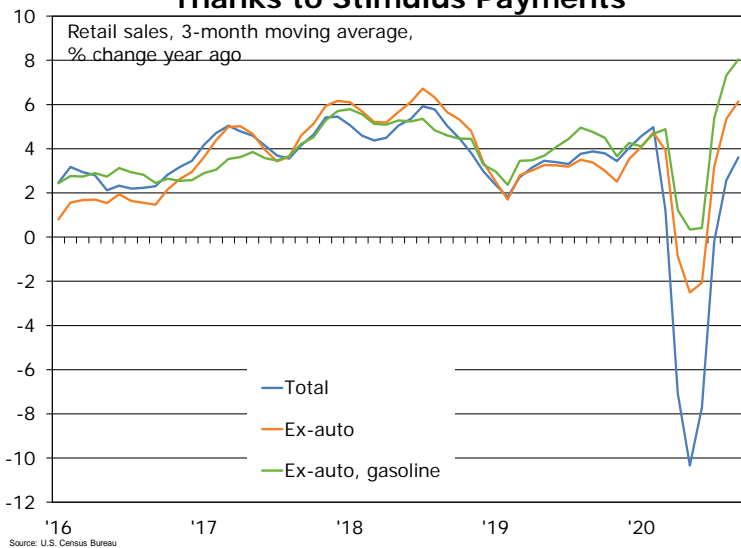
Continued Rock-Bottom Interest Rates Will Support Growth



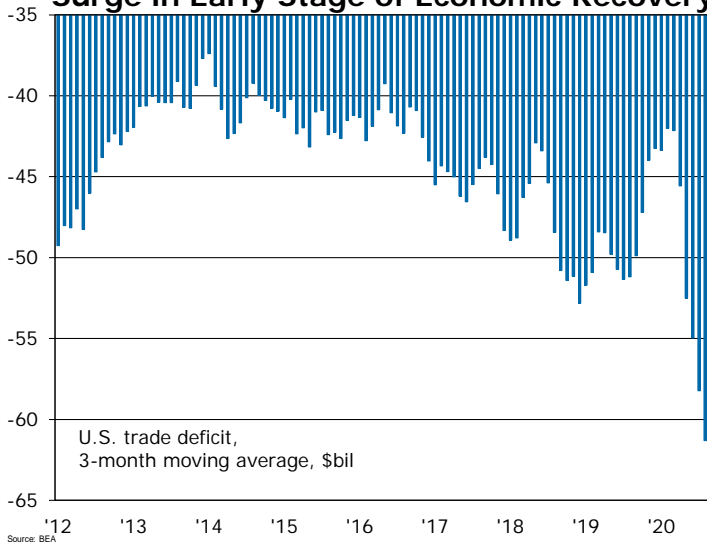
Ahead of Viral Recession, Low Unemployment Was Driving Broad-Based Income Growth



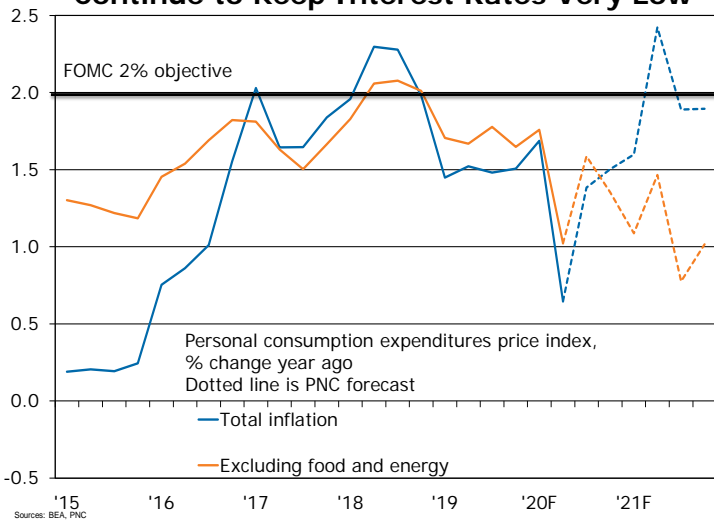
Retail Sales Rebounding Thanks to Stimulus Payments



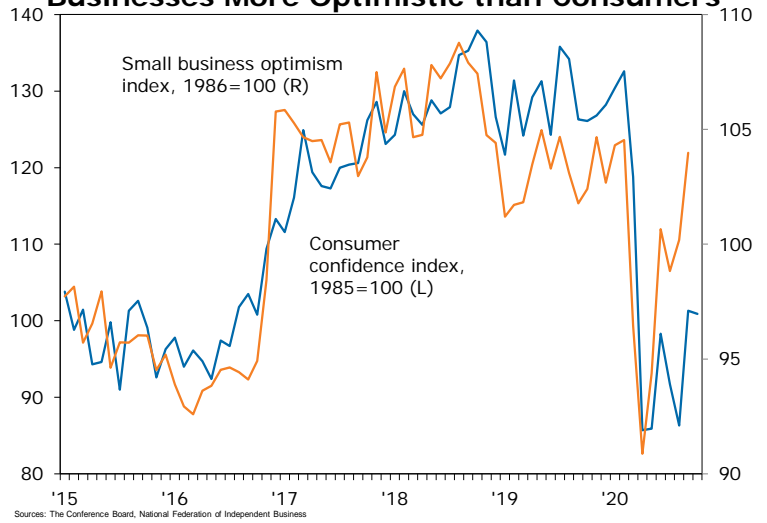
Trade Deficit Near a Record High as Imports Surge in Early Stage of Economic Recovery



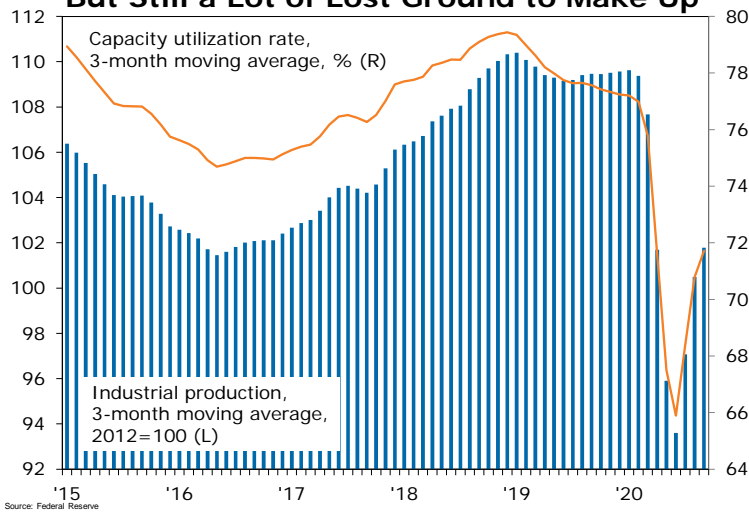
With Minimal Inflation Expected, Fed Can Continue to Keep Interest Rates Very Low



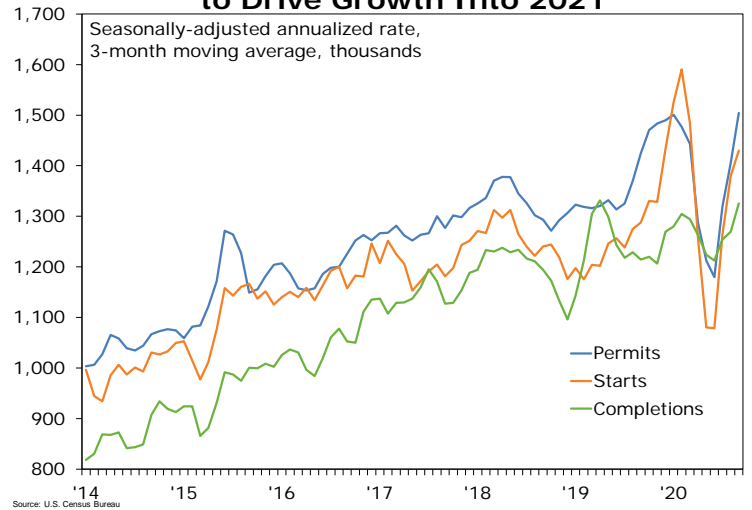
Businesses More Optimistic than Consumers



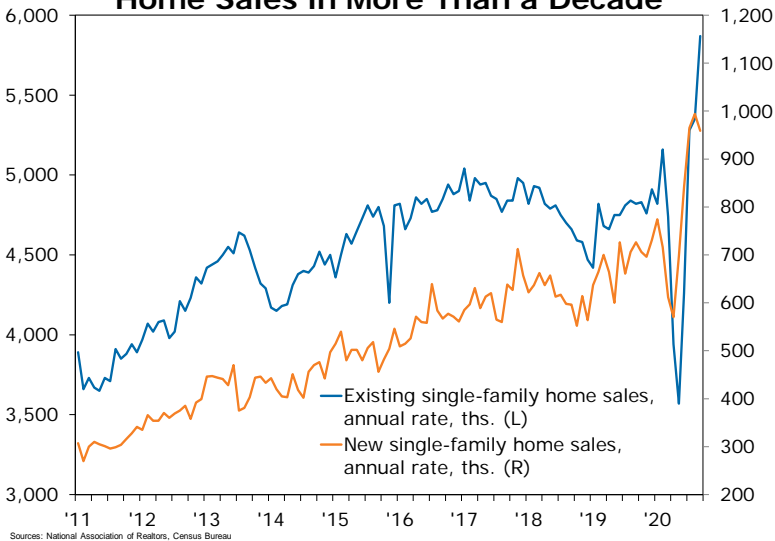
Beginnings of Recovery in Industrial Sector, But Still a Lot of Lost Ground to Make Up



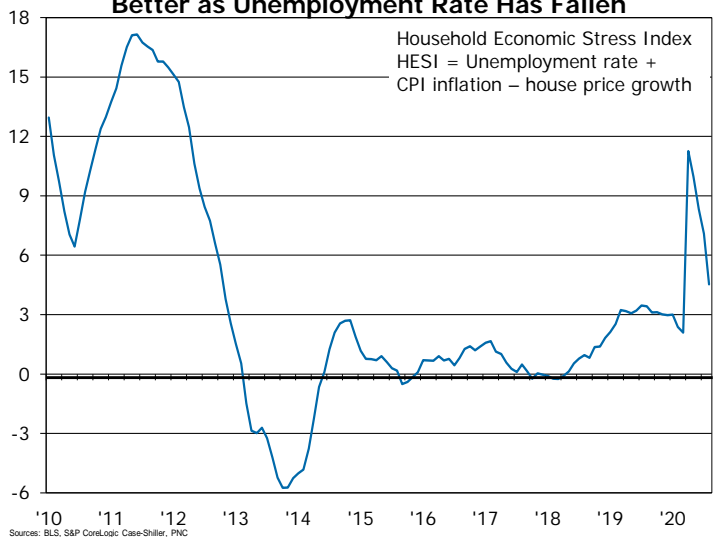
Homebuilding Will Continue to Drive Growth Into 2021



With Record-Low Mortgage Rates, Strongest Home Sales in More Than a Decade



Household Economic Stress Still High, But Somewhat Better as Unemployment Rate Has Fallen



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PNC Economics Group
October 2020

Baseline U.S. Economic Outlook, Expanded Table

	2Q'20a	3Q'20f	4Q'20f	1Q'21f	2Q'21f	3Q'21f	2019a	2020f	2021f	2022f
Output										
Nominal GDP (Billions \$)	19520	21035	21390	21703	22005	22298	21433	20877	22147	23202
Percent Change Annualized	-32.8	34.8	6.9	6.0	5.7	5.4	4.0	-2.6	6.1	4.8
Real GDP (Chained 2012 Billions \$)	17303	18493	18709	18882	19041	19186	19092	18379	19110	19610
Percent Change Annualized	-31.4	30.5	4.8	3.7	3.4	3.1	2.2	-3.7	4.0	2.6
Pers. Consumption Expenditures	11860	12969	13127	13271	13399	13508	13240	12769	13446	13763
Percent Change Annualized	-33.2	43.0	5.0	4.5	3.9	3.3	2.4	-3.6	5.3	2.4
Nonresidential Fixed Investment	2526	2471	2479	2506	2536	2575	2777	2552	2559	2732
Percent Change Annualized	-27.2	-8.3	1.3	4.3	4.9	6.3	2.9	-8.1	0.3	6.8
Residential Investment	571	662	681	706	719	720	602	638	717	728
Percent Change Annualized	-35.6	80.5	12.2	15.0	7.8	0.7	-1.7	6.1	12.3	1.6
Change in Private Inventories	-287	2	15	20	29	31	49	-88	25	34
Net Exports	-775	-1023	-994	-990	-993	-988	-918	-895	-988	-999
Government Expenditures	3369	3373	3362	3331	3312	3301	3304	3363	3312	3314
Percent Change Annualized	2.5	0.5	-1.3	-3.6	-2.2	-1.3	2.3	1.8	-1.5	0.1
Industrial Prod. Index (2012 = 100)	93.5	101.8	103.9	104.6	105.2	105.8	109.5	101.7	105.5	107.5
Percent Change Annualized	-43.2	40.6	8.4	2.7	2.3	2.5	0.9	-7.1	3.7	1.9
Capacity Utilization (Percent)	65.8	71.7	73.7	74.9	76.1	77.4	77.8	71.8	76.7	80.0
Prices										
CPI (1982-84 = 100)	256.3	259.5	260.6	261.4	262.5	263.9	255.7	258.7	263.2	268.5
Percent Change Annualized	-3.5	5.2	1.6	1.3	1.7	2.1	1.8	1.2	1.7	2.0
Core CPI Index (1982-84 = 100)	265.7	268.6	268.9	269.4	270.1	271.2	263.2	267.5	270.7	274.2
Percent Change Annualized	-1.6	4.4	0.5	0.8	1.0	1.6	2.2	1.6	1.2	1.3
PCE Price Index (2012 = 100)	110.4	111.6	112.2	112.7	113.1	113.7	109.9	111.3	113.5	115.8
Percent Change Annualized	-1.6	4.4	2.0	1.7	1.6	2.2	1.5	1.3	2.0	2.1
Core PCE Price Index (2012 = 100)	112.8	114.0	114.1	114.3	114.5	114.9	111.9	113.5	114.7	116.2
Percent Change Annualized	-0.8	4.2	0.4	0.6	0.7	1.4	1.7	1.4	1.1	1.3
GDP Price Index (2012 = 100)	112.8	113.7	114.3	114.9	115.6	116.2	112.3	113.6	115.9	118.3
Percent Change Annualized	-2.1	3.3	2.1	2.2	2.2	2.3	1.8	1.2	2.0	2.1
S&P Stock Price Index	2928.8	3321.6	3304.9	3322.4	3352.4	3381.2	2912.5	3156.1	3365.3	3460.5
Crude Oil, WTI (\$/Barrel)	28.1	40.9	43.5	44.7	45.8	46.9	57.0	39.7	46.4	54.5
Labor Markets										
Payroll Jobs (Millions)	133.7	140.8	143.0	144.0	144.8	145.7	150.9	142.3	145.3	148.5
Percent Change Annualized	-40.0	22.9	6.4	2.8	2.4	2.4	1.4	-5.7	2.1	2.3
Unemployment Rate (Percent)	13.0	8.8	7.0	6.8	6.5	6.2	3.7	8.2	6.4	5.6
Average Weekly Hours, Prod. Works.	33.9	34.0	33.9	33.8	33.7	33.7	33.6	33.8	33.7	33.8
Personal Income										
Average Hourly Earnings (\$)	24.9	24.7	24.6	24.4	24.3	24.2	23.5	24.6	24.3	24.5
Percent Change Annualized	17.0	-3.2	-1.6	-3.6	-2.5	-1.5	3.5	4.5	-1.3	1.0
Real Disp. Income (2012 Billions \$)	16572	15733	15451	15222	15034	14931	14883	15704	15033	15213
Percent Change Annualized	46.6	-18.8	-7.0	-5.8	-4.8	-2.7	2.2	5.5	-4.3	1.2
Housing										
Housing Starts (Ths., Ann. Rate)	1079	1430	1537	1598	1523	1519	1295	1383	1540	1572
Ext. Home Sales (Ths., Ann Rate)	4313	6127	5610	5732	5841	5709	5330	5383	5732	5215
New SF Home Sales (Ths., Ann Rate)	703.0	1235.2	1310.5	1510.7	1505.5	1485.8	684.8	987.3	1496.3	1451.8
Case/Shiller HPI (Jan. 2000 = 100)	217.9	220.7	221.2	221.7	222.1	222.4	212.7	221.2	222.5	225.9
Percent Change Year Ago	4.4	5.1	4.0	2.7	1.9	0.8	3.5	4.0	0.6	1.5
Consumer										
Auto Sales (Millions)	11.3	15.4	16.3	17.0	17.5	17.4	17.0	14.5	17.3	16.6
Consumer Credit (Billions \$)	4137	4161	4166	4251	4314	4374	4185	4166	4432	4696
Percent Change Year Ago	1.1	0.4	-0.5	1.3	4.3	5.1	4.6	-0.5	6.4	6.0
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	0.06	0.09	0.07	0.07	0.07	0.07	2.16	0.37	0.07	0.07
3-Month Treasury Bill	0.12	0.10	0.11	0.12	0.12	0.12	2.09	0.36	0.12	0.12
10-Year Treasury Note	0.68	0.65	0.76	0.82	0.84	0.86	2.14	0.87	0.85	0.96
30-Year Fixed Mortgage	3.23	2.95	2.82	2.79	2.77	2.76	3.93	3.13	2.76	2.74
a = actual f = forecast p = preliminary										

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