June 2021

NATIONAL ECONOMIC OUTLOOK

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Executive Summary

Better Job Growth in May; Fed Still Not Ready to Reduce Asset Purchases

- The May jobs report was good but not great. The U.S. economy added 559,000 jobs over the month according to a survey of employers. But after April's disappointing report (+278,000 jobs, after revisions), the improvement in May is proof that the labor market is recovering solidly from the Viral Recession. The private sector added 492,000 jobs in May, while government employment rose by 67,000. The three-month moving average of job growth through May was around 540,000. With employment in May still down by about 7.6 million, or 5%, from its pre-pandemic peak, at this pace it would take a little more than a year for employment to return to where it was in early 2020. The unemployment rate fell to 5.8% in May from 6.1% in April and 6.0% in March. The unemployment rate is down from a peak of 14.8% in April 2020, but remains well above the 3.5% pre-pandemic rate.

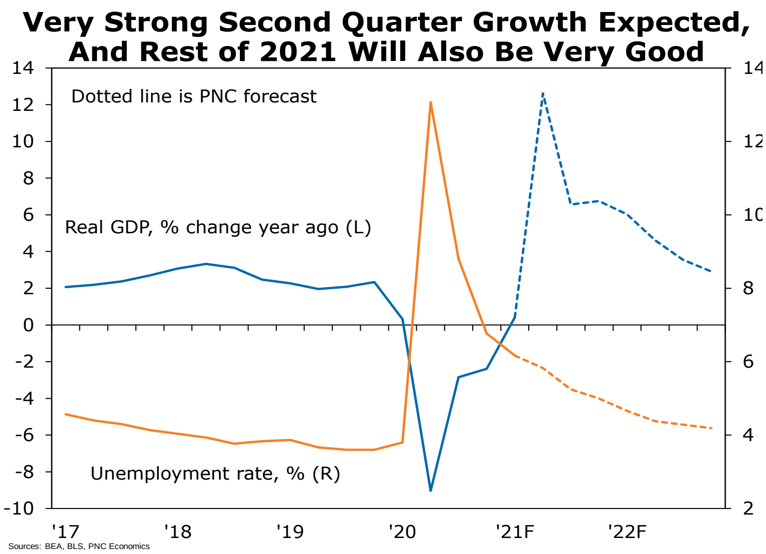
- The Federal Open Market Committee kept monetary policy unchanged in its June 16 statement. The federal funds rate is staying in a 0.00% to 0.25% range and the central bank is maintaining monthly purchases of $80 billion of long-term Treasurys and $40 billion of mortgage-backed securities, putting downward pressure on long-term interest rates. Conditions for raising the fed funds rate were also unchanged from the previous statement on April 28: the FOMC does not expect to increase the fed funds rate until the job market is at full employment and inflation is set "to moderately exceed 2% for some time." The FOMC expects to maintain its securities purchases until the economy has made "substantial further progress" toward its employment and inflation goals. However, more than one-half of FOMC participants expect to increase the fed funds rate in 2023; in the previous "dot plot" from March, the median fed funds rate remained in its current near-zero range until at least 2024.

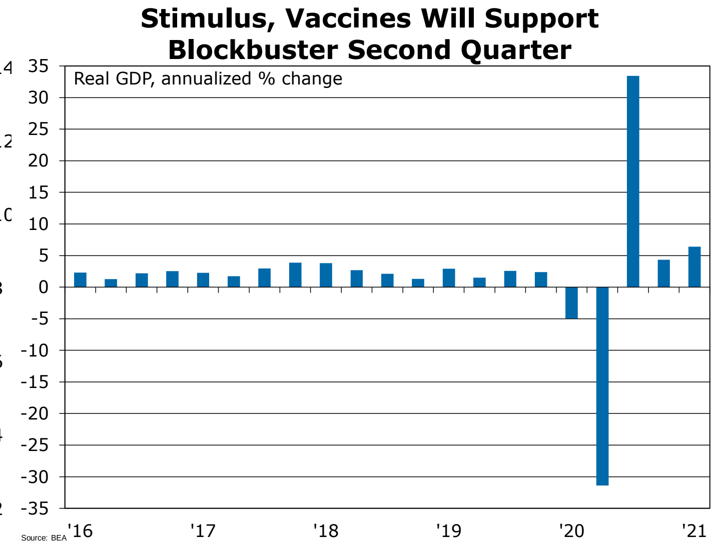
- Inflation has picked up in the spring of 2021, but much of the acceleration will prove temporary. In year-over-year terms, consumer price index inflation accelerated to 5.0% in May from 4.2% in April, the fastest pace since August 2008, when surging energy prices caused an inflationary spike. The year-over-year comparison is deceptive, however, since consumer prices fell last April and May as the economy entered freefall. Relative to February 2020, consumer prices were up 3.1% in May 2021.

Baseline U.S. Economic Outlook, Summary Table*

	1Q'21p	2Q'21f	3Q'21f	4Q'21f	1Q'22f	2Q'22f	2020a	2021f	2022f	2023f
Output & Prices										
Real GDP (*Chained 2012 Billions $*)	19088	19486	19818	20064	20237	20385	18426	19614	20448	20925
Percent Change Annualized	**6.4**	**8.6**	**7.0**	**5.0**	**3.5**	**3.0**	**-3.5**	**6.4**	**4.3**	**2.3**
CPI (*1982-84 = 100*)	263.4	268.3	269.9	271.2	272.8	274.6	258.8	268.2	275.5	282.3
Percent Change Annualized	**3.7**	**7.6**	**2.5**	**2.0**	**2.3**	**2.7**	**1.2**	**3.6**	**2.7**	**2.5**
Labor Markets										
Payroll Jobs (*Millions*)	143.4	144.9	146.9	148.7	150.5	152.0	142.3	146.0	152.8	157.1
Percent Change Annualized	**2.1**	**4.5**	**5.5**	**5.2**	**4.8**	**4.2**	**-5.7**	**2.6**	**4.7**	**2.8**
Unemployment Rate (*Percent*)	6.2	5.8	5.2	5.0	4.7	4.4	8.1	5.6	4.4	3.9
Interest Rates (Percent)										
Federal Funds	0.08	0.07	0.07	0.07	0.07	0.07	0.37	0.07	0.08	0.13
10-Year Treasury Note	1.30	1.61	1.67	1.79	1.84	1.85	0.89	1.60	1.87	1.94

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





Labor Supply Shortages, Production Problems Will Fade Later This Year

The U.S. economy is growing very strongly in mid-2021; PNC expects real GDP growth of almost 9% at an annual rate in the second quarter. But there are some constraints on current growth. Many employers are complaining about worker shortages. And the pandemic, steep U.S. and global recessions last year, and rapid recoveries this year have resulted in shortages of many goods, including critical inputs. However, labor supply should pick back up over the rest of 2021, and supply chain problems will also abate, allowing for a strong economic recovery well into 2022.

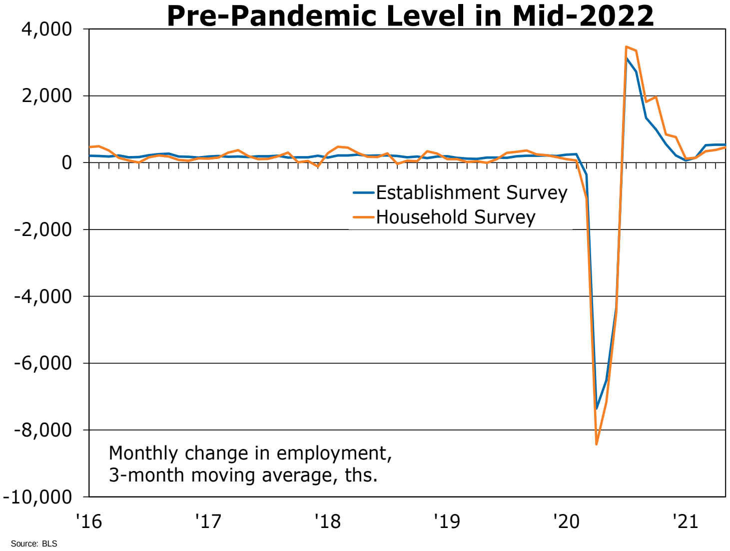
The pandemic caused an enormous contraction in the U.S. labor force, from which it has only partially recovered. The number of adults either working or looking for work fell by 8 million, or 5%, between February and April 2020. There was a strong rebound in the labor force in the summer of 2020, with an increase of around 5.5 million as the economy reopened, but since then its recovery has stalled. As of May 2021 the labor force is still about 3.5 million (2%) below its pre-pandemic level. This has made it difficult for some businesses to hire and keep up with recovering demand for their goods and services. A number of factors are weighing on labor force growth: concern about catching the coronavirus, childcare responsibilities, and more generous unemployment insurance benefits that have discouraged some from returning to work. But these factors should fade over the rest of the year. In particular, some states are already dropping the extra $300 per week in unemployment benefits, and they are set to expire nationally in September. In addition, rising pay will induce greater labor supply.

There are also shortages of some goods and services due to strong demand and production bottlenecks. Consumers are using their stimulus payments to buy many more goods than they did before the pandemic. Firms are trying to increase production to keep up, but are having difficulty sourcing supplies. Shortages have been particularly acute for semiconductors and residential building materials. Strong demand for electronics has resulted in a shortage of semiconductors, which is difficult to alleviate because chip fabrication plants have very long lead times and are incredibly expensive to build. The chip shortage, in turn, has forced some automakers to cut production even though demand for new cars is very strong. A surge in residential construction has led to very strong demand for building materials such as lumber. Homebuilding was much lower in the decade before the pandemic, leading to reduced manufacturing capacity for lumber and other materials. As a result sawmills and other suppliers have been unable to keep up with demand, causing shortages. In addition, a fast rebound in global trade volumes has led to transportation problems, such as lengthy port delays and trucking shortages. All of this is weighing on production, pushing inventories very low, and allowing businesses to push through price increases, adding to inflation pressures.

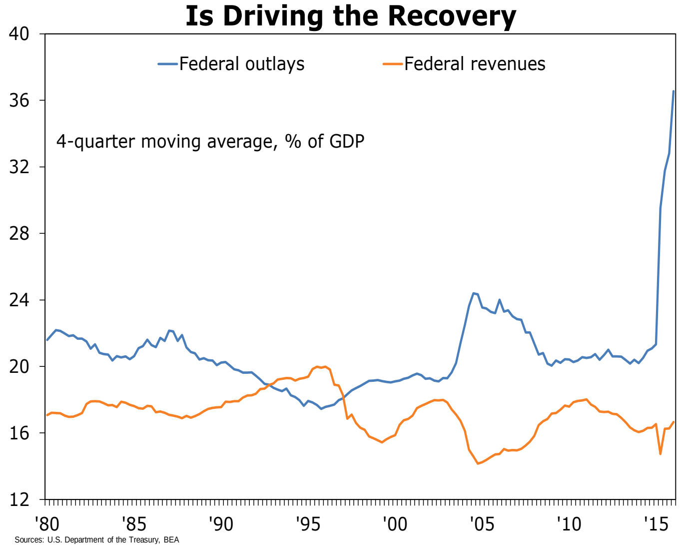
These shortages will work themselves out over the rest of 2021. Higher prices are discouraging some demand, and are also encouraging producers to expand capacity. The initial surge in demand for many goods will fade as consumers spend down their stimulus savings. Household spending growth will also shift to services, rather than goods, as consumers feel more comfortable going out. And transportation bottlenecks will abate as supply chains normalize. As a result shortages will dissipate and some inflationary pressures will reverse themselves later this year.

The outlook for the U.S. economy remains extremely positive. With vaccinations leading to a big drop in coronavirus cases and states relaxing or entirely dropping their restrictions, consumers will be freely spending their stimulus payments over the next couple of years. Strong homebuilding and business investment will also support economic growth in 2021 and 2022, as will a declining trade deficit. Real GDP will surpass its pre-recession peak in the second quarter of this year, and increase almost 7% from the fourth quarter of 2020 to the fourth quarter of 2021, with above-trend growth of around 3% over the same period in 2022. Monthly job growth will average around 600,000 through the rest of the year, and employment will return to its pre-pandemic level in the spring of 2022. The unemployment rate will continue to fall, to around 5% by the end of this year, and to around 4% by the end of next year. PNC does not expect the next increase in the fed funds rate until mid-2023.

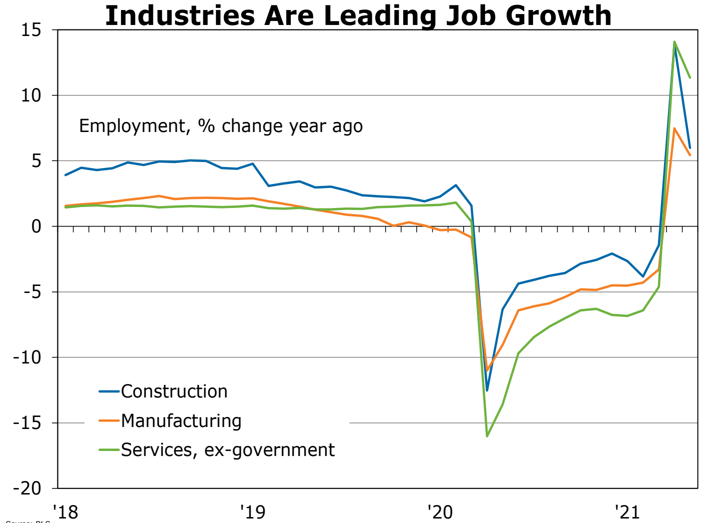
At Current Pace, Jobs Would Be Back to Pre-Pandemic Level in Mid-2022



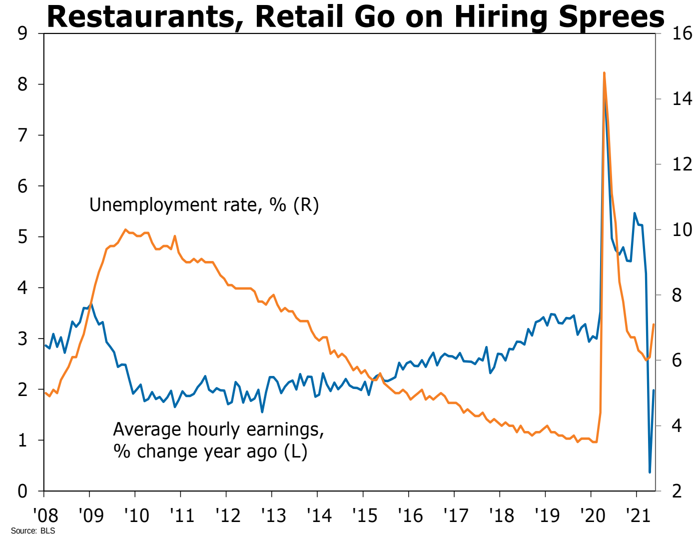
Federal Stimulus Spending Is Driving the Recovery



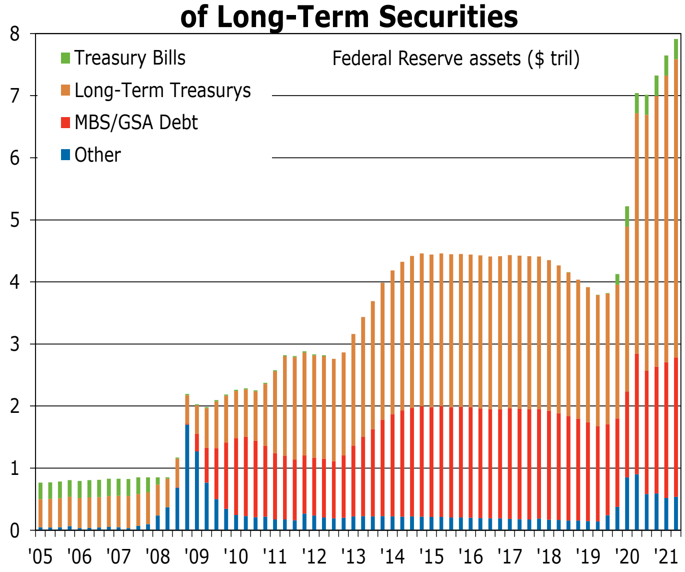
With Reopening of Economy, Service Industries Are Leading Job Growth



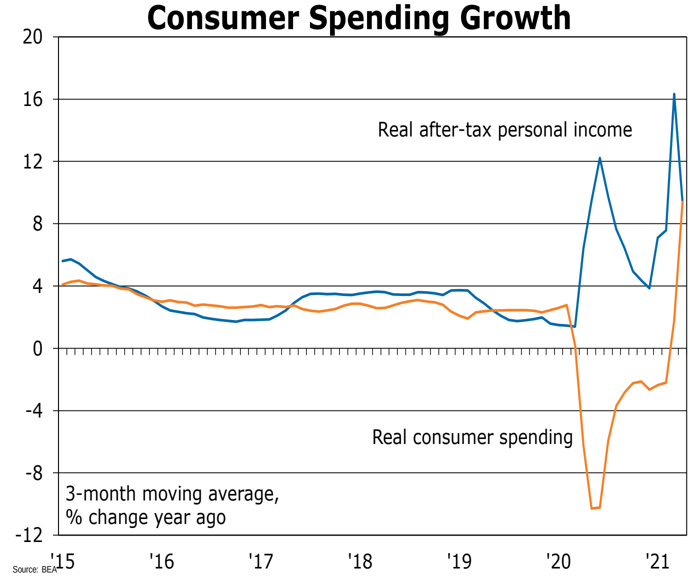
Much Weaker Wage Growth as Low-Wage Restaurants, Retail Go on Hiring Sprees



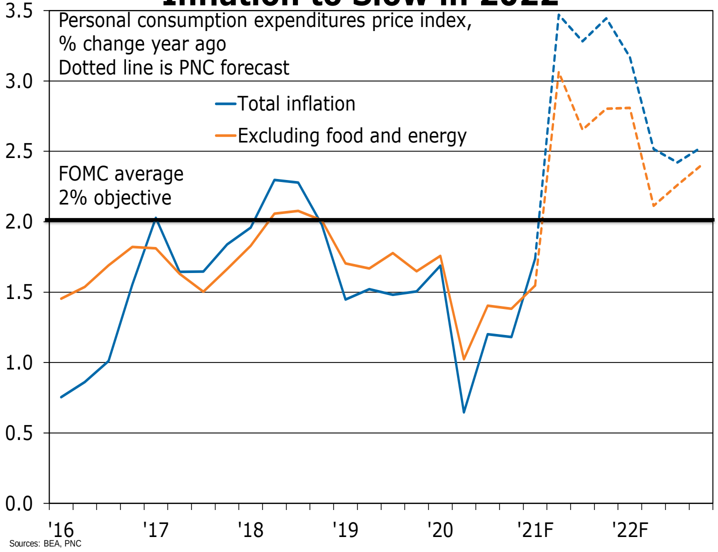
Fed Recommits to Purchases of Long-Term Securities



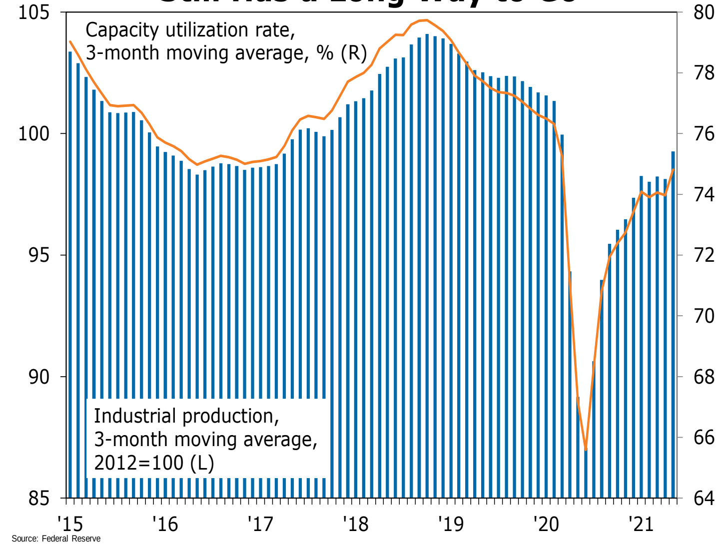
Stimulus Payments Driving Record Consumer Spending Growth



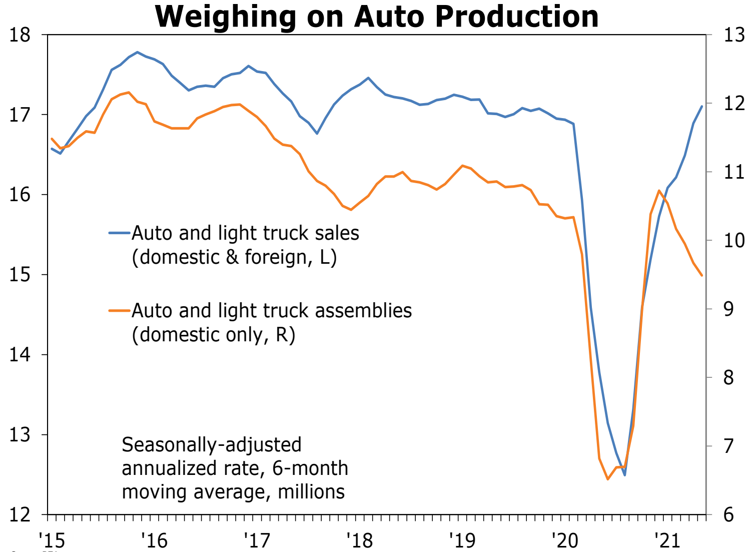
After Second Quarter Surge, Inflation to Slow in 2022



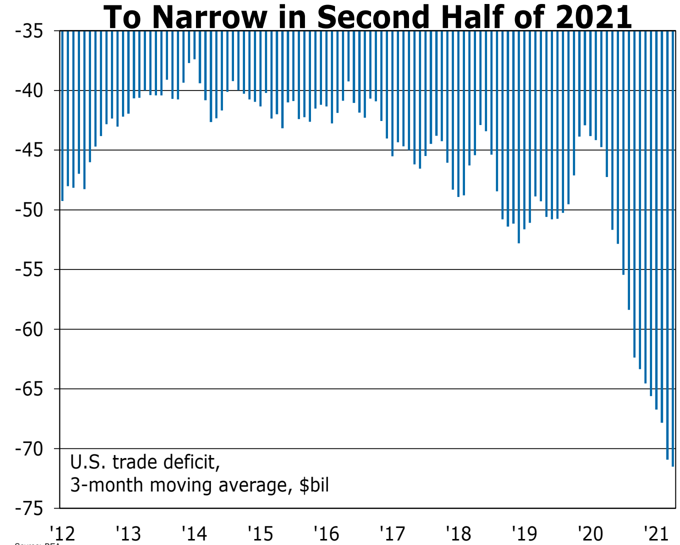
Industrial Sector Recovery Still Has a Long Way to Go



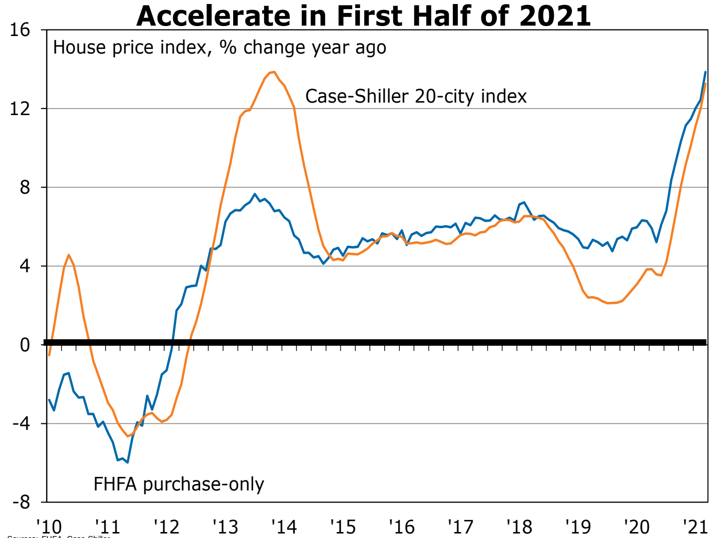
Supply Chain Problems Are Weighing on Auto Production



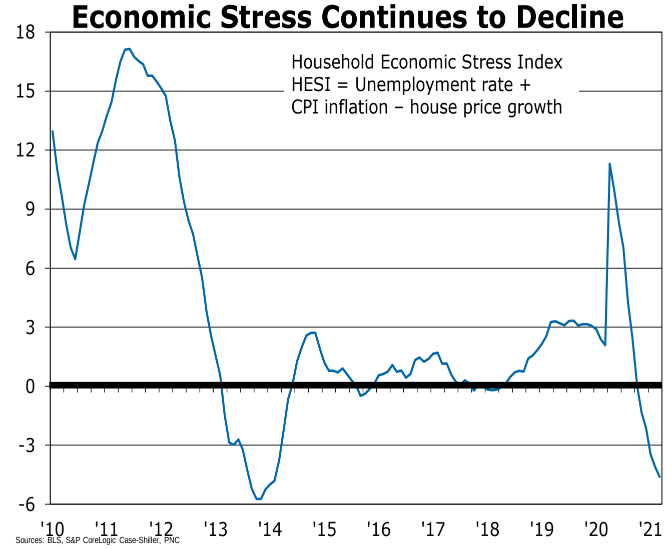
With Global Recovery, Trade Deficit To Narrow in Second Half of 2021



House Price Growth Continues to Accelerate in First Half of 2021



Despite Higher Inflation, Household Economic Stress Continues to Decline



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Baseline U.S. Economic Outlook, Expanded Table

	1Q'21p	2Q'21f	3Q'21f	4Q'21f	1Q'22f	2Q'22f	2020a	2021f	2022f	2023f
Output										
Nominal GDP (Billions $)	22049	22755	23324	23768	24136	24492	20937	22974	24660	25889
Percent Change Annualized	**10.7**	**13.4**	**10.4**	**7.8**	**6.3**	**6.0**	**-2.3**	**9.7**	**7.3**	**5.0**
Real GDP (Chained 2012 Billions $)	19088	19486	19818	20064	20237	20385	18426	19614	20448	20925
Percent Change Annualized	**6.4**	**8.6**	**7.0**	**5.0**	**3.5**	**3.0**	**-3.5**	**6.4**	**4.3**	**2.3**
Pers. Consumption Expenditures	13352	13562	13752	13885	13992	14059	12726	13638	14089	14353
Percent Change Annualized	**11.3**	**6.4**	**5.7**	**3.9**	**3.1**	**1.9**	**-3.9**	**7.2**	**3.3**	**1.9**
Nonresidential Fixed Investment	2813	2866	2940	3004	3050	3095	2665	2906	3108	3235
Percent Change Annualized	**10.8**	**7.8**	**10.8**	**9.0**	**6.2**	**6.1**	**-4.0**	**9.0**	**6.9**	**4.1**
Residential Investment	719	753	782	793	799	808	638	762	818	829
Percent Change Annualized	**12.7**	**20.3**	**16.6**	**5.5**	**3.0**	**4.9**	**6.1**	**19.4**	**7.4**	**1.3**
Change in Private Inventories	-93	62	97	142	130	130	-77	52	120	79
Net Exports	-1194	-1254	-1256	-1269	-1256	-1246	-926	-1243	-1232	-1157
Government Expenditures	3367	3373	3379	3385	3400	3416	3341	3376	3422	3462
Percent Change Annualized	**5.8**	**0.7**	**0.7**	**0.6**	**1.8**	**1.9**	**1.1**	**1.0**	**1.4**	**1.2**
Industrial Prod. Index (2012 = 100)	105.5	107.0	108.4	109.4	110.1	110.7	102.2	107.6	111.0	112.5
Percent Change Annualized	**2.5**	**5.8**	**5.4**	**3.7**	**2.5**	**2.3**	**-6.7**	**5.3**	**3.1**	**1.4**
Capacity Utilization (Percent)	74.4	75.3	76.4	77.1	77.5	77.8	72.0	75.8	78.1	78.2
Prices										
CPI (1982-84 = 100)	263.4	268.3	269.9	271.2	272.8	274.6	258.8	268.2	275.5	282.3
Percent Change Annualized	**3.7**	**7.6**	**2.5**	**2.0**	**2.3**	**2.7**	**1.2**	**3.6**	**2.7**	**2.5**
Core CPI Index (1982-84 = 100)	270.5	274.8	276.2	277.5	279.2	281.1	267.7	274.7	282.1	289.7
Percent Change Annualized	**1.2**	**6.5**	**2.0**	**1.9**	**2.5**	**2.8**	**1.7**	**2.6**	**2.7**	**2.7**
PCE Price Index (2012 = 100)	112.8	114.3	115.1	115.7	116.4	117.1	111.1	114.5	117.5	120.3
Percent Change Annualized	**3.5**	**5.3**	**2.9**	**2.1**	**2.4**	**2.6**	**1.2**	**3.0**	**2.7**	**2.4**
Core PCE Price Index (2012 = 100)	114.8	116.3	116.8	117.3	118.0	118.7	113.4	116.3	119.1	121.8
Percent Change Annualized	**2.3**	**5.3**	**1.8**	**1.8**	**2.3**	**2.5**	**1.4**	**2.5**	**2.4**	**2.3**
GDP Price Index (2012 = 100)	115.5	116.8	117.7	118.5	119.3	120.1	113.6	117.1	120.6	123.7
Percent Change Annualized	**4.1**	**4.4**	**3.2**	**2.6**	**2.7**	**3.0**	**1.2**	**3.1**	**3.0**	**2.6**
Crude Oil, WTI ($/Barrel)	58.0	65.5	70.0	70.0	69.0	68.0	39.5	65.9	67.1	65.0
Labor Markets										
Payroll Jobs (Millions)	143.4	144.9	146.9	148.7	150.5	152.0	142.3	146.0	152.8	157.1
Percent Change Annualized	**2.1**	**4.5**	**5.5**	**5.2**	**4.8**	**4.2**	**-5.7**	**2.6**	**4.7**	**2.8**
Unemployment Rate (Percent)	6.2	5.8	5.2	5.0	4.7	4.4	8.1	5.6	4.4	3.9
Average Weekly Hours, Prod. Works.	34.3	34.2	34.2	34.1	34.1	34.0	33.9	34.2	34.0	33.8
Personal Income										
Average Hourly Earnings ($)	25.2	25.4	25.5	25.7	26.0	26.3	24.7	25.4	26.4	27.4
Percent Change Annualized	**3.7**	**2.5**	**2.4**	**3.5**	**4.2**	**4.3**	**5.0**	**3.1**	**3.7**	**4.0**
Real Disp. Income (2012 Billions $)	17394	16064	15698	15750	15794	15831	15743	16227	15913	16279
Percent Change Annualized	**61.3**	**-27.3**	**-8.8**	**1.3**	**1.1**	**1.0**	**5.8**	**3.1**	**-1.9**	**2.3**
Housing										
Housing Starts (*Ths., Ann. Rate*)	1613	1748	1699	1646	1657	1676	1395	1676	1660	1536
Ext. Home Sales (*Ths., Ann Rate*)	6303	6864	6996	6888	6662	6435	5657	6763	6294	5116
New SF Home Sales (*Ths., Ann Rate*)	959	926	908	906	909	896	825	925	881	802
Case/Shiller HPI (*Jan. 2000 = 100*)	241.6	244.3	246.5	248.6	249.8	251.1	232.5	248.6	253.6	258.6
Percent Change Year Ago	**12.1**	**12.1**	**10.6**	**6.9**	**3.4**	**2.8**	**9.4**	**6.9**	**2.0**	**2.0**
Consumer										
Auto Sales (Millions)	16.9	17.5	17.0	17.3	17.6	17.6	14.4	17.2	17.2	15.4
Consumer Credit (Billions $)	4242	4330	4391	4454	4523	4598	4188	4454	4743	5011
Percent Change Year Ago	**0.9**	**4.5**	**5.4**	**6.4**	**6.6**	**6.2**	**-0.2**	**6.4**	**6.5**	**5.6**
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	0.08	0.07	0.07	0.07	0.07	0.07	**0.37**	**0.07**	**0.08**	**0.13**
3-Month Treasury Bill	0.04	0.01	0.03	0.05	0.07	0.07	**0.35**	**0.03**	**0.09**	**0.21**
10-Year Treasury Note	1.30	1.61	1.67	1.79	1.84	1.85	**0.89**	**1.60**	**1.87**	**1.94**
30-Year Fixed Mortgage	2.88	3.00	3.06	3.24	3.36	3.44	**3.11**	**3.04**	**3.47**	**3.64**

a = actual f = forecast p = preliminary

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