

NATIONAL ECONOMIC OUTLOOK

Gus Faucher
Chief Economist

Stuart Hoffman
Senior Economic Advisor

Kurt Rankin
Senior Economist

Abbey Omodunbi
Senior Economist

THE PNC FINANCIAL SERVICES GROUP | The Tower at PNC Plaza | 300 Fifth Avenue | Pittsburgh, PA 15222-2401

Executive Summary

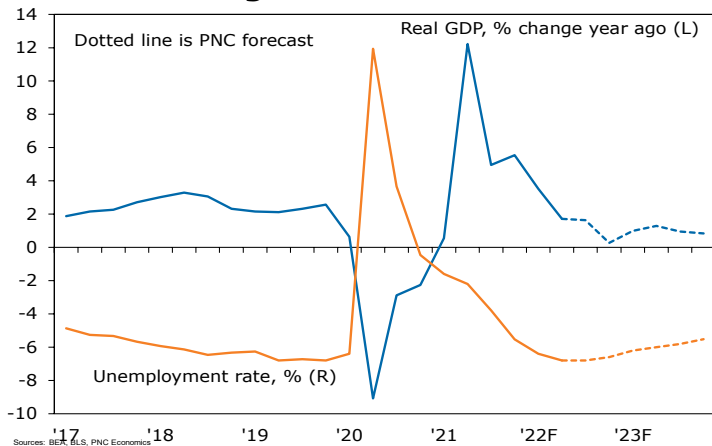
Fed Continues to Tighten Aggressively as Inflation Remains High, Labor Market Remains Strong

- Although month-to-month inflation was weak in August, with the consumer price index up just 0.1% from July, the consensus expectation was for a small decline. And the core CPI, excluding volatile food and energy prices, jumped 0.6% in August, after a 0.3% increase in July. Thus the August CPI report was disappointing, and high inflation continues to put pressure on the Federal Open Market Committee to slow economic growth. Energy prices fell 5.0% in August, following a 4.6% decline in July, as gasoline prices continue to decline. But food prices were up 0.8% for the month, and have increased by 1% or more in five of the past six months. Year-over-year CPI inflation was 8.2% in August, down from 8.5% in July and 9.0% in June. Core CPI inflation was 6.3% in August, up from 5.9% in July, but down slightly from a peak of 6.4% in February and March. Inflation has likely peaked, but remains extremely elevated.
- The U.S. labor market remains extremely healthy in the summer of 2022. The U.S. economy added a very good 315,000 jobs in August from July, according to a survey of employers, and employment continues to move further above its pre-pandemic peak. Over the past three months job growth has averaged a very good 378,000, well above the pre-pandemic pace, but slower than an average of almost 600,000 at the beginning of the year. The private sector added 308,000 jobs in August, with government employment up by 7,000. The unemployment rate rose from 3.5% in July, the lowest rate in more than 50 years, to 3.7% in August, but that was due to more people looking for work over the month, a sign of health in the economy. Wage growth slowed in August, but was stronger than inflation.
- With inflation still running near the fastest pace in 40 years and the labor market very tight, the FOMC raised the federal funds rate by 75 basis points on September 21. This was the third straight meeting with a 75 basis point increase in the fed funds, and the FOMC has raised the fed funds rate by a full 3 percentage points in 2022, to a range of 3% to 3.25%, with further rate increases to come through the rest of this year and into 2023. In raising the federal funds rate, the FOMC reiterated that it "is strongly committed to returning inflation to its 2% objective." In determining the path of the fed funds rate, the committee said that it will look at the state of pandemic, the labor market, inflation pressures and expectations, financial conditions, and the global economy.

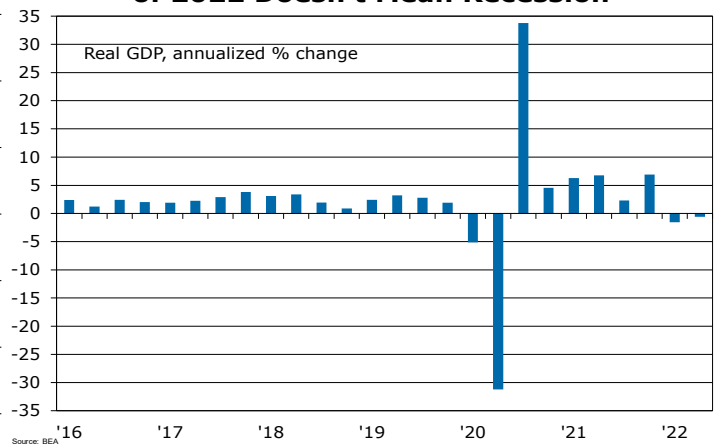
Baseline U.S. Economic Outlook, Summary Table*

	1Q'22a	2Q'22f	3Q'22f	4Q'22f	1Q'23f	2Q'23f	2021a	2022f	2023f	2024f
Output & Prices										
Real GDP (Chained 2012 Billions \$)	19728	19699	19796	19860	19924	19955	19427	19771	19972	20174
Percent Change Annualized	-1.6	-0.6	2.0	1.3	1.3	0.6	5.7	1.8	1.0	1.0
CPI (1982-84 = 100)	284.6	291.8	295.3	297.6	299.7	301.8	271.0	292.3	302.7	310.1
Percent Change Annualized	9.2	10.5	4.8	3.1	2.9	2.8	4.7	7.9	3.6	2.4
Labor Markets										
Payroll Jobs (Millions)	150.4	151.6	152.9	153.3	153.4	153.4	146.1	152.0	153.3	153.6
Percent Change Annualized	4.7	3.4	3.3	1.0	0.5	-0.2	2.8	4.0	0.9	0.2
Unemployment Rate (Percent)	3.8	3.6	3.6	3.7	3.9	4.0	5.4	3.7	4.1	4.3
Interest Rates (Percent)										
Federal Funds	0.12	0.76	2.18	3.33	3.79	3.88	0.08	1.60	3.84	2.99
10-Year Treasury Note	1.94	2.92	3.03	3.36	3.43	3.45	1.43	2.81	3.42	3.17
a = actual f = forecast p = preliminary *Please see the Expanded Table for more forecast series.										

Economy Will Be Vulnerable to Negative Shocks in 2023



Contraction in Real GDP in First Half of 2022 Doesn't Mean Recession



PNC Small Business Survey Finds Optimism About Firms' Prospects, But Elevated Recession Concerns

The Fall 2022 results from PNC's semiannual Economic Outlook survey of small and mid-sized businesses confirm that the U.S. economy is expanding in the second half of 2022, but also points to potential problems ahead. Small business owners are currently feeling optimistic about their prospects. But at the same time they are worried about inflation and are concerned about the potential for a near-term U.S. recession. This is consistent with PNC's economic forecast, which calls for moderate growth through the rest of 2022, but slower growth next year and an increased probability of recession in 2023 as the Federal Reserve continues to raise interest rates in an effort to tame high inflation.

When asked about prospects over the next six months for their own company, almost one-half (49%) of small business owners were optimistic, with another 44% moderately optimistic. Only 7% were pessimistic; while this was up from a record low of 2% in the previous two surveys, it is still well below the average over the last 20 years. In addition, the share of business owners who were optimistic fell slightly from the Spring 2020 survey, while the share who were moderately optimistic rose slightly. Similarly, only 12% of respondents are pessimistic about prospects for the national economy and their local economy over the next six months, although this is up from Spring 2022. With this generally bright outlook, 57% of respondents expect their sales to increase over the next six months.

Fewer businesses face staff shortages, but they are still a challenge for four in 10 (41% vs. 61% last spring) and hiring continues to be difficult for many. Businesses have found ways to adapt, such as shifting workloads. Half (49%) have increased overtime or workloads for existing employees and a third (33%) have relied on owners or managers to cover staff hours. One-third report sourcing labor through alternative sources such as temporary or gig workers, and more than two in 10 (22%) have increased or added new technology or automation to cope. With continued difficulty in hiring, 40% of business owners now expect to increase employee compensation, up from 30% in spring. Expectations for compensation increases are highest in the manufacturing sector (53%) compared to 39% for service, 36% for wholesale/retail and 35% for the construction sector. Nearly a quarter (23%) expect to continue or increase signing, retention or other bonuses in the next six months.

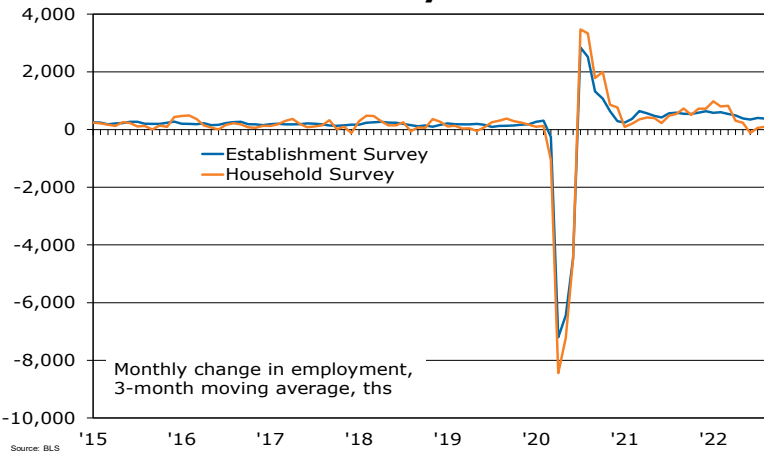
Concerns about inflation and the impact of price hikes on their businesses remain top of mind in next six months among owners and executives. Price increases are in the works among nearly two-thirds of businesses—a survey high. Of the businesses expecting to raise their own prices to their customers, more than a third (36%) expect to raise them by 5% or more in the next six months. The primary rationale for price hikes has shifted from an effort to keep up with rising non-labor costs (38% vs. 63% last spring) to favorable market conditions (44% vs. 22% last spring). Fewer than a fifth point to rising labor costs.

Rising wages and expectations for higher prices are indicative of the current inflationary pressures in the U.S. economy. The Federal Open Market Committee has already increased the fed funds rate by 3 percentage points this year. And long-term rates have risen as the central bank reduced its holdings of long-term Treasuries and mortgage-backed securities. All of this has contributed to a slowing in economic growth, particularly from housing. And with further interest rate increases coming, the risk of near-term recession has risen dramatically. Three in ten business owners believe a recession is very likely in the next 12 months, and another 39% believe one is somewhat likely.

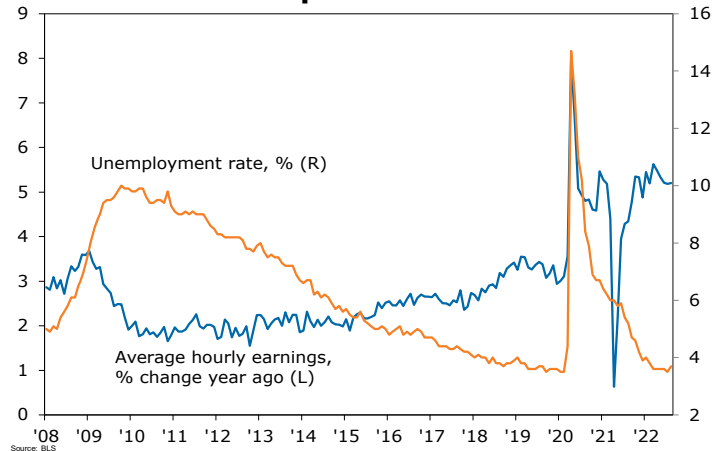
Although concerns about the economy outlook are elevated, PNC's baseline forecast is for weak growth over the next couple of years, but not recession. Real GDP growth is expected to slow from above 5% in 2021 to below 1% this year and next (Q4 to Q4 basis), before picking up in 2024. Weaker growth will lead to a slowing in job growth and a slight increase in the unemployment rate over the next couple of years, to close to 4.5% by early 2024, up from 3.7% in August 2022. With slower growth, particularly in interest-rate sensitive industries like housing, and reduced wage pressures, inflation will gradually ease to the Fed's 2% objective by mid-2024. While the probability of recession through the rest of 2022 remains low given the strong labor market and decent consumer fundamentals, recession risks are elevated for 2023, as the impacts of higher interest rates continue to filter their way through the economy. PNC expects the fed funds rate to end this year at close to 4%, and to peak at above 4% in the first half of 2023.

Visit <http://www.pnc.com/economicreports> to view the full listing of economic reports published by PNC's economists.

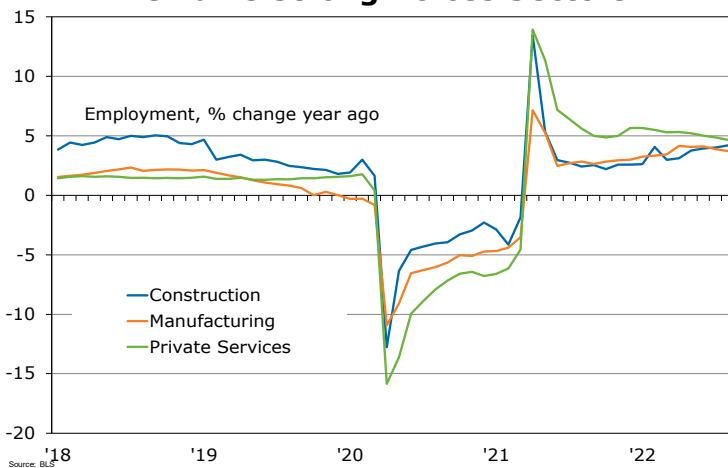
Stronger August Employment Growth in Survey of Households



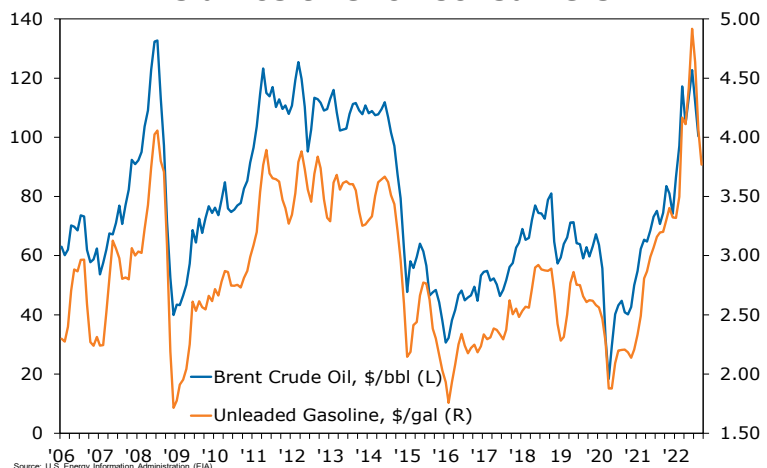
Unemployment Rate Rose in August As More People Looked for Work



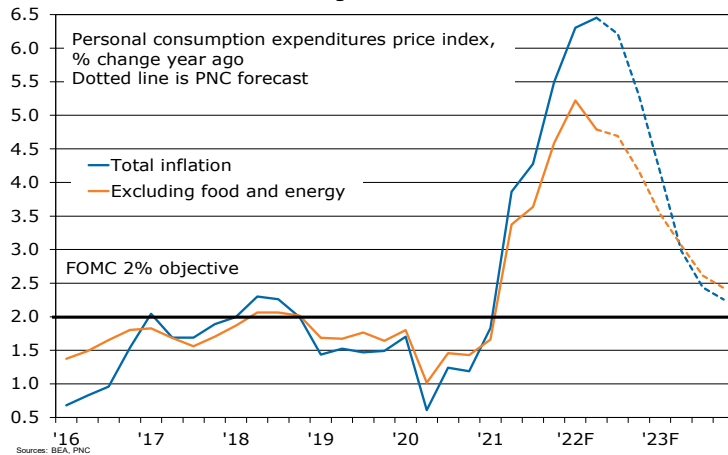
Private-Sector Job Growth Remains Strong Across Sectors



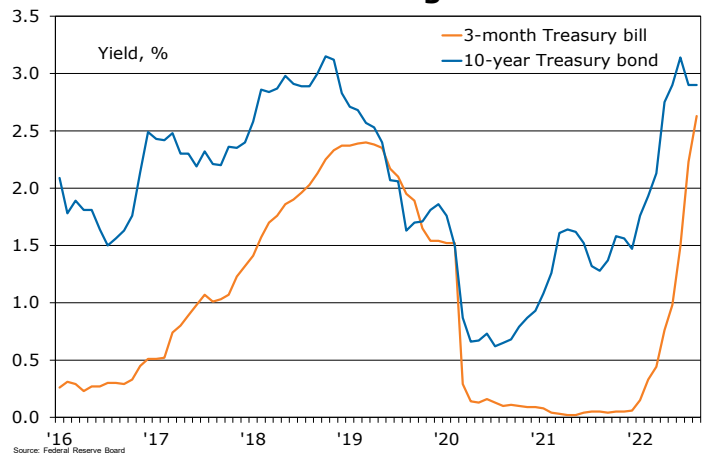
Big Drop in Gasoline Prices Is a Positive for Consumers



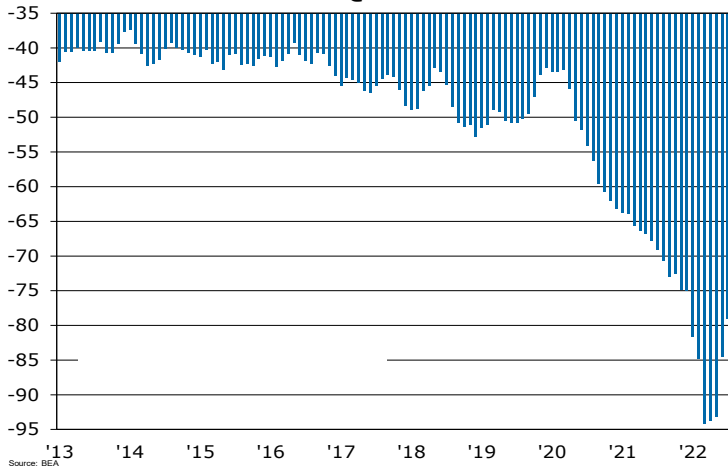
Inflation Has Peaked, But Won't Be at Fed Objective Until 2024



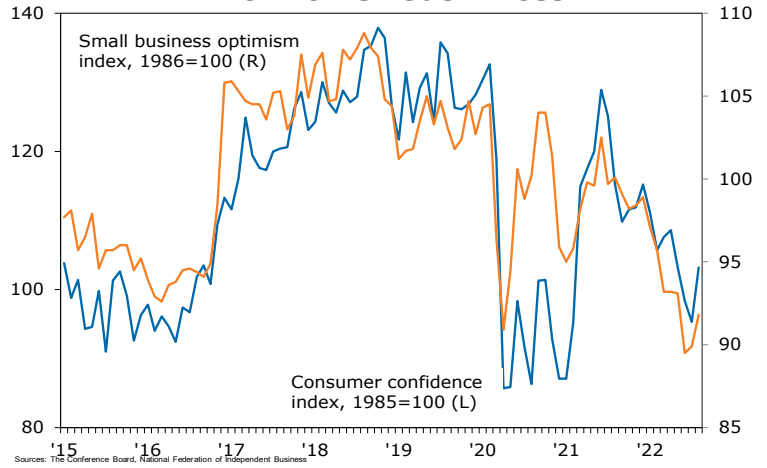
Fed Tightening Has Pushed Up Both Short-Term and Long-Term Rates



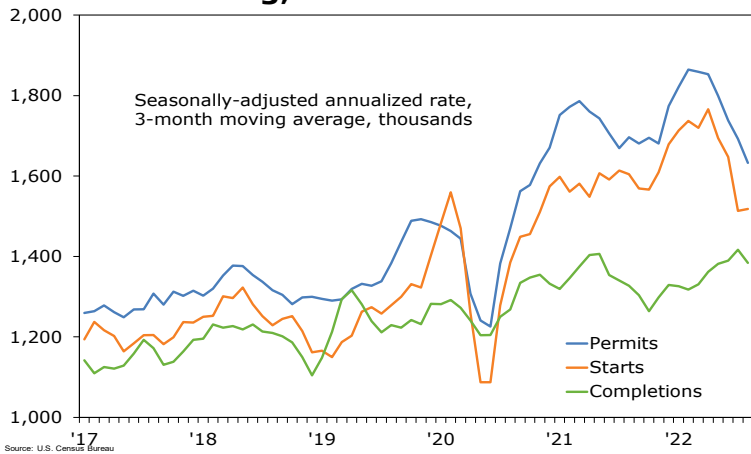
Smaller Trade Deficit a Positive for Third Quarter Growth



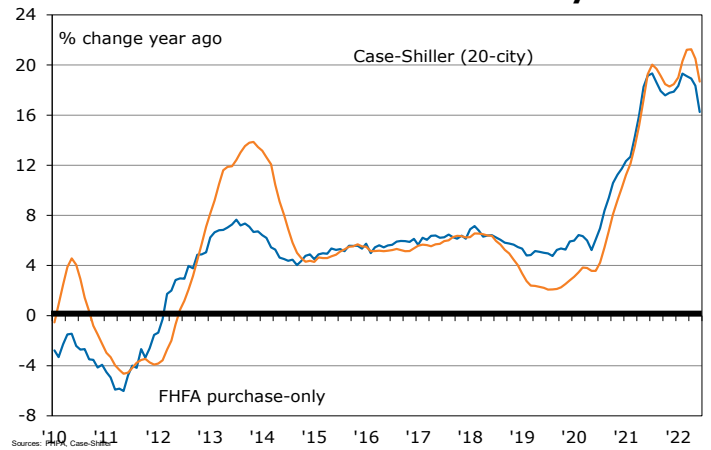
Confidence Has Improved Somewhat With Lower Gas Prices



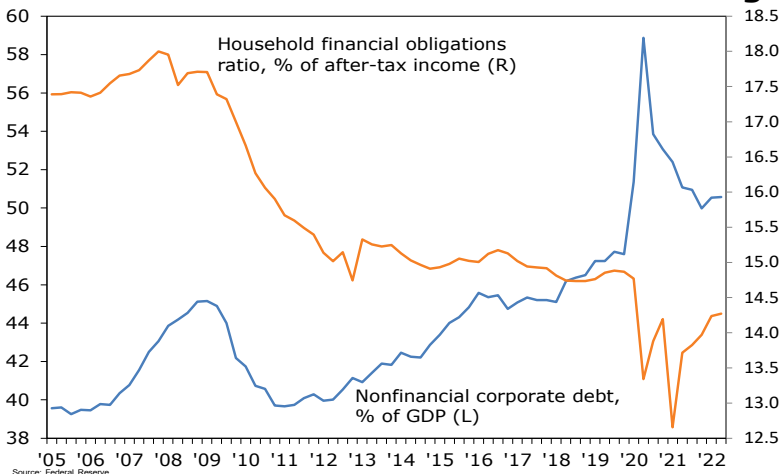
Higher Mortgage Rates Are Weighing on Homebuilding; That's What the Fed Wants



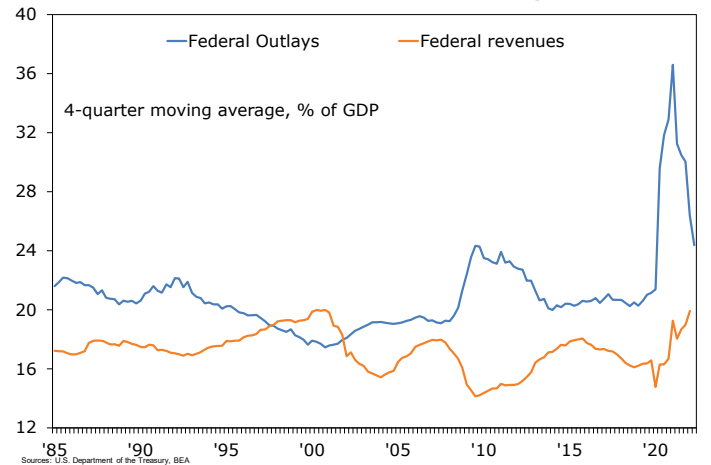
House Price Growth Is Slowing Due to Reduced Affordability



Households Balance Sheets Remain Strong



Federal Spending Is Falling Rapidly With End to Pandemic-Related Programs



NATIONAL ECONOMIC OUTLOOK

PNC Economics Group

September 2022

Baseline U.S. Economic Outlook, Expanded Table

	1Q'22a	2Q'22f	3Q'22f	4Q'22f	1Q'23f	2Q'23f	2021a	2022f	2023f	2024f
Output										
Nominal GDP (Billions \$)	24387	24852	25373	25662	25922	26116	22996	25068	26200	26926
Percent Change Annualized	6.6	7.8	8.7	4.6	4.1	3.0	10.1	9.0	4.5	2.8
Real GDP (Chained 2012 Billions \$)	19728	19699	19796	19860	19924	19955	19427	19771	19972	20174
Percent Change Annualized	-1.6	-0.6	2.0	1.3	1.3	0.6	5.7	1.8	1.0	1.0
Pers. Consumption Expenditures	13881	13931	14012	14072	14125	14160	13625	13974	14174	14310
Percent Change Annualized	1.8	1.5	2.3	1.7	1.5	1.0	7.9	2.6	1.4	1.0
Nonresidential Fixed Investment	2975	2975	2984	2999	3016	3029	2868	2983	3036	3103
Percent Change Annualized	10.0	0.0	1.2	2.0	2.3	1.8	7.4	4.0	1.7	2.2
Residential Investment	699	669	638	607	581	563	708	653	560	549
Percent Change Annualized	0.4	-16.2	-17.0	-18.0	-16.0	-12.0	9.2	-7.7	-14.3	-1.9
Change in Private Inventories	188	84	64	41	25	14	-33	94	14	2
Net Exports	-1545	-1475	-1418	-1367	-1326	-1311	-1284	-1451	-1312	-1295
Government Expenditures	3334	3319	3319	3313	3308	3304	3376	3321	3304	3308
Percent Change Annualized	-2.9	-1.8	0.0	-0.8	-0.6	-0.5	0.5	-1.6	-0.5	0.1
Industrial Prod. Index (2012 = 100)	103.0	104.5	105.2	105.6	105.8	106.0	100.0	104.6	106.2	107.2
Percent Change Annualized	5.1	6.1	2.6	1.8	0.8	0.6	4.9	4.6	1.5	1.0
Capacity Utilization (Percent)	79.5	80.3	80.6	80.8	80.7	80.7	77.4	80.7	80.8	80.9
Prices										
CPI (1982-84 = 100)	284.6	291.8	295.3	297.6	299.7	301.8	271.0	292.3	302.7	310.1
Percent Change Annualized	9.2	10.5	4.8	3.1	2.9	2.8	4.7	7.9	3.6	2.4
Core CPI Index (1982-84 = 100)	287.7	292.4	296.5	299.3	301.8	304.2	277.3	294.0	305.3	312.9
Percent Change Annualized	6.5	6.6	5.7	3.9	3.4	3.2	3.6	6.0	3.8	2.5
PCE Price Index (2012 = 100)	120.1	122.2	123.5	124.3	125.1	125.8	115.5	122.5	126.1	128.6
Percent Change Annualized	7.1	7.1	4.4	2.7	2.5	2.3	3.9	6.1	2.9	1.9
Core PCE Price Index (2012 = 100)	121.0	122.3	123.6	124.5	125.3	126.1	117.3	122.8	126.4	129.1
Percent Change Annualized	5.2	4.4	4.2	2.9	2.6	2.5	3.3	4.7	2.9	2.1
GDP Price Index (2012 = 100)	123.6	126.3	128.2	129.2	130.1	130.9	118.3	126.8	131.2	133.5
Percent Change Annualized	8.3	8.9	6.2	3.3	2.8	2.4	4.1	7.2	3.4	1.7
Crude Oil, WTI (\$/Barrel)	95.0	108.5	95.0	90.0	87.0	85.0	68.0	97.1	85.5	89.0
Labor Markets										
Payroll Jobs (Millions)	150.4	151.6	152.9	153.3	153.4	153.4	146.1	152.0	153.3	153.6
Percent Change Annualized	4.7	3.4	3.3	1.0	0.5	-0.2	2.8	4.0	0.9	0.2
Unemployment Rate (Percent)	3.8	3.6	3.6	3.7	3.9	4.0	5.4	3.7	4.1	4.3
Average Weekly Hours, Prod. Works.	34.1	34.0	34.0	33.9	33.8	33.7	34.3	34.0	33.7	33.6
Personal Income										
Average Hourly Earnings (\$)	27.0	27.3	27.7	28.1	28.5	28.9	25.9	27.5	29.1	30.4
Percent Change Annualized	6.0	5.4	5.7	5.8	5.7	5.5	4.9	6.2	5.6	4.7
Real Disp. Income (2012 Billions \$)	15152	15134	15275	15342	15447	15521	16032	15226	15567	15921
Percent Change Annualized	-7.8	-0.5	3.8	1.8	2.8	0.4	2.3	-5.0	2.2	2.3
Housing										
Housing Starts (Ths., Ann. Rate)	1720	1652	1499	1378	1279	1207	1605	1562	1189	1082
Ext. Home Sales (Ths., Ann Rate)	6057	5377	4800	4477	4319	4187	6127	5177	4181	4461
New SF Home Sales (Ths., Ann Rate)	776	612	653	634	594	568	769	669	546	490
Case/Shiller HPI (Jan. 2000 = 100)	290.5	304.1	307.5	307.6	305.0	297.4	276.6	307.6	288.3	290.9
Percent Change Year Ago	20.0	19.4	15.2	11.2	5.0	-2.2	18.9	11.2	-6.3	0.9
Consumer										
Auto Sales (Millions)	14.1	13.4	13.3	13.7	14.5	15.1	15.0	13.7	15.1	14.9
Consumer Credit (Billions \$)	4528	4627	4718	4785	4840	4891	4431	4785	4995	5210
Percent Change Year Ago	7.1	7.7	8.3	8.0	6.9	5.7	5.9	8.0	4.4	4.3
Interest Rates (Percent)										
Prime Rate	3.29	3.94	5.35	6.46	6.91	7.00	3.25	4.76	6.97	6.12
Federal Funds	0.12	0.76	2.18	3.33	3.79	3.88	0.08	1.60	3.84	2.99
3-Month Treasury Bill	0.28	1.04	2.60	3.26	3.43	3.43	0.03	1.79	3.38	2.69
10-Year Treasury Note	1.94	2.92	3.03	3.36	3.43	3.45	1.43	2.81	3.42	3.17
30-Year Fixed Mortgage	3.79	5.24	5.48	5.80	5.78	5.73	2.96	5.08	5.65	5.14
a = actual f = forecast p = preliminary										

Visit <http://www.pnc.com/economicreports> to view the full listing of economic reports published by PNC's economists.

Disclaimer: The material presented is of a general nature and does not constitute the provision of investment or economic advice to any person, or a recommendation to buy or sell any security or adopt any investment strategy. Opinions and forecasts expressed herein are subject to change without notice. Relevant information was obtained from sources deemed reliable. Such information is not guaranteed as to its accuracy. You should seek the advice of an investment professional to tailor a financial plan to your particular needs. © 2022 The PNC Financial Services Group, Inc. All rights reserved.

