

NATIONAL ECONOMIC OUTLOOK

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Executive Summary

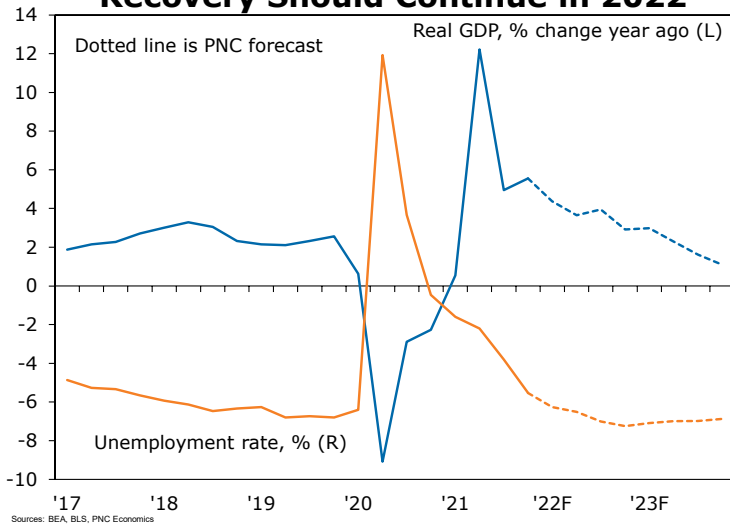
Job Market Recovery Continues, But Decades-High Inflation Is Pushing Fed to Raise Interest Rates

- The U.S. economy added 678,000 jobs in February, according to a survey of employers from the Bureau of Labor Statistics. This was the best month for job growth since July 2021. There was a combined upward revision to job growth in December and January of 92,000, and the three-month moving average of job growth through February was an excellent 580,000, close to the pace of the past year. Employment in February was 2.1 million, or 1.3%, below its pre-pandemic level. The U.S. economy has added back about 20 million of the 22 million jobs lost in March and April 2020 at the start of the pandemic. The unemployment rate fell to 3.8% in February from 4.0% in January, a new post-pandemic low. The unemployment rate was at 3.5% in early 2020 before the pandemic, and then rose to 14.7% in April of 2020.
- Inflation in February accelerated to the fastest year-over-year pace in decades, as measured by the personal consumption expenditures price index from the Bureau of Economic Analysis. Overall consumer prices were up 6.4% in February from one year earlier, compared to 6.0% inflation in January. For core inflation, excluding food and energy, year-over-year inflation was 5.4% in February, up from 5.2% in January. This was the fastest overall inflation since early 1981, and the fastest core inflation since early 1983. The PCE price indices, particularly the core index, are the Federal Reserve’s preferred inflation measures.
- With inflation running well above the Federal Reserve’s 2% long-run objective, the central bank has started to tighten monetary policy. On March 16 the Federal Committee raised the federal funds rate by a quarter of a percentage point, to a range of 0.25% to 0.50%. This was the first increase in the fed funds rate since late 2018. The statement also said that the FOMC “anticipates that ongoing increases in the target range will be appropriate.” The statement also said that with appropriate monetary policy, inflation should “return to its 2 percent objective and the labor market [should] remain strong.” The FOMC also said that it “expects to begin reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities at a coming meeting.” The Fed had been purchasing long-term Treasuries and mortgage-backed securities to push down long-term borrowing costs and support the economic recovery from the pandemic; it has now wrapped up those purchases. The FOMC will start to reduce the size of the central bank’s balance sheet sometime over the next few months, at first by not replacing maturing securities.

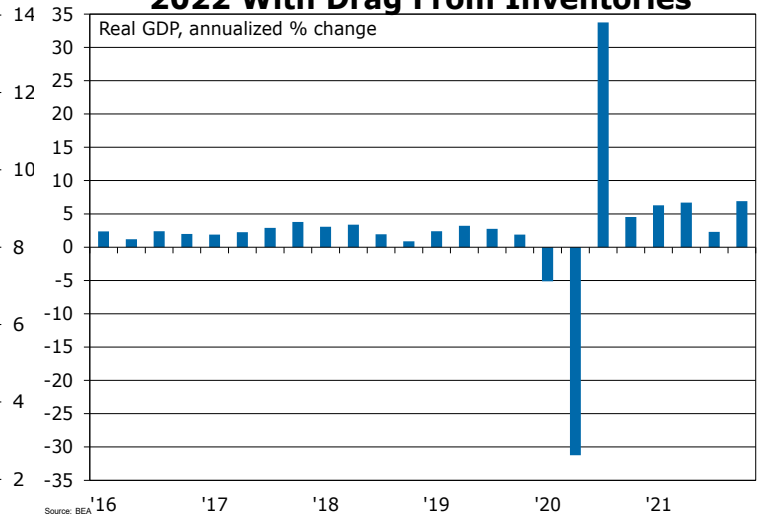
Baseline U.S. Economic Outlook, Summary Table*

	4Q'21a	1Q'22f	2Q'22f	3Q'22f	4Q'22f	1Q'23f	2021a	2022f	2023f	2024f
Output & Prices										
Real GDP (Chained 2012 Billions \$)	19811	19889	20076	20249	20389	20482	19428	20151	20553	20735
Percent Change Annualized	7.0	1.6	3.8	3.5	2.8	1.8	5.7	3.7	2.0	0.9
CPI (1982-84 = 100)	278.6	283.8	287.7	290.1	291.8	293.2	271.0	288.4	295.6	302.4
Percent Change Annualized	8.2	7.7	5.6	3.4	2.3	2.0	4.7	6.4	2.5	2.3
Labor Markets										
Payroll Jobs (Millions)	148.6	150.3	151.4	152.2	153.0	153.5	146.1	151.7	154.0	155.0
Percent Change Annualized	4.8	4.7	2.9	2.2	2.0	1.3	2.8	3.9	1.5	0.7
Unemployment Rate (Percent)	4.2	3.9	3.7	3.5	3.4	3.5	5.4	3.6	3.5	3.5
Interest Rates (Percent)										
Federal Funds	0.08	0.14	0.57	0.90	1.17	1.42	0.08	0.69	1.87	2.13
10-Year Treasury Note	1.53	1.88	2.10	2.27	2.40	2.51	1.43	2.16	2.59	2.64
a = actual f = forecast p = preliminary *Please see the Expanded Table for more forecast series.										

Ukraine Will Be a Drag, But Recovery Should Continue in 2022



GDP Growth Will Slow in First Quarter of 2022 With Drag From Inventories



Small Businesses Still Optimistic in Early 2022, But High Inflation Is a Concern; Supply Chain Woes to Ease

PNC's semiannual Survey of Small and Middle-Market Business Owners for Spring 2022 finds businesspeople highly optimistic about economic conditions and especially their own company's near-term prospects. But confidence is down somewhat from the last survey in Fall 2021, with concerns about inflation especially notable. Supply chains remain a problem, but business owners expect an easing this year. Also, the labor market remains a problem for many businesses. The survey was taken in early 2022, before the Russian invasion of Ukraine.

Business leaders' expectations about their own companies remain strong in the Spring 2022 survey, with nearly one-half (47%) feeling highly optimistic. However, this share is down from their historic fall high (56% highly optimistic). The share of business owners who are pessimistic about their own company remains historically low at 2%. Their outlook for the national economy has become more cautious: 15% are highly optimistic about the national economy while 23% are now pessimistic, while in the Fall 2021 survey the share that was optimistic about the national economy was 34%, a record high.

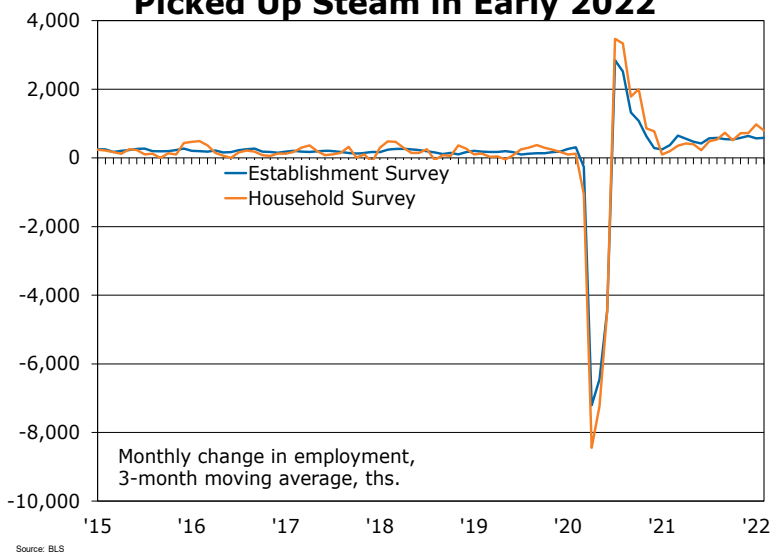
A big reason for the decline in optimism about the national economy is high inflation. One-half (51%) of businesses expect to increase the prices they charge in the next six months, with 36% expecting hikes of 5% or more. Nearly two in 10 (16%) of those expecting to increase prices plan to raise them by at least 10%, more than double those respondents who anticipated a similar move last fall (6%). One in three (34%) say their prices already have gone up in the past six months. Among the 51% expecting to increase their prices, nearly two-thirds (63%) are doing so because they are attempting to keep up with rising non-labor costs, a significant increase compared with 33% in the fall.

Supply chain issues top the list of concerns for small and mid-sized business owners over the last six months, but they see those pressures easing by mid-year. In early 2022 one-third (34%) of owners who rely on a supply chain said timeliness had worsened in the previous six months. Concern over supply chain disruptions is highest in the manufacturing (56%), wholesale/retail (51%) and construction (38%) sectors. However, six in 10 (57%) expect the timeliness of their supply chain issues to improve in the next six months.

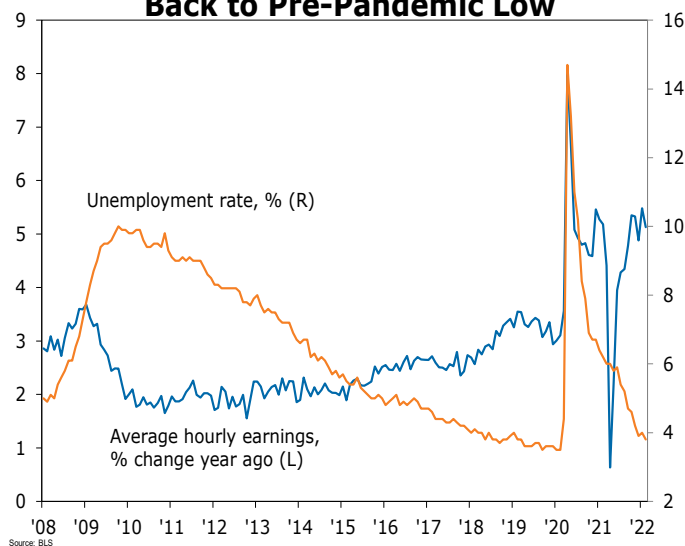
The labor market remains a major concern for owners of small and medium-sized businesses. More than four in 10 (43%) business owners report losing staff since the start of the pandemic, and 85% of those say this has had a negative impact. Reasons cited for employee departures are illness or death, worker concerns over health or safety, changes in lifestyle or priorities, enhanced unemployment compensation benefits, lack of childcare or eldercare options, and refusal to comply with COVID-19 vaccine requirements. Many businesses report workers leaving their industry or occupation altogether or shifting to self-employment. Among businesses that have employees, one in four (26%) say it has become harder to hire qualified personnel, although that is an improvement from 34% in the Fall 2021 survey. Nearly three in four (73%) businesses have responded to recruiting challenges, most notably through improved work conditions such as employee health or safety improvements (47%) and allowing more flexible work arrangements (37%); the same portion (37%) increased wages or salaries. Among those who are having difficulty finding workers or have faced shortages in the last six months, more than one-half have increased workload for existing employees (53%), or report that owners or managers are covering shifts (43%).

Although high inflation is a major problem for the economy right now, the baseline forecast is that the Federal Reserve avoids a misstep and raises interest rates gradually enough that inflation slows over the course of 2022 and 2023, while the economic recovery proceeds and the labor market continues to improve. PNC is forecasting economic growth of around 4% in 2022; while this would be down from growth of almost 6% in 2021, it would still be well above the economy's long-run average. Growth will then slow to below 2% in 2023 as consumers spend down their accumulated saving and higher interest rates weigh on industries like housing and business investment. Core PCE inflation is expected to slow to around 4% by the end of this year, and to the Fed's objective of around 2% by the end of 2023. With average monthly job growth in 2022 of about 300,000, the unemployment rate should gradually decline to its pre-pandemic level of 3.5% in the second half of this year, even as rising wages bring some people who dropped out of the labor force in the wake of the pandemic back into the job market.

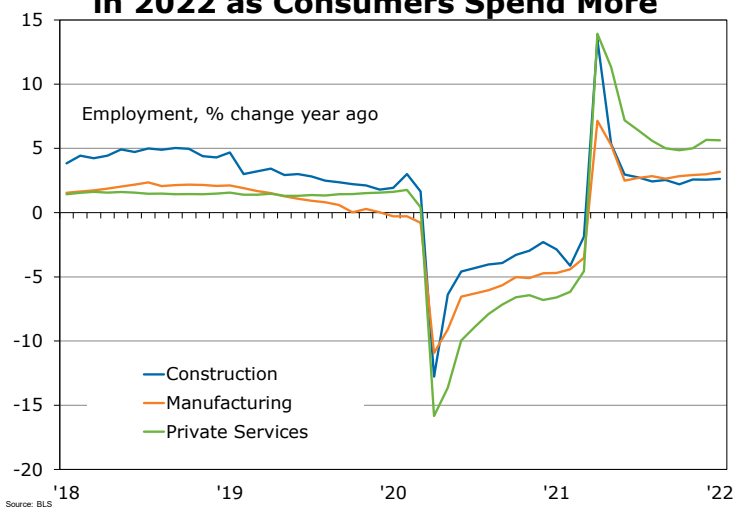
Labor Market Recovery Has Picked Up Steam in Early 2022



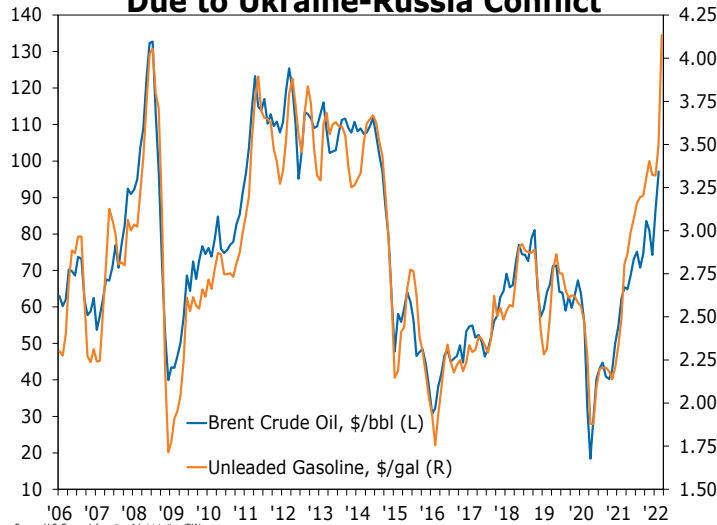
Unemployment Rate Is Almost Back to Pre-Pandemic Low



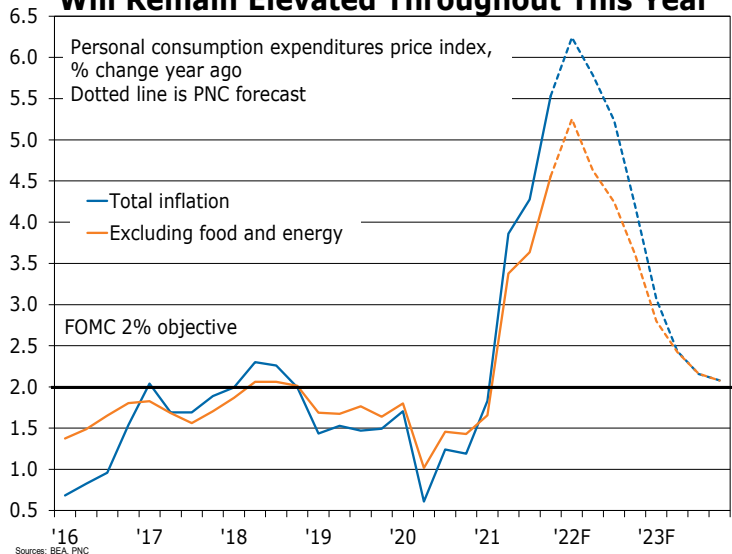
Services Job Growth Will Remain Strong in 2022 as Consumers Spend More



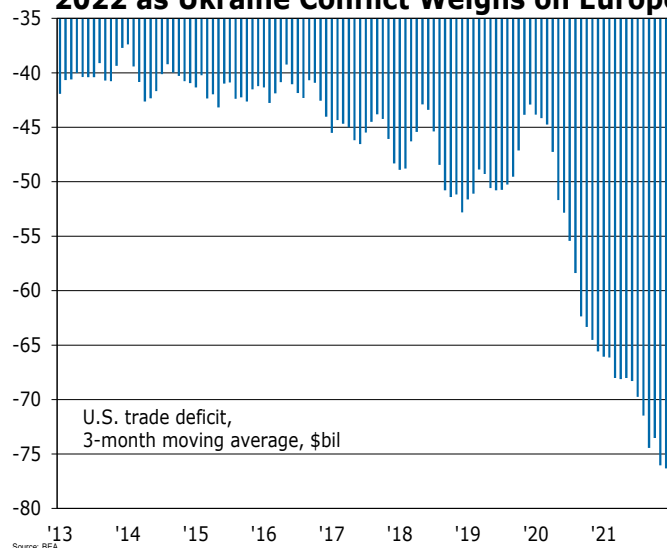
Energy Prices Are Soaring Due to Ukraine-Russia Conflict



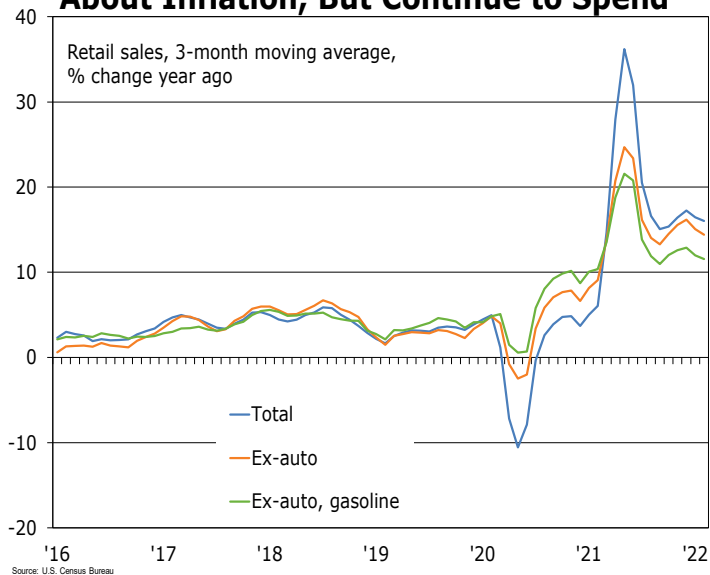
Inflation Should Peak in First Half of 2022, But Will Remain Elevated Throughout This Year



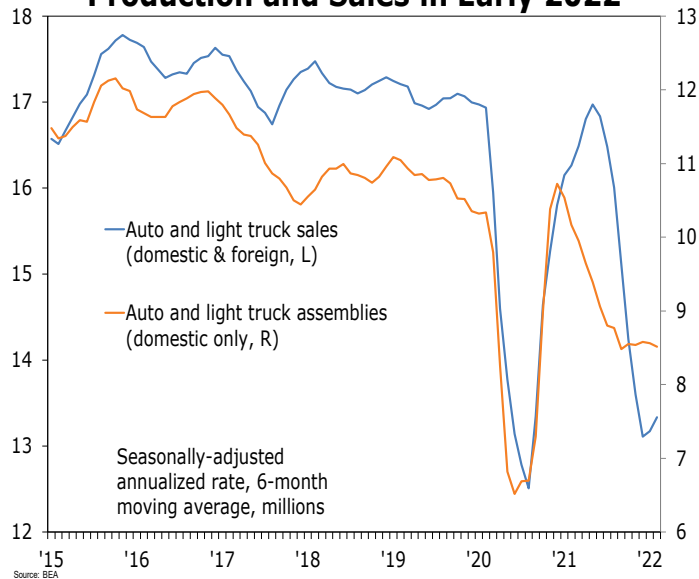
Trade Deficit Will Widen Further in First Half of 2022 as Ukraine Conflict Weighs on Europe



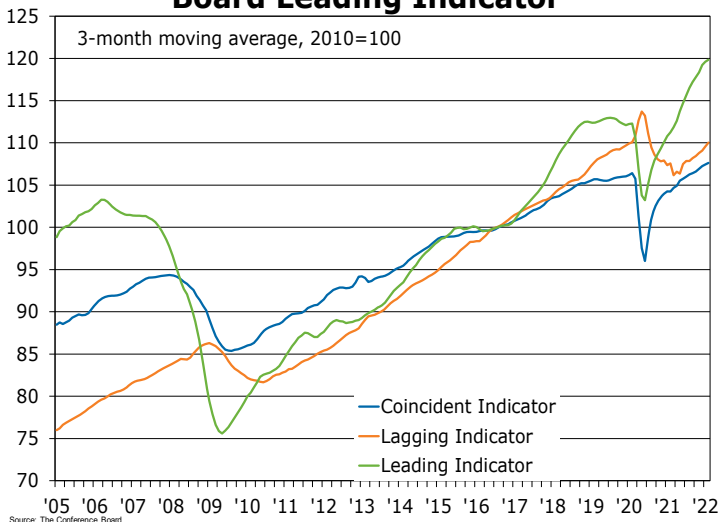
Consumers Say They're Concerned About Inflation, But Continue to Spend



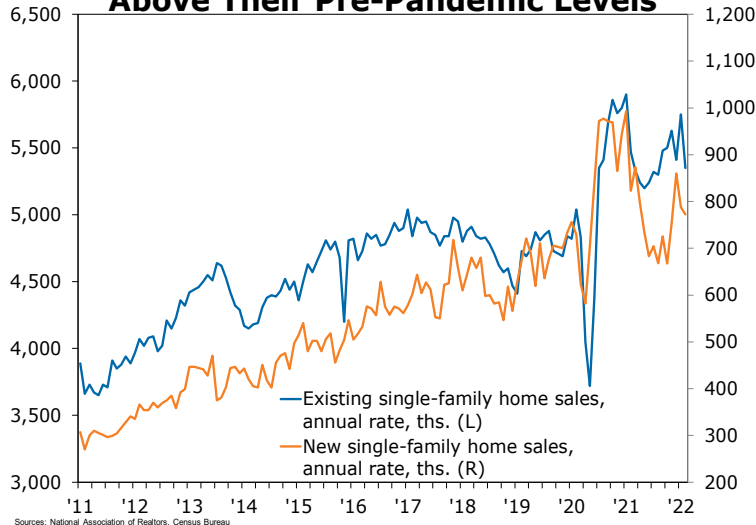
Chip Woes Continue to Weigh on Auto Production and Sales in Early 2022



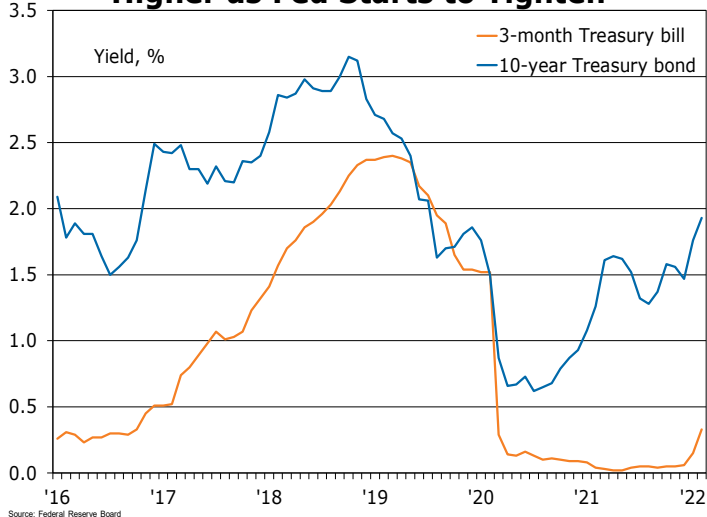
No Sign of Recession in Conference Board Leading Indicator



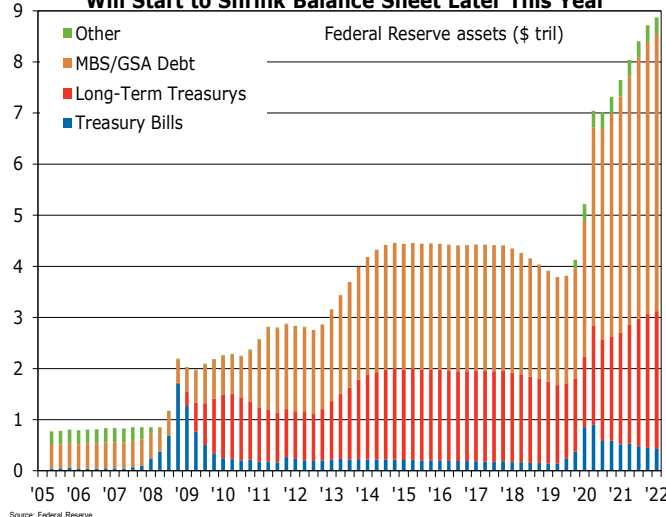
New and Existing Home Sales Both Above Their Pre-Pandemic Levels



Interest Rates Have Headed Higher as Fed Starts to Tighten



Fed Has Wrapped Up Its Long-Term Securities Purchases, Will Start to Shrink Balance Sheet Later This Year



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PNC Economics Group

March 2022

Baseline U.S. Economic Outlook, Expanded Table

	4Q'21a	1Q'22f	2Q'22f	3Q'22f	4Q'22f	1Q'23f	2021a	2022f	2023f	2024f
Output										
Nominal GDP (Billions \$)	23992	24433	24928	25391	25777	26074	22993	25132	26376	27130
Percent Change Annualized	14.3	7.6	8.3	7.6	6.2	4.7	10.0	9.3	4.9	2.9
Real GDP (Chained 2012 Billions \$)	19811	19889	20076	20249	20389	20482	19428	20151	20553	20735
Percent Change Annualized	7.0	1.6	3.8	3.5	2.8	1.8	5.7	3.7	2.0	0.9
Pers. Consumption Expenditures	13837	13926	14034	14166	14277	14341	13629	14101	14413	14559
Percent Change Annualized	3.1	2.6	3.1	3.8	3.2	1.8	7.9	3.5	2.2	1.0
Nonresidential Fixed Investment	2907	2923	2935	2971	3011	3044	2869	2960	3089	3211
Percent Change Annualized	3.1	2.2	1.7	4.9	5.5	4.5	7.4	3.2	4.4	4.0
Residential Investment	696	720	747	758	765	768	707	748	752	717
Percent Change Annualized	1.0	14.8	15.8	5.9	3.6	1.3	9.1	5.7	0.6	-4.7
Change in Private Inventories	171	155	170	156	145	130	-38	156	115	78
Net Exports	-1342	-1375	-1344	-1336	-1339	-1329	-1282	-1348	-1343	-1368
Government Expenditures	3360	3359	3351	3352	3350	3348	3376	3353	3345	3356
Percent Change Annualized	-2.6	-0.1	-0.9	0.1	-0.2	-0.2	0.5	-0.7	-0.2	0.3
Industrial Prod. Index (2012 = 100)	101.7	103.0	104.0	105.0	105.8	106.1	100.2	104.5	106.3	106.7
Percent Change Annualized	4.0	5.2	4.0	3.8	2.8	1.2	5.5	4.3	1.8	0.4
Capacity Utilization (Percent)	76.4	77.7	78.3	79.0	79.4	79.6	75.4	79.5	79.5	79.3
Prices										
CPI (1982-84 = 100)	278.6	283.8	287.7	290.1	291.8	293.2	271.0	288.4	295.6	302.4
Percent Change Annualized	8.2	7.7	5.6	3.4	2.3	2.0	4.7	6.4	2.5	2.3
Core CPI Index (1982-84 = 100)	283.2	287.9	291.0	293.7	295.7	297.7	277.3	292.1	300.4	307.8
Percent Change Annualized	5.5	6.8	4.4	3.7	2.8	2.7	3.6	5.3	2.9	2.4
PCE Price Index (2012 = 100)	118.1	120.0	121.4	122.4	123.1	123.7	115.5	121.7	124.7	127.4
Percent Change Annualized	6.5	6.7	4.6	3.2	2.4	2.1	3.9	5.4	2.4	2.1
Core PCE Price Index (2012 = 100)	119.5	121.0	122.1	123.1	123.8	124.4	117.3	122.5	125.4	128.0
Percent Change Annualized	4.9	5.4	3.6	3.0	2.4	2.2	3.3	4.4	2.4	2.1
GDP Price Index (2012 = 100)	121.1	122.8	124.2	125.4	126.4	127.3	118.3	124.7	128.3	130.8
Percent Change Annualized	7.0	5.8	4.4	4.0	3.3	2.8	4.1	5.4	2.9	2.0
Crude Oil, WTI (\$/Barrel)	77.2	95.0	110.0	105.0	95.0	85.0	68.0	101.3	79.8	74.8
Labor Markets										
Payroll Jobs (Millions)	148.6	150.3	151.4	152.2	153.0	153.5	146.1	151.7	154.0	155.0
Percent Change Annualized	4.8	4.7	2.9	2.2	2.0	1.3	2.8	3.9	1.5	0.7
Unemployment Rate (Percent)	4.2	3.9	3.7	3.5	3.4	3.5	5.4	3.6	3.5	3.5
Average Weekly Hours, Prod. Works.	34.2	34.1	34.0	34.0	33.9	33.9	34.3	34.0	33.8	33.7
Personal Income										
Average Hourly Earnings (\$)	26.6	26.9	27.4	27.8	28.3	28.7	25.9	27.6	29.2	30.5
Percent Change Annualized	7.3	5.6	7.0	6.5	6.3	6.0	4.9	6.6	5.9	4.4
Real Disp. Income (2012 Billions \$)	15401	15360	15482	15627	15786	15934	16015	15564	16113	16492
Percent Change Annualized	-5.8	-1.1	3.2	3.8	4.1	3.8	2.2	-2.8	3.5	2.4
Housing										
Housing Starts (Ths., Ann. Rate)	1644	1706	1774	1783	1747	1676	1598	1752	1568	1418
Ext. Home Sales (Ths., Ann. Rate)	6333	6779	6607	6407	6190	5797	6132	6496	5587	5466
New SF Home Sales (Ths., Ann. Rate)	728	781	776	769	741	719	765	767	691	653
Case/Shiller HPI (Jan. 2000 = 100)	276.3	279.1	281.9	284.6	287.4	288.8	276.3	287.4	293.1	297.5
Percent Change Year Ago	18.9	15.3	10.7	6.6	4.0	3.5	18.9	4.0	2.0	1.5
Consumer										
Auto Sales (Millions)	12.9	14.2	15.2	16.5	17.2	17.4	15.0	15.8	16.8	15.4
Consumer Credit (Billions \$)	4421	4501	4593	4685	4776	4860	4421	4776	5066	5285
Percent Change Year Ago	5.7	6.6	6.6	7.5	8.0	8.0	5.7	8.0	6.1	4.3
Interest Rates (Percent)										
Prime Rate	3.25	3.29	3.70	4.02	4.30	4.54	3.25	3.83	5.00	5.25
Federal Funds	0.08	0.14	0.57	0.90	1.17	1.42	0.08	0.69	1.87	2.13
3-Month Treasury Bill	0.04	0.26	0.66	0.97	1.22	1.49	0.03	0.78	1.80	1.98
10-Year Treasury Note	1.53	1.88	2.10	2.27	2.40	2.51	1.43	2.16	2.59	2.64
30-Year Fixed Mortgage	3.08	3.71	4.04	4.17	4.25	4.31	2.96	4.04	4.36	4.39

a = actual f = forecast p = preliminary

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