September 2020

# NATIONAL ECONOMIC OUTLOOK

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## Executive Summary

**Fed to Keep the Pedal to the Metal; Labor Market Recovery Continues, Although Job Growth Is Slowing**

- The Federal Open Market Committee is implementing the new monetary policy framework it put in place in August and has announced a more aggressive policy stance. The FOMC said in its September monetary policy that it expects to keep its short-term policy interest rate, the fed funds rate, in its current range of 0 to 0.25 percent until "inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time." This promise to keep the fed funds rate extremely low, until inflation gets to 2 percent, is intended to reassure financial markets that monetary policy will remain highly aggressive in the near term; this will put downward pressure on medium- and long-term interest rates as well.

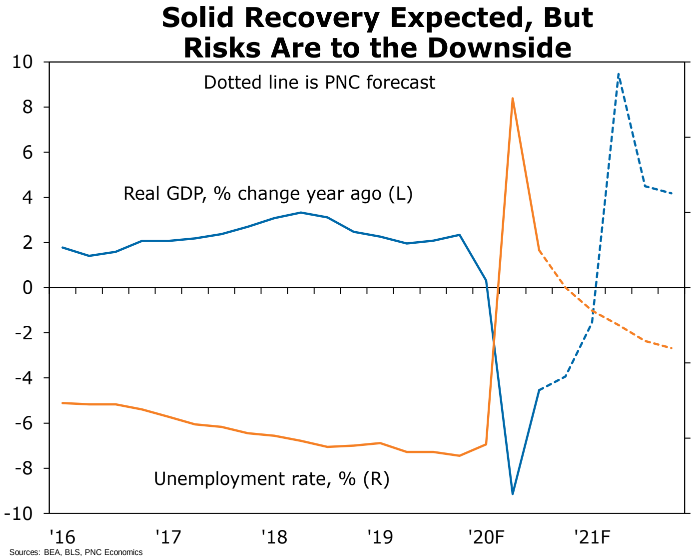
- In its new policy framework the central bank will try to have inflation average 2 percent "over time." Previously, the goal was to have inflation of around 2 percent. But with the new framework in the current environment, with inflation having undershot 2 percent for years, the statement indicates that the FOMC would like to see "inflation moderately above 2 percent for some time so that inflation averages 2 percent over time." In addition, the FOMC has said that the link between a tight labor market and higher inflation has weakened over time. With inflation consistently below 2 percent throughout the recovery from the Great Recession, and now further below 2 percent because of the coronavirus pandemic, and the weaker link between the tight labor market and higher inflation, the FOMC will now wait until inflation actually hits 2 percent before raising the fed funds rate. This approach is much more explicitly supportive of near-term economic growth than previous FOMC statements.

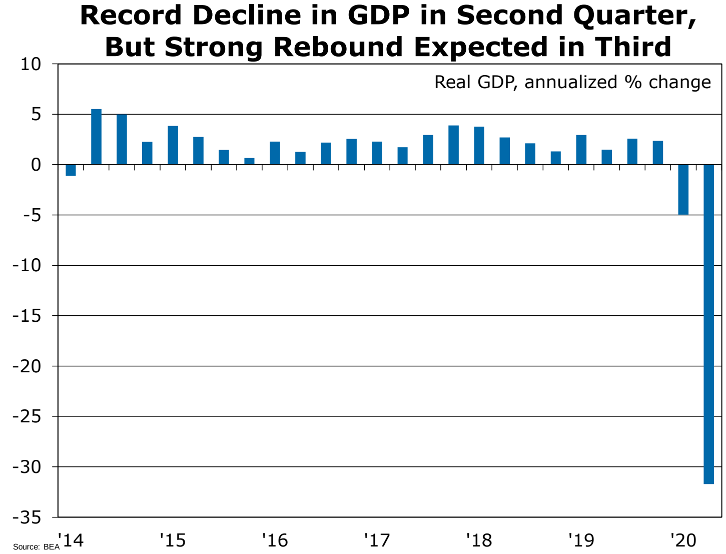
- The August employment report was solid, with the U.S. adding 1.371 million jobs during the month, according to a survey of employers. The economy has added back almost one-half of the 22 million jobs lost in the spring due to the coronavirus pandemic. While the past four months have seen the largest job gains on record, employment growth has slowed since June, and August job growth received a temporary boost from hiring for the Census that will reverse itself over the next few months. The unemployment rate dropped sharply in August, falling to 8.4 percent, from 10.2 percent in July, but is far above the 3.5 percent rate of early 2020.

## *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 $*) | 17282 | 18272 | 18497 | 18715 | 18917 | 19094 | 19092 | 18265 | 18999 | 19585 |
| **Percent Change Annualized** | **-31.7** | **25.0** | **5.0** | **4.8** | **4.4** | **3.8** | **2.2** | **-4.3** | **4.0** | **3.1** |
| CPI (*1982-84 = 100*) | 256.3 | 258.9 | 259.7 | 260.4 | 261.3 | 262.5 | 255.7 | 258.4 | 262.0 | 267.9 |
| **Percent Change Annualized** | **-3.5** | **4.1** | **1.3** | **1.0** | **1.4** | **1.9** | **1.8** | **1.1** | **1.4** | **2.3** |
| ***Labor Markets*** | | | | | | | | | | |
| Payroll Jobs (*Millions*) | 133.7 | 140.6 | 144.1 | 145.2 | 146.4 | 147.3 | 150.9 | 142.6 | 146.8 | 150.6 |
| **Percent Change Annualized** | **-40.0** | **22.2** | **10.3** | **3.3** | **3.2** | **2.6** | **1.4** | **-5.5** | **3.0** | **2.6** |
| Unemployment Rate (*Percent*) | 13.0 | 9.0 | 8.0 | 7.4 | 7.0 | 6.6 | 3.7 | 8.5 | 6.8 | 5.5 |
| ***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 | 0.64 | 0.72 | 0.78 | 0.81 | 0.84 | 2.14 | 0.86 | 0.82 | 0.95 |

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




## Presidential Election Secondary to Pandemic; Additional Fiscal Stimulus Has Stalled in Congress

An economic recovery from the Viral Recession started in May, but the path of the economy over the next few years remains highly uncertain. A number of unknowns will determine the strength of the economy over the next few years, with the primary factor the path of the coronavirus pandemic. But November's elections for president and Congress could also help shape the recovery, especially in 2021 and beyond. Another important factor will be additional fiscal stimulus (or a lack thereof) from Congress.

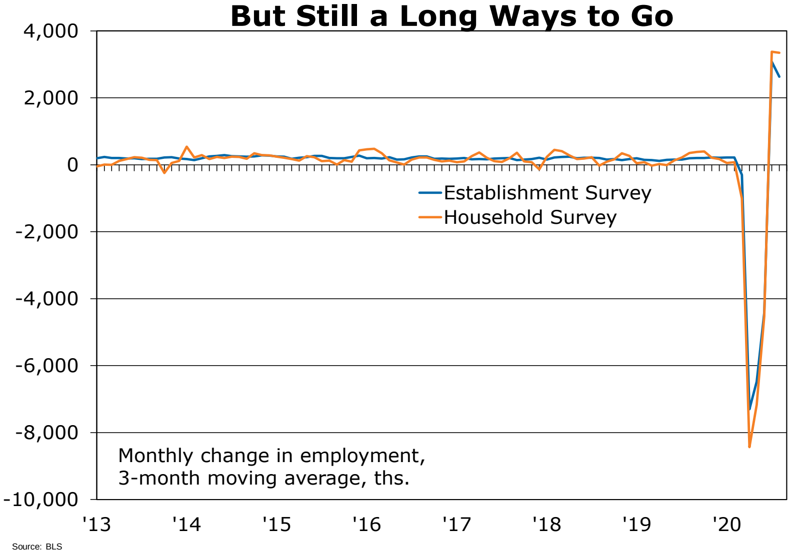
The biggest wildcard for the economy over the next few years remains the pandemic. The economy is bouncing back in the third quarter, with consumer spending quickly rising from its April nadir, housing starts and home sales up sharply thanks to record-low mortgage rates, and very strong job gains. GDP growth in the third quarter is set to come in at well above 20 percent at an annualized rate, which would be by far the best quarter in U.S. history. Growth is then expected to slow in late 2020 and through 2021, but remain well above its long-term trend. This baseline forecast assumes that the pandemic remains contained in the short run, and then a vaccine is developed and distributed in 2021, allowing for a gradual resumption of normal patterns of economic activity. But much of this remains in doubt; in particular, a surge in coronavirus cases late this year or in 2021 could push states to reimpose restrictions on consumers and businesses, leading to sluggish growth or even an outright economic contraction. And the longer the pandemic lasts, the more restructuring the U.S. economy would need to undergo. Many current business models would become obsolete and new ones would need to be developed, with major shifts in consumer and business spending patterns, leading to weaker long-run economic growth.

Under normal circumstances policies coming out of November's presidential election would be key drivers of the economic outlook. But this time around the path of the pandemic is more important to the outlook. If the pandemic is contained the recovery will be solid, and if it is not the economy will struggle to gain traction, no matter who wins. Any policy differences between President Trump and former Vice President Biden are secondary. PNC does not usually make wholesale changes to the forecast immediately after the election anyway, instead waiting until policy changes are implemented that might push the economy one way or another. That will be the case this year as well. The path of the pandemic will be the major driver of the forecast, but it will also evolve around the edges depending on who is the president, which party (or parties) control the House and Senate, and most importantly what policies are adopted after the election. One new downside risk in this election season is the potential for extended uncertainty surrounding the winner of the presidential election, perhaps due to the increased use of mail-in voting, which could cause investors, consumers, and businesses to turn more cautious.

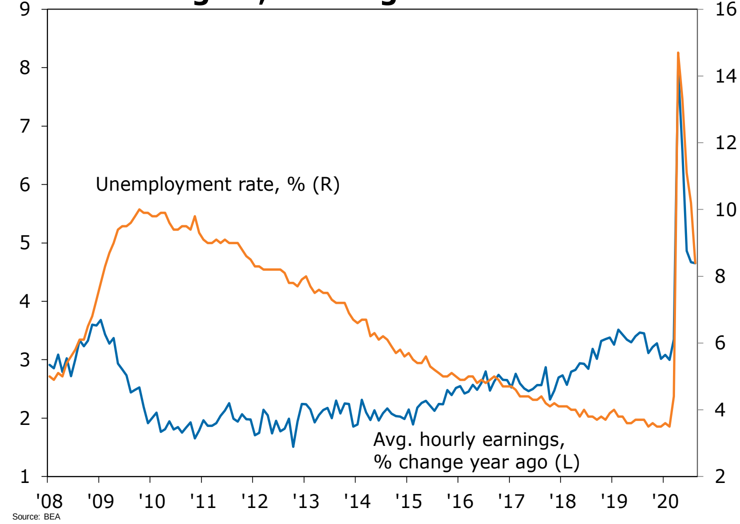
One reason why the economic rebound has been so strong in the third quarter is fiscal stimulus. One-time stimulus payments and extended and expanded unemployment insurance benefits have bolstered household income and spending, even as unemployment remains widespread and labor market income has plummeted. Aid to businesses, in particular the Paycheck Protection Program, has allowed many firms to remain open and prevented even larger job losses. PNC's baseline September forecast assumes that Congress enacts additional fiscal stimulus of approximately $1 trillion over the next few months, supporting household incomes and preventing some business failures. But with negotiations stalled in Washington, much-needed stimulus could be delayed, or Congress could even fail altogether to pass stimulus legislation. If so, growth in the fourth quarter and in 2021 is likely to be weaker than expected. Already, extra unemployment insurance benefits of $600 per week expired at the end of July. The Trump administration has worked with states to jury-rig a partial replacement, but that has only provided an extra six weeks of bonus payments. Without additional aid, millions of households with unemployed workers are likely to cut back on their spending in the near term, weighing on the recovery.

PNC's baseline forecast calls for economic growth of around 15 percent annualized in the second half of 2020, and of around 4 percent in 2021; this is well above the economy's long-run potential growth rate. Even so, real GDP is not expected to return to its pre-recession level until late 2021. The unemployment rate will fall to around 7.5 percent at the end of this year, 6 percent at the end of 2021, and 5 percent at the end of 2022. Given that the rate was 3.5 percent in early 2020, the economy will be dealing with elevated unemployment for years to come. With its new policy framework, 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.

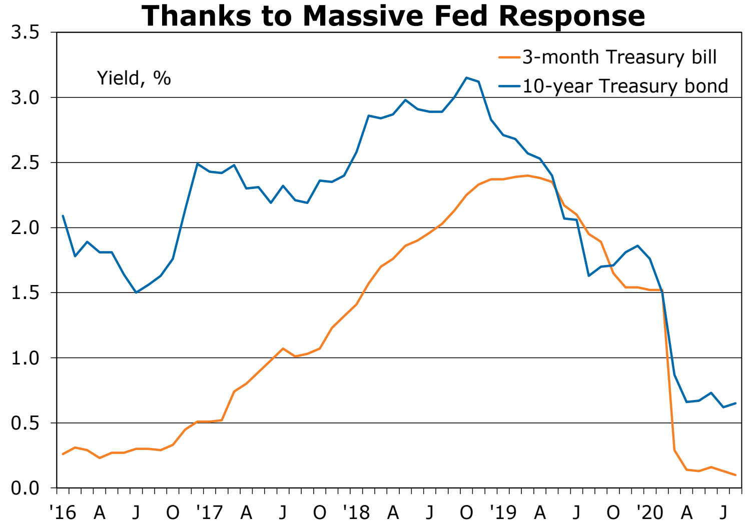
## Job Market Recovery Underway, But Still a Long Ways to Go



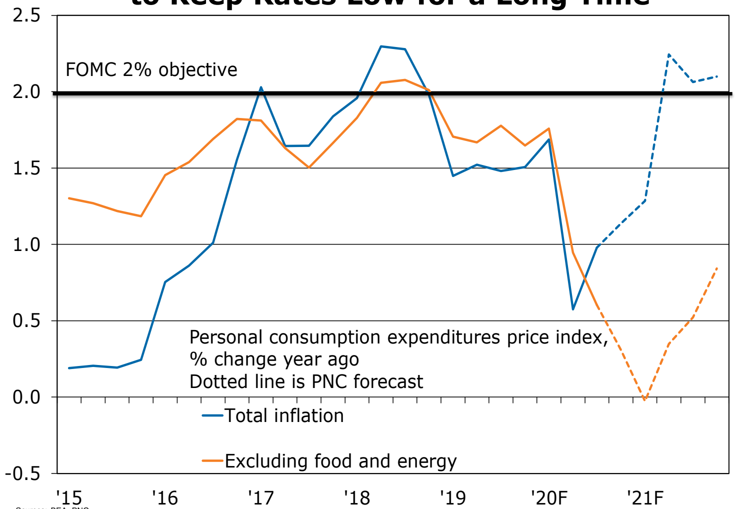

## Unemployment Rate Down to 8.4% in August, Still Highest Since 2011



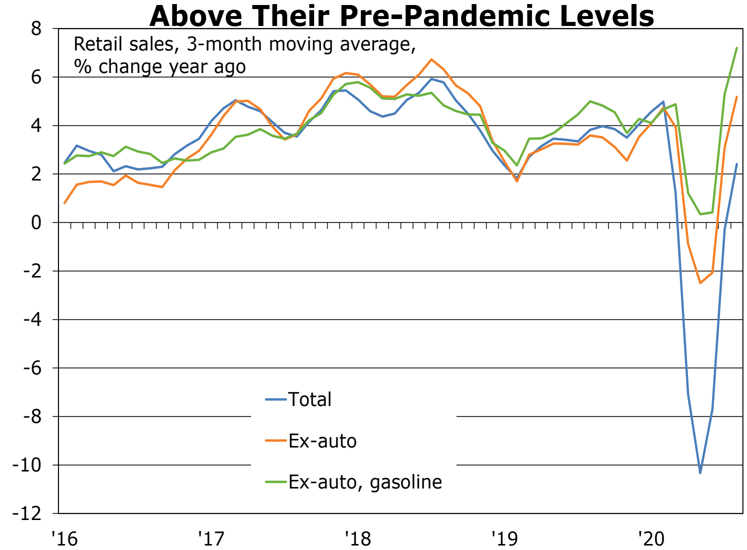

## Interest Rates Near Record Lows Thanks to Massive Fed Response



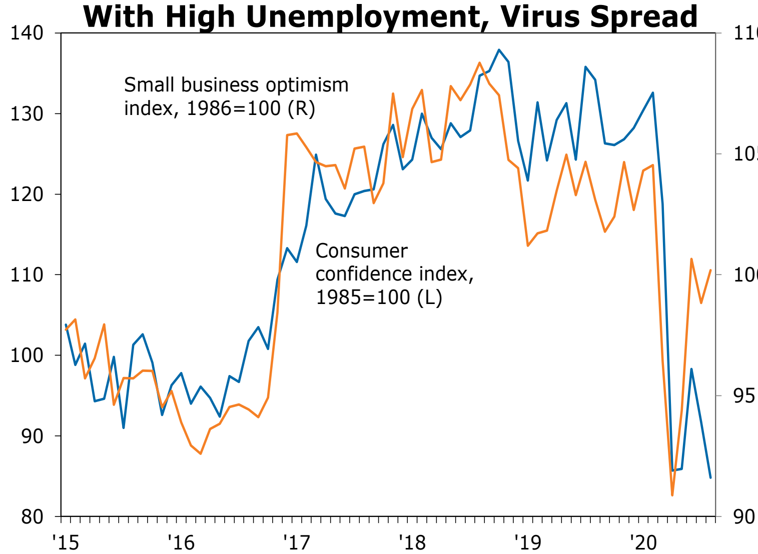

## Very Low Inflation Gives Fed Lots of Leeway to Keep Rates Low for a Long Time




## Some Categories of Retail Sales Above Their Pre-Pandemic Levels




## Consumer Confidence Down in August With High Unemployment, Virus Spread

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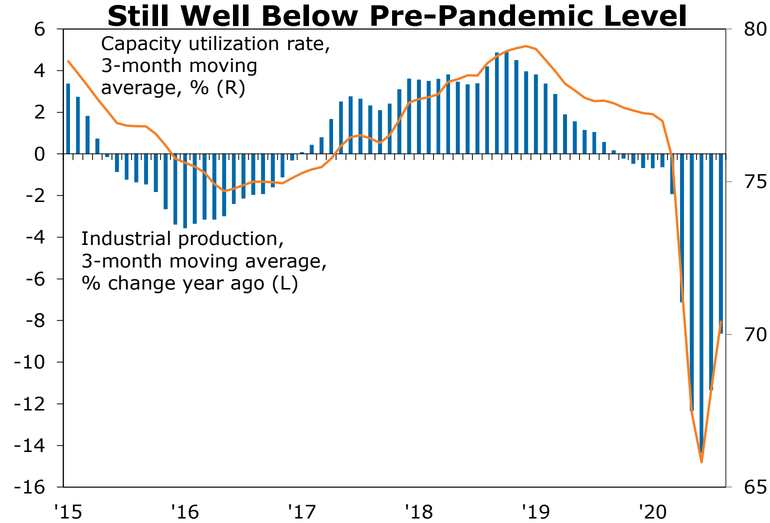
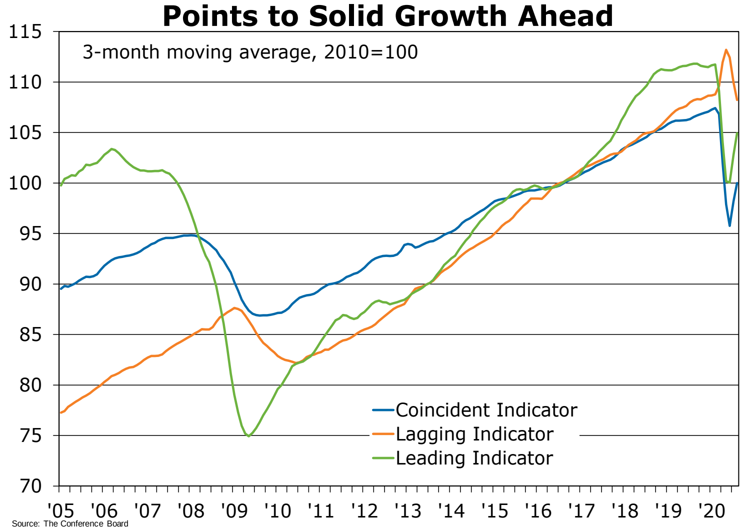
## Industrial Sector Is Coming Back, But Activity Still Well Below Pre-Pandemic Level



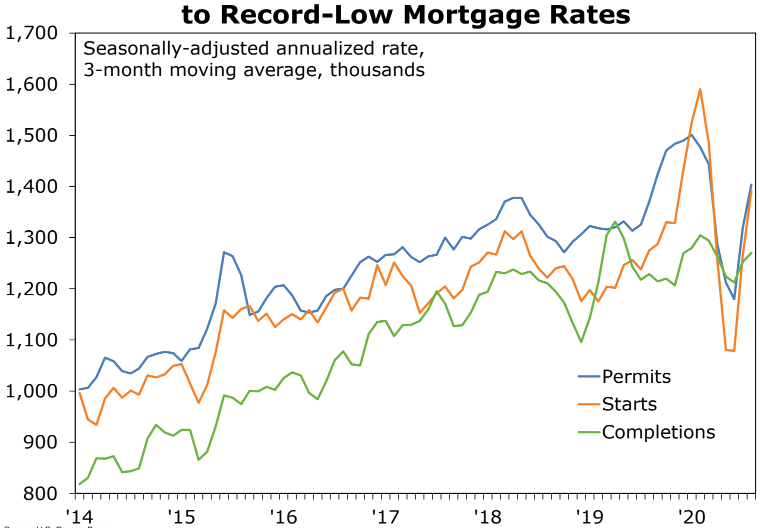

Source: Federal Reserve

## Conference Board Leading Indicator Points to Solid Growth Ahead



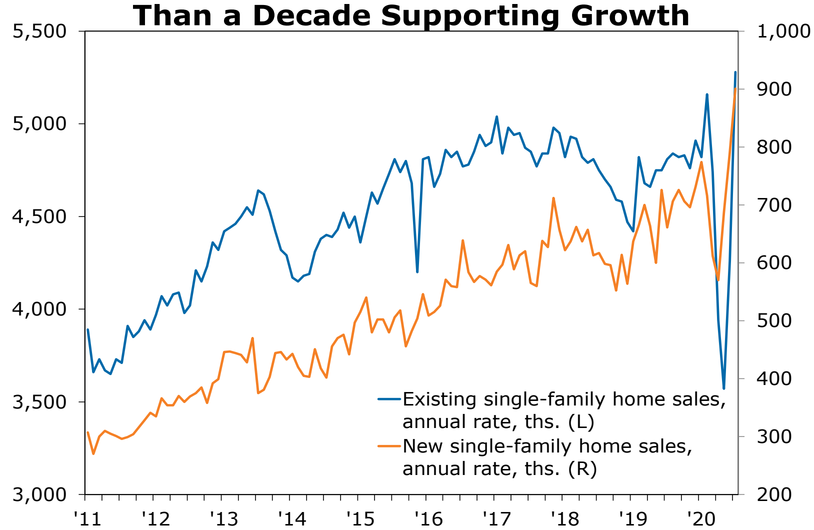

Source: The Conference Board

## Homebuilding Rebound Thanks to Record-Low Mortgage Rates



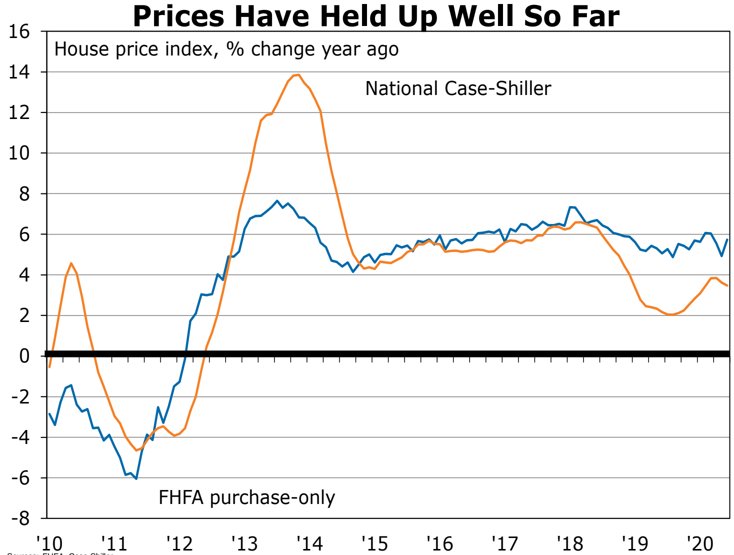

Source: U.S. Census Bureau

## Strongest Home Sales in More Than a Decade Supporting Growth



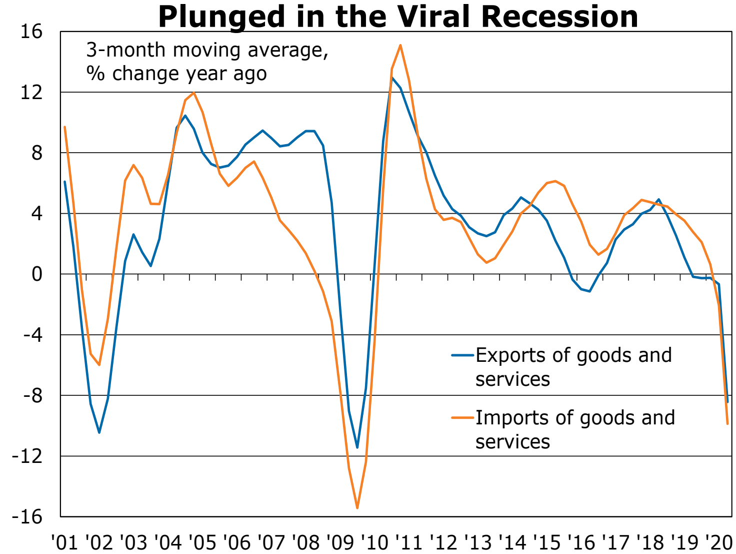

Sources: National Association of Realtors, Census Bureau

## With Strong Demand, House Prices Have Held Up Well So Far




Sources: FHFA, Case-Shiller

## Both Exports and Imports Plunged in the Viral Recession




Source: BEA

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## 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 $) | 19409 | 20725 | 21099 | 21458 | 21803 | 22128 | 21433 | 20698 | 21960 | 23162 |
| **Percent Change Annualized** | **-34.3** | **30.0** | **7.4** | **7.0** | **6.6** | **6.1** | **4.0** | **-3.4** | **6.1** | **5.5** |
| Real GDP (Chained 2012 Billions $) | 17282 | 18272 | 18497 | 18715 | 18917 | 19094 | 19092 | 18265 | 18999 | 19585 |
| **Percent Change Annualized** | **-31.7** | **25.0** | **5.0** | **4.8** | **4.4** | **3.8** | **2.2** | **-4.3** | **4.0** | **3.1** |
| Pers. Consumption Expenditures | 11820 | 12748 | 12939 | 13089 | 13217 | 13328 | 13240 | 12656 | 13268 | 13625 |
| **Percent Change Annualized** | **-34.1** | **35.3** | **6.1** | **4.7** | **4.0** | **3.4** | **2.4** | **-4.4** | **4.8** | **2.7** |
| Nonresidential Fixed Investment | 2536 | 2549 | 2578 | 2618 | 2652 | 2695 | 2777 | 2599 | 2678 | 2883 |
| **Percent Change Annualized** | **-26.0** | **2.1** | **4.7** | **6.3** | **5.3** | **6.6** | **2.9** | **-6.4** | **3.0** | **7.7** |
| Residential Investment | 566 | 628 | 675 | 700 | 711 | 713 | 602 | 627 | 710 | 721 |
| **Percent Change Annualized** | **-37.9** | **51.4** | **33.9** | **15.1** | **6.9** | **0.9** | **-1.7** | **4.2** | **13.2** | **1.6** |
| Change in Private Inventories | -286 | -109 | -81 | -65 | -28 | 5 | 49 | -139 | -19 | 11 |
| Net Exports | -761 | -958 | -1003 | -991 | -989 | -995 | -918 | -878 | -993 | -1014 |
| Government Expenditures | 3371 | 3377 | 3351 | 3326 | 3316 | 3311 | 3304 | 3362 | 3317 | 3322 |
| **Percent Change Annualized** | **2.8** | **0.7** | **-3.1** | **-2.8** | **-1.2** | **-0.6** | **2.3** | **1.7** | **-1.3** | **0.1** |
| Industrial Prod. Index (2012 = 100) | 93.7 | 95.9 | 98.0 | 99.0 | 99.8 | 100.5 | 109.5 | 98.8 | 100.1 | 102.5 |
| **Percent Change Annualized** | **-42.6** | **9.7** | **9.1** | **4.3** | **3.0** | **3.0** | **0.9** | **-9.8** | **1.3** | **2.4** |
| Capacity Utilization (Percent) | 66.0 | 67.6 | 69.3 | 70.2 | 70.9 | 71.6 | 77.8 | 69.7 | 71.3 | 73.6 |
| ***Prices*** | | | | | | | | | | |
| CPI (1982-84 = 100) | 256.3 | 258.9 | 259.7 | 260.4 | 261.3 | 262.5 | 255.7 | 258.4 | 262.0 | 267.9 |
| **Percent Change Annualized** | **-3.5** | **4.1** | **1.3** | **1.0** | **1.4** | **1.9** | **1.8** | **1.1** | **1.4** | **2.3** |
| Core CPI Index (1982-84 = 100) | 265.7 | 265.9 | 266.0 | 266.3 | 266.6 | 267.5 | 263.2 | 266.1 | 267.2 | 271.5 |
| **Percent Change Annualized** | **-1.6** | **0.3** | **0.2** | **0.4** | **0.5** | **1.4** | **2.2** | **1.1** | **0.4** | **1.6** |
| PCE Price Index (2012 = 100) | 110.4 | 111.2 | 111.8 | 112.3 | 112.8 | 113.5 | 109.9 | 111.1 | 113.2 | 115.9 |
| **Percent Change Annualized** | **-1.9** | **3.0** | **2.2** | **1.9** | **1.9** | **2.3** | **1.5** | **1.1** | **1.9** | **2.4** |
| Core PCE Price Index (2012 = 100) | 112.7 | 112.9 | 112.9 | 113.0 | 113.1 | 113.5 | 111.9 | 112.9 | 113.4 | 115.1 |
| **Percent Change Annualized** | **-1.1** | **0.5** | **0.2** | **0.3** | **0.4** | **1.2** | **1.7** | **0.9** | **0.4** | **1.5** |
| GDP Price Index (2012 = 100) | 112.8 | 113.4 | 114.1 | 114.7 | 115.3 | 115.9 | 112.3 | 113.4 | 115.6 | 118.3 |
| **Percent Change Annualized** | **-2.1** | **2.2** | **2.3** | **2.1** | **2.1** | **2.2** | **1.8** | **1.0** | **1.9** | **2.3** |
| S&P Stock Price Index | 2928.8 | 3369.0 | 3350.0 | 3362.5 | 3387.5 | 3412.5 | 2912.5 | 3179.3 | 3400.0 | 3500.0 |
| Crude Oil, WTI ($/Barrel) | 28.1 | 40.3 | 42.8 | 43.9 | 45.0 | 46.2 | 57.0 | 39.3 | 45.7 | 54.5 |
| ***Labor Markets*** | | | | | | | | | | |
| Payroll Jobs (Millions) | 133.7 | 140.6 | 144.1 | 145.2 | 146.4 | 147.3 | 150.9 | 142.6 | 146.8 | 150.6 |
| **Percent Change Annualized** | **-40.0** | **22.2** | **10.3** | **3.3** | **3.2** | **2.6** | **1.4** | **-5.5** | **3.0** | **2.6** |
| Unemployment Rate (Percent) | 13.0 | 9.0 | 8.0 | 7.4 | 7.0 | 6.6 | 3.7 | 8.5 | 6.8 | 5.5 |
| Average Weekly Hours, Prod. Works. | 33.9 | 34.0 | 33.8 | 33.7 | 33.7 | 33.6 | 33.6 | 33.8 | 33.6 | 33.7 |
| ***Personal Income*** | | | | | | | | | | |
| Average Hourly Earnings ($) | 24.9 | 24.9 | 24.8 | 24.6 | 24.4 | 24.6 | 23.5 | 24.7 | 24.6 | 25.1 |
| **Percent Change Annualized** | **17.1** | **-0.3** | **-2.0** | **-3.8** | **-2.7** | **2.8** | **3.5** | **4.9** | **-0.4** | **2.3** |
| Real Disp. Income (2012 Billions $) | 16522 | 15697 | 15526 | 15159 | 14853 | 14730 | 14883 | 15701 | 14876 | 14992 |
| **Percent Change Annualized** | **44.9** | **-18.5** | **-4.3** | **-9.1** | **-7.8** | **-3.3** | **2.2** | **5.5** | **-5.3** | **0.8** |
| ***Housing*** | | | | | | | | | | |
| Housing Starts (*Ths., Ann. Rate*) | 1044 | 1481 | 1490 | 1556 | 1492 | 1494 | 1295 | 1375 | 1510 | 1546 |
| Ext. Home Sales (*Ths., Ann Rate*) | 4320 | 5073 | 5579 | 5683 | 5745 | 5567 | 5330 | 5114 | 5612 | 5018 |
| New SF Home Sales (*Ths., Ann Rate*) | 676.3 | 1113.5 | 1264.4 | 1374.8 | 1328.6 | 1357.8 | 684.8 | 938.7 | 1355.0 | 1382.5 |
| Case/Shiller HPI (*Jan. 2000 = 100*) | 217.8 | 219.1 | 219.1 | 219.4 | 219.7 | 220.1 | 212.7 | 219.1 | 220.4 | 225.5 |
| **Percent Change Year Ago** | **4.4** | **4.2** | **3.0** | **1.7** | **0.9** | **0.4** | **3.4** | **3.0** | **0.6** | **2.3** |
| ***Consumer*** | | | | | | | | | | |
| Auto Sales (Millions) | 11.3 | 15.3 | 16.6 | 16.8 | 16.7 | 16.4 | 17.0 | 14.6 | 16.5 | 16.2 |
| Consumer Credit (Billions $) | 4006 | 4017 | 4024 | 4102 | 4157 | 4215 | 4185 | 4024 | 4271 | 4547 |
| **Percent Change Year Ago** | **-2.1** | **-3.0** | **-3.8** | **-2.4** | **3.8** | **4.9** | **4.6** | **-3.8** | **6.1** | **6.5** |
| **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 | 0.64 | 0.72 | 0.78 | 0.81 | 0.84 | **2.14** | **0.86** | **0.82** | **0.95** |
| 30-Year Fixed Mortgage | 3.23 | 2.96 | 2.86 | 2.79 | 2.76 | 2.74 | **3.93** | **3.14** | **2.75** | **2.73** |

*a = actual f = forecast p = preliminary*

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