

# NATIONAL ECONOMIC OUTLOOK

Gus Faucher  
Chief Economist

Stuart Hoffman  
Senior Economic Advisor

William Adams  
Senior Economist

Kurt Rankin  
Economist

Abbey Omodunbi  
Senior Economist

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

## Executive Summary

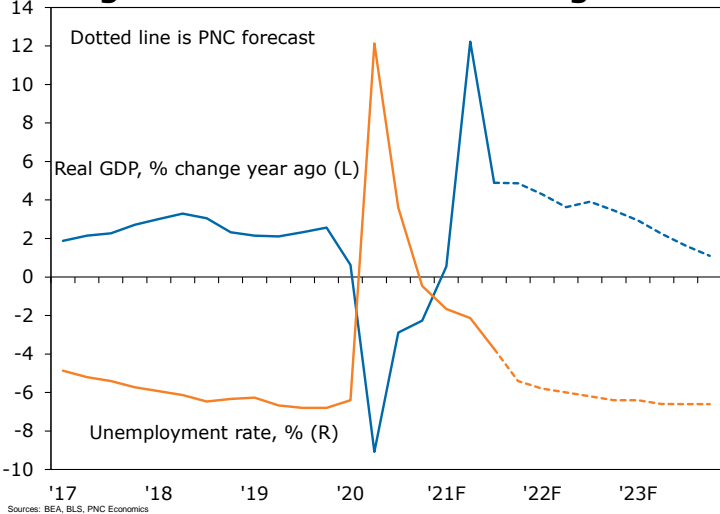
### Discount Weak Headline November Jobs Number; Very Modest Boost from Infrastructure Bill

- The U.S. economy added just 210,000 jobs in November, according to a survey of employers from the Bureau of Labor Statistics, well below the consensus expectation of 500,000. However, job growth was revised higher in September and October by a combined 82,000. BLS revisions to job growth in recent months have been upward, and much larger than normal. The unemployment rate fell to 4.2% in November from 4.6% in October, even with a large increase in the labor force. The unemployment rate, which was 3.5% in February 2020 before the pandemic, soared to 14.8% in April 2020 and has been steadily falling since then. Employment from a survey of households, different from the survey of employers, rose by a huge 1.136 million in November, the largest increase since October 2020. Although the headline November jobs number was disappointing, the overall report was much better. In recent months the BLS has been consistently revising job growth much higher as more complete employer records become available, and the big jump in November employment in the household survey also indicates that an upward revision is likely.
- In November President Biden signed the Bipartisan Infrastructure Law, allocating \$1 trillion in spending (\$550 billion of it new) over the next decade for roads and bridges, ports, water systems, broadband, and other projects. The bill is financed through a repackaging of unspent COVID-19 relief funds, stricter tax enforcement, and additional federal borrowing of about \$260 billion over the next ten years. PNC's December forecast includes the impact of the new law. The spending will not kick in in earnest for a few years and is spread out over a number of years, so the new law will have only a modest impact on near-term economic growth. Congress continues to work on a larger social services bill, the Build Back Better Bill, but its potential impact is not included in the current PNC forecast.
- Real GDP increased 2.1% at an annualized rate in the third quarter, according to the Bureau of Economic Analysis, much weaker than the annualized pace of 6.5% in the first half of the year. The Delta variant weighed on consumer activity in the third quarter. In addition, supply-chain disruptions were drags on consumer purchases of durable goods; homebuilding, because of shortages of building materials; business fixed investment; and business inventory accumulation. Those categories will turn into big positives for growth in 2022 as supply-chain disruptions fade.

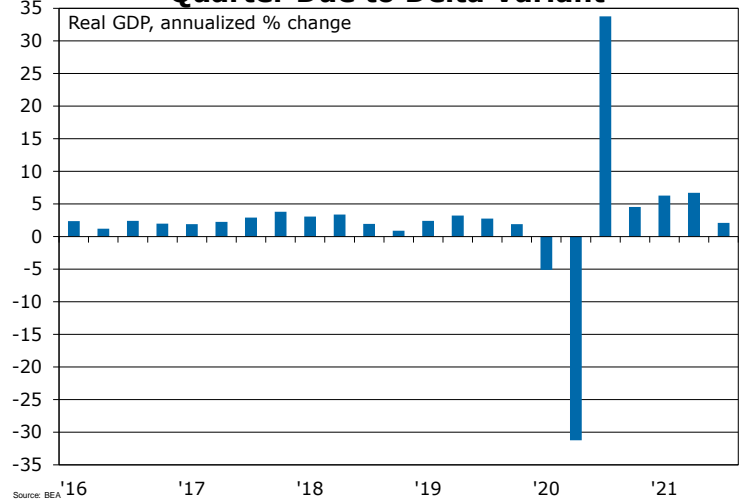
### **Baseline U.S. Economic Outlook, Summary Table\***

	2Q'21a	3Q'21p	4Q'21f	1Q'22f	2Q'22f	3Q'22f	2020a	2021f	2022f	2023f
<b>Output &amp; Prices</b>										
Real GDP ( <i>Chained 2012 Billions \$</i> )	19368	19469	19682	19875	20071	20230	18385	19394	20134	20531
<b>Percent Change Annualized</b>	<b>6.7</b>	<b>2.1</b>	<b>4.4</b>	<b>4.0</b>	<b>4.0</b>	<b>3.2</b>	<b>-3.4</b>	<b>5.5</b>	<b>3.8</b>	<b>2.0</b>
CPI ( <i>1982-84 = 100</i> )	268.8	273.1	275.8	278.0	280.3	282.4	258.8	270.3	281.2	288.3
<b>Percent Change Annualized</b>	<b>8.4</b>	<b>6.6</b>	<b>4.0</b>	<b>3.1</b>	<b>3.4</b>	<b>3.0</b>	<b>1.2</b>	<b>4.4</b>	<b>4.0</b>	<b>2.5</b>
<b>Labor Markets</b>										
Payroll Jobs ( <i>Millions</i> )	145.1	147.4	148.9	150.4	151.9	152.4	142.3	146.2	151.9	154.2
<b>Percent Change Annualized</b>	<b>4.8</b>	<b>6.7</b>	<b>3.9</b>	<b>4.3</b>	<b>3.9</b>	<b>1.3</b>	<b>-5.7</b>	<b>2.8</b>	<b>3.9</b>	<b>1.5</b>
Unemployment Rate ( <i>Percent</i> )	5.9	5.1	4.3	4.1	4.0	3.9	8.1	5.4	4.0	3.7
<b>Interest Rates (Percent)</b>										
Federal Funds	0.07	0.09	0.08	0.09	0.11	0.15	0.37	0.08	0.19	1.04
10-Year Treasury Note	1.58	1.32	1.53	1.48	1.57	1.67	0.89	1.43	1.62	2.04
a = actual    f = forecast    p = preliminary    *Please see the Expanded Table for more forecast series.										

## Strong Growth to Continue Throughout 2022



## Slower Growth in the Third Quarter Due to Delta Variant



## Monetary Policy Turning Less Accommodative as Fed Changes Its Tune on Inflation

Inflation at the end of 2021 is higher than the Federal Reserve expected. When inflation started to surge earlier this year, Fed officials, including Chair Jerome Powell, called the increase “transitory.” However, instead of slowing later in 2021, inflation has picked up, and in late November Powell backed away from “transitory.” As a result, the Federal Open Market Committee has acted quickly to reduce the amount of monetary policy support it is providing to the economy. Interest rates will gradually be moving higher over the next few years in effort to prevent overheating in the economy and allow for a gradual slowing in inflation.

Prices, as measured by the Fed’s preferred inflation measure, the personal consumption expenditures price index, fell in the spring of 2020 as demand for many goods and services plummeted with the pandemic. Prices then slowly increased in the rest of 2020 as demand began to pick up. But inflation accelerated in the spring of 2021 as the vaccine-related reopening of the economy and federal aid for households led to a surge in spending. Much of the growth was concentrated in consumer segments that experienced very strong demand but constricted supply, such as new and used cars, rental cars, and airfares. On a year-ago basis PCE inflation, which had fallen to 0.4% in April 2020, increased to 4.0% in May 2021. The FOMC first described the acceleration in inflation as “transitory” in its monetary policy statement in late April 2021; the expectation was that as supply and demand normalized, inflation would gradually return to the Fed’s 2% objective.

But inflation has further accelerated. As of October PCE inflation was 5.0% from one year earlier, the fastest pace since 1990. Some of this increase in inflation has come from higher prices for food and energy. Because these components can be highly volatile and not reflective of broader economic trends, the Fed often focuses on core inflation, excluding food and energy. But here too there has been an acceleration, from a low of 0.9% in April 2020 to above 4% in October 2021, also the fastest pace in more than 30 years. Inflation is also broadening. Earlier in 2021 most of the higher inflation was coming from a few specific goods and services, but now prices are increasing more rapidly for many more items. This is due to mismatches between supply and demand, higher input prices, and higher labor costs due to strong wage growth.

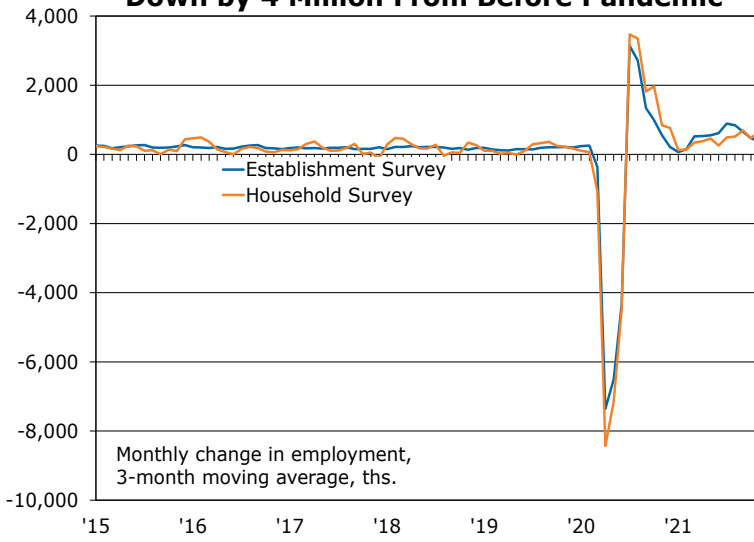
As a result, the Fed is changing the way it talks about inflation. In early December Chair Powell explicitly said that he no longer views the acceleration in inflation as “transitory,” and that word was dropped from the FOMC’s December 15 statement. With inflation well above the 2% objective, and poised to stay there in the medium term, in November the FOMC announced a reduction in purchases of long-term assets, intended to put downward pressure on long-term interest rates. In December the FOMC further reduced these purchases; at the current pace they would wrap up in the first quarter of 2022. The gradual cessation of these asset purchases will put some upward pressure on long-term interest rates.

In addition, the FOMC has changed the outlook for the fed funds rate, the central bank’s key short-term policy interest rate. In the December Summary of Economic Projections, or “dot plot,” the median FOMC member expects the fed funds rate to increase by 0.75 percentage point over the course of 2022, from its current level of close to zero, and then by another 0.75 percentage point in 2023. This is a substantial acceleration in rate hikes compared to the previous dot plot, from September. Higher interest rates would weigh on economic growth and, Fed officials hope, would allow inflation to return to 2% over the next couple of years.

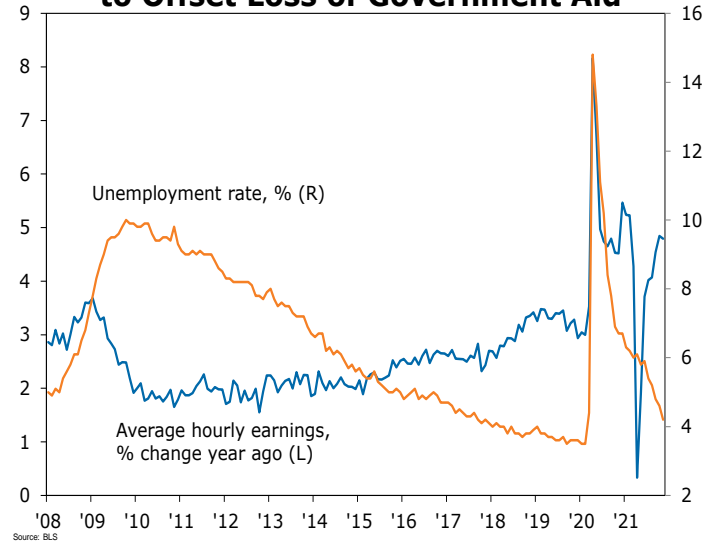
PNC’s baseline forecast is for strong but slowing economic growth over the course of 2022. Consumer spending, supported by high levels of saving; business investment; homebuilding; and a stronger global economy will drive near-term growth. Real GDP will increase 3.8% in 2022, above the economy’s long-run average. Although the Fed has changed its outlook, for its December forecast PNC is assuming only a 0.50 percentage point increase in the fed funds rate in 2022, because of potential downside from the Omicron variant. The unemployment rate will continue to gradually decline, to below 4% by the end of next year. Risks to the outlook are weighted to the downside, including a slower end to the pandemic and a slower-than-expected normalization in supply chains.

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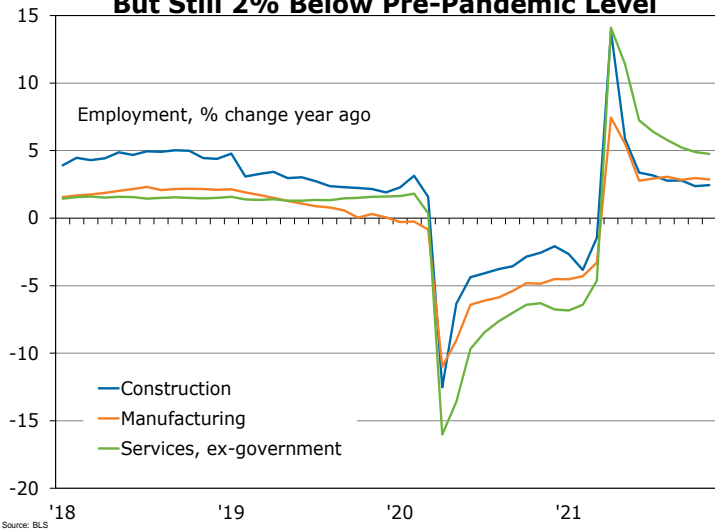
## Employment Continues to Improve, But Still Down by 4 Million From Before Pandemic



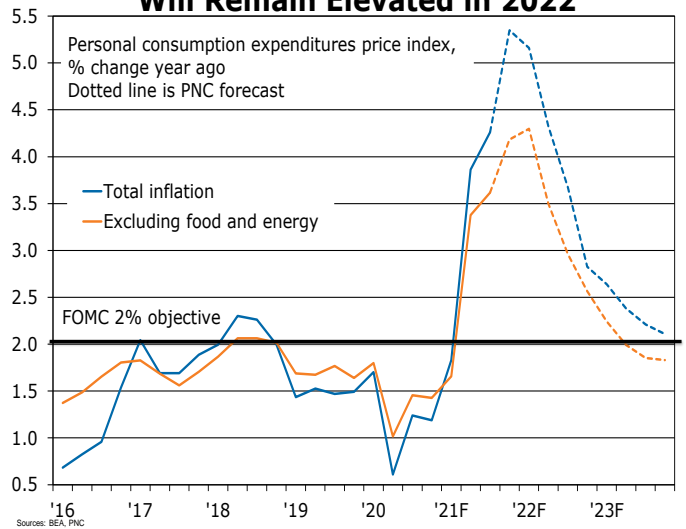
## Very Strong Wage Growth Helping to Offset Loss of Government Aid



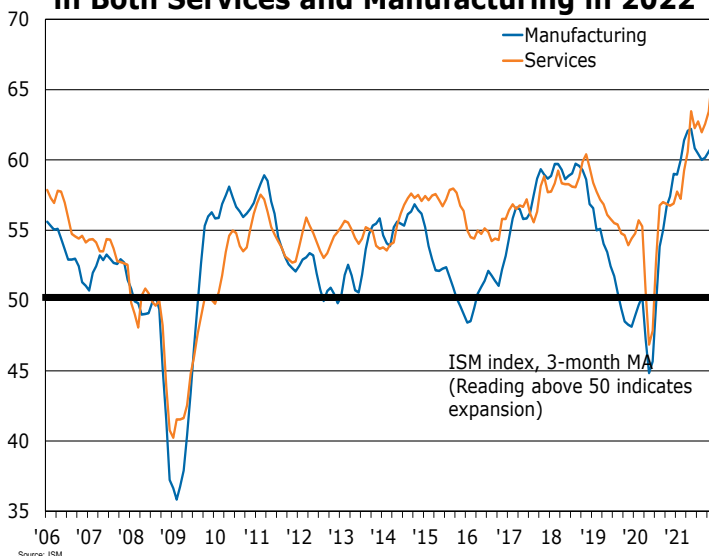
## Services Employment Continues to Lead Recovery, But Still 2% Below Pre-Pandemic Level



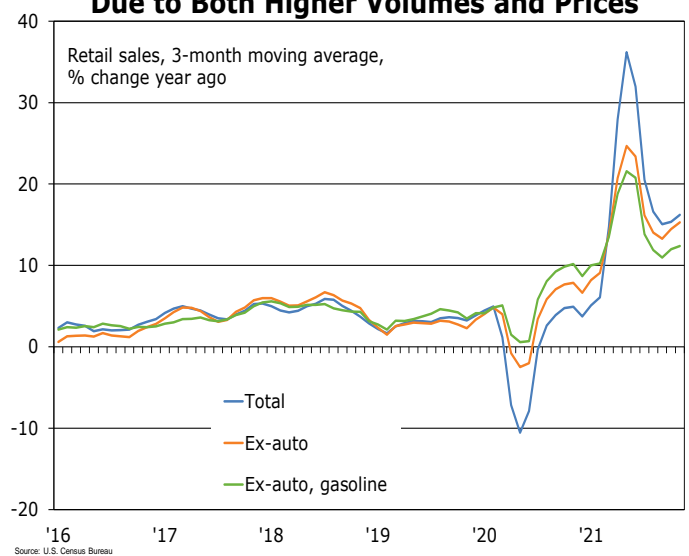
## Inflation Peaking Soon, But Will Remain Elevated in 2022



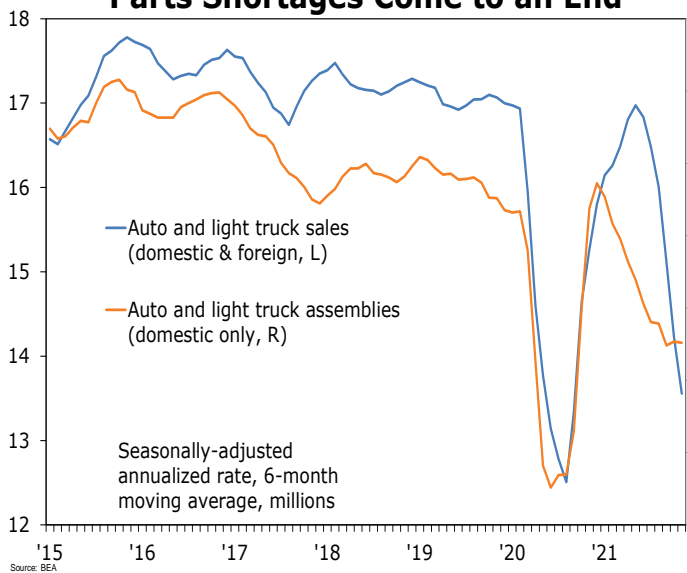
## ISM Indices Point to Continued Strong Growth in Both Services and Manufacturing in 2022



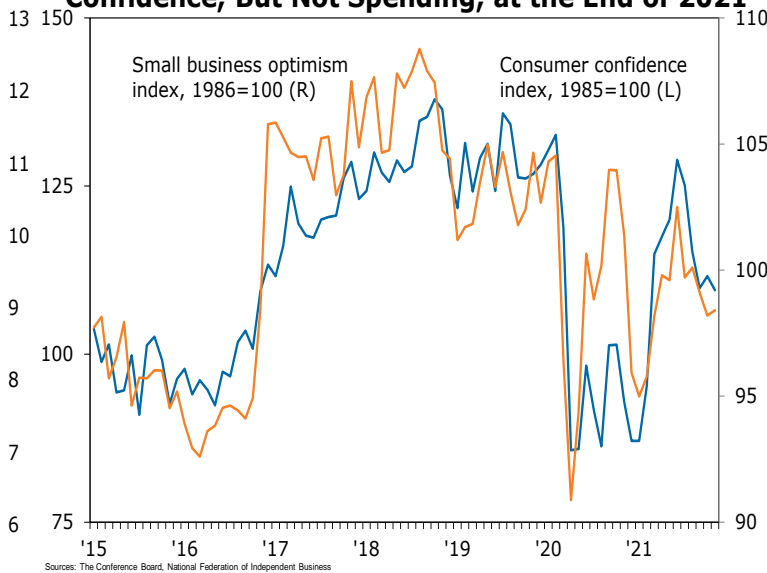
## Holiday Sales Likely Up 15% in 2021 Due to Both Higher Volumes and Prices



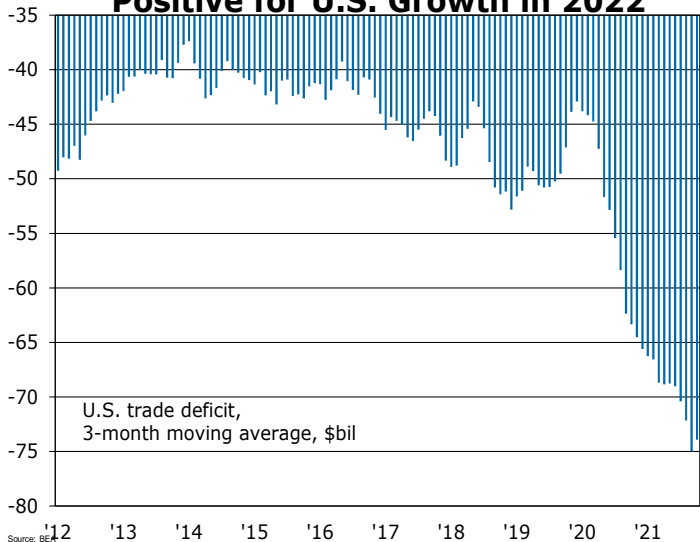
## Auto Production Set to Pick Up as Parts Shortages Come to an End



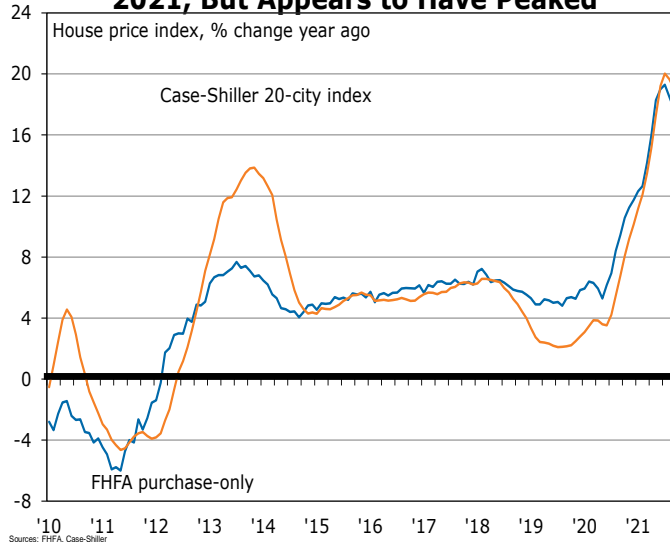
## High Inflation Is Weighing on Consumer Confidence, But Not Spending, at the End of 2021



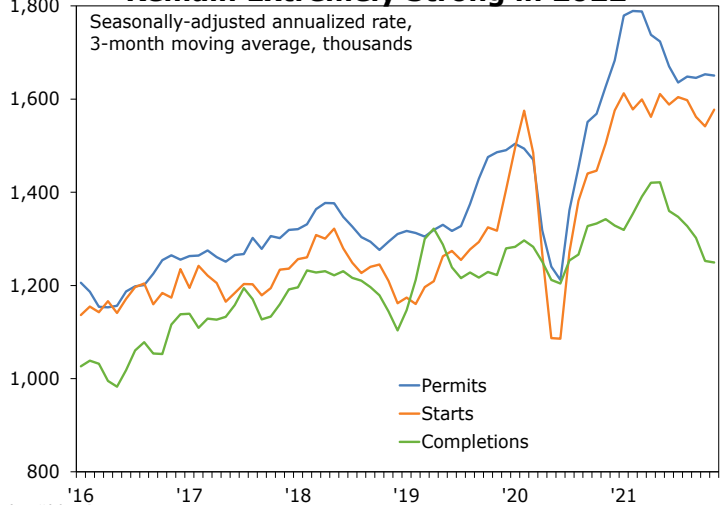
## Narrowing Trade Deficit Will Be Positive for U.S. Growth in 2022



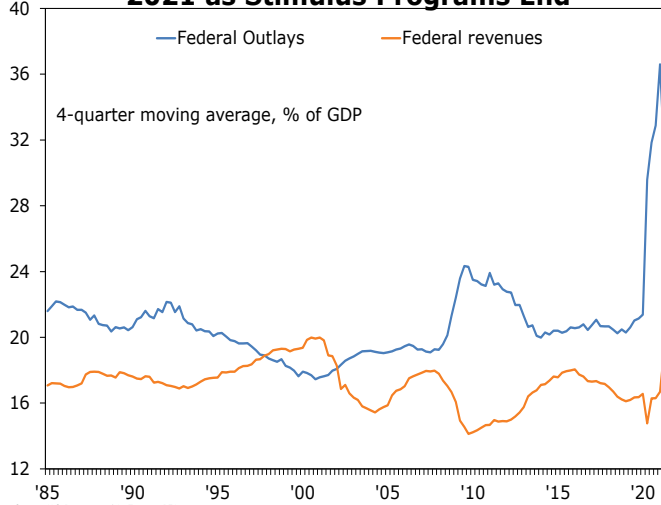
## House Price Growth Still Strong in Late 2021, But Appears to Have Peaked



## Demand for New Homes to Remain Extremely Strong in 2022



## Less Federal Spending in Late 2021 as Stimulus Programs End



# NATIONAL ECONOMIC OUTLOOK

PNC Economics Group

December 2021

## Baseline U.S. Economic Outlook, Expanded Table

	2Q'21a	3Q'21p	4Q'21f	1Q'22f	2Q'22f	3Q'22f	2020a	2021f	2022f	2023f
<b>Output</b>										
Nominal GDP (Billions \$)	22741	23187	23793	24252	24701	25084	20894	22940	24861	25951
<b>Percent Change Annualized</b>	<b>13.4</b>	<b>8.1</b>	<b>10.9</b>	<b>7.9</b>	<b>7.6</b>	<b>6.4</b>	<b>-2.2</b>	<b>9.8</b>	<b>8.4</b>	<b>4.4</b>
Real GDP (Chained 2012 Billions \$)	19368	19469	19682	19875	20071	20230	18385	19394	20134	20531
<b>Percent Change Annualized</b>	<b>6.7</b>	<b>2.1</b>	<b>4.4</b>	<b>4.0</b>	<b>4.0</b>	<b>3.2</b>	<b>-3.4</b>	<b>5.5</b>	<b>3.8</b>	<b>2.0</b>
Pers. Consumption Expenditures	13666	13724	13821	13950	14067	14143	12630	13623	14095	14352
<b>Percent Change Annualized</b>	<b>12.0</b>	<b>1.7</b>	<b>2.9</b>	<b>3.8</b>	<b>3.4</b>	<b>2.2</b>	<b>-3.8</b>	<b>7.9</b>	<b>3.5</b>	<b>1.8</b>
Nonresidential Fixed Investment	2873	2884	2934	2952	2984	3022	2671	2875	3003	3130
<b>Percent Change Annualized</b>	<b>9.2</b>	<b>1.5</b>	<b>7.2</b>	<b>2.4</b>	<b>4.5</b>	<b>5.1</b>	<b>-5.3</b>	<b>7.7</b>	<b>4.5</b>	<b>4.2</b>
Residential Investment	708	693	711	728	744	754	648	711	746	740
<b>Percent Change Annualized</b>	<b>-11.7</b>	<b>-8.3</b>	<b>10.9</b>	<b>9.9</b>	<b>9.1</b>	<b>5.0</b>	<b>6.8</b>	<b>9.7</b>	<b>5.0</b>	<b>-0.8</b>
Change in Private Inventories	-169	-73	18	30	50	80	-42	-78	65	86
Net Exports	-1245	-1312	-1338	-1324	-1315	-1311	-943	-1280	-1318	-1324
Government Expenditures	3374	3381	3363	3367	3368	3371	3360	3377	3370	3375
<b>Percent Change Annualized</b>	<b>-2.0</b>	<b>0.9</b>	<b>-2.1</b>	<b>0.4</b>	<b>0.1</b>	<b>0.3</b>	<b>2.5</b>	<b>0.5</b>	<b>-0.2</b>	<b>0.1</b>
Industrial Prod. Index (2012 = 100)	99.9	100.8	101.7	102.5	103.5	104.5	95.0	100.2	103.9	105.7
<b>Percent Change Annualized</b>	<b>6.4</b>	<b>3.9</b>	<b>3.4</b>	<b>3.3</b>	<b>4.0</b>	<b>3.8</b>	<b>-7.2</b>	<b>5.5</b>	<b>3.8</b>	<b>1.7</b>
Capacity Utilization (Percent)	75.2	75.9	76.5	77.0	77.7	78.3	71.6	75.4	78.9	78.9
<b>Prices</b>										
CPI (1982-84 = 100)	268.8	273.1	275.8	278.0	280.3	282.4	258.8	270.3	281.2	288.3
<b>Percent Change Annualized</b>	<b>8.4</b>	<b>6.6</b>	<b>4.0</b>	<b>3.1</b>	<b>3.4</b>	<b>3.0</b>	<b>1.2</b>	<b>4.4</b>	<b>4.0</b>	<b>2.5</b>
Core CPI Index (1982-84 = 100)	275.9	279.5	282.3	284.8	287.3	289.2	267.7	277.0	288.0	294.8
<b>Percent Change Annualized</b>	<b>8.1</b>	<b>5.3</b>	<b>4.2</b>	<b>3.6</b>	<b>3.4</b>	<b>2.8</b>	<b>1.7</b>	<b>3.5</b>	<b>4.0</b>	<b>2.3</b>
PCE Price Index (2012 = 100)	114.8	116.3	117.9	118.8	119.7	120.5	111.2	115.5	120.1	122.9
<b>Percent Change Annualized</b>	<b>6.5</b>	<b>5.3</b>	<b>5.8</b>	<b>3.1</b>	<b>3.1</b>	<b>2.7</b>	<b>1.2</b>	<b>3.8</b>	<b>4.0</b>	<b>2.3</b>
Core PCE Price Index (2012 = 100)	116.7	118.0	119.0	120.0	120.8	121.5	113.6	117.2	121.1	123.5
<b>Percent Change Annualized</b>	<b>6.1</b>	<b>4.5</b>	<b>3.5</b>	<b>3.1</b>	<b>2.9</b>	<b>2.3</b>	<b>1.4</b>	<b>3.2</b>	<b>3.3</b>	<b>2.0</b>
GDP Price Index (2012 = 100)	117.4	119.1	120.9	122.0	123.1	124.0	113.6	118.3	123.5	126.4
<b>Percent Change Annualized</b>	<b>6.2</b>	<b>5.9</b>	<b>6.2</b>	<b>3.8</b>	<b>3.5</b>	<b>3.1</b>	<b>1.2</b>	<b>4.1</b>	<b>4.4</b>	<b>2.4</b>
Crude Oil, WTI (\$/Barrel)	66.2	70.5	75.0	76.5	76.0	75.5	39.5	67.4	75.7	75.0
<b>Labor Markets</b>										
Payroll Jobs (Millions)	145.1	147.4	148.9	150.4	151.9	152.4	142.3	146.2	151.9	154.2
<b>Percent Change Annualized</b>	<b>4.8</b>	<b>6.7</b>	<b>3.9</b>	<b>4.3</b>	<b>3.9</b>	<b>1.3</b>	<b>-5.7</b>	<b>2.8</b>	<b>3.9</b>	<b>1.5</b>
Unemployment Rate (Percent)	5.9	5.1	4.3	4.1	4.0	3.9	8.1	5.4	4.0	3.7
Average Weekly Hours, Prod. Works.	34.2	34.2	34.1	34.1	34.0	34.0	33.9	34.2	34.0	33.8
<b>Personal Income</b>										
Average Hourly Earnings (\$)	25.6	26.0	26.2	26.5	26.9	27.2	24.7	25.8	27.1	28.4
<b>Percent Change Annualized</b>	<b>6.2</b>	<b>6.7</b>	<b>3.0</b>	<b>5.3</b>	<b>5.3</b>	<b>5.1</b>	<b>5.0</b>	<b>4.4</b>	<b>5.1</b>	<b>4.8</b>
Real Disp. Income (2012 Billions \$)	15806	15643	15343	15375	15517	15607	15676	16003	15552	15967
<b>Percent Change Annualized</b>	<b>-29.1</b>	<b>-4.0</b>	<b>-7.5</b>	<b>0.8</b>	<b>3.7</b>	<b>2.4</b>	<b>6.2</b>	<b>2.1</b>	<b>-2.8</b>	<b>2.7</b>
<b>Housing</b>										
Housing Starts ( <i>Ths., Ann. Rate</i> )	1588	1555	1592	1595	1630	1638	1397	1584	1620	1467
Ext. Home Sales ( <i>Ths., Ann Rate</i> )	5833	6057	6920	6752	6578	6338	5657	6278	6425	5276
New SF Home Sales ( <i>Ths., Ann Rate</i> )	737	713	713	718	722	715	828	765	710	637
Case/Shiller HPI ( <i>Jan. 2000 = 100</i> )	254.6	266.7	276.0	278.2	279.2	280.3	232.5	276.0	281.4	284.2
<b>Percent Change Year Ago</b>	<b>16.9</b>	<b>19.7</b>	<b>18.7</b>	<b>14.9</b>	<b>9.7</b>	<b>5.1</b>	<b>9.4</b>	<b>18.7</b>	<b>1.9</b>	<b>1.0</b>
<b>Consumer</b>										
Auto Sales (Millions)	16.9	13.3	14.0	15.3	16.4	17.5	14.5	15.3	16.7	16.6
Consumer Credit (Billions \$)	4307	4367	4427	4502	4589	4675	4185	4427	4751	5012
<b>Percent Change Year Ago</b>	<b>3.9</b>	<b>4.9</b>	<b>5.8</b>	<b>6.6</b>	<b>6.6</b>	<b>7.0</b>	<b>-0.3</b>	<b>5.8</b>	<b>7.3</b>	<b>5.5</b>
<b>Interest Rates (Percent)</b>										
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.27	<b>3.54</b>	<b>3.25</b>	<b>3.33</b>	<b>4.16</b>
Federal Funds	0.07	0.09	0.08	0.09	0.11	0.15	<b>0.37</b>	<b>0.08</b>	<b>0.19</b>	<b>1.04</b>
3-Month Treasury Bill	0.01	0.04	0.04	0.08	0.15	0.28	<b>0.35</b>	<b>0.03</b>	<b>0.26</b>	<b>1.05</b>
10-Year Treasury Note	1.58	1.32	1.53	1.48	1.57	1.67	<b>0.89</b>	<b>1.43</b>	<b>1.62</b>	<b>2.04</b>
30-Year Fixed Mortgage	3.00	2.87	3.08	3.15	3.23	3.33	<b>3.11</b>	<b>2.96</b>	<b>3.29</b>	<b>3.74</b>
<i>a = actual    f = forecast    p = preliminary</i>										

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