

NATIONAL ECONOMIC OUTLOOK

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Executive Summary

GDP Surged in the First Quarter, But April Jobs Report Was a Big Disappointment

- The U.S. economy grew at a strong pace in the first quarter as consumers bought goods, and to a lesser extent services, thanks to stimulus payments, vaccines, and an improving outlook. Real GDP increased 6.4% at an annualized rate in the first quarter of 2021. This does not mean that the economy grew by 6.4% in the first quarter; instead, it grew by 1.6%, and would grow by 6.4% if it maintained this pace for an entire year. Real GDP fell more than 10% (unannualized) from the fourth quarter of 2019 to the second quarter of 2020 as the pandemic came to the U.S. Since then real GDP has increased by about 10%. As of the first quarter of 2021, real GDP was 0.9% below its pre-pandemic peak in the fourth quarter of 2019.
- The April jobs report was a huge disappointment. The consensus expectation was for job growth of around one million, but instead the economy added only 266,000 jobs in April, according to a survey of employers. Under normal circumstances an increase in employment of 266,000 would be a solid number. But with employment still about 8.2 million (4.3%) below its pre-recession peak, at this pace it would take a few years for employment to return to its pre-recession level. Supply chain issues, labor shortages, and seasonal adjustment issues may have been a drag on job growth in April. The unemployment rate rose slightly over the month to 6.1%, from 6.0% in March. This was the first increase in the unemployment rate since March 2020, when the pandemic was coming to the U.S. Notwithstanding the April increase the unemployment rate has fallen quickly since peaking at 14.8% in April 2020, but it remains well above its pre-pandemic level of 3.5%. Unemployment remains a widespread problem for the U.S. economy.
- Inflation sharply overshot expectations in April. The consumer price index rose 0.8% from March, much higher than the consensus forecast of 0.2%. The upside surprise in April was in core CPI (excluding food and energy); it rose 0.9% versus an expected 0.3%. Almost one-half of the inflation in April came from used cars and trucks, rental cars, and airline fares. The CPI in April was up 4.2% from one year earlier, but this is partly because prices outright declined in the spring of 2021 as the pandemic took hold. The CPI was up a smaller 3.1% in April from February 2020, before the pandemic. Similarly, core CPI was up 3.0% in April year-over-year, but only 2.6% from February 2020.

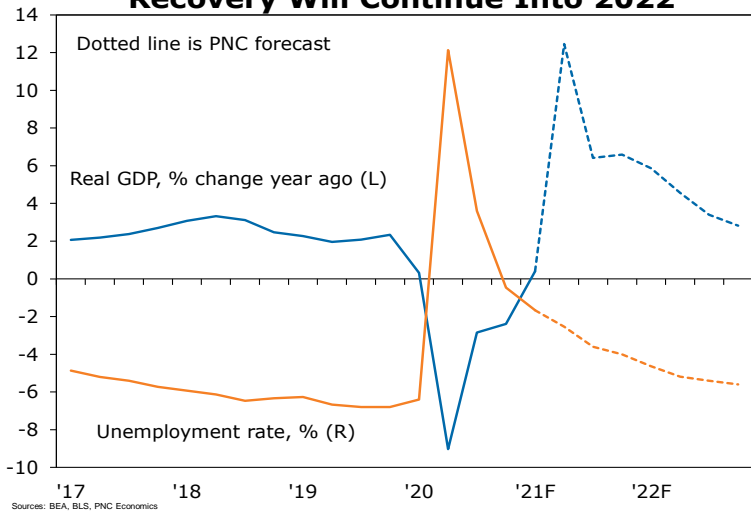
Baseline U.S. Economic Outlook, Summary Table*

	1Q'21p	2Q'21f	3Q'21f	4Q'21f	1Q'22f	2Q'22f	2020a	2021f	2022f	2023f
Output & Prices										
Real GDP (<i>Chained 2012 Billions \$</i>)	19088	19458	19790	20033	20206	20346	18426	19592	20403	20881
Percent Change Annualized	6.4	8.0	7.0	5.0	3.5	2.8	-3.5	6.3	4.1	2.3
CPI (<i>1982-84 = 100</i>)	263.4	264.5	266.2	267.9	269.5	271.2	258.8	265.5	272.1	279.0
Percent Change Annualized	3.7	1.7	2.6	2.5	2.4	2.6	1.2	2.6	2.5	2.6
Labor Markets										
Payroll Jobs (<i>Millions</i>)	143.4	144.7	146.6	148.5	150.2	151.7	142.3	145.8	152.4	156.7
Percent Change Annualized	2.1	3.7	5.5	5.1	4.8	4.0	-5.7	2.5	4.5	2.8
Unemployment Rate (<i>Percent</i>)	6.2	5.7	5.2	5.0	4.7	4.4	8.1	5.5	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	1.68	1.74	1.80	1.83	1.85	0.89	1.63	1.86	1.94

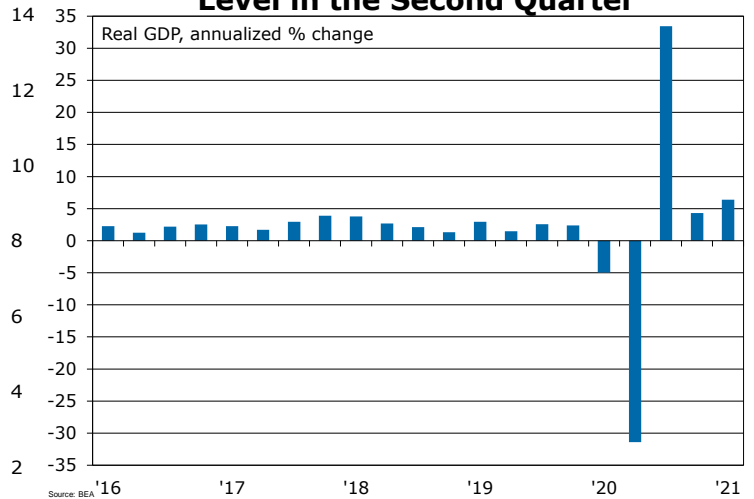
a = actual f = forecast p = preliminary

*Please see the Expanded Table for more forecast series.

With Stimulus and Vaccines, Strong Recovery Will Continue Into 2022



GDP Will Return to Its Pre-Pandemic Level in the Second Quarter



Housing Adding to Growth in 2021, Despite Some Temporary Dislocations

The pandemic has rearranged the U.S. housing market. With the increasing prevalence of work-from-home, physical proximity to the workplace has become less important, giving employees more flexibility over where they live. At the same time at-home workspaces have become more important. And the need for social distancing has increased the demand for single-family housing at the expense of apartments and condominiums. Similarly, suburban and rural areas have increased in appeal relative to city living.

Other factors are also supporting demand for housing, particularly single-family housing. To combat the recession that started last year the Federal Reserve has moved to push down borrowing costs. In late 2019, before the pandemic, the average interest rate on a 30-year fixed mortgage was 3.9%, according to Freddie Mac. With very aggressive Fed monetary policy mortgage rates fell to well below 3% in late 2020 and early 2021, by far the lowest on record. Mortgage rates have moved somewhat higher in recent months, but at 3.0% in mid-May, they are still well below where they stood before the pandemic, and are far below their long-run average. Low mortgage rates reduce the cost of a monthly payment, allowing a household to buy a more expensive home. Stimulus payments have also opened up opportunities for homeownership, making it easier for many households to make a down payment.

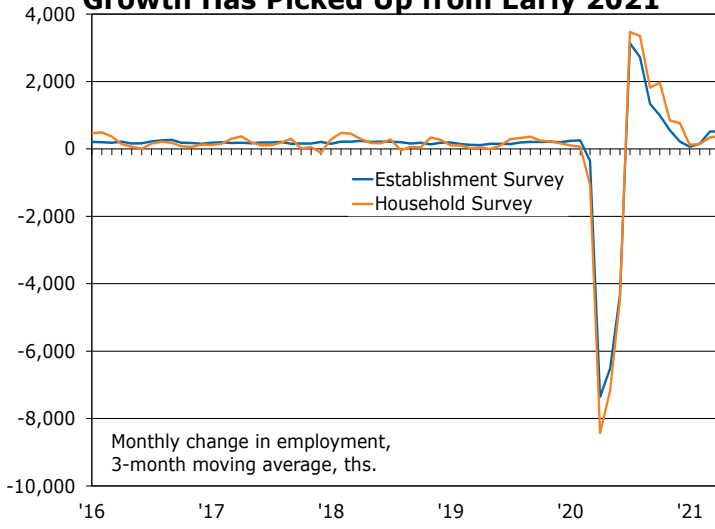
As a result demand for homeownership has surged. But the supply of homes for sale has not kept up. Single-family housing starts in recent years have been far below their long-run average, restricting supply. Homebuilding has increased over the past year, but has slowed more recently due to shortages of building materials, tied to supply chain disruptions from the pandemic, and of construction workers. And with few current homeowners looking to sell the supply of existing homes for sale is extremely low. According to the National Association of Realtors (NAR), there were only 2.4 months of supply of existing single-family homes for sale in April at the existing sales pace, some of the tightest inventories on record. Strong demand and limited supply are putting upward pressure on prices. Prices of existing homes are up about 14% in early 2021 from one year earlier, the fastest price growth on record, with prices for new homes up even more.

The good news is that the housing market is unlikely to experience a big crash like the one 15 years ago that caused the Great Recession and a global financial crisis. This time around the housing market is much better balanced. Despite rapid price growth over the past year, very low mortgage rates have made housing more affordable, relative to incomes, than it has been for most of the past decade. And housing is far more affordable than it was from 1970 to 2007, including during the housing boom of 2002 to 2006. With much less homebuilding in recent years than during the housing boom 15 to 20 years ago, there is not the big oversupply of housing that contributed to the bust. Tighter lending standards on mortgages, meaning many fewer financially stretched homebuyers, are also a big difference from the previous housing boom.

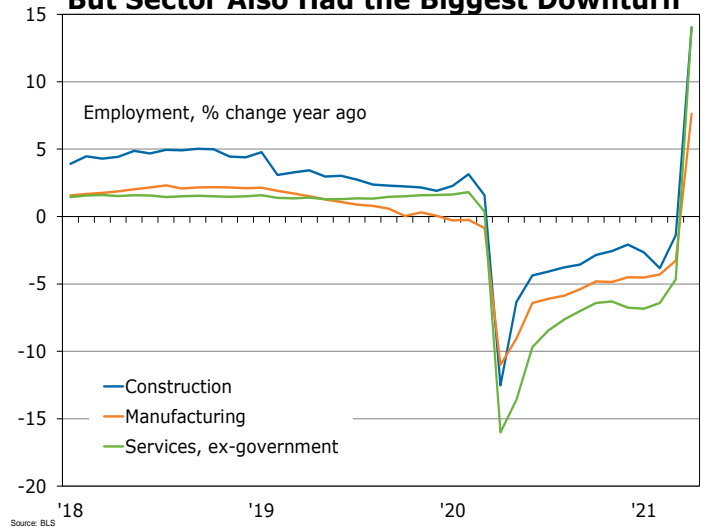
The housing market will settle down through the rest of this year. Higher prices and gradually rising mortgage rates will discourage some would-be homebuyers and encourage some current homeowners to put their homes up for sale, increasing supply. Building materials prices will settle down as more supply comes on the market. Housing starts and home sales will remain strong throughout this year, supporting the economic recovery, but price growth will slow to the low single digits in 2022. This is roughly the same pace as underlying income growth, and thus is sustainable over the longer run.

With coronavirus cases falling quickly due to vaccinations and households gradually spending their stimulus payments, consumer spending will drive a strong recovery in the U.S. economy into 2022; housing will also provide a boost. Real GDP will surpass its pre-recession peak in the second quarter of this year. Real GDP will 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. Job growth will rebound from a disappointing April, averaging around 600,000 per month through year-end. The unemployment rate will decline to below 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 the second half of 2023.

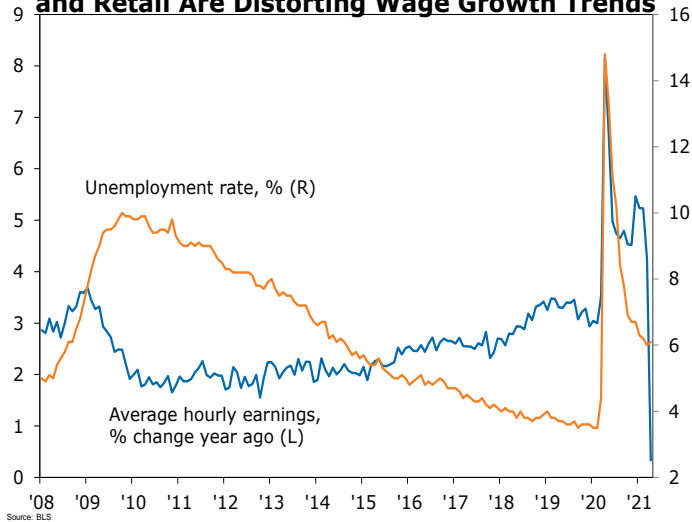
Even With Disappointing April, Job Growth Has Picked Up from Early 2021



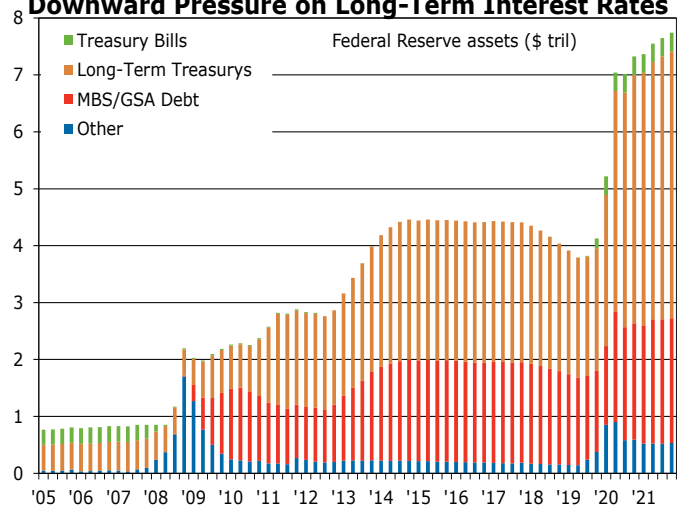
Strongest Recovery Is in Services Employment, But Sector Also Had the Biggest Downturn



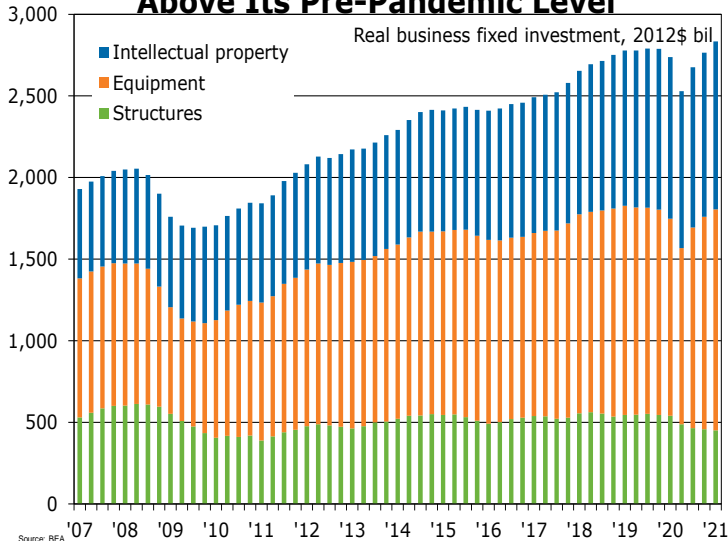
Big Employment Swings in Low-Wage Restaurants and Retail Are Distorting Wage Growth Trends



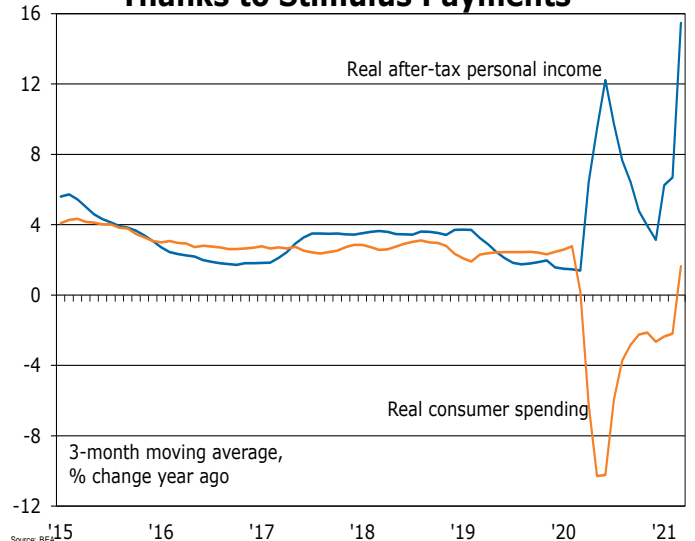
Fed Balance Sheet Expansion Continues to Put Downward Pressure on Long-Term Interest Rates



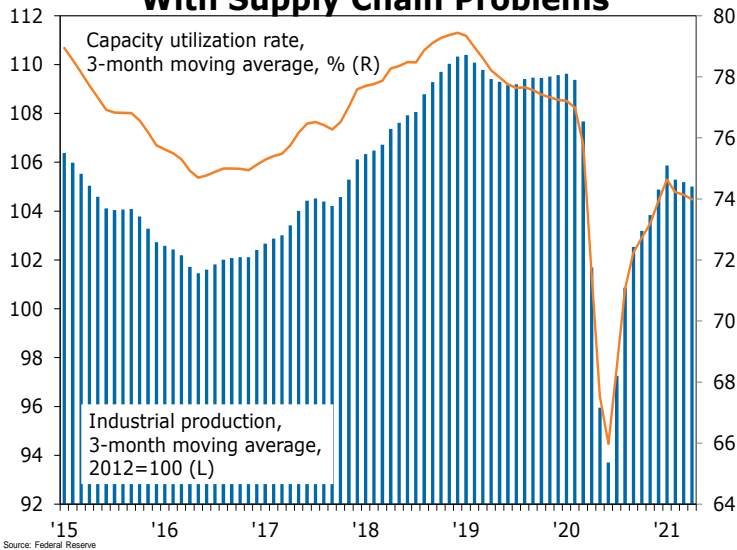
Business Fixed Investment Now Above Its Pre-Pandemic Level



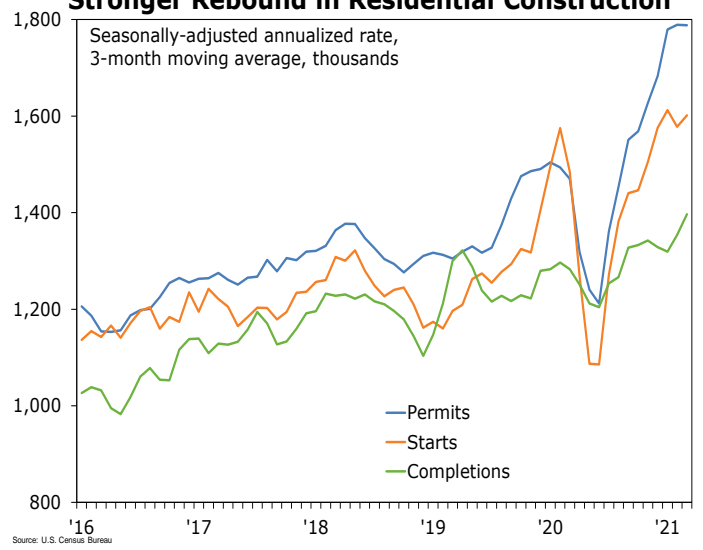
Record Income Growth Thanks to Stimulus Payments



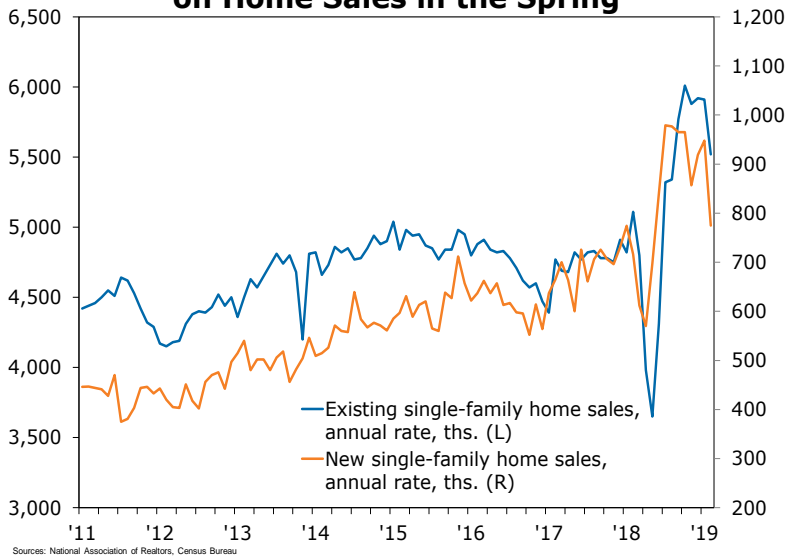
Industrial Recovery Has Stalled With Supply Chain Problems



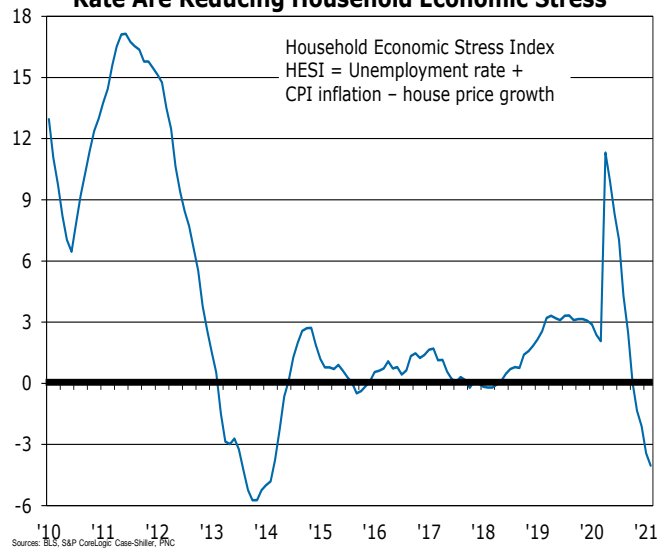
Building Material Shortages Are Preventing an Even Stronger Rebound in Residential Construction



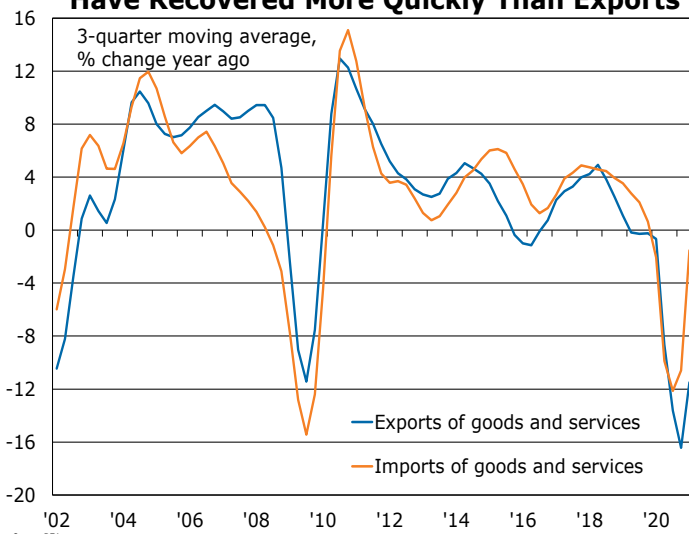
Low Inventories Have Weighed on Home Sales in the Spring



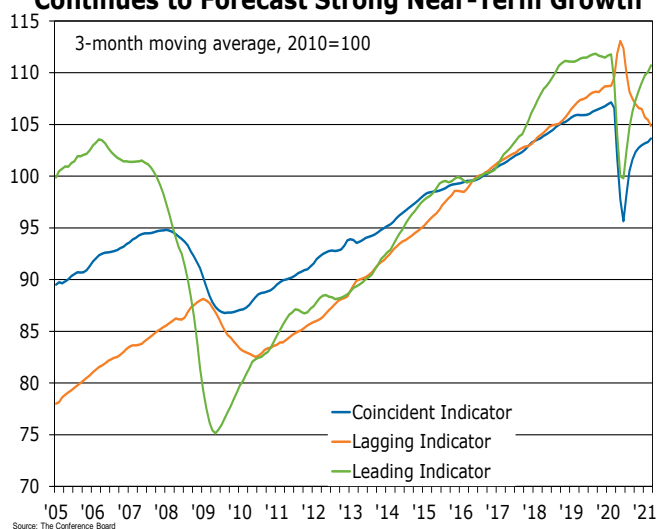
Very Strong House Price Growth, Falling Unemployment Rate Are Reducing Household Economic Stress



With Higher Vaccination Rates in the U.S., Imports Have Recovered More Quickly Than Exports



Conference Board Leading Indicator Continues to Forecast Strong Near-Term Growth



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PNC Economics Group
May 2021

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 \$)	21969	22528	23093	23543	23906	24236	20937	22783	24394	25608
Percent Change Annualized	9.1	10.6	10.4	8.0	6.3	5.6	-2.3	8.8	7.1	5.0
Real GDP (Chained 2012 Billions \$)	19088	19458	19790	20033	20206	20346	18426	19592	20403	20881
Percent Change Annualized	6.4	8.0	7.0	5.0	3.5	2.8	-3.5	6.3	4.1	2.3
Pers. Consumption Expenditures	13334	13491	13669	13797	13896	13965	12726	13573	13987	14250
Percent Change Annualized	10.7	4.8	5.4	3.8	2.9	2.0	-3.9	6.7	3.1	1.9
Nonresidential Fixed Investment	2807	2864	2943	3010	3056	3103	2665	2906	3115	3247
Percent Change Annualized	9.9	8.3	11.5	9.4	6.3	6.3	-4.0	9.0	7.2	4.2
Residential Investment	716	749	777	788	794	805	638	758	815	829
Percent Change Annualized	10.8	19.7	16.1	5.4	3.1	5.6	6.1	18.7	7.6	1.7
Change in Private Inventories	-85	58	98	143	138	132	-77	53	126	91
Net Exports	-1175	-1201	-1201	-1213	-1202	-1199	-926	-1197	-1187	-1123
Government Expenditures	3372	3378	3384	3389	3405	3420	3341	3380	3427	3467
Percent Change Annualized	6.3	0.7	0.7	0.6	1.8	1.9	1.1	1.2	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	75.8	77.0	77.9	78.4	78.6	72.0	76.3	78.9	79.0
Prices										
CPI (1982-84 = 100)	263.4	264.5	266.2	267.9	269.5	271.2	258.8	265.5	272.1	279.0
Percent Change Annualized	3.7	1.7	2.6	2.5	2.4	2.6	1.2	2.6	2.5	2.6
Core CPI Index (1982-84 = 100)	270.5	271.7	273.6	275.4	277.2	278.9	267.7	272.8	279.8	287.2
Percent Change Annualized	1.2	1.8	2.8	2.7	2.6	2.6	1.7	1.9	2.6	2.6
PCE Price Index (2012 = 100)	112.8	113.3	114.1	114.8	115.5	116.2	111.1	113.8	116.5	119.3
Percent Change Annualized	3.5	1.8	2.8	2.5	2.5	2.4	1.2	2.4	2.5	2.3
Core PCE Price Index (2012 = 100)	114.8	115.2	115.8	116.5	117.2	117.9	113.4	115.6	118.2	120.8
Percent Change Annualized	2.3	1.4	2.3	2.4	2.4	2.3	1.4	1.9	2.3	2.2
GDP Price Index (2012 = 100)	115.1	115.8	116.7	117.5	118.3	119.1	113.6	116.3	119.6	122.6
Percent Change Annualized	2.6	2.4	3.2	2.9	2.7	2.8	1.2	2.3	2.8	2.6
Crude Oil, WTI (\$/Barrel)	58.0	61.3	61.4	61.5	61.6	61.7	39.5	60.6	61.8	64.6
Labor Markets										
Payroll Jobs (Millions)	143.4	144.7	146.6	148.5	150.2	151.7	142.3	145.8	152.4	156.7
Percent Change Annualized	2.1	3.7	5.5	5.1	4.8	4.0	-5.7	2.5	4.5	2.8
Unemployment Rate (Percent)	6.2	5.7	5.2	5.0	4.7	4.4	8.1	5.5	4.4	3.9
Average Weekly Hours, Prod. Works.	34.2	34.0	34.0	33.9	33.9	33.9	33.9	34.0	33.9	33.9
Personal Income										
Average Hourly Earnings (\$)	25.2	25.4	25.5	25.7	26.0	26.2	24.7	25.4	26.3	27.3
Percent Change Annualized	3.4	2.8	2.3	3.2	4.0	4.0	5.0	3.1	3.5	3.7
Real Disp. Income (2012 Billions \$)	17394	16140	15678	15728	15786	15874	15743	16235	15953	16385
Percent Change Annualized	61.3	-25.9	-11.0	1.3	1.5	2.3	5.8	3.1	-1.7	2.7
Housing										
Housing Starts (<i>Ths., Ann. Rate</i>)	1613	1747	1697	1640	1657	1684	1395	1674	1670	1558
Ext. Home Sales (<i>Ths., Ann Rate</i>)	6367	6816	6947	6840	6615	6391	5657	6743	6250	5080
New SF Home Sales (<i>Ths., Ann Rate</i>)	1043	1005	985	981	991	979	823	1004	963	880
Case/Shiller HPI (<i>Jan. 2000 = 100</i>)	240.2	244.3	246.5	248.6	249.8	251.1	232.4	248.6	253.6	258.6
Percent Change Year Ago	11.5	12.1	10.6	6.9	4.0	2.8	9.4	6.9	2.0	2.0
Consumer										
Auto Sales (Millions)	16.7	16.2	16.5	17.0	17.5	17.5	14.4	16.6	17.1	15.4
Consumer Credit (Billions \$)	4309	4391	4451	4516	4586	4662	4178	4516	4808	5080
Percent Change Year Ago	2.8	6.2	7.2	8.1	6.4	6.2	-0.1	8.1	6.5	5.7
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	0.02	0.03	0.05	0.07	0.07	0.35	0.04	0.09	0.21
10-Year Treasury Note	1.30	1.68	1.74	1.80	1.83	1.85	0.89	1.63	1.86	1.94
30-Year Fixed Mortgage	2.88	3.05	3.14	3.26	3.35	3.44	3.11	3.08	3.47	3.64
<i>a = actual f = forecast p = preliminary</i>										

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