

NATIONAL ECONOMIC OUTLOOK

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Executive Summary

Weaker August Jobs Report; FOMC Signals Asset Purchases to End This Year

- The U.S. economy added just 235,000 jobs in August, according to a survey of employers from the Bureau of Labor Statistics, far below the consensus expectation of 750,000. This was the weakest month for job growth since January 2021, and well below the recent pace. Despite the slowing in August, the three-month moving average of job growth was still very strong at 750,000. Employment in leisure/hospitality services was unchanged over the month; this followed six months of average monthly job gains of better than 300,000. The drop in job growth in the industry was likely due to a combination of lower demand because of rising coronavirus cases tied to the Delta variant and continued difficulties in finding workers.
- The unemployment rate fell by 0.2 percentage point in August to 5.2%. This is the lowest the unemployment rate has been since the pandemic came to the United States, but is still above the 3.5% pre-pandemic rate. Employment in a survey of households (different from the survey of employers) increased by 509,000 in August. The labor force increased by a disappointing 190,000 in August, with the labor force participation rate flat at 61.7%. The labor force participation rate was 63.3% in February 2020; there are almost 3 million fewer Americans either working or looking for work now compared to before the pandemic.
- In its September 22 monetary policy statement the Federal Open Market Committee indicated that it is likely to announce a reduction in its purchases of long-term assets at its next meeting, in early November. The committee's monetary policy statement said that "a moderation in the pace of asset purchases may soon be warranted." This is based on the FOMC's view that the economy has made progress toward the committee's goals of maximum employment and price stability, and that that progress is likely to continue. Currently, the central bank is buying \$80 billion per month of long-term Treasuries and \$40 billion per month of mortgage-backed securities; these purchases put downward pressure on long-term interest rates, supporting economic growth. The actual reduction in asset purchases would likely start at the beginning of December, with the Fed wrapping up those purchases by late 2022.

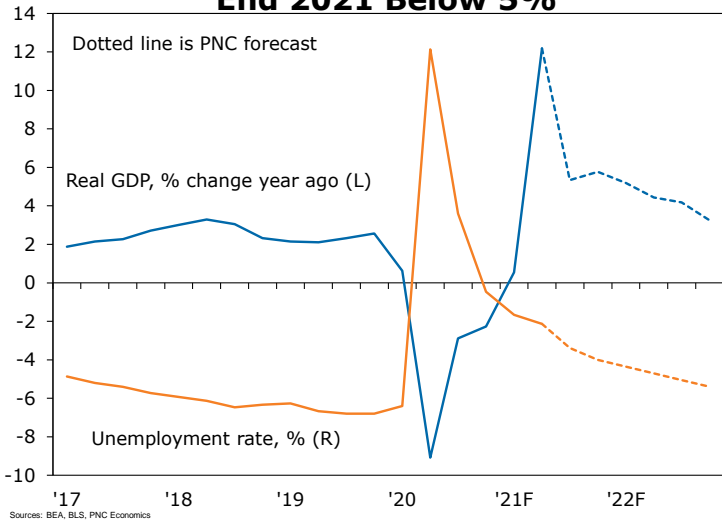
Baseline U.S. Economic Outlook, Summary Table*

	1Q'21a	2Q'21p	3Q'21f	4Q'21f	1Q'22f	2Q'22f	2020a	2021f	2022f	2023f
Output & Prices										
Real GDP (Chained 2012 Billions \$)	19056	19361	19551	19850	20046	20219	18385	19454	20282	20740
Percent Change Annualized	6.3	6.6	4.0	6.3	4.0	3.5	-3.4	5.8	4.3	2.3
CPI (1982-84 = 100)	263.4	268.8	273.3	274.9	276.0	277.6	258.8	270.1	278.6	286.1
Percent Change Annualized	3.7	8.4	7.0	2.3	1.7	2.2	1.2	4.3	3.1	2.7
Labor Markets										
Payroll Jobs (Millions)	143.4	145.0	147.2	149.2	151.1	152.6	142.3	146.2	152.9	156.0
Percent Change Annualized	2.1	4.8	6.1	5.5	5.0	4.1	-5.7	2.8	4.6	2.0
Unemployment Rate (Percent)	6.2	5.9	5.3	5.0	4.8	4.7	8.1	5.6	4.6	4.0
Interest Rates (Percent)										
Federal Funds	0.08	0.07	0.09	0.07	0.07	0.09	0.37	0.08	0.10	0.34
10-Year Treasury Note	1.30	1.58	1.30	1.52	1.65	1.70	0.89	1.43	1.71	1.87

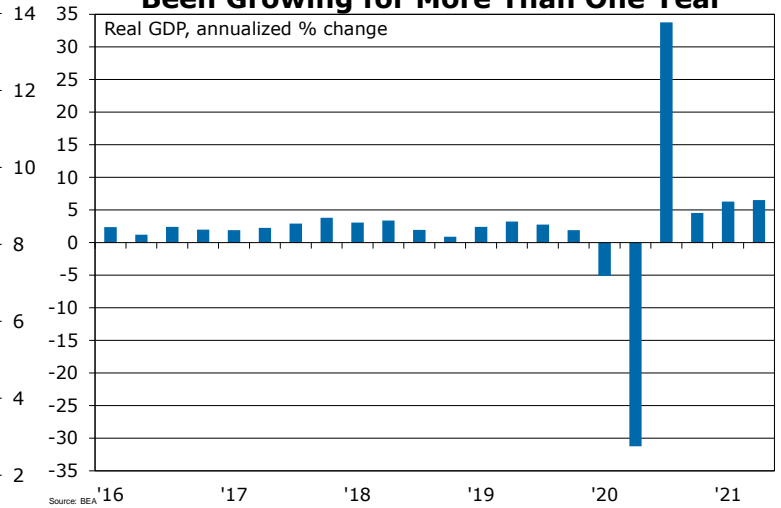
a = actual f = forecast p = preliminary

*Please see the Expanded Table for more forecast series.

Unemployment Rate Will End 2021 Below 5%



After Viral Recession, Economy Has Been Growing for More Than One Year



PNC Small Business Survey Finds Strong Optimism, Support for Vaccinations

Business owners are feeling optimistic about the near-term future of their businesses amid increasing vaccination rates, and those who report that more than three-quarters of their workforce has been vaccinated are the most positive about their business outlook. This includes expectations for higher demand, sales, and profits than companies reporting a lower rate of employee vaccination, according to PNC's semi-annual national small business survey, which concluded Aug. 31.

Data gathered during PNC's survey demonstrates that vaccines are top-of-mind for business owners. Eight in 10 (79%) businesses said they have taken action to encourage employee vaccination. Nearly half (48%) are requiring employee vaccinations, 44% are providing assistance related to vaccinations, 26% are incentivizing employees to receive vaccinations, and one in four (24%) have added restrictions for employees who choose not to be vaccinated.

Those efforts may well be making an impact: more than three-quarters (78%) of survey respondents estimate that a majority of their employees have been vaccinated and 43% believe their entire workforce is vaccinated. More than half (53%) of business leaders with fewer than 100 full-time employees have required their employees to receive the vaccine, more than double that of businesses with 100 or more full-time employees (26%).

The survey results demonstrate that most business owners believe the vaccine can have a positive impact on their businesses. Further, business owner optimism rises as vaccination rates increase, indicating that efforts to support vaccinations broadly could strengthen the economic recovery.

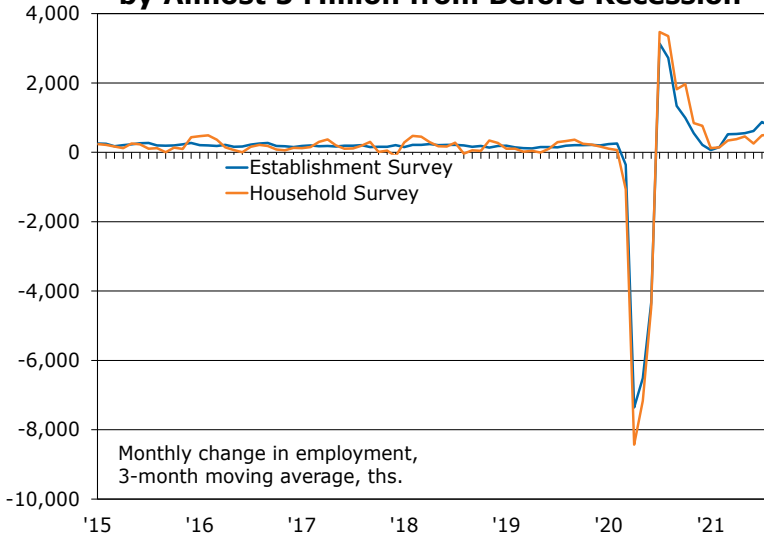
Despite the optimism among business owners, challenges do remain. While more employers hope to hire—and hiring expectations have returned to pre-pandemic levels—many businesses are struggling to find employees. Among all employers surveyed, labor availability is the most frequently-mentioned concern, topping sales and supply chain worries that were reported as more prominent earlier in the year. More than four in 10 employers say they are offering increased compensation to retain or attract new employees, implementing employee health or safety improvements (46%) and allowing more flexible work arrangements (44%).

Profit expectations for the next six months have doubled since PNC's spring survey, and sales and demand have reached the highest levels in the survey's 19-year history. Although conditions changed rapidly in August as the Delta variant became more prominent and COVID-19 cases rose, there was essentially no change in sales growth expectations between the first and second halves of the month. While optimism for leaders' own business prospects tempered as the month progressed, it is still significantly higher than it was earlier this year, and the economic outlook remains solid.

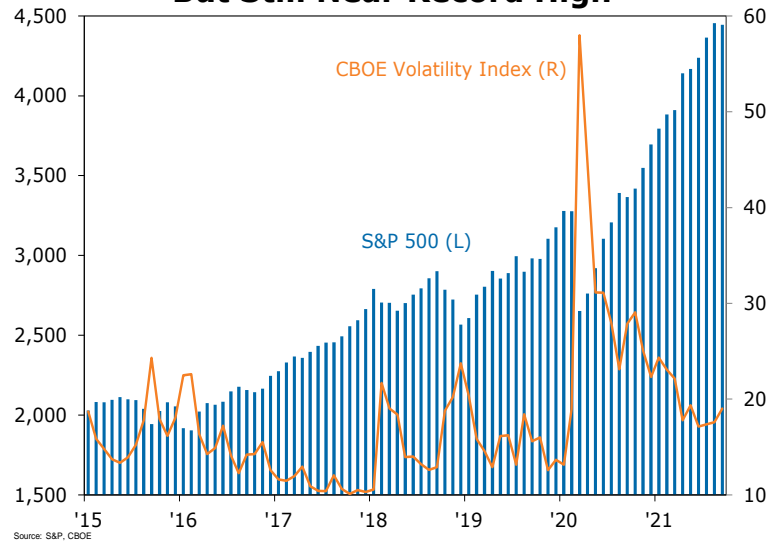
Inflation is now a greater concern, however, as price hikes are expected to keep up with higher input and labor costs. More than half (54%) of business owners surveyed expect to increase their prices, and the anticipated hikes will be substantial, as more than a third expect to boost prices 5% or more, with favorable market conditions and higher costs cited as the leading factors.

With strong business optimism and an expected waning in coronavirus cases, the economic recovery should continue in the second half of 2021 and throughout 2022. Consumer spending, business investment, homebuilding, and a stronger global economy will support near-term growth. Real GDP will increase around 5% at an annualized rate in the second half of this year, and then around 4% in 2022, above the economy's long-run average. PNC expects average monthly job growth of around 650,000 in the second half of 2021. The unemployment rate will continue to gradually decline, to below 5% by the end of this year and to around 4% by the end of next year. Risks to the outlook are weighted to the downside, however, including a larger-than-expected drag from the Delta variant and a slower-than-expected normalization in supply chains.

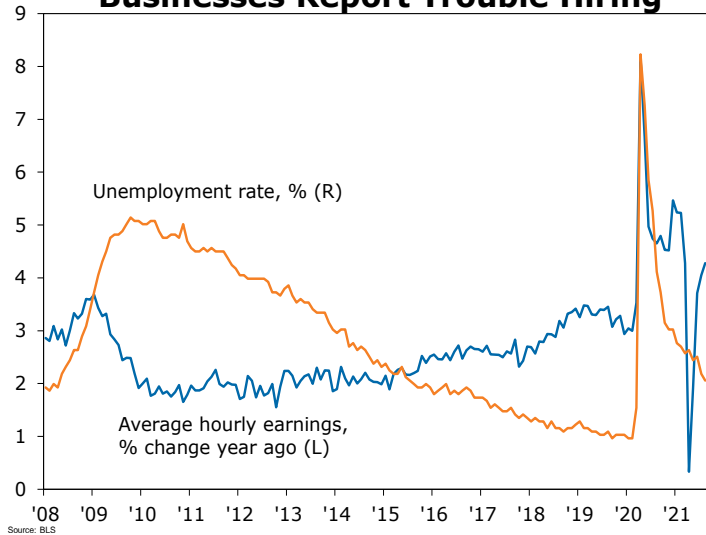
Despite Solid Recovery, Employment Still Down by Almost 5 Million from Before Recession



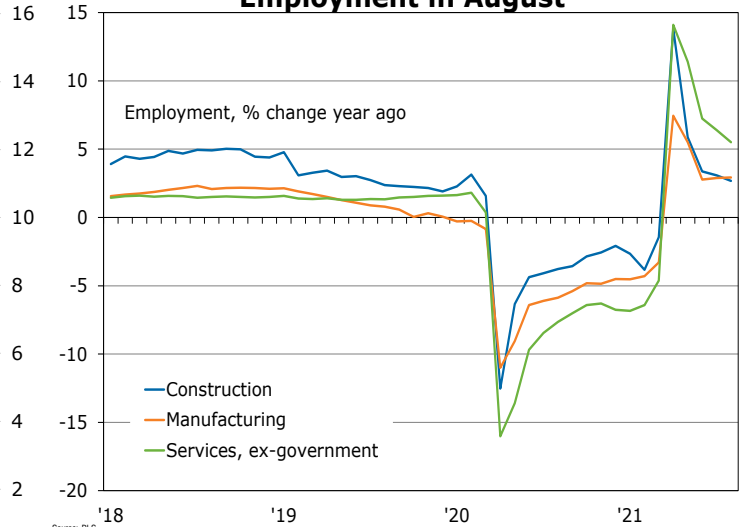
Stocks Down in September, But Still Near Record High



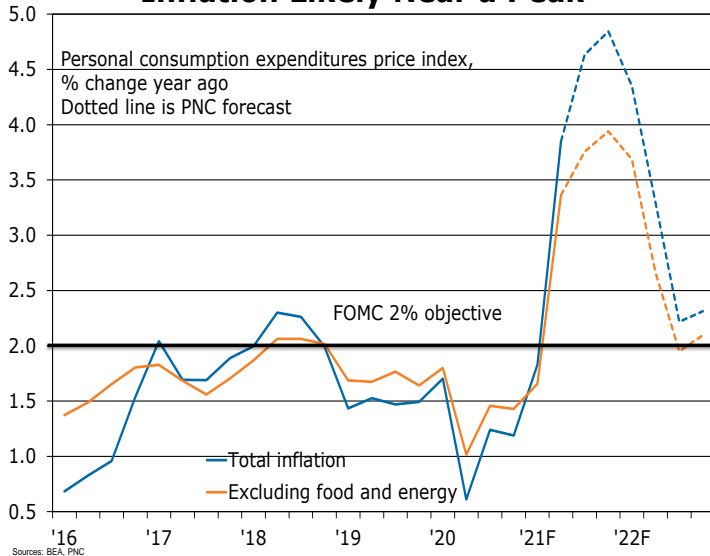
Strong Wage Growth as Businesses Report Trouble Hiring



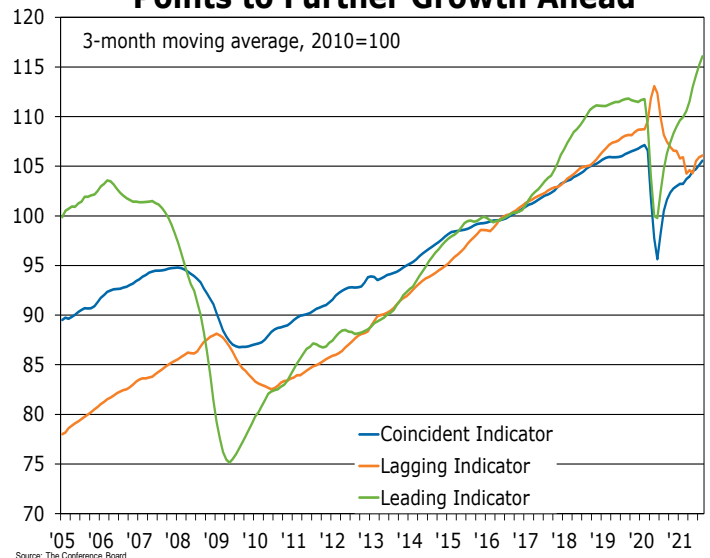
Much Slower Growth in Services Employment in August



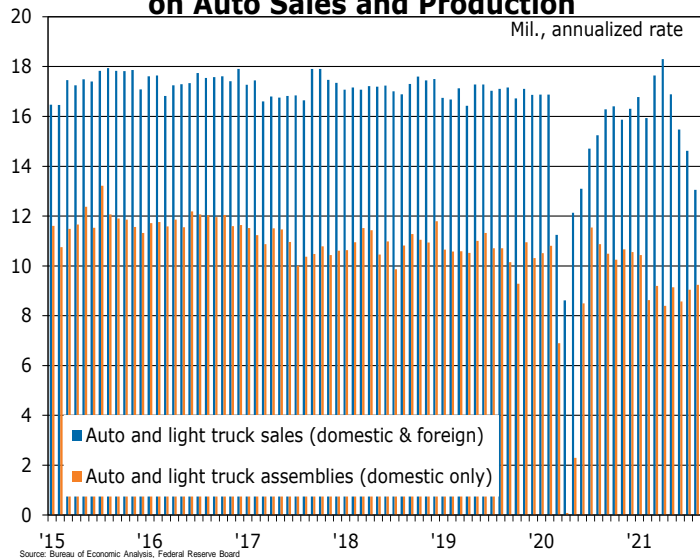
Inflation Likely Near a Peak



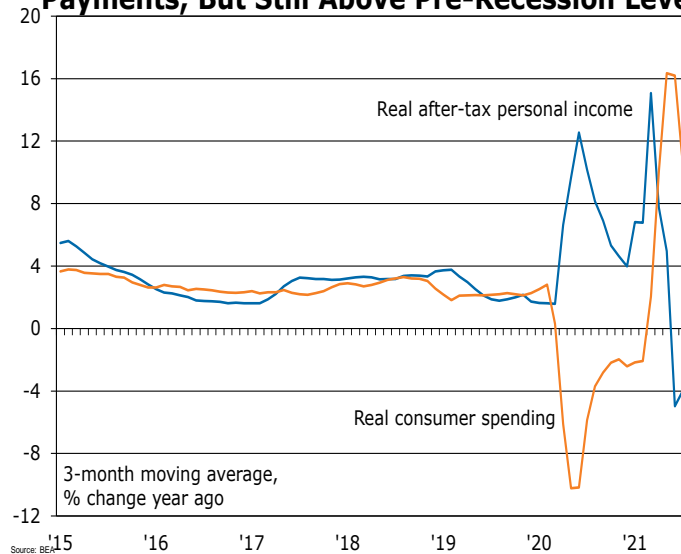
Rising Conference Board Leading Indicator Points to Further Growth Ahead



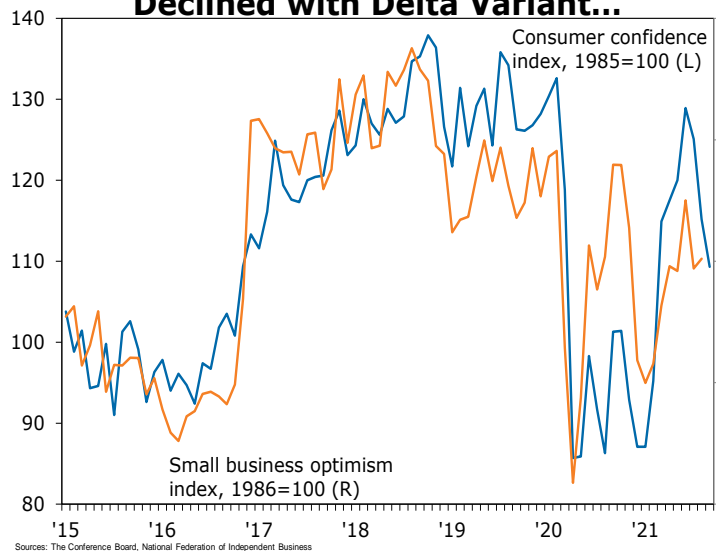
Supply-Chain Woes Have Weighed on Auto Sales and Production



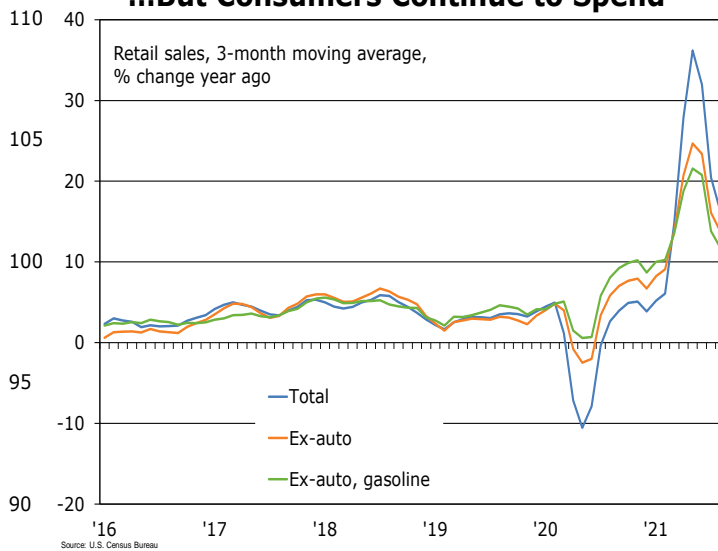
Personal Income Down With End to Stimulus Payments, But Still Above Pre-Recession Level



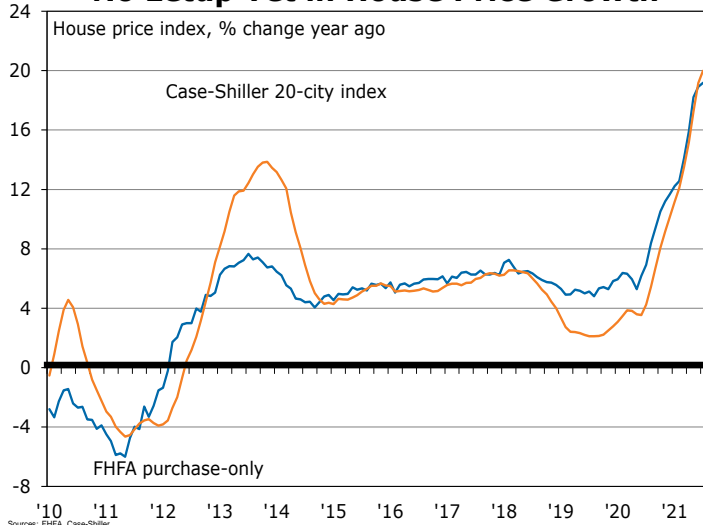
Consumer Confidence Has Declined with Delta Variant...



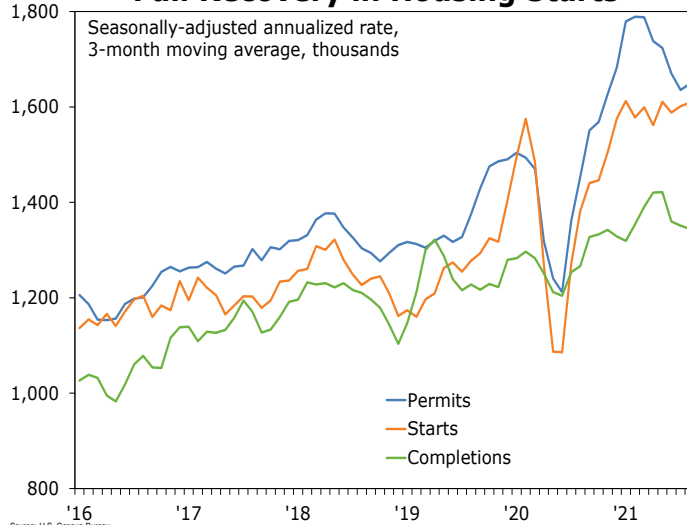
...But Consumers Continue to Spend



No Letup Yet in House Price Growth



Full Recovery in Housing Starts



NATIONAL ECONOMIC OUTLOOK

PNC Economics Group

September 2021

Baseline U.S. Economic Outlook, Expanded Table

	1Q'21a	2Q'21p	3Q'21f	4Q'21f	1Q'22f	2Q'22f	2020a	2021f	2022f	2023f
Output										
Nominal GDP (Billions \$)	22038	22723	23304	23861	24255	24626	20894	22981	24794	26035
Percent Change Annualized	10.9	13.0	10.6	9.9	6.8	6.2	-2.2	10.0	7.9	5.0
Real GDP (Chained 2012 Billions \$)	19056	19361	19551	19850	20046	20219	18385	19454	20282	20740
Percent Change Annualized	6.3	6.6	4.0	6.3	4.0	3.5	-3.4	5.8	4.3	2.3
Pers. Consumption Expenditures	13283	13660	13729	13833	13933	14016	12630	13626	14043	14317
Percent Change Annualized	11.4	11.9	2.0	3.1	2.9	2.4	-3.8	7.9	3.1	2.0
Nonresidential Fixed Investment	2810	2873	2923	2996	3054	3105	2671	2900	3122	3252
Percent Change Annualized	12.9	9.3	7.0	10.4	8.1	6.8	-5.3	8.6	7.6	4.2
Residential Investment	731	709	730	749	766	782	648	730	784	784
Percent Change Annualized	13.3	-11.5	12.6	10.5	9.5	8.5	6.8	12.6	7.5	0.0
Change in Private Inventories	-88	-169	-131	34	49	72	-42	-89	81	89
Net Exports	-1226	-1247	-1232	-1294	-1297	-1300	-943	-1250	-1293	-1256
Government Expenditures	3391	3375	3373	3373	3381	3384	3360	3378	3386	3395
Percent Change Annualized	4.2	-1.9	-0.2	-0.1	0.9	0.4	2.5	0.5	0.2	0.3
Industrial Prod. Index (2012 = 100)	98.2	99.6	101.2	102.2	103.2	104.0	95.0	100.3	104.3	105.8
Percent Change Annualized	3.6	5.5	6.6	4.2	4.0	3.2	-7.2	5.6	4.0	1.5
Capacity Utilization (Percent)	74.1	75.0	76.4	77.2	77.9	78.4	71.6	75.7	78.8	78.8
Prices										
CPI (1982-84 = 100)	263.4	268.8	273.3	274.9	276.0	277.6	258.8	270.1	278.6	286.1
Percent Change Annualized	3.7	8.4	7.0	2.3	1.7	2.2	1.2	4.3	3.1	2.7
Core CPI Index (1982-84 = 100)	270.5	275.9	280.3	281.8	282.9	284.3	267.7	277.1	285.4	293.9
Percent Change Annualized	1.2	8.1	6.7	2.1	1.6	2.1	1.7	3.5	3.0	3.0
PCE Price Index (2012 = 100)	113.0	114.8	116.7	117.3	117.9	118.5	111.2	115.4	118.9	121.9
Percent Change Annualized	3.8	6.4	6.8	2.3	1.9	2.2	1.2	3.8	3.0	2.5
Core PCE Price Index (2012 = 100)	115.0	116.7	118.2	118.8	119.3	119.8	113.6	117.2	120.2	123.1
Percent Change Annualized	2.7	6.1	5.1	2.0	1.7	1.9	1.4	3.2	2.6	2.5
GDP Price Index (2012 = 100)	115.7	117.4	119.2	120.2	121.0	121.8	113.6	118.1	122.2	125.5
Percent Change Annualized	4.3	6.1	6.3	3.5	2.7	2.7	1.2	3.9	3.5	2.7
Crude Oil, WTI (\$/Barrel)	58.0	66.2	70.7	70.1	68.7	68.2	39.5	66.2	67.8	66.2
Labor Markets										
Payroll Jobs (Millions)	143.4	145.0	147.2	149.2	151.1	152.6	142.3	146.2	152.9	156.0
Percent Change Annualized	2.1	4.8	6.1	5.5	5.0	4.1	-5.7	2.8	4.6	2.0
Unemployment Rate (Percent)	6.2	5.9	5.3	5.0	4.8	4.7	8.1	5.6	4.6	4.0
Average Weekly Hours, Prod. Works.	34.3	34.3	34.2	34.1	34.1	34.0	33.9	34.2	34.0	33.8
Personal Income										
Average Hourly Earnings (\$)	25.2	25.6	25.9	26.2	26.5	26.8	24.7	25.7	26.9	28.1
Percent Change Annualized	3.8	6.2	5.1	4.1	4.8	4.7	5.0	4.2	4.7	4.4
Real Disp. Income (2012 Billions \$)	17304	15796	15418	15513	15634	15733	15676	16008	15790	16129
Percent Change Annualized	57.6	-30.6	-9.2	2.5	3.2	2.6	6.2	2.1	-1.4	2.1
Housing										
Housing Starts (<i>Ths., Ann. Rate</i>)	1599	1568	1562	1536	1576	1602	1397	1566	1593	1475
Ext. Home Sales (<i>Ths., Ann. Rate</i>)	6303	5830	6391	6866	6680	6515	5657	6348	6392	5294
New SF Home Sales (<i>Ths., Ann. Rate</i>)	896	728	693	707	715	709	828	756	699	632
Case/Shiller HPI (<i>Jan. 2000 = 100</i>)	241.9	254.4	259.2	261.3	262.0	262.6	232.5	261.3	264.0	265.3
Percent Change Year Ago	12.2	16.8	16.3	12.4	8.3	3.2	9.4	12.4	1.0	0.5
Consumer										
Auto Sales (Millions)	16.8	16.9	13.4	15.3	16.8	17.9	14.5	15.6	17.5	16.6
Consumer Credit (Billions \$)	4224	4313	4359	4414	4475	4546	4186	4414	4683	4940
Percent Change Year Ago	0.5	4.0	4.7	5.4	5.9	5.4	-0.3	5.4	6.1	5.5
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	0.09	0.07	0.07	0.09	0.37	0.08	0.10	0.34
3-Month Treasury Bill	0.04	0.01	0.05	0.07	0.10	0.12	0.35	0.04	0.13	0.46
10-Year Treasury Note	1.30	1.58	1.30	1.52	1.65	1.70	0.89	1.43	1.71	1.87
30-Year Fixed Mortgage	2.88	3.00	2.86	3.09	3.26	3.34	3.11	2.96	3.36	3.57
<i>a = actual f = forecast p = preliminary</i>										

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