

NATIONAL ECONOMIC OUTLOOK

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Executive Summary

Economy Officially in Recovery: Stronger June Job Growth

- The National Bureau of Economic Research announced in July that a U.S. economic recovery began in May 2020. In dating the recovery, the NBER looked at a variety of measures, including real GDP, real incomes, employment, industrial output, and wholesale and retail sales. Last year the NBER announced that a recession began in March 2020. Thus the Viral Recession lasted only two months (March and April 2020), making it the shortest recession on record. However, it was also the most severe downturn since World War II based on the decline in real GDP, job losses, the increase in the unemployment rate, and other measures. A recovery does not mean the economy is in good shape; for example, employment is still far below its pre-recession level. But it does mean the economy is improving.
- The U.S. economy added 850,000 jobs in June, according to a survey of employers from the Bureau of Labor Statistics. This was the best month for job growth since August 2020. Total employment in June was 145.8 million. This is up 15.6 million from April 2020, when employment bottomed out at the start of the pandemic, but is still down by 6.8 million (more than 4%) from the pre-pandemic peak in February 2020. Private-sector employment rose by 662,000 in June, with government employment up by 188,000. Once again job growth was very strong in leisure/hospitality services as the economy continues to reopen and consumers spend their stimulus payments. The industry added 343,000 jobs in June, and has added better than 225,000 jobs for five straight months. Still, employment in leisure/hospitality services is down by 2.5 million, or 15%, from February 2020.
- The unemployment rose slightly in June, to 5.9%, from 5.8% in May. The number of people employed in a survey of households (different from the survey of employers) fell by 18,000, while the number of people in the labor force rose by 151,000. The unemployment rate is down from a peak of 14.8% in April 2020, but is still well above the pre-pandemic rate of 3.5%. And there are still about 3.5 million fewer people in the labor force now, compared to February 2020. The labor force participation rate (share of adults either working or looking for work) was 61.6% in June, unchanged from May, but down from more than 63% before the pandemic. This drop in the labor force is making it more difficult for some employers to find workers.

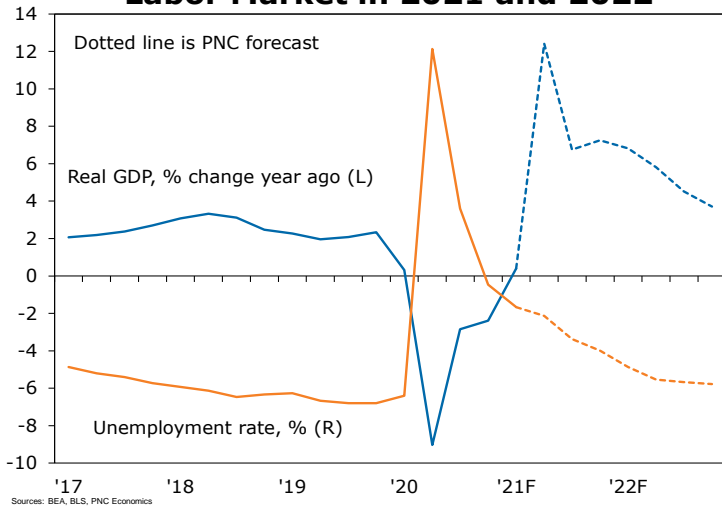
Baseline U.S. Economic Outlook, Summary Table*

	1Q'21a	2Q'21f	3Q'21f	4Q'21f	1Q'22f	2Q'22f	2020a	2021f	2022f	2023f
Output & Prices										
Real GDP (Chained 2012 Billions \$)	19086	19451	19852	20157	20389	20582	18426	19637	20656	21136
Percent Change Annualized	6.4	7.9	8.5	6.3	4.7	3.8	-3.5	6.6	5.2	2.3
CPI (1982-84 = 100)	263.4	268.8	271.2	271.9	272.5	273.6	258.8	268.8	274.4	280.7
Percent Change Annualized	3.7	8.4	3.6	1.0	0.9	1.6	1.2	3.8	2.1	2.3
Labor Markets										
Payroll Jobs (Millions)	143.4	145.0	147.0	148.9	150.8	152.3	142.3	146.1	152.7	155.8
Percent Change Annualized	2.1	4.7	5.6	5.3	5.1	4.2	-5.7	2.7	4.5	2.0
Unemployment Rate (Percent)	6.2	5.9	5.3	5.0	4.6	4.2	8.1	5.6	4.3	3.9
Interest Rates (Percent)										
Federal Funds	0.08	0.07	0.07	0.07	0.07	0.09	0.37	0.07	0.10	0.34
10-Year Treasury Note	1.30	1.58	1.46	1.75	1.87	1.90	0.89	1.52	1.90	2.01

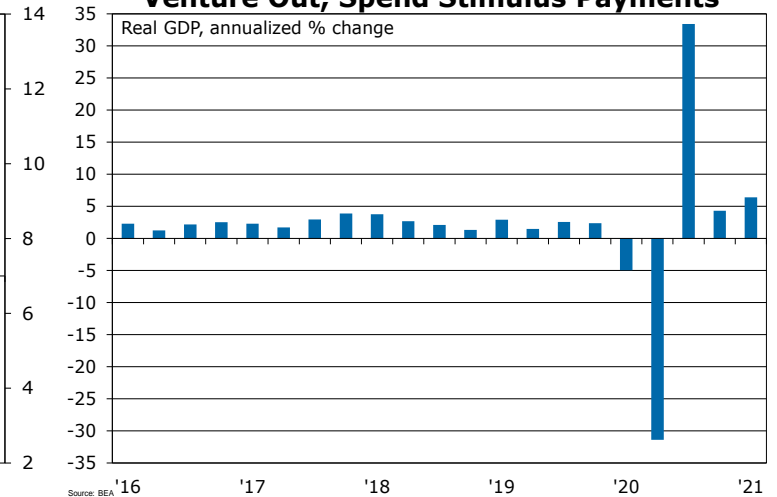
a = actual f = forecast p = preliminary

*Please see the Expanded Table for more forecast series.

Continued Improvement in the Labor Market in 2021 and 2022



Very Strong Growth in Mid-2021 as Consumers Venture Out, Spend Stimulus Payments



Delta Variant Does Not Change Outlook for Strong Recovery

As the more contagious Delta variant spreads in the United States, the number of coronavirus cases is rising and hospitalizations for COVID-19 have increased, particularly in parts of the country with lower vaccination rates. Some states and municipalities are reinstating mask requirements in response to rising cases; most notably Los Angeles County has brought back its indoor mask mandate. The spread of the Delta variant has spooked investors and was one factor behind the stock market's wobbles in mid-July. But caseloads remain well below their levels during previous surges, vaccinations continue, and COVID-related deaths remain low compared to earlier in the year. The Delta variant does not change the outlook for continued strong economic recovery in the United States, although it does add some downside risk to the forecast.

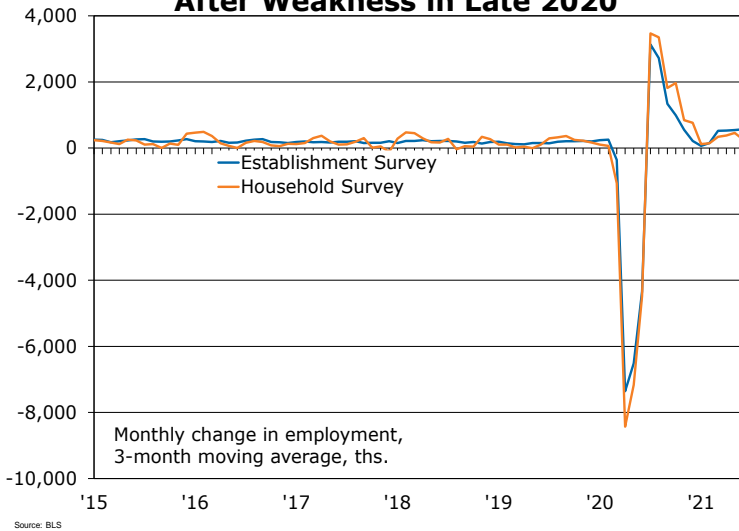
One reason why the Delta variant is spreading in the U.S. is that vaccination rates have plateaued recently. About 60% of adults were fully vaccinated in late July, according to the Centers for Disease Control and Prevention (CDC), while about 69% have received at least one dose. But this is not enough to halt transmission. This is partially because no vaccines have been authorized for children under 12. In addition, vaccination rates vary widely across states. Some states, mostly rural and in the South and Mountain West, have fully vaccinated only around one-third of their populations (including children), while other states have vaccination rates of 60% or above. According to the CDC director, 97% of COVID-related hospitalizations, and 99% of COVID-related deaths, are now among the unvaccinated.

While rising hospitalizations and deaths are devastating, the economic fallout is likely to be limited. Coronavirus cases are rising most rapidly in states with lower vaccination rates. But those states also tend to be the ones most resistant to public health measures to combat the pandemic, such as mask mandates and limits on indoor activities. Thus, even with rising hospitalizations and deaths in some parts of the country, the types of widespread restrictions on economic activity seen earlier in the pandemic, and then again in late 2020 and early 2021, are unlikely to be widely reimposed. This will greatly limit the economic fallout from the Delta variant and increasing coronavirus cases. In addition, states with low vaccination rates are making renewed pushes to encourage the shots, some employers are implementing vaccine requirements, and some of the unvaccinated are now seeking out immunizations with more data on their safety and efficacy. In addition, the CDC is likely to soon approve authorization of the vaccine for younger children. Gradually increasing vaccination rates will help contain the virus and limit the economic damage.

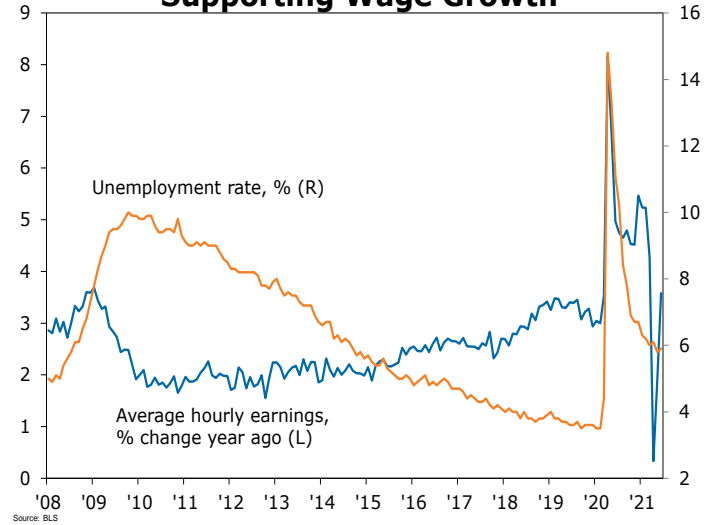
In addition, the fundamentals of the U.S. economy remain solid. Households still have around \$2 trillion in excess saving from government payments and restricted opportunities to spend since the pandemic started. They will gradually spend those funds over the next couple of years, particularly on services, such as travel, dining out, and entertainment. With consumer spending making up about two-thirds of the U.S. economy, strong growth in household purchases will support the expansion. The Federal Reserve will keep interest rates extremely low until the job market has fully recovered and inflation is consistently at or above 2%, supporting consumer and business borrowing. Production bottlenecks that are restraining some economic activity will gradually ease, supporting motor vehicle sales and housing starts.

Despite the Delta variant the outlook for the U.S. economy remains extremely positive. Consumer spending, business investment and homebuilding will all support growth in the second half of this year and throughout 2022. A gradually improving global economy will boost exports. Real GDP will increase around 7% from the fourth quarter of 2020 to the fourth quarter of 2021, and then better than 3% in the subsequent year, well above the economy's long-run average. PNC expects average monthly job growth of better than 600,000 in the second half of 2021. The unemployment rate will continue to gradually decline, to around 5% by the end of this year and around 4% by the end of next year. PNC has updated its forecast for the federal funds rate with the July forecast; the first rate increase is now expected in mid-2023, compared to late 2023 in the June forecast. Risks to the outlook are weighted to the downside, however; most notably Delta and other variants could lead to additional government restrictions on economic activity.

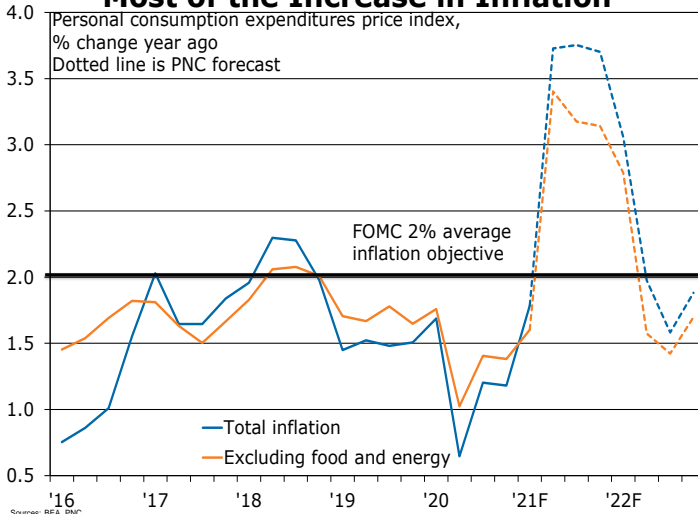
Job Growth Has Picked Back Up After Weakness in Late 2020



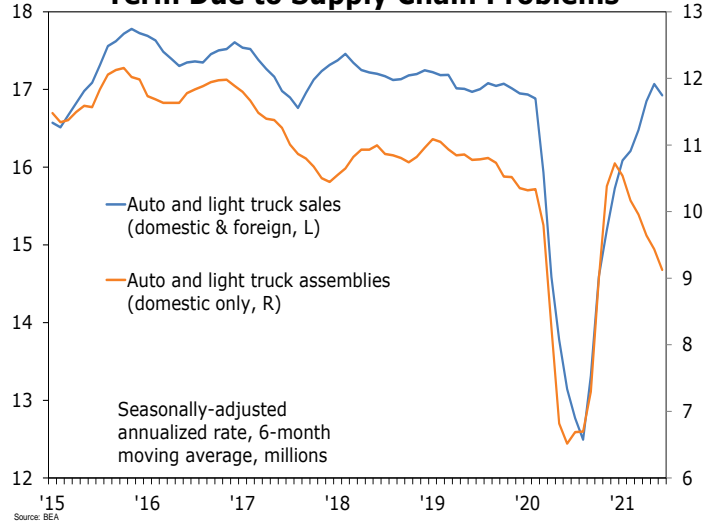
Difficulties in Finding Workers Supporting Wage Growth



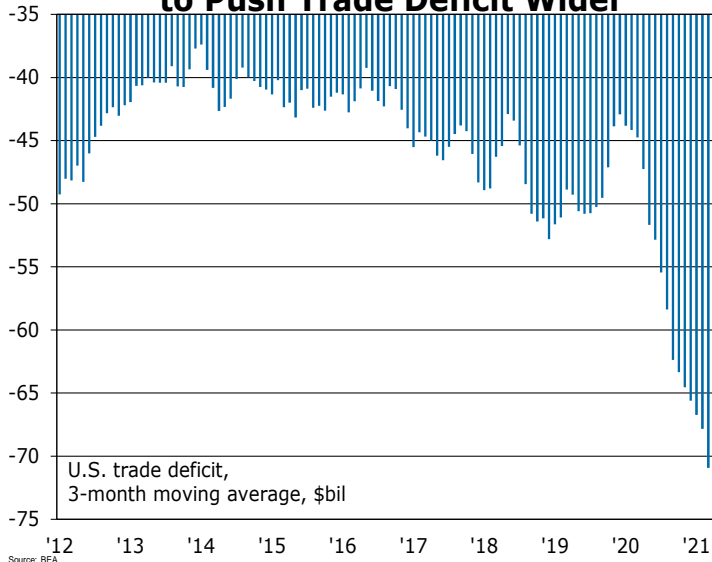
Temporary Factors Driving Most of the Increase in Inflation



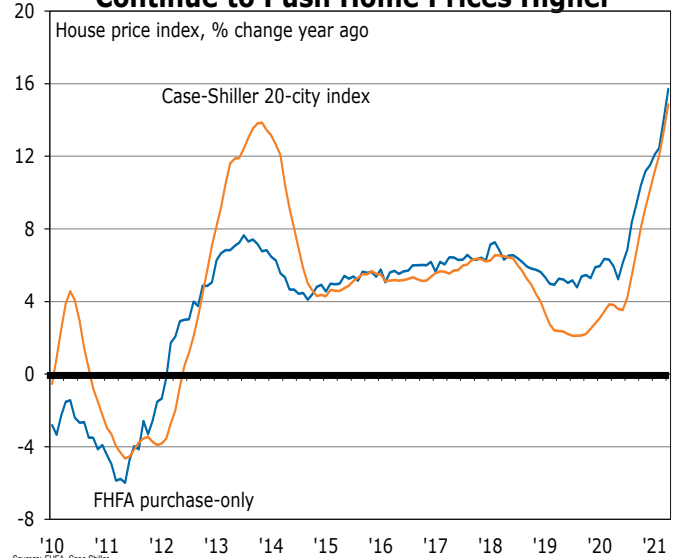
Auto Sales Likely to Fall in Near Term Due to Supply Chain Problems



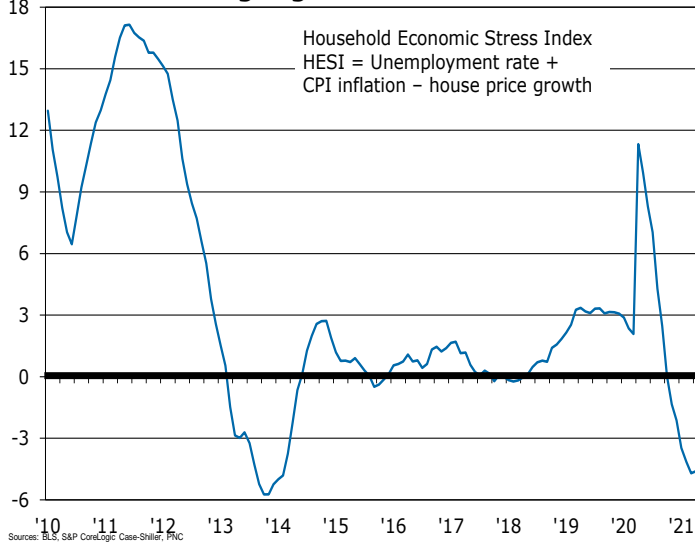
Consumer Spending Surge Continues to Push Trade Deficit Wider



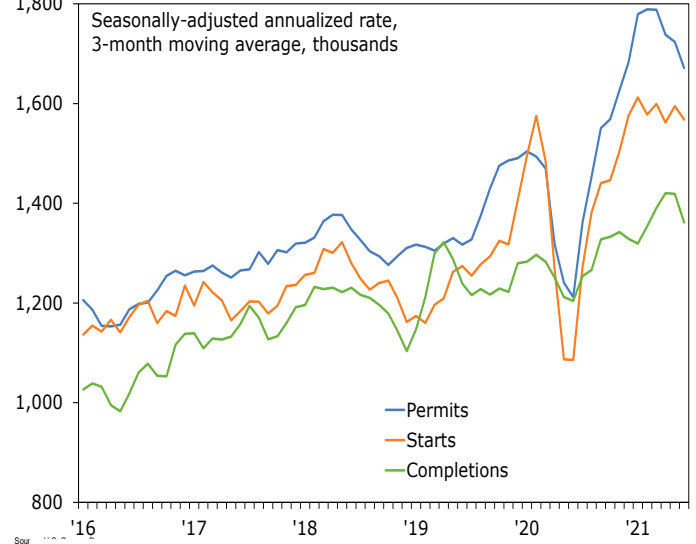
Very Low Mortgage Rates, Strong Demand Continue to Push Home Prices Higher



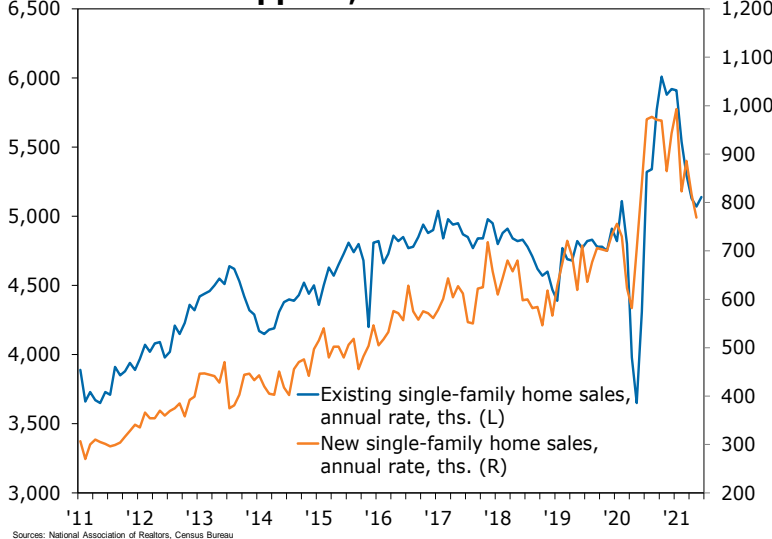
Falling Unemployment Rate, Strong House Price Gains Offsetting Higher Inflation for Households



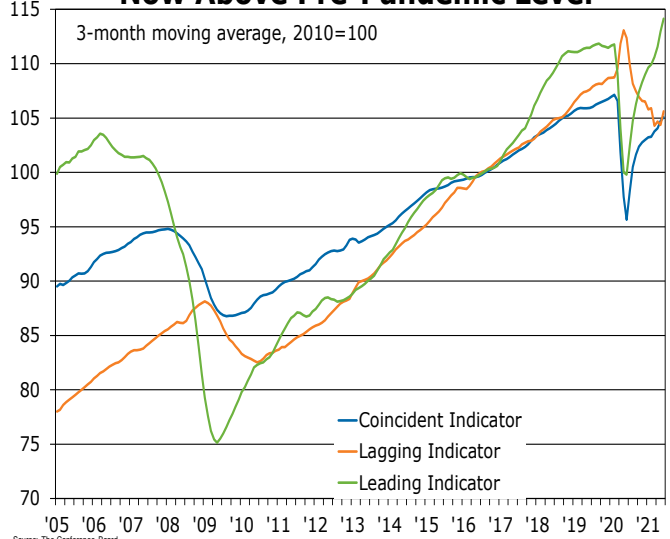
Homebuilding Remains Well Above Pre-Pandemic Level



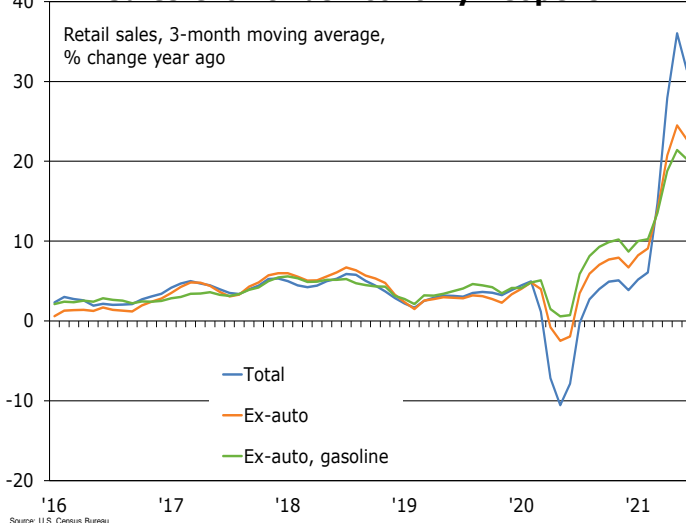
Home Sales Are Down Because of Limited Supplies, Not Weaker Demand



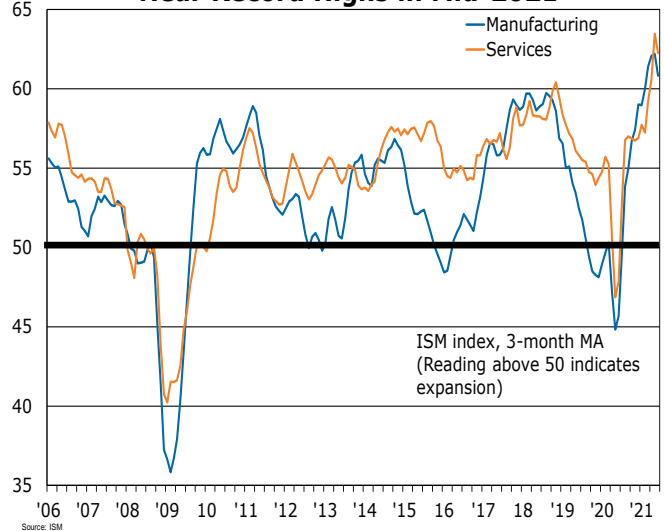
Conference Board Leading Indicator Now Above Pre-Pandemic Level



Restaurants Are Supporting Retail Sales Growth as Economy Reopens



ISM Manufacturing and Service Indices Both Near Record Highs in Mid-2021



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PNC Economics Group
July 2021

Baseline U.S. Economic Outlook, Expanded Table

	1Q'21a	2Q'21f	3Q'21f	4Q'21f	1Q'22f	2Q'22f	2020a	2021f	2022f	2023f
Output										
Nominal GDP (Billions \$)	22062	22756	23457	23945	24324	24677	20937	23055	24851	26033
Percent Change Annualized	11.0	13.2	12.9	8.6	6.5	5.9	-2.3	10.1	7.8	4.8
Real GDP (Chained 2012 Billions \$)	19086	19451	19852	20157	20389	20582	18426	19637	20656	21136
Percent Change Annualized	6.4	7.9	8.5	6.3	4.7	3.8	-3.5	6.6	5.2	2.3
Pers. Consumption Expenditures	13353	13641	13824	13963	14089	14180	12726	13695	14209	14463
Percent Change Annualized	11.4	8.9	5.5	4.1	3.7	2.6	-3.9	7.6	3.8	1.8
Nonresidential Fixed Investment	2819	2872	2963	3045	3101	3152	2665	2925	3164	3287
Percent Change Annualized	11.7	7.8	13.3	11.5	7.6	6.6	-4.0	9.7	8.2	3.9
Residential Investment	720	726	776	797	807	819	638	755	829	839
Percent Change Annualized	13.1	3.8	30.5	11.1	5.0	6.2	6.1	18.3	9.8	1.2
Change in Private Inventories	-87	-16	60	125	135	146	-77	20	146	113
Net Exports	-1212	-1273	-1275	-1288	-1275	-1265	-926	-1262	-1251	-1176
Government Expenditures	3367	3374	3377	3388	3405	3423	3341	3377	3432	3483
Percent Change Annualized	5.7	0.9	0.3	1.3	1.9	2.2	1.1	1.1	1.6	1.5
Industrial Prod. Index (2012 = 100)	98.2	99.4	101.1	102.3	103.2	103.9	95.0	100.3	104.1	105.2
Percent Change Annualized	3.6	4.6	7.3	4.9	3.3	2.8	-7.2	5.6	3.8	1.1
Capacity Utilization (Percent)	74.1	75.1	76.6	77.5	78.1	78.4	71.6	75.8	78.5	78.5
Prices										
CPI (1982-84 = 100)	263.4	268.8	271.2	271.9	272.5	273.6	258.8	268.8	274.4	280.7
Percent Change Annualized	3.7	8.4	3.6	1.0	0.9	1.6	1.2	3.8	2.1	2.3
Core CPI Index (1982-84 = 100)	270.5	275.9	277.9	278.5	279.1	280.2	267.7	275.7	281.1	288.0
Percent Change Annualized	1.2	8.1	3.0	0.9	0.8	1.5	1.7	3.0	2.0	2.5
PCE Price Index (2012 = 100)	112.9	114.6	115.6	116.0	116.3	116.8	111.1	114.8	117.2	119.8
Percent Change Annualized	3.7	6.1	3.8	1.3	1.2	1.7	1.2	3.2	2.1	2.2
Core PCE Price Index (2012 = 100)	114.8	116.6	117.4	117.7	118.0	118.5	113.4	116.6	118.8	121.4
Percent Change Annualized	2.5	6.5	2.5	1.1	1.1	1.5	1.4	2.8	1.9	2.1
GDP Price Index (2012 = 100)	115.6	117.0	118.2	118.8	119.3	119.9	113.6	117.4	120.3	123.2
Percent Change Annualized	4.3	4.9	4.0	2.2	1.7	2.0	1.2	3.3	2.5	2.4
Crude Oil, WTI (\$/Barrel)	58.0	66.1	70.6	70.1	68.7	68.1	39.5	66.2	67.6	65.9
Labor Markets										
Payroll Jobs (Millions)	143.4	145.0	147.0	148.9	150.8	152.3	142.3	146.1	152.7	155.8
Percent Change Annualized	2.1	4.7	5.6	5.3	5.1	4.2	-5.7	2.7	4.5	2.0
Unemployment Rate (Percent)	6.2	5.9	5.3	5.0	4.6	4.2	8.1	5.6	4.3	3.9
Average Weekly Hours, Prod. Works.	34.3	34.2	34.2	34.2	34.1	34.0	33.9	34.2	34.0	33.8
Personal Income										
Average Hourly Earnings (\$)	25.2	25.6	25.9	26.1	26.4	26.7	24.7	25.7	26.8	27.8
Percent Change Annualized	3.8	5.9	4.9	3.6	4.4	4.3	5.0	4.1	4.3	3.8
Real Disp. Income (2012 Billions \$)	17533	16174	15914	16016	16124	16209	15770	16409	16269	16574
Percent Change Annualized	62.0	-27.6	-6.3	2.6	2.7	2.1	6.0	4.1	-0.9	1.9
Housing										
Housing Starts (Ths., Ann. Rate)	1599	1568	1582	1549	1567	1582	1397	1575	1567	1455
Ext. Home Sales (Ths., Ann. Rate)	6303	5792	7087	7019	6846	6695	5657	6550	6550	5331
New SF Home Sales (Ths., Ann. Rate)	901	840	828	822	819	803	828	848	791	720
Case/Shiller HPI (Jan. 2000 = 100)	241.6	244.8	247.4	249.1	249.5	249.9	232.5	249.1	251.8	256.9
Percent Change Year Ago	12.1	12.3	11.0	7.2	3.3	2.1	9.4	7.2	1.1	2.0
Consumer										
Auto Sales (Millions)	16.8	17.0	17.0	17.3	17.8	17.9	14.4	17.1	17.4	15.3
Consumer Credit (Billions \$)	4219	4308	4368	4429	4498	4573	4188	4429	4715	4964
Percent Change Year Ago	0.4	3.9	4.9	5.8	6.6	6.2	-0.2	5.8	6.5	5.3
Interest Rates (Percent)										
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.54	3.25	3.25	3.46
Federal Funds	0.08	0.07	0.07	0.07	0.07	0.09	0.37	0.07	0.10	0.34
3-Month Treasury Bill	0.04	0.01	0.06	0.08	0.10	0.12	0.35	0.05	0.13	0.46
10-Year Treasury Note	1.30	1.58	1.46	1.75	1.87	1.90	0.89	1.52	1.90	2.01
30-Year Fixed Mortgage	2.88	3.00	3.03	3.34	3.48	3.54	3.11	3.06	3.56	3.71
a = actual f = forecast p = preliminary										

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