

# NATIONAL ECONOMIC OUTLOOK

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## Executive Summary

### **Biden Signs American Rescue Plan; Welcome Pickup in Job Growth in February**

- On March 11 President Biden signed the American Rescue Plan, which will provide about \$1.9 trillion in near-term support for the U.S. economy. In addition to direct aid to households, the package includes aid to businesses, an increase in healthcare spending, and support for state and local governments. PNC had previously included the likely impact of the American Rescue Plan in its February forecast. In total, the stimulus bills passed in 2020 and 2021 have totaled about \$5 trillion, or one-quarter of annual U.S. GDP. Supported by aggressive stimulus from the federal government, PNC expects real U.S. GDP to surpass its pre-pandemic level in the third quarter of 2021.
- Nonfarm employment increased by 379,000 in February, according to the Bureau of Labor Statistics, based on a survey of employers. This was the strongest month of job growth since October, and was well above the monthly average of 41,000 from November to January. The U.S. economy has added almost 13 million jobs since April 2020, but employment is still down by 9.5 million from its peak in February 2020. The private sector added 465,000 jobs in February, while government employment fell by 89,000. The unemployment rate fell to 6.2% in February, from 6.3% in January. The unemployment rate peaked at 14.8% in April, its highest level since the Great Depression, and has fallen steadily since then. However, it remains far above the pre-recession rate of 3.5% in early 2020. Average hourly earnings rose 0.2% over the month, while the average workweek fell by 0.3 hours to 36.6. The big decline in the workweek came from job gains concentrated in leisure/hospitality services employment, which is more part-time.
- Many measures of economic activity weakened in February from January, in part because of winter storms, in part because household income fell over the month after stimulus payments were distributed at the beginning of the year. Retail sales fell 3.0% in February from a month earlier, and retail sales excluding autos and gasoline were down 3.3%. Industrial production fell 2.2%, including a 3.1% drop in manufacturing output; according to the Federal Reserve most of the monthly decline was due to the weather. Housing starts fell 10.3% in February, including an 8.5% decline for single-family starts. And sales of existing homes dropped 6.6% over the month, while sales of new homes dropped a huge 18.2%. But activity should pick back up again with better weather and stimulus payments distributed in March.

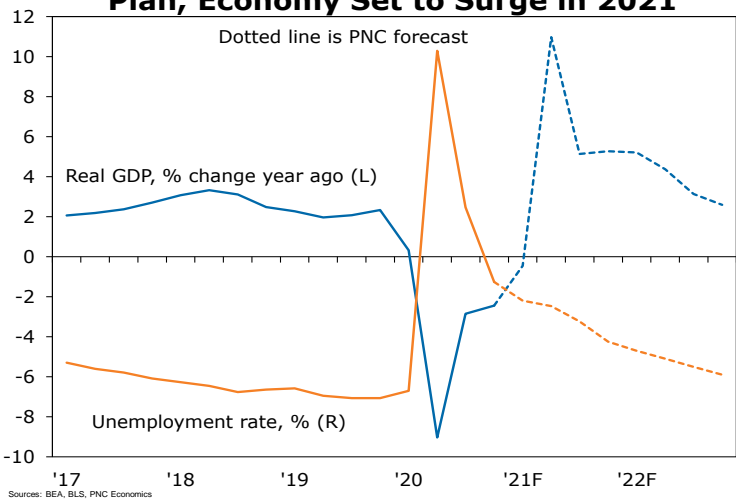
### ***Baseline U.S. Economic Outlook, Summary Table\****

	4Q'20p	1Q'21f	2Q'21f	3Q'21f	4Q'21f	1Q'22f	2020p	2021f	2022f	2023f
<b>Output &amp; Prices</b>										
Real GDP ( <i>Chained 2012 Billions \$</i> )	18784	18923	19201	19551	19773	19909	18423	19362	20100	20552
<b>Percent Change Annualized</b>	<b>4.1</b>	<b>3.0</b>	<b>6.0</b>	<b>7.5</b>	<b>4.6</b>	<b>2.8</b>	<b>-3.5</b>	<b>5.1</b>	<b>3.8</b>	<b>2.2</b>
CPI ( <i>1982-84 = 100</i> )	261.0	263.2	264.2	265.8	267.4	269.0	258.9	265.2	271.6	278.3
<b>Percent Change Annualized</b>	<b>2.2</b>	<b>3.5</b>	<b>1.4</b>	<b>2.5</b>	<b>2.4</b>	<b>2.4</b>	<b>1.3</b>	<b>2.4</b>	<b>2.4</b>	<b>2.5</b>
<b>Labor Markets</b>										
Payroll Jobs ( <i>Millions</i> )	142.6	143.0	144.7	146.6	148.1	149.3	142.3	145.6	150.9	154.5
<b>Percent Change Annualized</b>	<b>5.2</b>	<b>1.0</b>	<b>5.0</b>	<b>5.3</b>	<b>4.0</b>	<b>3.3</b>	<b>-5.7</b>	<b>2.4</b>	<b>3.7</b>	<b>2.4</b>
Unemployment Rate ( <i>Percent</i> )	6.8	6.3	6.1	5.7	5.1	4.9	8.1	5.8	4.6	4.1
<b>Interest Rates (Percent)</b>										
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	1.24	1.50	1.60	1.64	1.68	0.89	1.49	1.71	1.81

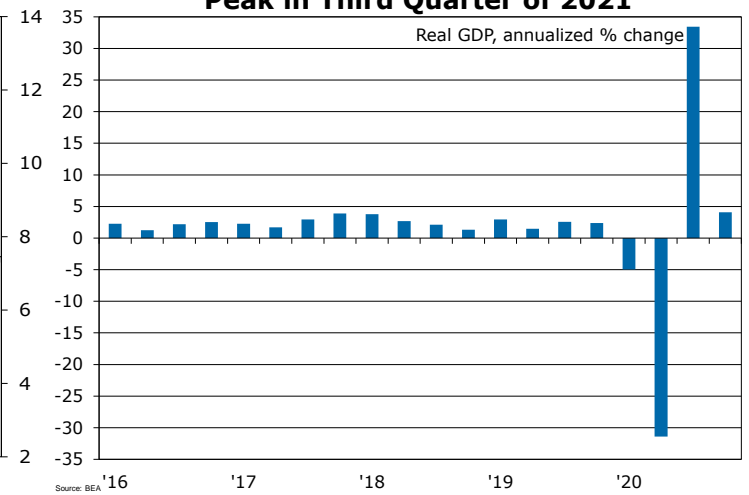
a = actual    f = forecast    p = preliminary

\*Please see the Expanded Table for more forecast series.

## With Passage of American Rescue Plan, Economy Set to Surge in 2021



## Real GDP to Return to Pre-Recession Peak in Third Quarter of 2021



## PNC Small Business Survey Finds Low Hiring Intentions, But Optimism About Vaccines

According to the Spring 2021 release of PNC's semiannual survey of small and middle-market business owners, optimism about the economic outlook is growing, but businesses remain concerned about their own situation. In addition, hiring expectations are at the lowest level in the nearly 20-year history of the survey. But businesses are encouraged by the rollout of vaccines to fight the pandemic, with many expecting to require or encourage their employees to receive the vaccine.

Although U.S. economic activity has picked up since mid-2020, small business owners are not yet feeling like a part of the broader recovery. Only 38% of owners surveyed in early 2021 were optimistic about the prospects for their business. While this was an improvement from 30% in the Fall 2020 survey, it was down sharply from 52% in Spring 2020, before the pandemic. There has been a more substantive improvement in attitudes about the U.S. economy—optimism jumped to 30% in Spring 2021 from 21% in Fall 2020—although owners are still somewhat more optimistic about their own businesses than they are about the national and their own local economies.

Many surveyed businesses remain in a precarious state. About one-half are facing challenges to stay in business. And one-quarter report that they could only stay in business for one year or less under current economic conditions. Given their tenuous situation, aid from the federal government has been vital for many small and medium-sized businesses. Of the 43% of the businesses in the survey that received a loan from the Paycheck Protection Program, more than three-quarters said it was extremely important for their business, and another fifth said it was somewhat important.

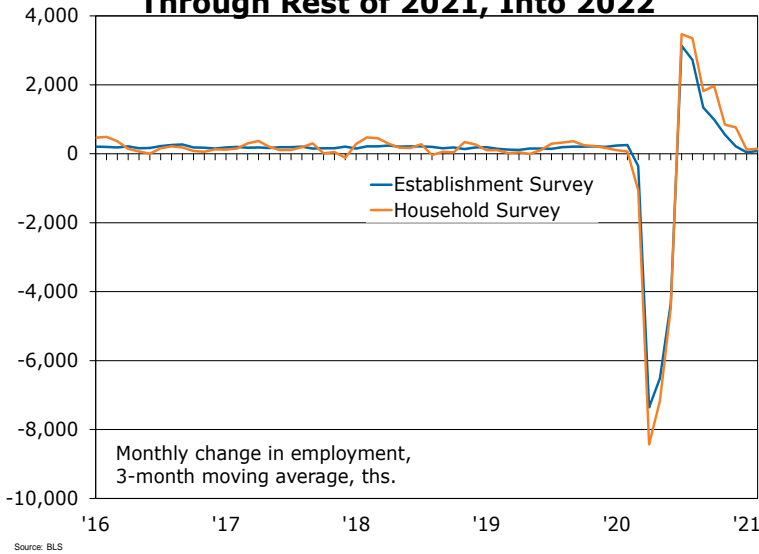
About one-quarter of the businesses surveyed reduced their employment levels in 2020, although 82% of those who did cut staff reported that they expected the job cuts to be temporary. Hiring intentions are very low, however. Just 7% of the businesses surveyed in Spring 2021 reported that they intend to hire over the next six months, down from 11% in the Fall 2020 survey and 20% in the Spring 2020 survey. This was also the lowest level of hiring intentions in the entire history of the survey, going back to 2003. As workers are rehired, businesses do expect them to come back to the worksite. Only 15% of the businesses that adopted work-from-home policies because of the pandemic expect them to be long-lasting, while 59% expect those policies to be temporary.

Businesses view current vaccination efforts as extremely important to their recovery. Nearly one-half of those surveyed plan to require employees to get vaccinated, a third indicated they will provide education about vaccinations, and almost one-quarter plan to provide incentives to their employees who receive the vaccine. Almost one-half expect the growing availability of vaccinations to have a positive impact on their sales.

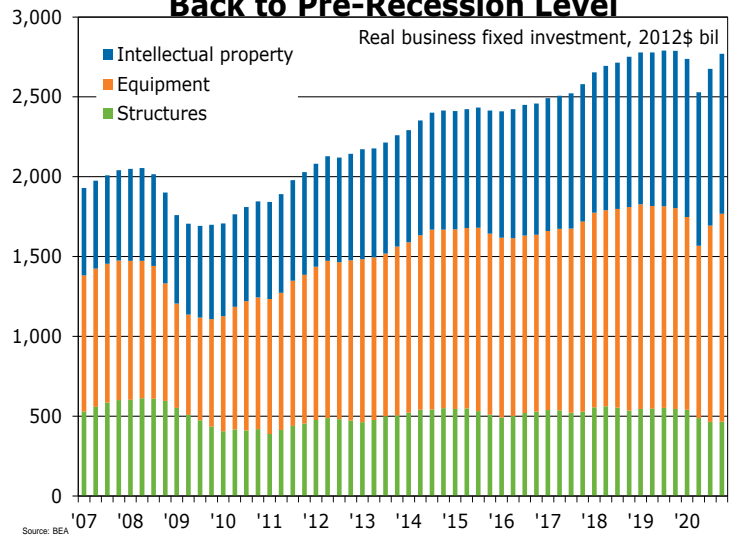
With vaccination efforts accelerating, the passage of the American Rescue Plan, and the Federal Reserve committing to keep interest rates extremely low until the economy is at full employment and inflation is consistently at 2%, economic growth will be very strong throughout 2021 and into 2022. PNC's March forecast calls for real GDP growth of above 5% from the fourth quarter of 2020 to the fourth quarter of 2021, with above-trend growth of 2.5% over the same period in 2022; real GDP will surpass its pre-recession peak in the third quarter of this year. Employment growth will pick up as the economy strengthens, with average monthly job gains of around 600,000 in mid-to-late 2021. Employment is expected to return to its pre-pandemic level by late next year. The unemployment rate will decline from 6.2% in February to below 5% by the end of this year, and to around 4% by the end of next year.

Inflation will accelerate on a year-over-year basis in the spring of 2021 due to comparisons with 2020, when prices outright declined because of collapsing demand in the early stages of the pandemic. But this will prove transitory and inflation will slow in the second half of 2021, before picking up in 2022 as a stronger economy gives businesses more pricing power. The Federal Reserve would welcome stronger inflation, and PNC expects the federal funds rate to remain in its current near-zero range until late 2023.

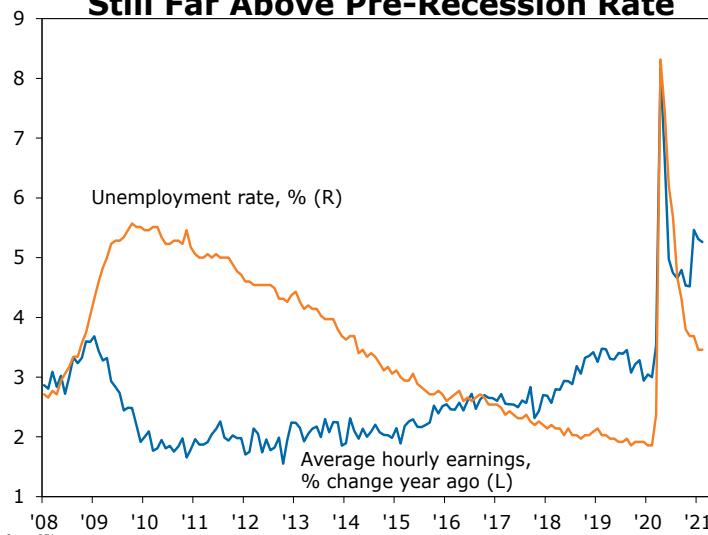
## After Slowing, Job Growth Set to Surge Through Rest of 2021, Into 2022



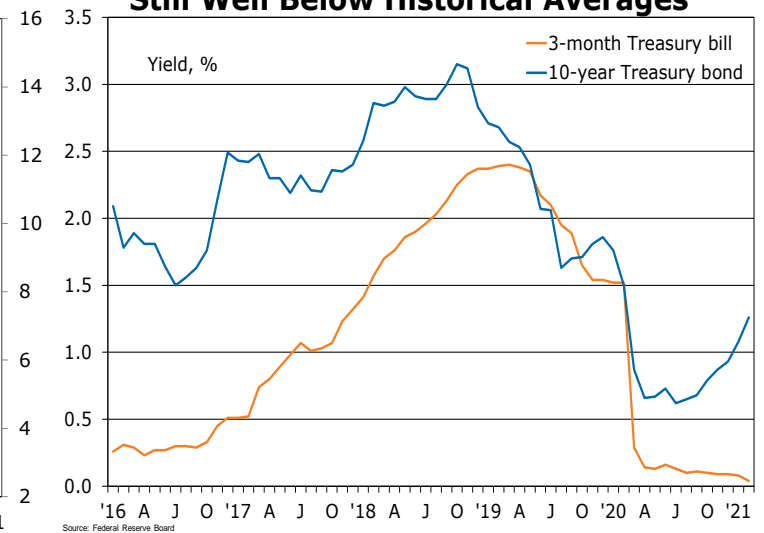
## Business Fixed Investment Almost Back to Pre-Recession Level



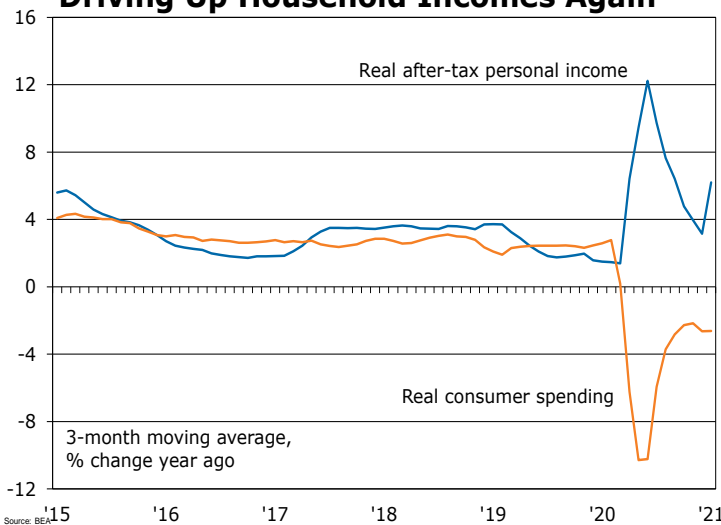
## Unemployment Has Fallen, But Still Far Above Pre-Recession Rate



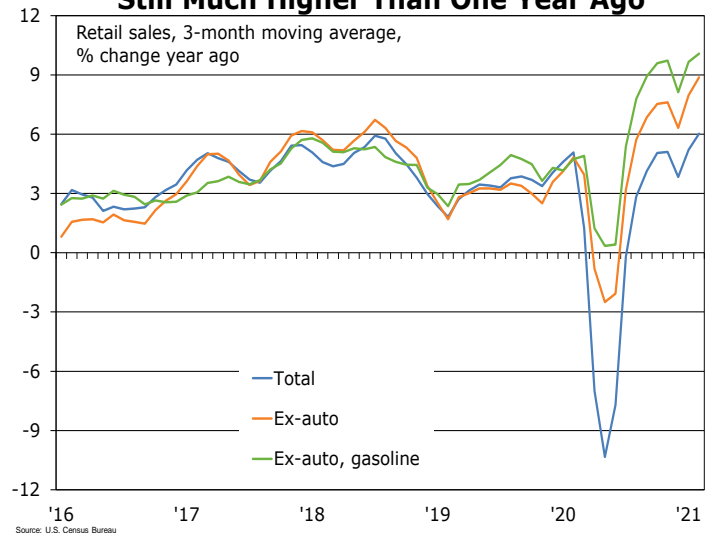
## Long-Term Interest Rates Are Up, But Still Well Below Historical Averages



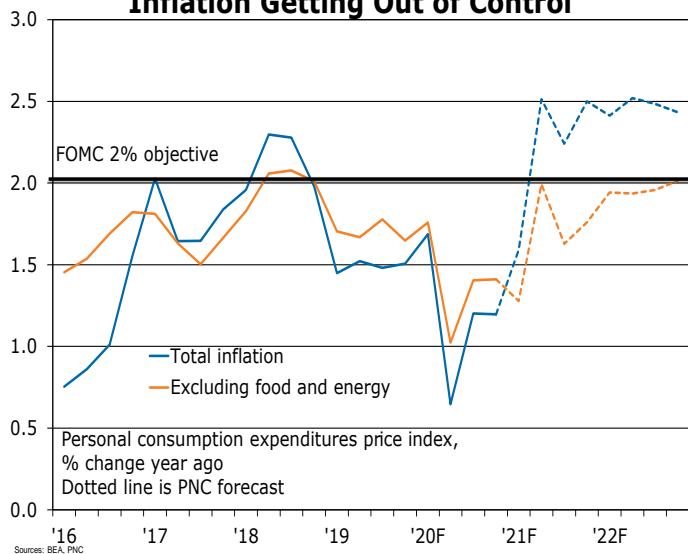
## Stimulus Payments in Early 2021 Driving Up Household Incomes Again



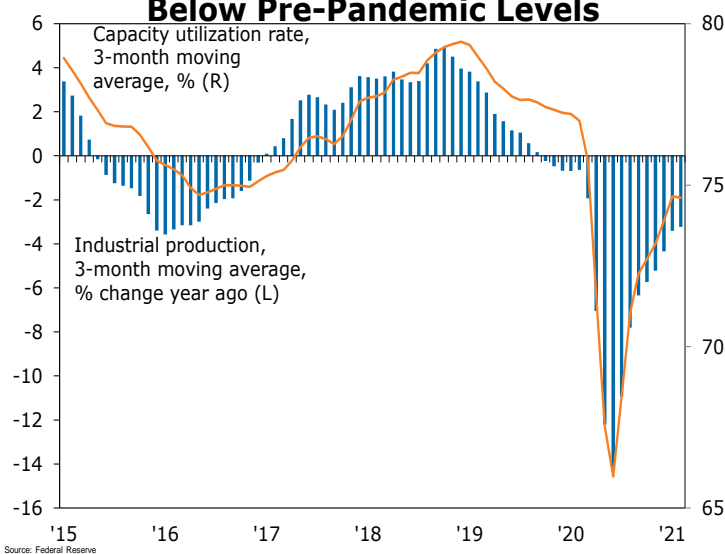
## Even With February Drop, Retail Sales Still Much Higher Than One Year Ago



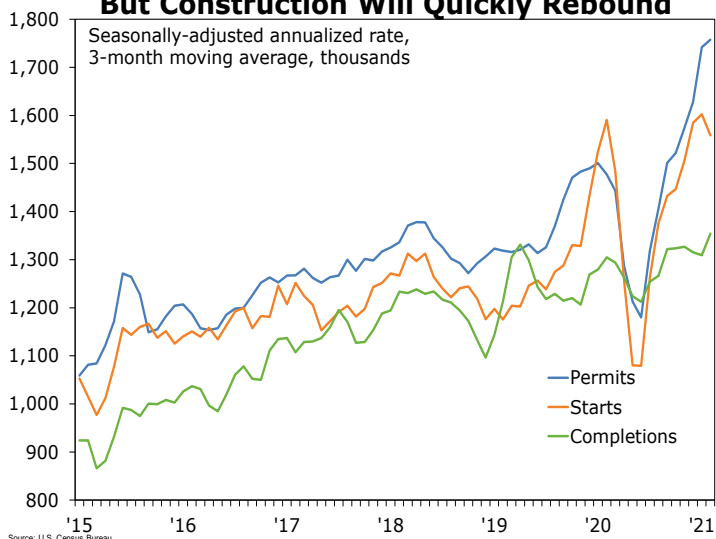
## No Need to Worry About Inflation Getting Out of Control



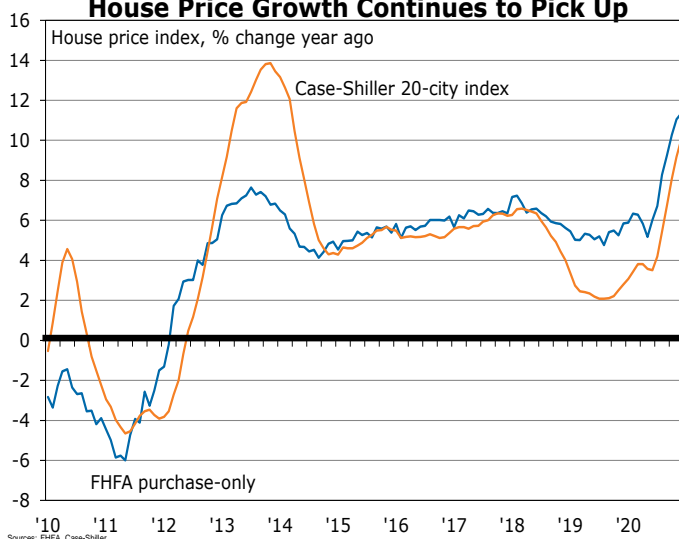
## Industrial Activity Still Below Pre-Pandemic Levels



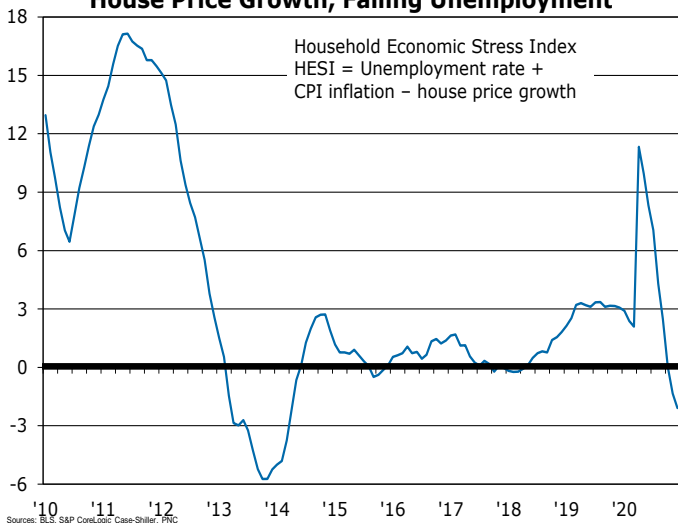
## Weather Weighed on Homebuilding in February, But Construction Will Quickly Rebound



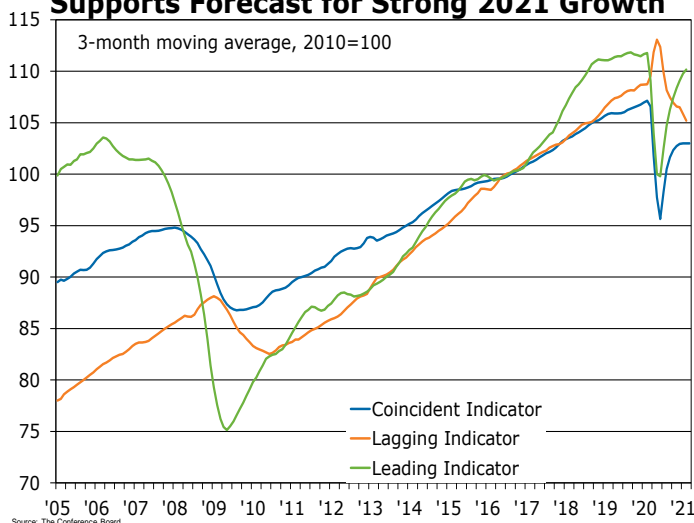
## With Very Low Inventories, Strong Demand, House Price Growth Continues to Pick Up



## Household Economic Stress Is Declining With Strong House Price Growth, Falling Unemployment



## Conference Board Leading Indicator Supports Forecast for Strong 2021 Growth



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PNC Economics Group  
March 2021

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

	4Q'20p	1Q'21f	2Q'21f	3Q'21f	4Q'21f	1Q'22f	2020p	2021f	2022f	2023f
<b>Output</b>										
Nominal GDP (Billions \$)	21480	21747	22225	22805	23224	23548	20933	22500	24016	25163
<b>Percent Change Annualized</b>	<b>6.0</b>	<b>5.1</b>	<b>9.1</b>	<b>10.8</b>	<b>7.6</b>	<b>5.7</b>	<b>-2.3</b>	<b>7.5</b>	<b>6.7</b>	<b>4.8</b>
Real GDP (Chained 2012 Billions \$)	18784	18923	19201	19551	19773	19909	18423	19362	20100	20552
<b>Percent Change Annualized</b>	<b>4.1</b>	<b>3.0</b>	<b>6.0</b>	<b>7.5</b>	<b>4.6</b>	<b>2.8</b>	<b>-3.5</b>	<b>5.1</b>	<b>3.8</b>	<b>2.2</b>
Pers. Consumption Expenditures	13000	13105	13265	13477	13604	13685	12726	13363	13802	14136
<b>Percent Change Annualized</b>	<b>2.4</b>	<b>3.3</b>	<b>5.0</b>	<b>6.6</b>	<b>3.8</b>	<b>2.4</b>	<b>-3.9</b>	<b>5.0</b>	<b>3.3</b>	<b>2.4</b>
Nonresidential Fixed Investment	2748	2778	2844	2932	3006	3065	2667	2890	3146	3323
<b>Percent Change Annualized</b>	<b>14.0</b>	<b>4.4</b>	<b>9.9</b>	<b>12.9</b>	<b>10.5</b>	<b>8.2</b>	<b>-4.0</b>	<b>8.4</b>	<b>8.9</b>	<b>5.6</b>
Residential Investment	697	704	751	783	783	783	638	755	786	784
<b>Percent Change Annualized</b>	<b>35.8</b>	<b>4.1</b>	<b>29.4</b>	<b>18.3</b>	<b>0.1</b>	<b>0.3</b>	<b>6.0</b>	<b>18.4</b>	<b>4.1</b>	<b>-0.2</b>
Change in Private Inventories	48	47	66	82	104	85	-81	75	83	75
Net Exports	-1123	-1103	-1113	-1126	-1146	-1153	-926	-1122	-1180	-1265
Government Expenditures	3318	3297	3292	3308	3326	3347	3340	3306	3367	3402
<b>Percent Change Annualized</b>	<b>-1.1</b>	<b>-2.6</b>	<b>-0.5</b>	<b>1.9</b>	<b>2.3</b>	<b>2.5</b>	<b>1.1</b>	<b>-1.0</b>	<b>1.9</b>	<b>1.0</b>
Industrial Prod. Index (2012 = 100)	104.5	107.6	107.9	109.4	110.2	110.6	102.1	108.7	111.3	112.8
<b>Percent Change Annualized</b>	<b>8.4</b>	<b>12.4</b>	<b>1.2</b>	<b>5.6</b>	<b>3.1</b>	<b>1.5</b>	<b>-6.8</b>	<b>6.6</b>	<b>2.3</b>	<b>1.4</b>
Capacity Utilization (Percent)	73.7	77.0	77.8	79.2	80.3	80.7	71.9	78.6	81.3	81.4
<b>Prices</b>										
CPI (1982-84 = 100)	261.0	263.2	264.2	265.8	267.4	269.0	258.9	265.2	271.6	278.3
<b>Percent Change Annualized</b>	<b>2.2</b>	<b>3.5</b>	<b>1.4</b>	<b>2.5</b>	<b>2.4</b>	<b>2.4</b>	<b>1.3</b>	<b>2.4</b>	<b>2.4</b>	<b>2.5</b>
Core CPI Index (1982-84 = 100)	269.8	270.7	271.8	273.6	275.3	277.0	267.7	272.8	279.6	286.7
<b>Percent Change Annualized</b>	<b>1.8</b>	<b>1.3</b>	<b>1.7</b>	<b>2.7</b>	<b>2.6</b>	<b>2.5</b>	<b>1.7</b>	<b>1.9</b>	<b>2.5</b>	<b>2.5</b>
PCE Price Index (2012 = 100)	111.9	112.6	113.2	113.9	114.6	115.4	111.1	113.6	116.4	119.1
<b>Percent Change Annualized</b>	<b>1.5</b>	<b>2.9</b>	<b>2.0</b>	<b>2.6</b>	<b>2.5</b>	<b>2.5</b>	<b>1.2</b>	<b>2.2</b>	<b>2.5</b>	<b>2.3</b>
Core PCE Price Index (2012 = 100)	114.2	114.5	115.1	115.6	116.2	116.7	113.4	115.3	117.6	120.1
<b>Percent Change Annualized</b>	<b>1.4</b>	<b>1.1</b>	<b>2.1</b>	<b>2.0</b>	<b>1.9</b>	<b>1.8</b>	<b>1.4</b>	<b>1.7</b>	<b>2.0</b>	<b>2.1</b>
GDP Price Index (2012 = 100)	114.4	114.9	115.7	116.6	117.5	118.3	113.6	116.2	119.5	122.4
<b>Percent Change Annualized</b>	<b>1.9</b>	<b>1.9</b>	<b>2.9</b>	<b>3.1</b>	<b>2.8</b>	<b>2.8</b>	<b>1.2</b>	<b>2.3</b>	<b>2.8</b>	<b>2.5</b>
Crude Oil, WTI (\$/Barrel)	42.7	58.0	58.2	58.4	58.6	58.8	39.5	58.3	59.1	62.2
<b>Labor Markets</b>										
Payroll Jobs (Millions)	142.6	143.0	144.7	146.6	148.1	149.3	142.3	145.6	150.9	154.5
<b>Percent Change Annualized</b>	<b>5.2</b>	<b>1.0</b>	<b>5.0</b>	<b>5.3</b>	<b>4.0</b>	<b>3.3</b>	<b>-5.7</b>	<b>2.4</b>	<b>3.7</b>	<b>2.4</b>
Unemployment Rate (Percent)	6.8	6.3	6.1	5.7	5.1	4.9	8.1	5.8	4.6	4.1
Average Weekly Hours, Prod. Works.	34.2	34.2	34.0	33.9	33.9	33.9	33.9	34.0	33.9	33.9
<b>Personal Income</b>										
Average Hourly Earnings (\$)	25.0	25.2	25.3	25.5	25.7	25.9	24.7	25.4	26.3	27.2
<b>Percent Change Annualized</b>	<b>3.5</b>	<b>3.5</b>	<b>2.5</b>	<b>2.0</b>	<b>3.1</b>	<b>3.8</b>	<b>5.0</b>	<b>3.0</b>	<b>3.3</b>	<b>3.5</b>
Real Disp. Income (2012 Billions \$)	15512	15880	16640	16200	15976	15887	15776	16174	15919	16251
<b>Percent Change Annualized</b>	<b>-9.5</b>	<b>9.8</b>	<b>20.6</b>	<b>-10.2</b>	<b>-5.4</b>	<b>-2.2</b>	<b>6.0</b>	<b>2.5</b>	<b>-1.6</b>	<b>2.1</b>
<b>Housing</b>										
Housing Starts (Ths., Ann. Rate)	1592	1607	1776	1704	1657	1670	1397	1686	1686	1585
Ext. Home Sales (Ths., Ann Rate)	6777	5906	6502	6767	7061	7049	5678	6559	6462	5056
New SF Home Sales (Ths., Ann Rate)	873.3	1072.6	1016.2	981.0	979.1	982.5	812.6	1012.2	956.6	879.8
Case/Shiller HPI (Jan. 2000 = 100)	232.6	234.8	235.9	237.0	238.0	239.4	232.6	238.0	243.3	248.4
<b>Percent Change Year Ago</b>	<b>9.4</b>	<b>8.9</b>	<b>8.2</b>	<b>6.5</b>	<b>2.4</b>	<b>1.9</b>	<b>9.4</b>	<b>2.4</b>	<b>2.2</b>	<b>2.1</b>
<b>Consumer</b>										
Auto Sales (Millions)	16.1	16.4	16.7	17.5	17.4	17.0	14.4	17.0	16.3	15.6
Consumer Credit (Billions \$)	4184	4265	4335	4407	4469	4539	4184	4469	4758	5023
<b>Percent Change Year Ago</b>	<b>0.0</b>	<b>1.7</b>	<b>4.8</b>	<b>6.0</b>	<b>6.8</b>	<b>6.4</b>	<b>0.0</b>	<b>6.8</b>	<b>6.4</b>	<b>5.6</b>
<b>Interest Rates (Percent)</b>										
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	0.07	0.35	0.04	0.09	0.22
10-Year Treasury Note	0.85	1.24	1.50	1.60	1.64	1.68	0.89	1.49	1.71	1.81
30-Year Fixed Mortgage	2.76	2.87	3.11	3.20	3.27	3.33	3.11	3.11	3.39	3.51

a = actual    f = forecast    p = preliminary

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