

NATIONAL ECONOMIC OUTLOOK

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Executive Summary

Another Month of Weak Headline Job Growth; Fourth Quarter GDP Growth Much Better

- The U.S. economy added 199,000 jobs in December, according to the preliminary estimate from a survey of employers by the Bureau of Labor Statistics. This was well below the consensus expectation for an increase of 400,000. As in November, however, the details of the report were much better than the headline number, with job gains for previous months revised higher. Job growth in November was revised up to 270,000, from the initially reported 210,000. And job growth in October saw another big upward revision to 648,000, from the 546,000 reported last month, and the 531,000 in the preliminary estimate. Revisions to job growth in recent months have been uniformly upward and large, suggesting that the headline gain in December is likely to be revised significantly higher over the next couple of months.
- The unemployment rate fell to 3.9% in December, down from 4.2% in November. After peaking at 14.7% in April 2020, the unemployment rate is quickly approaching the 3.5% rate from before the pandemic. According to a survey of households, different from the survey of employers, employment increased by 651,000 in December. It could be that the household survey is doing a better job of capturing labor market dynamics than the employer survey as the economy continues to recover from recession.
- Real GDP increased 6.9% at an annual rate in the fourth quarter of 2021, according to the advance estimate from the Bureau of Economic Analysis. This was well above the 2.3% pace in the third quarter, and the strongest growth since the third quarter of 2020, when the economy was emerging from recession after pandemic-related shutdowns in the first half of 2020. While fourth quarter growth was strong, demand growth was lackluster. Inventories accounted for almost 5 percentage points of annualized growth as businesses restocked after drawing down inventories earlier in the recovery. Final sales of final domestic product—GDP minus the change in inventories, which measures domestic and international demand for goods and services produced in the U.S.—increased a rather pedestrian 1.9% in the fourth quarter, although this was up from 0.1% in the third quarter. Real GDP growth was 5.5% in the fourth quarter of 2021 on a year-over-year basis, up from 4.9% in the third quarter. Averaged across the four quarters of 2021, real GDP increased 5.7% in 2021, the best year of growth since 1984. This followed a record contraction of 3.4% in 2020. The fourth quarter GDP numbers were released after PNC prepared its January baseline forecast.

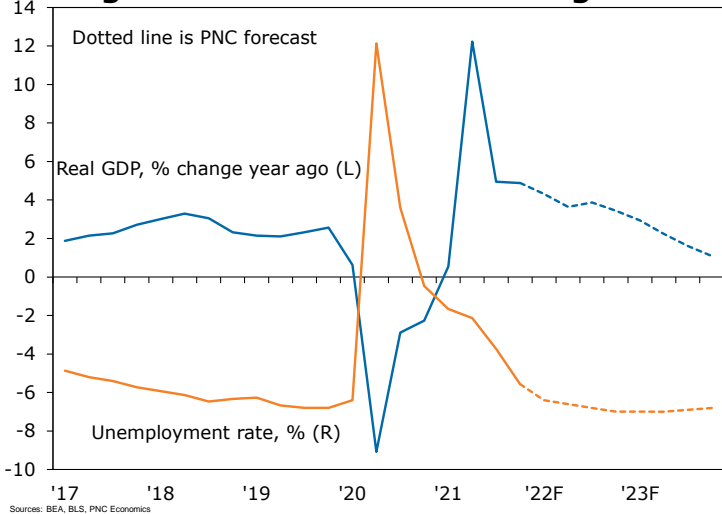
Baseline U.S. Economic Outlook, Summary Table*

	4Q'21p	1Q'22f	2Q'22f	3Q'22f	4Q'22f	1Q'23f	2021p	2022f	2023f	2024f
Output & Prices										
Real GDP (Chained 2012 Billions \$)	19685	19879	20075	20233	20363	20463	19397	20137	20533	20712
Percent Change Annualized	4.3	4.0	4.0	3.2	2.6	2.0	5.5	3.8	2.0	0.9
CPI (1982-84 = 100)	278.7	280.9	283.2	285.3	287.1	289.0	271.0	284.2	291.3	297.7
Percent Change Annualized	8.4	3.1	3.4	3.0	5.6	2.6	4.7	4.8	2.5	2.2
Labor Markets										
Payroll Jobs (Millions)	148.7	150.4	151.8	152.3	153.1	153.7	146.1	151.9	154.2	155.1
Percent Change Annualized	3.6	4.6	3.9	1.3	1.9	1.6	2.7	3.9	1.5	0.5
Unemployment Rate (Percent)	4.2	3.8	3.7	3.6	3.5	3.5	5.4	3.6	3.5	3.6
Interest Rates (Percent)										
Federal Funds	0.08	0.09	0.32	0.65	0.92	1.17	0.08	0.50	1.53	1.88
10-Year Treasury Note	1.58	1.32	1.53	1.48	1.57	1.67	1.43	2.08	2.34	2.39

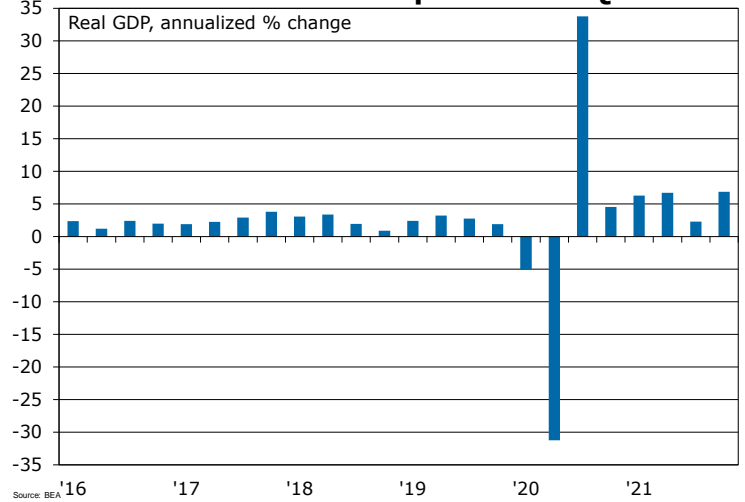
a = actual f = forecast p = preliminary

*Please see the Expanded Table for more forecast series.

Strong Growth to Continue Throughout 2022



Growth Picked Back Up in Fourth Quarter



2022 U.S. Economic Outlook: Slower, But Still Strong Growth; Inflation to Gradually Recede as Fed Tightens

After very strong expansion in the U.S. economy at the end of 2021, growth will slow somewhat in early 2022 due to the omicron variant. But the outlook remains positive, with strong consumer spending set to push the economy forward this year. Inflation is running much faster than the Federal Reserve would like, and so the central bank will reduce its support for the economy over the course of 2022. But with solid underlying fundamentals and fading supply-chain problems, the recovery from the Viral Recession will continue in 2022, even with higher interest rates. Growth will gradually return to its pre-pandemic pace over the course of the year and the labor market will continue to improve.

The omicron variant will be a drag on the economy in the first part of 2022. Consumers are once again more reluctant to venture out, weighing on demand for services. And the variant is temporarily exacerbating labor shortages. But with indications that omicron is starting to recede its hit should fade by late winter, allowing the economy's strong fundamentals to play out. Chief among these are consumer conditions. Households have \$2 trillion in extra saving relative to before the pandemic, thanks to government aid in 2020 and 2021 and limited opportunities to purchase, that they will gradually spend this year and next. Other positives for consumer spending this year are the labor market, with good job growth and very strong wage gains, and record household wealth thanks to rising stock prices and home values. Household spending growth will shift over the course of 2022 from goods to services as the pandemic recedes and consumers feel more comfortable venturing out, and with less need for goods purchases after strong buying in 2020 and 2021. One exception will be motor vehicles—auto sales faded in the second half of 2021 due to limited supplies amid supply-chain problems.

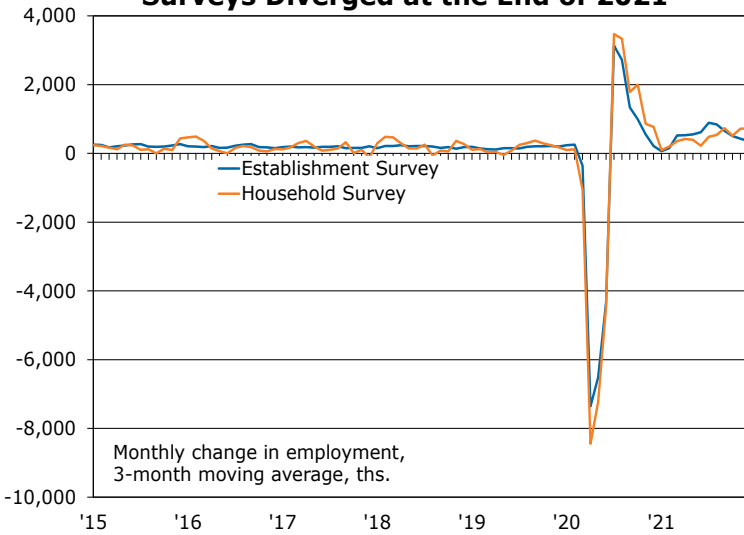
With consumer spending making up about two-thirds of the U.S. economy, that will be enough to ensure further recovery this year. Other positives will be the housing market, thanks to strong demand for single-family homes, and business investment, as firms undertake capital spending to make their workers more productive amid labor shortages. A smaller trade deficit will also support growth this year, as a global recovery supports demand for U.S. exports and the shift in consumer spending from goods to services weighs on imports. The need to rebuild inventories will be another tailwind for U.S. growth in 2022. Finally, the supply-chain problems that bedeviled the economy in 2022 should fade over the course of this year as firms increase output.

The Federal Reserve will need to address inflation that is running well above its 2% objective. The personal consumption expenditures price index, excluding food and energy prices, was up 4.9% in December from one year earlier, the fastest pace since 1983. Much of the acceleration in inflation in 2021 came from strong demand, but limited supplies, coming out of the pandemic for some goods and services, such as for new and used vehicles and air travel. Inflation should fade for these goods and services as the ongoing reopening of the economy allows for moralization between supply and demand. But strong wage growth will drive broader inflationary pressures this year. To address this, the Federal Open Market Committee will raise its short-term policy interest rate steadily over the course of 2022; the fed funds rate will increase from its current near-zero level to slightly above 1% by the end of the year. The central bank will also end its purchases of long-term securities, putting some upward pressure on longer-term interest rates. This tighter monetary policy will help cool inflationary pressures.

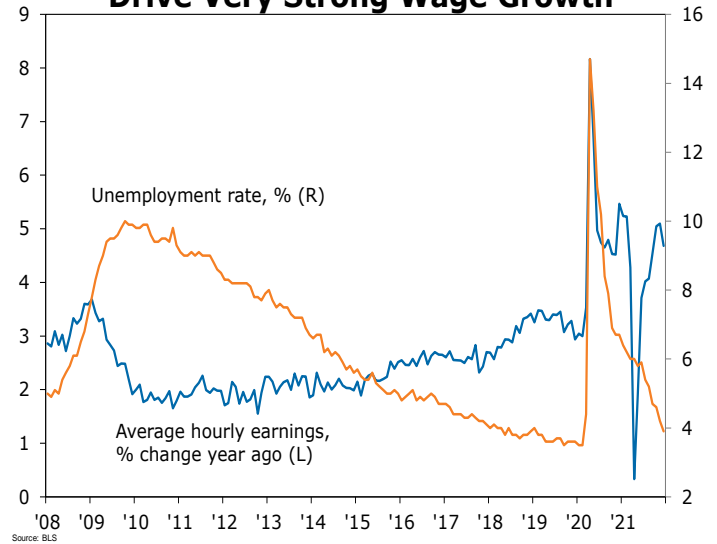
With strong but slowing growth in 2022 the labor market will continue its recovery. Employment may fall in early 2022 because of omicron, but will then pick up as the variant fades. PNC expects job growth to average around 350,000 per month this year, with employment returning to its pre-pandemic level in the middle of 2022. The fading pandemic will allow for stronger labor force growth, although businesses will continue to have difficulties in hiring, with wages steadily moving higher. PNC expects the unemployment rate to end the year at, or perhaps slightly below, the pre-pandemic rate of 3.5%.

Risks to the outlook for economic growth are to the downside. The pandemic could not fade as expected, becoming a more permanent weight on the economy. The Fed could be forced to increase interest rates more aggressively if inflation runs faster than expected, with monetary policy becoming a more significant drag.

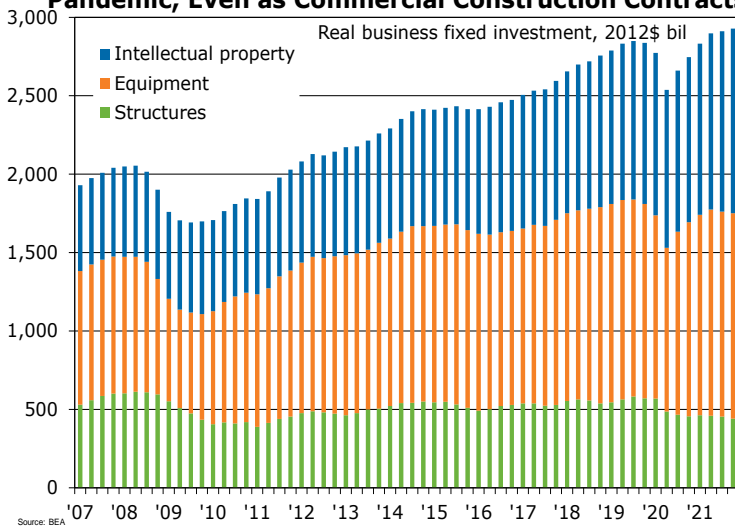
Household, Establishment Jobs Surveys Diverged at the End of 2021



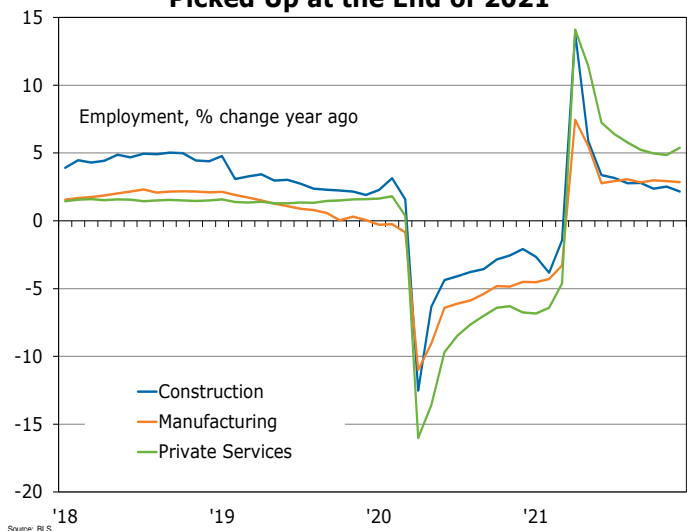
Tight Labor Market Continues to Drive Very Strong Wage Growth



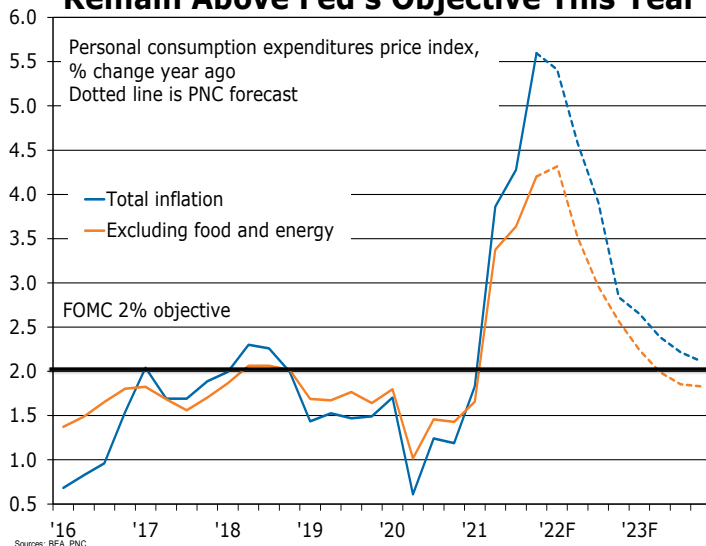
Business Investment Has Fully Recovered From Pandemic, Even as Commercial Construction Contracts



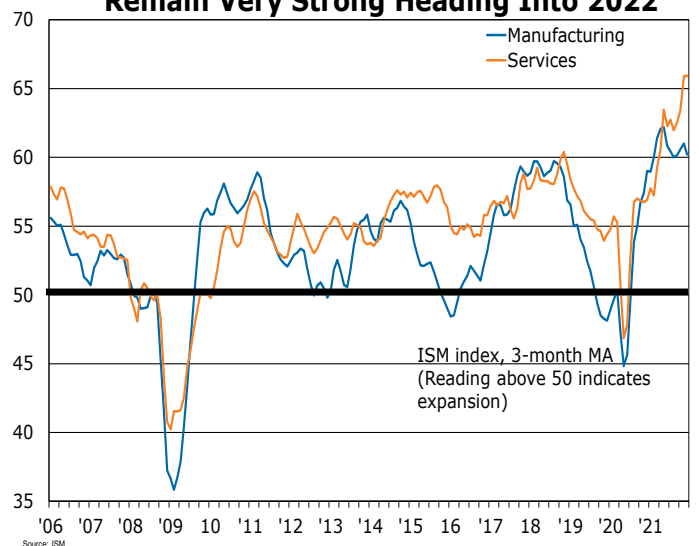
Services Employment Growth Picked Up at the End of 2021



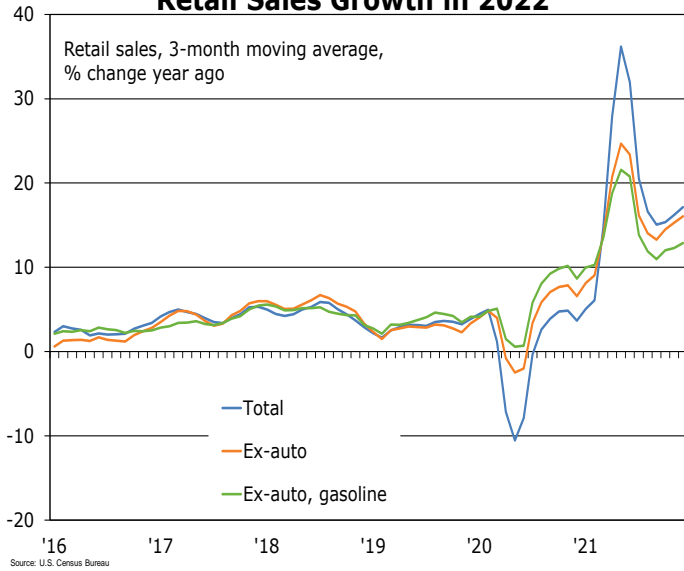
Inflation to Peak in Early 2022, But Will Remain Above Fed's Objective This Year



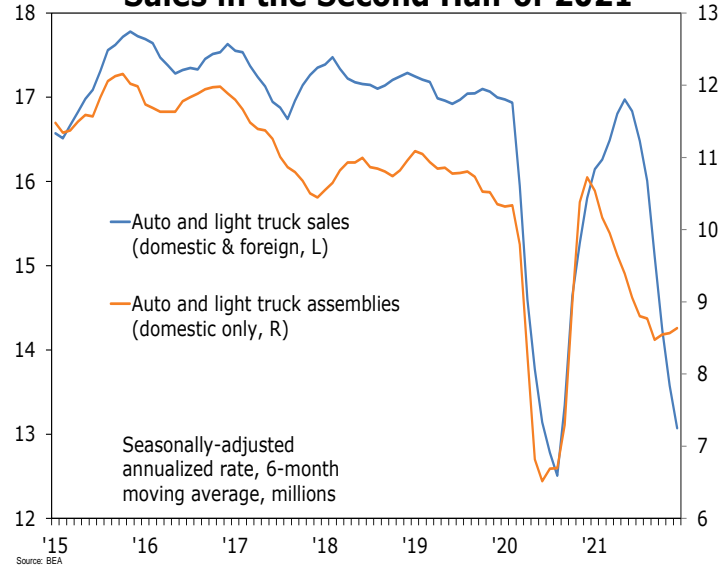
Both Manufacturing and Services ISM Indices Remain Very Strong Heading Into 2022



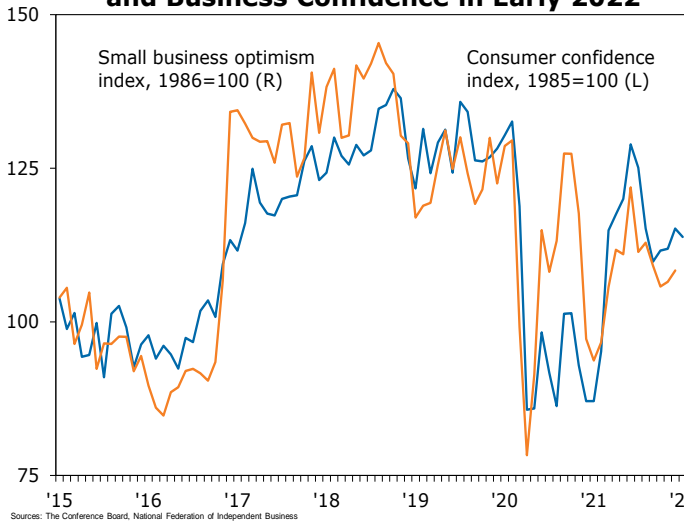
Slower But Still-Solid Retail Sales Growth in 2022



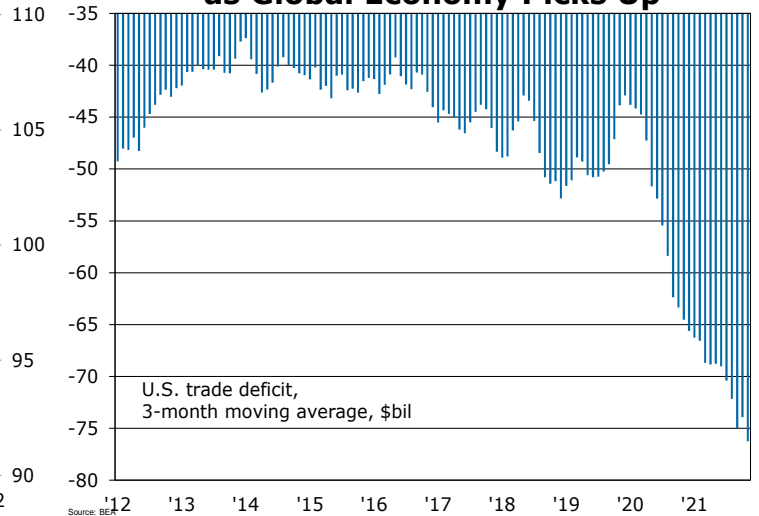
Chip Shortages Weighed on Auto Sales in the Second Half of 2021



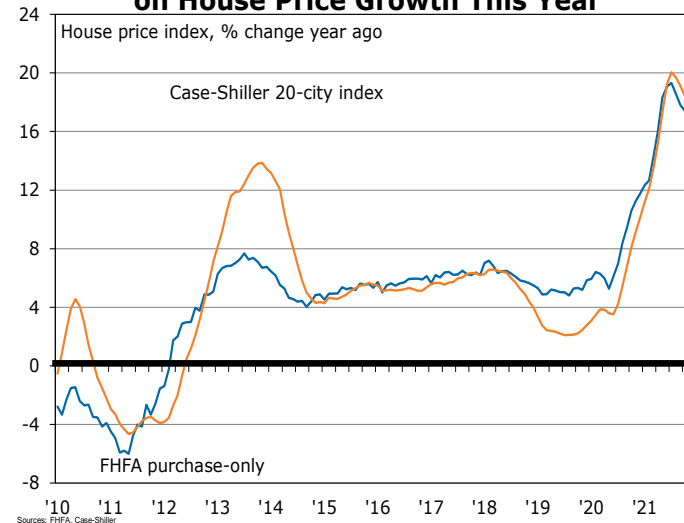
High Inflation Is a Drag on Consumer and Business Confidence in Early 2022



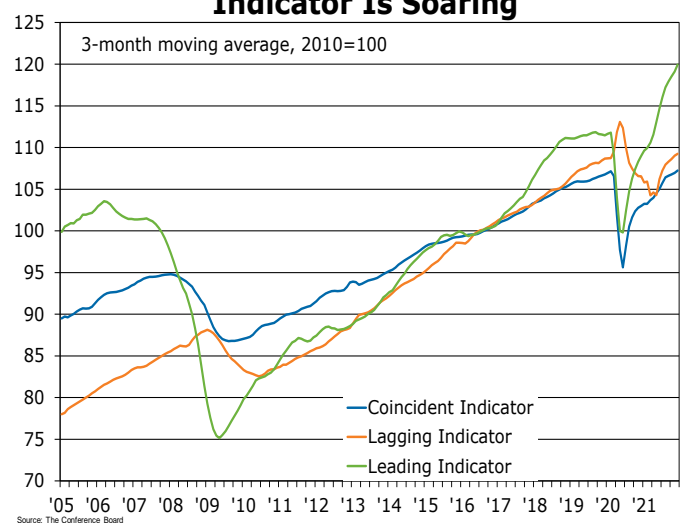
Trade Deficit to Narrow in 2022 as Global Economy Picks Up



Higher Mortgage Rates Will Weigh on House Price Growth This Year



Conference Board Leading Indicator Is Soaring



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PNC Economics Group

January 2022

Baseline U.S. Economic Outlook, Expanded Table

	4Q'21p	1Q'22f	2Q'22f	3Q'22f	4Q'22f	1Q'23f	2021p	2022f	2023f	2024f
Output										
Nominal GDP (Billions \$)	23841	24303	24754	25139	25461	25735	22956	24914	26008	26704
Percent Change Annualized	11.5	8.0	7.6	6.4	5.2	4.4	9.9	8.5	4.4	2.7
Real GDP (Chained 2012 Billions \$)	19685	19879	20075	20233	20363	20463	19397	20137	20533	20712
Percent Change Annualized	4.3	4.0	4.0	3.2	2.6	2.0	5.5	3.8	2.0	0.9
Pers. Consumption Expenditures	13829	13959	14076	14152	14227	14290	13628	14103	14362	14499
Percent Change Annualized	2.9	3.8	3.4	2.2	2.2	1.8	7.9	3.5	1.8	1.0
Nonresidential Fixed Investment	2935	2953	2985	3023	3057	3091	2876	3005	3131	3250
Percent Change Annualized	7.2	2.4	4.5	5.2	4.6	4.5	7.7	4.5	4.2	3.8
Residential Investment	712	729	746	755	759	759	711	747	741	704
Percent Change Annualized	10.9	9.9	9.1	5.0	2.3	-0.2	9.8	5.0	-0.8	-5.0
Change in Private Inventories	18	30	50	80	100	105	-76	65	86	29
Net Exports	-1343	-1329	-1320	-1317	-1326	-1328	-1282	-1323	-1331	-1322
Government Expenditures	3363	3367	3368	3371	3376	3377	3377	3371	3375	3384
Percent Change Annualized	-2.1	0.4	0.1	0.3	0.5	0.2	0.5	-0.2	0.1	0.2
Industrial Prod. Index (2012 = 100)	102.3	103.1	104.1	105.1	105.8	106.1	100.3	104.5	106.3	106.6
Percent Change Annualized	5.7	3.3	4.0	3.8	2.8	1.2	5.6	4.2	1.7	0.3
Capacity Utilization (Percent)	76.5	77.0	77.7	78.3	78.8	78.9	75.4	78.9	78.9	78.6
Prices										
CPI (1982-84 = 100)	278.7	280.9	283.2	285.3	287.1	289.0	271.0	284.2	291.3	297.7
Percent Change Annualized	8.4	3.1	3.4	3.0	5.6	2.6	4.7	4.8	2.5	2.2
Core CPI Index (1982-84 = 100)	283.2	285.7	288.1	290.1	291.7	293.3	277.3	288.9	295.6	302.0
Percent Change Annualized	5.4	3.6	3.4	2.8	2.2	2.2	3.6	4.2	2.3	2.2
PCE Price Index (2012 = 100)	118.2	119.1	120.0	120.8	121.5	122.3	115.6	120.4	123.2	125.7
Percent Change Annualized	6.8	3.1	3.1	2.7	2.4	2.4	3.9	4.2	2.3	2.1
Core PCE Price Index (2012 = 100)	119.1	120.0	120.8	121.5	122.1	122.7	117.2	121.1	123.5	125.9
Percent Change Annualized	3.5	3.1	2.9	2.3	1.9	1.8	3.2	3.3	2.0	1.9
GDP Price Index (2012 = 100)	121.1	122.3	123.3	124.2	125.0	125.8	118.3	123.7	126.7	128.9
Percent Change Annualized	6.9	3.8	3.5	3.1	2.6	2.3	4.1	4.6	2.4	1.8
Crude Oil, WTI (\$/Barrel)	77.2	76.5	76.0	75.5	75.0	75.0	68.0	75.7	75.0	74.8
Labor Markets										
Payroll Jobs (Millions)	148.7	150.4	151.8	152.3	153.1	153.7	146.1	151.9	154.2	155.1
Percent Change Annualized	3.6	4.6	3.9	1.3	1.9	1.6	2.7	3.9	1.5	0.5
Unemployment Rate (Percent)	4.2	3.8	3.7	3.6	3.5	3.5	5.4	3.6	3.5	3.6
Average Weekly Hours, Prod. Works.	34.1	34.1	34.0	34.0	33.9	33.9	34.2	34.0	33.8	33.6
Personal Income										
Average Hourly Earnings (\$)	26.4	26.8	27.1	27.5	27.8	28.2	25.8	27.3	28.6	29.7
Percent Change Annualized	6.9	5.3	5.3	5.1	5.1	5.0	4.6	5.8	4.8	3.8
Real Disp. Income (2012 Billions \$)	15308	15348	15504	15611	15723	15835	15994	15547	15976	16284
Percent Change Annualized	-8.3	1.1	4.1	2.8	2.9	2.9	2.0	-2.8	2.8	1.9
Housing										
Housing Starts (Ths., Ann. Rate)	1592	1595	1630	1638	1615	1558	1584	1620	1467	1332
Ext. Home Sales (Ths., Ann. Rate)	6499	6752	6578	6338	6031	5574	6173	6425	5276	5081
New SF Home Sales (Ths., Ann. Rate)	713	718	722	715	686	663	765	710	637	602
Case/Shiller HPI (Jan. 2000 = 100)	276.0	278.2	279.2	280.3	281.4	282.1	276.0	281.4	284.2	287.0
Percent Change Year Ago	18.7	14.9	9.7	5.1	1.9	1.4	18.7	1.9	1.0	1.0
Consumer										
Auto Sales (Millions)	13.0	15.3	16.4	17.5	17.6	17.4	15.0	16.7	16.6	14.8
Consumer Credit (Billions \$)	4443	4518	4606	4692	4769	4842	4443	4769	5030	5233
Percent Change Year Ago	6.2	7.0	6.9	7.4	7.3	7.2	6.2	7.3	5.5	4.0
Interest Rates (Percent)										
Prime Rate	3.25	3.25	3.45	3.78	4.05	4.29	3.25	3.63	4.65	5.00
Federal Funds	0.08	0.09	0.32	0.65	0.92	1.17	0.08	0.50	1.53	1.88
3-Month Treasury Bill	0.04	0.19	0.47	0.75	1.02	1.27	0.03	0.61	1.52	1.73
10-Year Treasury Note	1.53	1.85	2.04	2.18	2.24	2.29	1.43	2.08	2.34	2.39
30-Year Fixed Mortgage	3.08	3.51	3.71	3.88	3.97	4.04	2.96	3.77	4.09	4.14
<i>a = actual f = forecast p = preliminary</i>										

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