

NATIONAL ECONOMIC OUTLOOK

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Executive Summary

Huge March Increases in Employment, Retail Sales, and Housing Starts Signal the Start of a Sustained Recovery

- Employment rose by 916,000 in March, based on a Bureau of Labor Statistics survey of firms. This was the largest one-month increase in employment since August 2020. There was an enormous increase of 280,000 in employment in leisure/hospitality services, following an even larger gain of 384,000 in February, as restaurants and hotels are reopening and rehiring. Job growth averaged 539,000 in the three months through March, up from just 64,000 in the three months through January 2021. The unemployment rate fell to 6.0% in March from 6.2% in February, and is down from 14.8% in April 2020. However, unemployment is still much higher than it was before the pandemic; the unemployment rate was 3.5% in February 2020.
- Retail sales jumped 9.8% in March from February, the biggest one-month increase since they surged 18% in May 2020 as stores reopened during the early stages of the pandemic. Other March details were very good. Retail sales excluding autos jumped 8.4%, and sales excluding autos and gasoline jumped 8.2%. Consumer spending is leading a strong economic recovery in early 2021. With two sets of stimulus payments in the first few months of the year and millions of people receiving vaccinations every day, consumers are spending, particularly on goods. Better weather in March also contributed to the huge increase; winter storms depressed sales across much of the country in February. Growth in retail sales and consumer spending will remain exceptionally strong as vaccinations continue and coronavirus cases eventually decline, states further relax restrictions on economic activity, and households gradually spend the stimulus checks that they have received.
- Housing starts jumped 19% in March from February to 1.739 million at an annual rate; this was the most starts in one month since 2006, at the tail end of the housing boom. Some of the March increase came from construction projects that were delayed by bad weather in February. But demand for new homes, especially single-family homes, is very strong in early 2021 due to increased desire for homeownership in the wake of the pandemic and extremely low mortgage rates. Permits for new residential construction also rose in March, pointing to further improvement in homebuilding in the months ahead.

Baseline U.S. Economic Outlook, Summary Table*

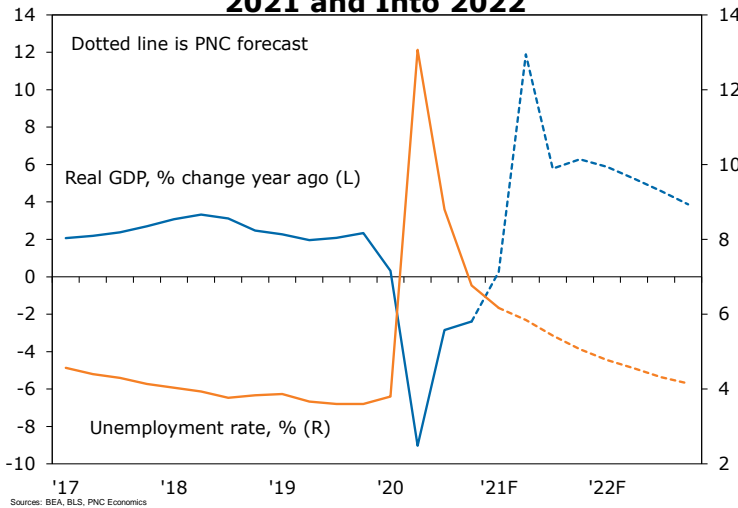
	4Q'20a	1Q'21f	2Q'21f	3Q'21f	4Q'21f	1Q'22f	2020p	2021f	2022f	2023f
Output & Prices										
Real GDP (Chained 2012 Billions \$)	18794	19062	19360	19673	19976	20183	18426	19518	20471	21014
Percent Change Annualized	4.3	5.8	6.4	6.6	6.3	4.2	-3.5	5.9	4.9	2.7
CPI (1982-84 = 100)	261.0	263.4	264.4	266.1	267.8	269.5	258.8	265.4	272.2	279.5
Percent Change Annualized	2.4	3.8	1.6	2.6	2.6	2.5	1.2	2.6	2.6	2.7
Labor Markets										
Payroll Jobs (Millions)	142.6	143.4	144.8	146.5	148.2	149.9	142.3	145.7	152.2	156.5
Percent Change Annualized	5.1	2.1	4.2	4.7	4.8	4.6	-5.7	2.4	4.5	2.8
Unemployment Rate (Percent)	6.8	6.2	5.8	5.4	5.1	4.8	8.1	5.6	4.4	3.8
Interest Rates (Percent)										
Federal Funds	0.09	0.08	0.07	0.07	0.07	0.07	0.37	0.07	0.08	0.13
10-Year Treasury Note	0.85	1.28	1.58	1.64	1.69	1.72	0.89	1.55	1.75	1.84

a = actual f = forecast p = preliminary

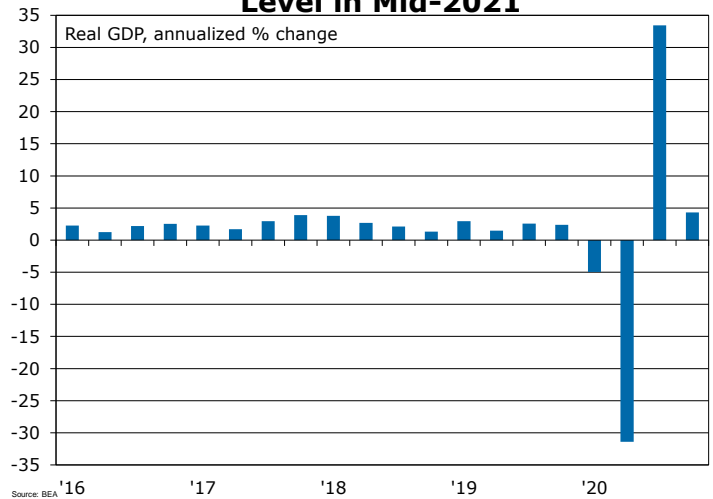
*Please see the Expanded Table for more forecast series.



Very Strong Growth Throughout 2021 and Into 2022



GDP Will Return to Pre-Pandemic Level in Mid-2021



Temporary Inflation Pressures as Economy Heats Up, But Fed Won't Let Things Get Out of Hand

The U.S. economic recovery is picking up in the spring of 2021. Consumer spending is soaring thanks to vaccination efforts, stimulus, and better weather. The housing market is also very strong as low mortgage rates and strong demand for homeownership, in part because of the pandemic, have boosted residential construction and sales of existing homes. At the same time tight inventories of homes for sale resulted in double-digit increases in house prices in 2020. Business investment spending is rebounding as firms prepare for a surge in demand. And businesses are also rebuilding their depleted inventories, adding to growth.

The resurgence in the economy will lead to somewhat higher inflation. Over the next few months inflation will accelerate on a year-ago basis due to comparisons with the same period in 2020, when prices for many goods and services fell with a collapse in demand at the beginning of the Viral Recession. This effect will be temporary, however, and inflation should slow again by mid-year.

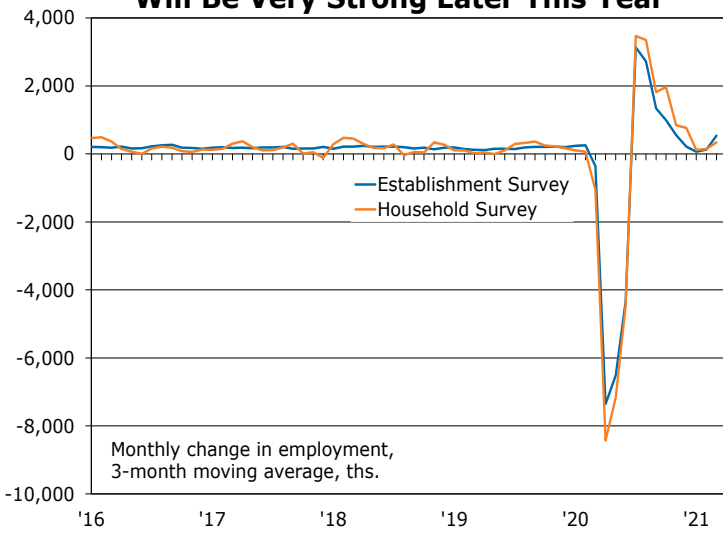
Other, more persistent, factors will push inflation higher over the rest of 2021 and in 2022 and 2023. The pandemic has wreaked havoc on global supply chains, and many inputs, such as computer chips and lumber, are in short supply. This will raise firms' input costs, and strong demand will allow some businesses to pass these higher costs along to their customers. At the same time labor is in short supply in some industries and occupations. There are multiple reasons for current labor shortages—concern about catching the coronavirus, increased family obligations because of the pandemic, and generous unemployment benefits—but wages are rising in some industries, despite overall high unemployment. Here, too, some businesses will try to pass these costs along to their customers by raising prices.

But consumer inflation will remain under control over the next few years. Input price pressures will be temporary as supply chains will gradually normalize. Potential workers will return to the job market as the pandemic abates and extra unemployment insurance benefits expire, reducing wage pressures. Consumers are used to low inflation and will push back against price increases. Workers will be wary of pushing too hard for raises. Businesses are used to holding the line to protect market share, and have some room to absorb higher input costs through lower profit margins. And long-run trends that have restrained inflation for decades, such as globalization, online sales, and declining unionization in the U.S., are not going away and will help keep a lid on prices.

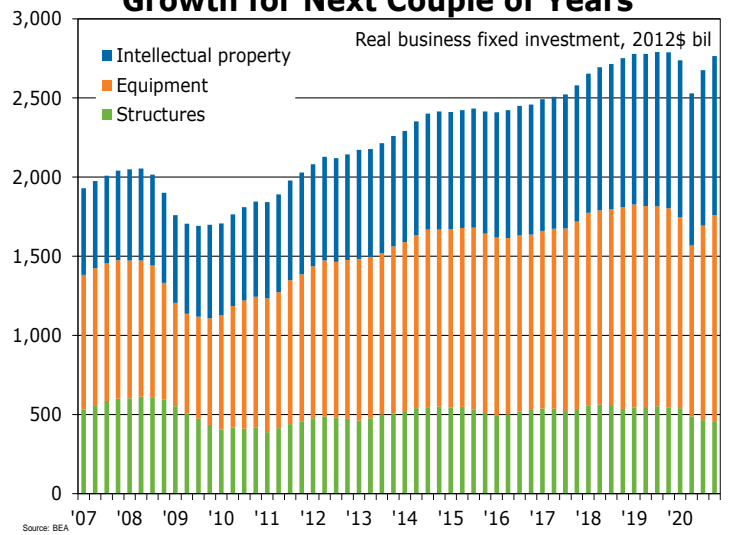
From the Fed's perspective a little bit higher inflation would be welcome. The central bank is shooting for average inflation of about 2%, but inflation has been below this objective for most of the past decade. Thus the Fed would like inflation to move somewhat above 2% for a few years to bring up the average. Therefore the central bank is willing to keep interest rates low to let the economy run hot during the recovery, supporting inflation of above 2%. But the Fed will not let inflation get too high, nor will it allow inflation to remain above 2% for too long. PNC expects core inflation, excluding food and energy prices, to peak at around 2.5% on a year-over-year basis in late 2022, as measured using the personal consumption expenditures price index, the Fed's preferred inflation gauge. PNC expects the Federal Open Market Committee to wait until 2023 to raise the federal funds rate, the committee's key short-term policy interest rate, so that average inflation can hit the 2% mark.

With vaccination efforts continuing, stimulus spending working its way through the economy, and the Federal Reserve committing to keep interest rates extremely low until the economy is at full employment and inflation is consistently at 2%, economic growth will be very strong throughout 2021 and into 2022. PNC's April forecast calls for real GDP growth of above 6% from the fourth quarter of 2020 to the fourth quarter of 2021, with above-trend growth of around 4% over the same period in 2022; real GDP will surpass its pre-recession peak in the middle of this year. After an excellent March jobs report employment growth will remain very strong through the rest of this year, with average month job gains of around 600,000. The unemployment rate will decline to below 5% by the end of this year, and to around 4% by the end of next year.

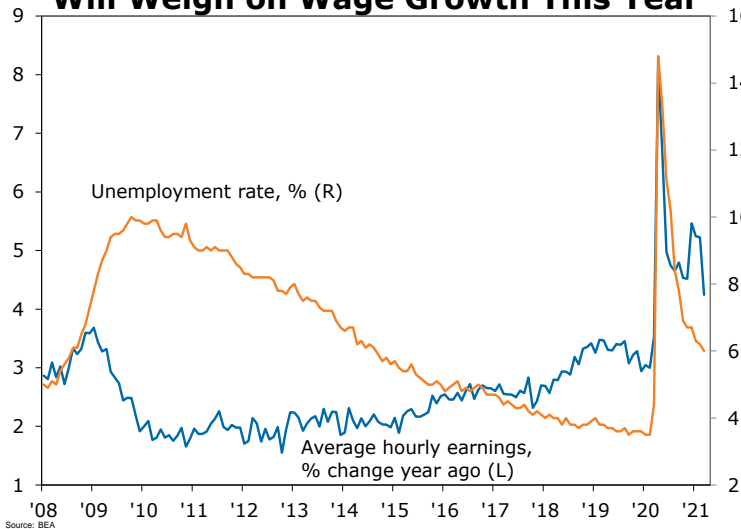
Job Growth Is Picking Back Up, Will Be Very Strong Later This Year



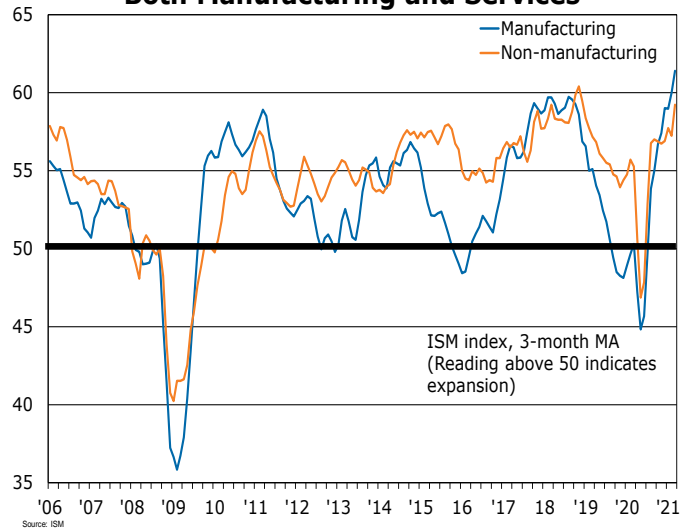
Business Fixed Investment Will Lead Overall Growth for Next Couple of Years



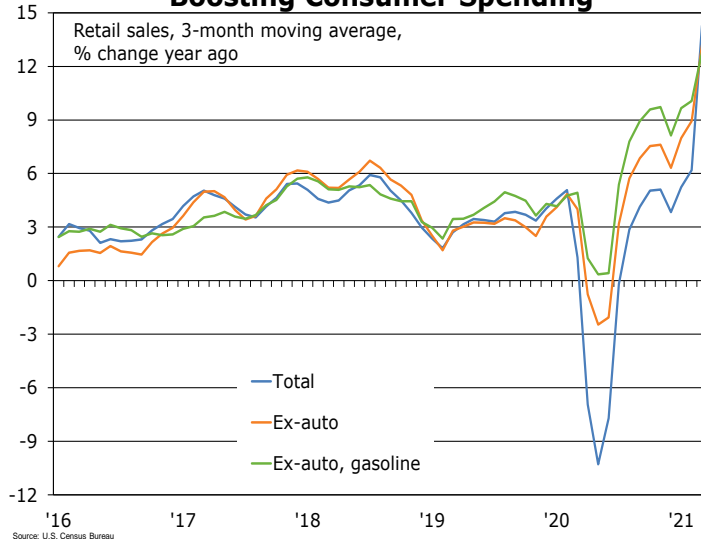
Strong Hiring in Low-Wage Industries Will Weigh on Wage Growth This Year



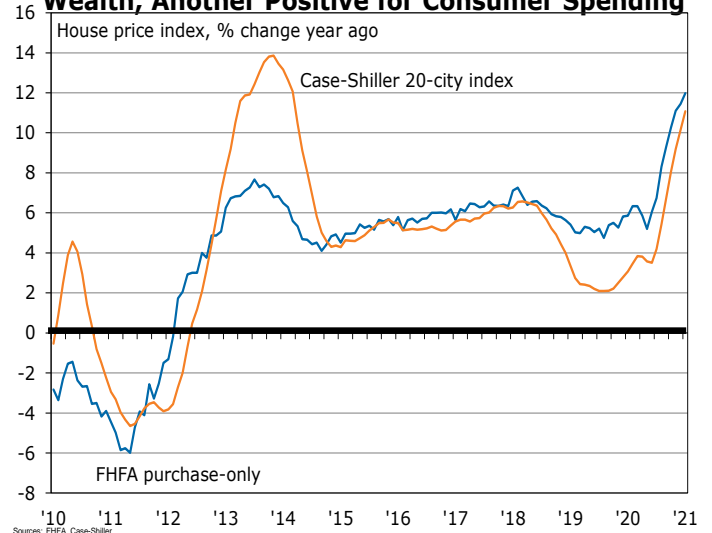
March Was Very Strong for Both Manufacturing and Services



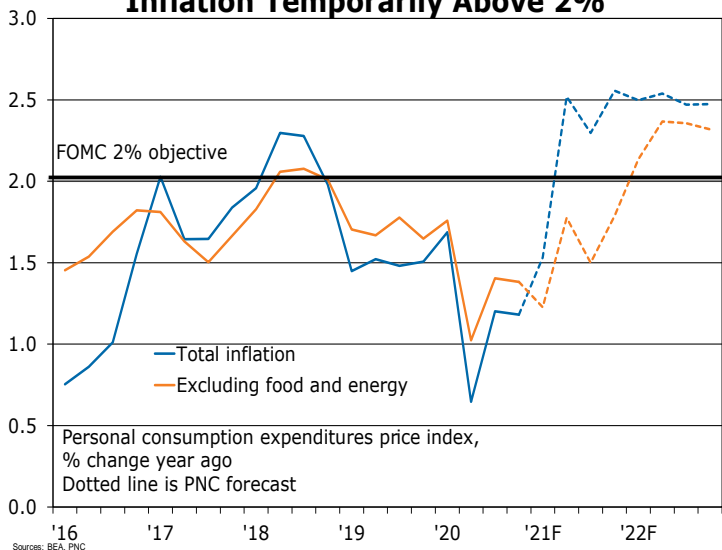
Stimulus Payments and Vaccines Are Boosting Consumer Spending



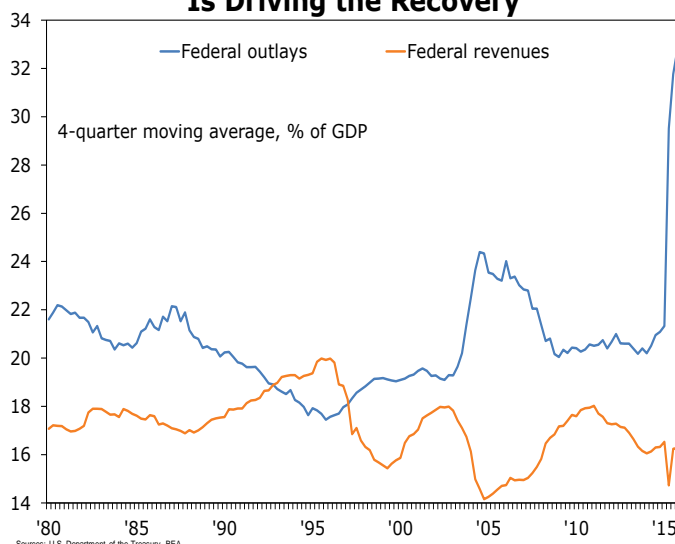
Strong House Price Growth Is Raising Homeowner Wealth, Another Positive for Consumer Spending



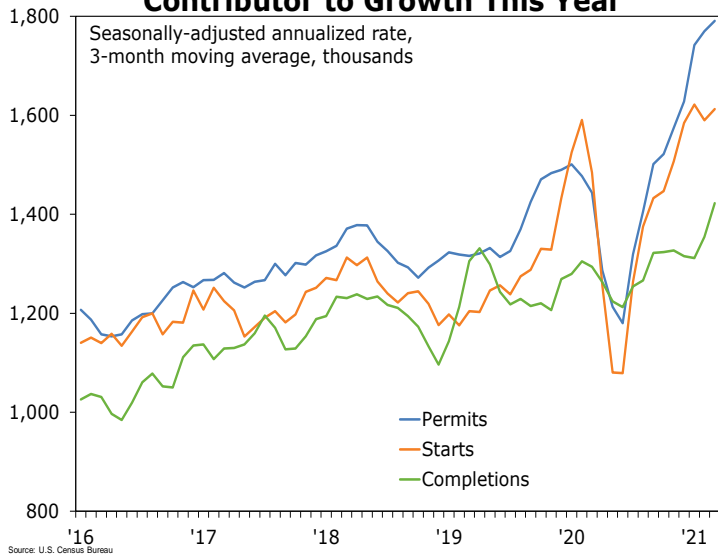
Fed Would Be Happy With Inflation Temporarily Above 2%



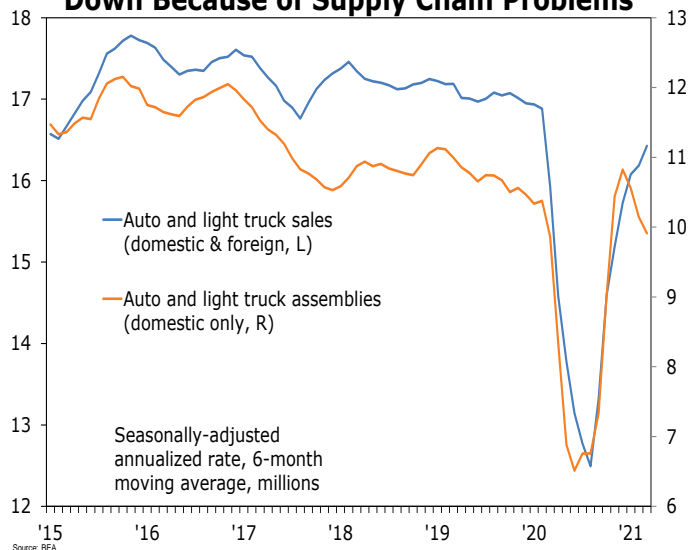
Big Increase in Federal Spending Is Driving the Recovery



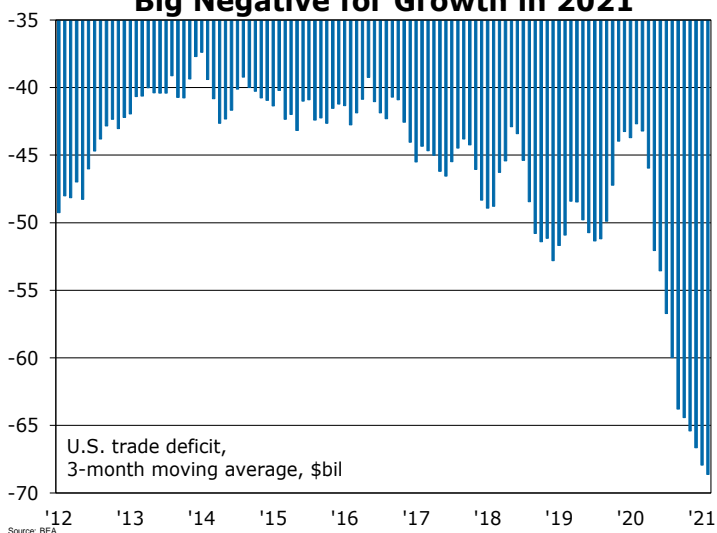
Homebuilding Will Be a Big Contributor to Growth This Year



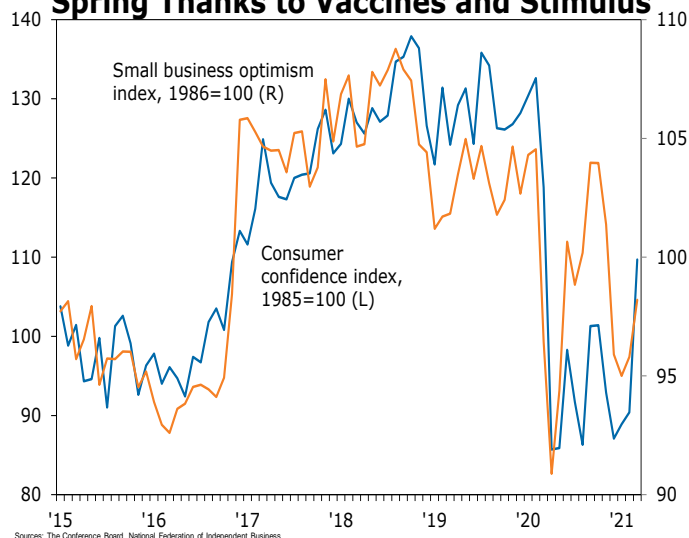
Auto Sales Are Strong, But Production Is Down Because of Supply Chain Problems



Record Trade Deficit Will Be the One Big Negative for Growth in 2021



Optimism Is Picking Back Up in the Spring Thanks to Vaccines and Stimulus



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PNC Economics Group

April 2021

Baseline U.S. Economic Outlook, Expanded Table

	4Q'20a	1Q'21f	2Q'21f	3Q'21f	4Q'21f	1Q'22f	2020p	2021f	2022f	2023f
Output										
Nominal GDP (Billions \$)	21495	21901	22404	22949	23464	23867	20937	22680	24465	25797
Percent Change Annualized	6.3	7.8	9.5	10.1	9.3	7.0	-2.3	8.3	7.9	5.4
Real GDP (Chained 2012 Billions \$)	18794	19062	19360	19673	19976	20183	18426	19518	20471	21014
Percent Change Annualized	4.3	5.8	6.4	6.6	6.3	4.2	-3.5	5.9	4.9	2.7
Pers. Consumption Expenditures	12999	13296	13465	13634	13802	13921	12726	13549	14076	14440
Percent Change Annualized	2.3	9.5	5.2	5.1	5.0	3.5	-3.9	6.5	3.9	2.6
Nonresidential Fixed Investment	2742	2775	2842	2923	2997	3061	2665	2884	3152	3348
Percent Change Annualized	13.1	4.9	10.0	11.9	10.5	8.8	-4.0	8.2	9.3	6.2
Residential Investment	698	709	743	771	781	787	638	751	808	824
Percent Change Annualized	36.6	6.3	20.9	16.1	5.4	2.9	6.1	17.7	7.6	1.9
Change in Private Inventories	62	69	95	112	149	134	-77	106	135	116
Net Exports	-1122	-1182	-1185	-1181	-1181	-1173	-926	-1182	-1183	-1241
Government Expenditures	3320	3300	3305	3318	3333	3358	3341	3314	3388	3432
Percent Change Annualized	-0.8	-2.4	0.6	1.6	1.8	3.1	1.1	-0.8	2.2	1.3
Industrial Prod. Index (2012 = 100)	104.8	105.5	106.5	107.9	109.1	109.9	102.2	107.3	110.9	112.5
Percent Change Annualized	9.2	2.7	3.7	5.5	4.6	2.9	-6.7	5.0	3.4	1.4
Capacity Utilization (Percent)	73.9	74.4	75.6	76.8	77.9	78.4	72.0	76.1	79.0	79.0
Prices										
CPI (1982-84 = 100)	261.0	263.4	264.4	266.1	267.8	269.5	258.8	265.4	272.2	279.5
Percent Change Annualized	2.4	3.8	1.6	2.6	2.6	2.5	1.2	2.6	2.6	2.7
Core CPI Index (1982-84 = 100)	269.7	270.5	271.7	273.6	275.4	277.2	267.7	272.8	280.0	287.7
Percent Change Annualized	1.8	1.2	1.8	2.8	2.7	2.6	1.7	1.9	2.6	2.8
PCE Price Index (2012 = 100)	111.8	112.6	113.2	114.0	114.7	115.4	111.1	113.6	116.5	119.3
Percent Change Annualized	1.5	2.7	2.3	2.8	2.5	2.5	1.2	2.2	2.5	2.4
Core PCE Price Index (2012 = 100)	114.1	114.4	114.8	115.5	116.2	116.9	113.4	115.2	117.9	120.6
Percent Change Annualized	1.3	1.0	1.4	2.3	2.4	2.4	1.4	1.6	2.3	2.3
GDP Price Index (2012 = 100)	114.4	114.9	115.7	116.7	117.5	118.3	113.6	116.2	119.5	122.8
Percent Change Annualized	1.9	1.9	2.9	3.3	2.8	2.7	1.2	2.3	2.9	2.7
Crude Oil, WTI (\$/Barrel)	42.7	58.0	60.0	60.1	60.3	60.4	39.5	59.6	61.2	64.5
Labor Markets										
Payroll Jobs (Millions)	142.6	143.4	144.8	146.5	148.2	149.9	142.3	145.7	152.2	156.5
Percent Change Annualized	5.1	2.1	4.2	4.7	4.8	4.6	-5.7	2.4	4.5	2.8
Unemployment Rate (Percent)	6.8	6.2	5.8	5.4	5.1	4.8	8.1	5.6	4.4	3.8
Average Weekly Hours, Prod. Works.	34.2	34.2	34.0	34.0	33.9	33.9	33.9	34.0	33.9	33.9
Personal Income										
Average Hourly Earnings (\$)	25.0	25.2	25.3	25.5	25.7	25.9	24.7	25.4	26.3	27.2
Percent Change Annualized	3.5	3.4	2.7	2.1	3.1	3.8	5.0	3.0	3.4	3.7
Real Disp. Income (2012 Billions \$)	15434	16744	16298	15834	15950	16045	15743	16207	16129	16517
Percent Change Annualized	-10.1	38.5	-10.2	-10.9	3.0	2.4	5.8	2.9	-0.5	2.4
Housing										
Housing Starts (<i>Ths., Ann. Rate</i>)	1584	1613	1741	1687	1647	1684	1395	1672	1725	1640
Ext. Home Sales (<i>Ths., Ann Rate</i>)	6657	6165	6655	6841	7195	7057	5657	6714	6782	5575
New SF Home Sales (<i>Ths., Ann Rate</i>)	913.7	1042.9	1001.0	980.1	990.6	1011.4	822.7	1003.7	998.1	929.2
Case/Shiller HPI (<i>Jan. 2000 = 100</i>)	232.5	238.9	245.7	252.0	257.2	261.0	232.5	257.2	266.9	272.0
Percent Change Year Ago	9.4	10.8	12.7	13.2	10.6	9.2	9.4	10.6	3.8	1.9
Consumer										
Auto Sales (Millions)	16.1	16.7	17.0	17.4	17.7	17.2	14.4	17.2	16.7	15.7
Consumer Credit (Billions \$)	4178	4280	4349	4419	4489	4566	4178	4489	4805	5088
Percent Change Year Ago	-0.1	2.1	5.2	6.4	7.4	6.7	-0.1	7.4	7.0	5.9
Interest Rates (Percent)										
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.54	3.25	3.25	3.26
Federal Funds	0.09	0.08	0.07	0.07	0.07	0.07	0.37	0.07	0.08	0.13
3-Month Treasury Bill	0.08	0.04	0.03	0.04	0.05	0.06	0.35	0.04	0.09	0.21
10-Year Treasury Note	0.85	1.28	1.58	1.64	1.69	1.72	0.89	1.55	1.75	1.84
30-Year Fixed Mortgage	2.76	2.85	3.06	3.14	3.23	3.32	3.11	3.07	3.41	3.54
<i>a = actual f = forecast p = preliminary</i>										

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