September 2017

NATIONAL ECONOMIC OUTLOOK

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Executive Summary

Job Growth Slows in August, But Still Solid; Inflation Picks Up

- The U.S. economy added 156,000 jobs in August, below the consensus expectation of 185,000. The private sector did somewhat better, with job gains of 165,000, while government employment fell by 9,000 over the month. There were also big downward revisions to job growth in June and July, for a total net downward revision of 41,000. Monthly job growth has averaged a solid 176,000 so far in 2017, close to the pace of 187,000 per month for all of last year. The unemployment rate rose to 4.4 percent in August from 4.3 percent in July, as the number of jobs in the household survey of employment (different from the survey of employers) fell slightly, and the number of people looking for work rose. Wage growth was once again disappointing. Average hourly earnings rose 0.1 percent in August, the smallest increase since March. Average hourly earnings were up 2.5 percent in August from one year earlier, and have been stuck at that pace for most of 2017.

- The consumer price index rose 0.4 percent in August, the strongest one month of inflation since January. Core inflation, excluding volatile food and energy prices, was 0.2 percent in August, the largest increase since February. Energy prices rose 2.8 percent in August, including a 6.3 percent increase in gasoline prices; the biggest impact from Hurricane Harvey on gasoline prices will come in September. Food prices rose 0.1 percent in August. On a year-ago basis overall inflation was 1.9 percent in August, up from 1.7 percent in July and 1.6 percent in June. Core inflation was 1.7 percent year-over-year in August, and has been at that pace since May. Inflation slowed in early 2017, in part because of lower energy prices, but also because of lower core inflation; prices fell for pharmaceuticals and cell phone service plans earlier this year. But those effects will gradually fade from the data.

- According to the latest Beige Book on regional economic conditions from the Federal Reserve, the economy expanded at a "modest to moderate pace across all twelve Federal Reserve Districts in June and July." Growth was strongest in the New York, Cleveland, Dallas and San Francisco districts. Consumer spending was generally higher, especially for nonauto retail sales and tourism, but auto sales were mixed. Capital spending was up, as was manufacturing production. However, there was widespread concern about a slowdown in auto manufacturing. The labor market was "tight" in most districts, with some worker shortages, especially in manufacturing and construction.

*Baseline U.S. Economic Outlook, Summary Table**

	1Q'17a	2Q'17p	3Q'17f	4Q'17f	1Q'18f	2Q'18f	3Q'18f	4Q'18f	2016a	2017f	2018f	2019f
Output & Prices												
Real GDP (*Chained 2009 Billions $*)	16903	17030	17146	17279	17382	17503	17597	17695	16716	17089	17544	17930
Percent Change Annualized	**1.2**	**3.0**	**2.7**	**3.1**	**2.4**	**2.8**	**2.2**	**2.2**	**1.5**	**2.2**	**2.7**	**2.2**
CPI (*1982-84 = 100*)	244.1	243.9	245.2	245.8	247.3	248.8	250.3	251.8	240.0	244.8	249.6	255.6
Percent Change Annualized	**3.1**	**-0.3**	**2.1**	**1.0**	**2.4**	**2.4**	**2.4**	**2.4**	**1.3**	**2.0**	**2.0**	**2.4**
Labor Markets												
Payroll Jobs (*Millions*)	145.7	146.2	146.7	147.2	147.6	148.0	148.4	148.8	144.3	146.4	148.2	149.6
Percent Change Annualized	**1.5**	**1.3**	**1.3**	**1.3**	**1.2**	**1.1**	**1.0**	**1.0**	**1.8**	**1.5**	**1.2**	**1.0**
Unemployment Rate (*Percent*)	4.7	4.4	4.4	4.3	4.2	4.2	4.2	4.1	4.9	4.4	4.2	4.0
Interest Rates (Percent)												
Federal Funds	0.70	0.95	1.15	1.17	1.38	1.42	1.65	1.92	0.40	0.99	1.59	2.39
Treasury Note, 10-year	2.45	2.26	2.23	2.28	2.45	2.60	2.75	2.91	1.84	2.31	2.67	3.05

*a = actual f = forecast p = preliminary * Please see the Expanded Table for more forecast series.*

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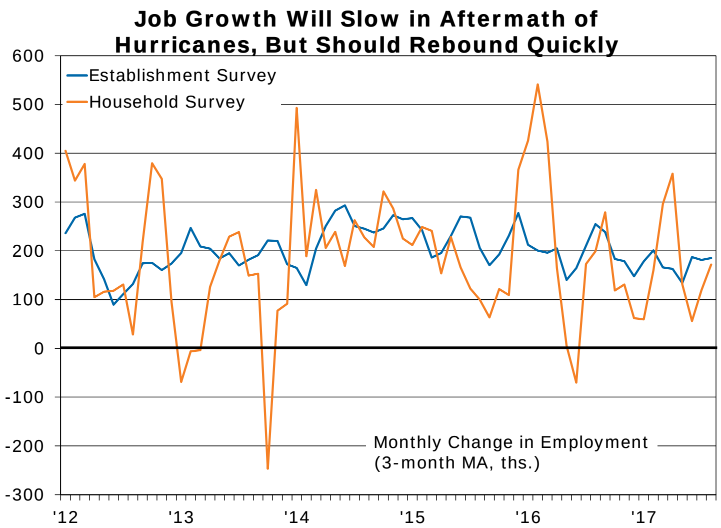
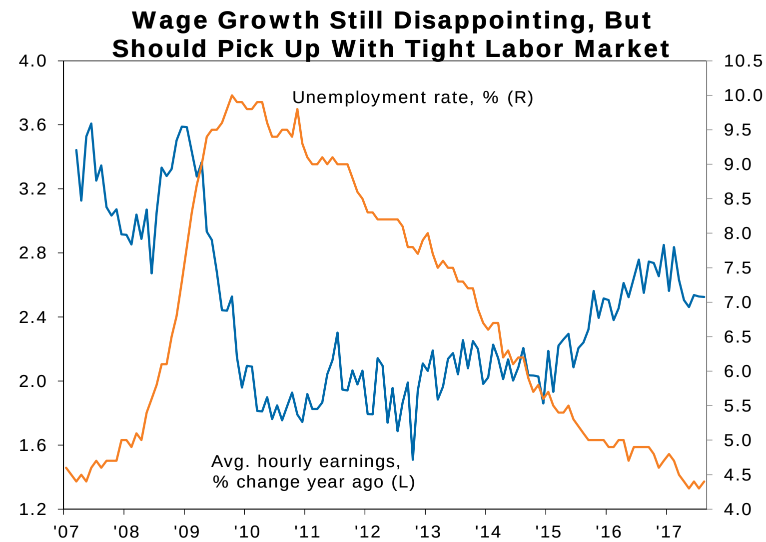




Hurricanes to Weigh on Growth in Third Quarter, But U.S. Economy Will Bounce Back

U.S. economic activity took in hit in late August from Hurricane Harvey, which caused massive flooding along the Texas Gulf Coast, especially the Houston area, and in early September from Hurricane Irma, which hit Florida, especially the Tampa Bay area. The storms will lead to a temporary slowing in economic growth in the third quarter. But with solid fundamentals and only localized damage, the U.S. economy will bounce back, with rebuilding providing a boost to growth in late 2017 and early 2018.

According to initial estimates the combined property damage from Hurricanes Harvey and Irma will be about $140 billion, about equal to the property damage from Hurricane Katrina. However, property damage does not affect economic output, measured by gross domestic product. There was some loss in output: many businesses in the path of the storm shut down, and some facilities were damaged. But most have reopened with employees quickly getting back to work. The two largest metro areas most affected by the storms, Houston and Tampa, together account for about 3 percent of U.S. employment and slightly more than 3 percent of U.S. economic output.

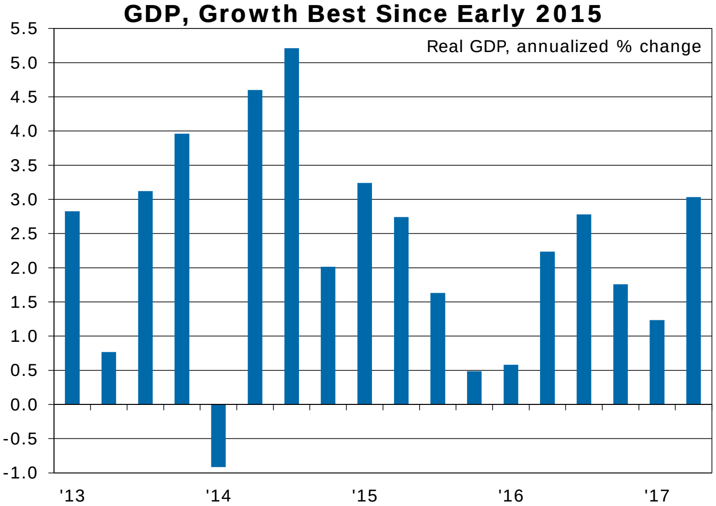
Although the regional economies will suffer in the near term, the national impact will be small. Harvey caused the closure of many oil refineries in the Houston area and some oil and gas drilling rigs in the Gulf of Mexico. With the disruptions gasoline prices jumped by about 30 cents a gallon nationally, with larger price spikes in some parts of the country. But gas prices have already started to recede as supply has come back on line. With a solid labor market and low inflation consumers will easily weather the temporary increase in gasoline prices, with little damage to the rest of the economy. Data in the wake of the hurricanes so far bear this out. Initial claims for unemployment insurance rose in the immediate aftermath of Harvey, but the increase was smaller than those experienced after Hurricane Katrina and Superstorm Sandy. Retail sales, auto sales, and industrial production all fell in August, as did home sales, especially in the South, but the declines were all moderate.

Economic activity will receive a boost in late 2017 and early 2018 from rebuilding efforts in Texas and Florida. Insurance payments and government aid will quickly flow to the affected areas, funding reconstruction efforts. Vehicle sales will jump as households and businesses replace cars damaged in the flooding in Houston. Job growth will quickly rebound as displaced workers return to the payrolls and construction firms hire for rebuilding.

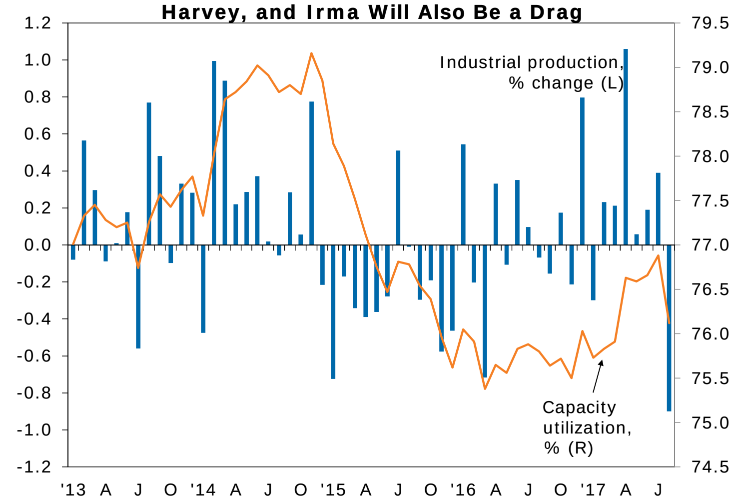
Because of the storm PNC has reduced its forecast for inflation-adjusted GDP growth in the third quarter, to 2.7 percent at an annual rate in the September baseline forecast, down from 3.2 percent in the August forecast. But the growth forecast has been revised up over the next few quarters because of expected rebuilding, and by the middle of 2018 the economy will be back to its pre-hurricanes path. Job growth will slow sharply in September from its 2017 pace, but employment will not decline outright over the month, and job gains will then bounce back as rebuilding efforts get underway; our near-term unemployment rate forecast has also been revised a bit higher. Similar patterns were observed after other natural disasters, such as Hurricanes Katrina and Andrew, Superstorm Sandy, and the Northridge earthquake.

With solid fundamentals for consumer spending, business investment, and the housing market, the U.S. economy will continue to expand throughout 2018. Real GDP growth will be 2.2 percent in 2017 and accelerate to 2.7 percent in 2018, with support from rebuilding, expected tax cuts, and an expanding global economy. Job gains will gradually slow over the next few years, from around 170,000 per month this year to 110,000 per month in 2019, as businesses find it more and more difficult to hire as the job market further tightens. The unemployment rate will fall a bit, bottoming out at close to 4 percent over the next couple of years; as a result annual wage growth will accelerate from 2.5 percent currently to 3.0 percent.

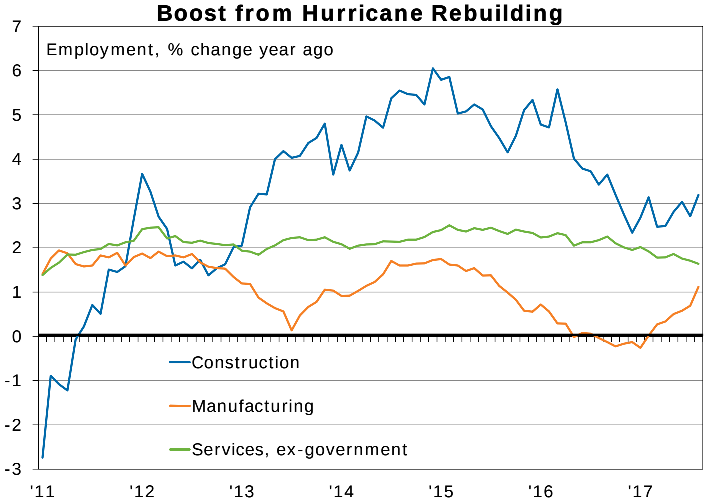
With Upward Revision to Second Quarter GDP, Growth Best Since Early 2015



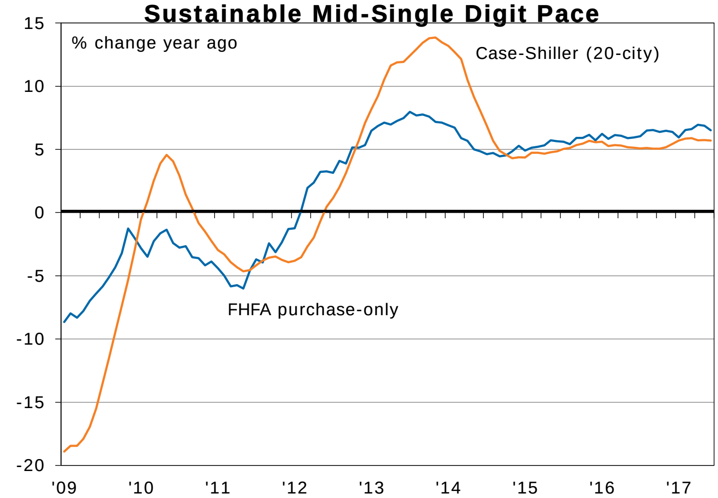
Production Took a Hit in August From Harvey, and Irma Will Also Be a Drag



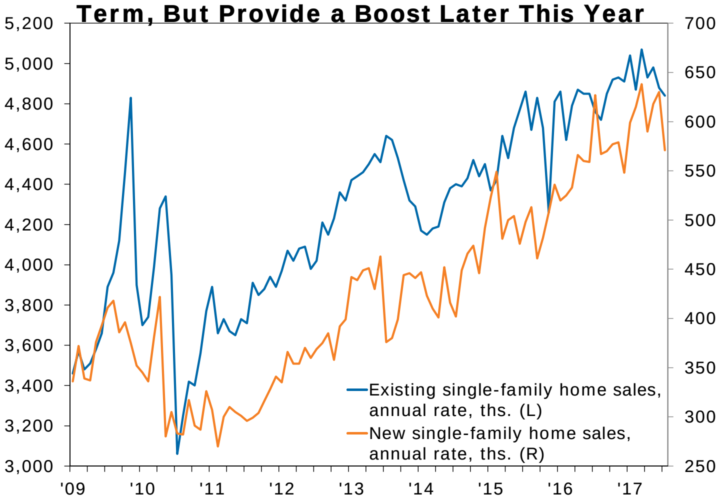
Construction Employment to Get Additional Boost from Hurricane Rebuilding



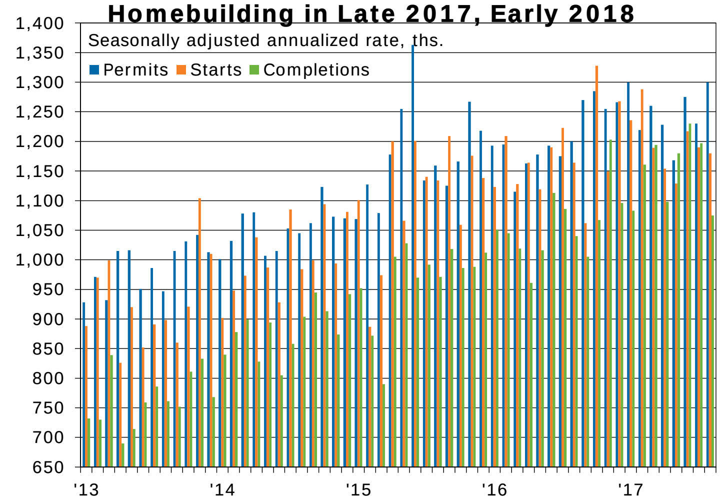
House Prices Continue to Rise at Sustainable Mid-Single Digit Pace



Hurricanes Will Weigh on Home Sales in Near Term, But Provide a Boost Later This Year



Hurricane Rebuilding Will Add to Homebuilding in Late 2017, Early 2018



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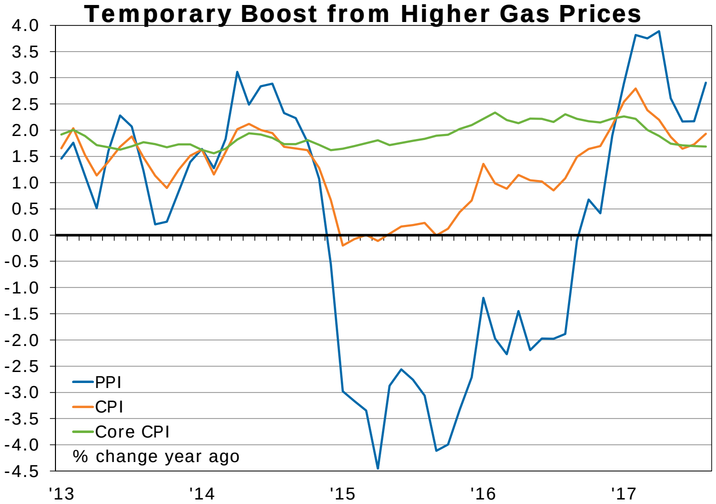
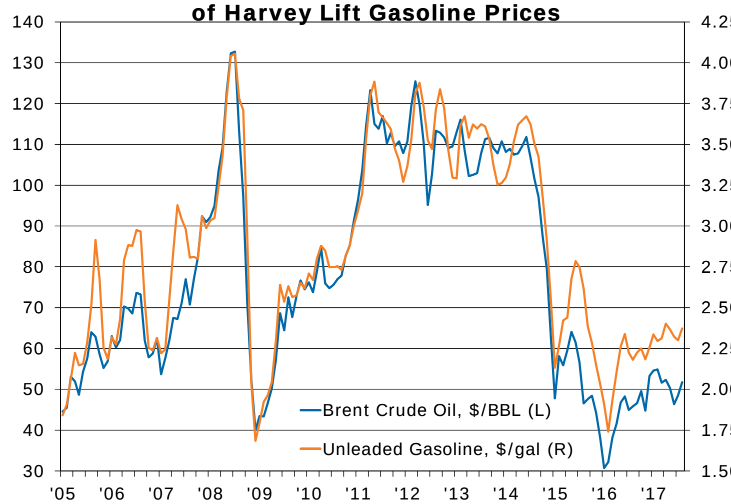
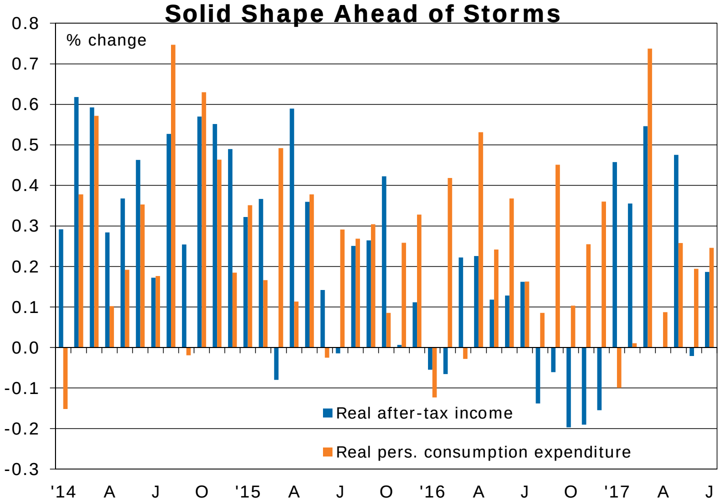
Inflation Picks Up in August, Will Get Another Temporary Boost from Higher Gas Prices



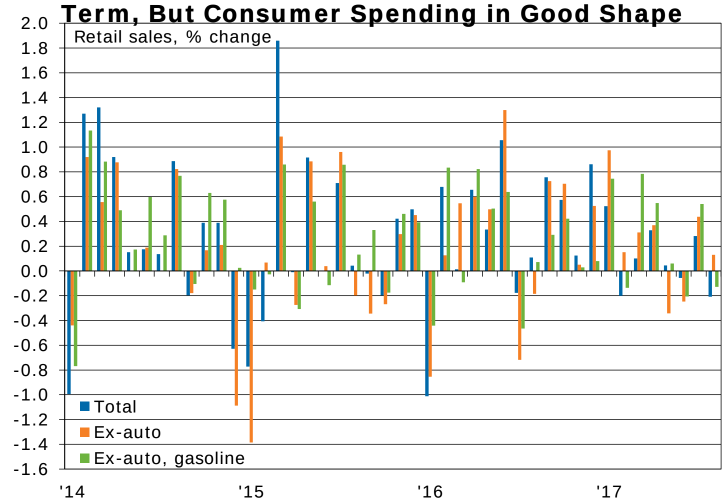
Refinery Shutdowns in Wake of Harvey Lift Gasoline Prices



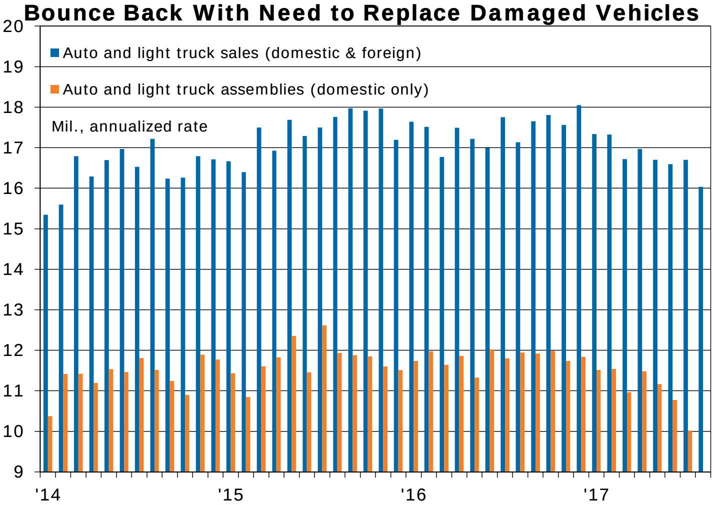
Consumer Income, Spending in Solid Shape Ahead of Storms



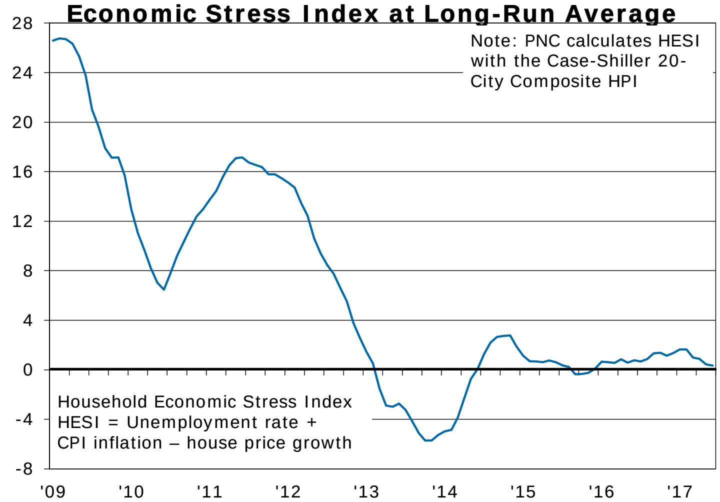
Retail Sales Fell in August, Will Be Volatile in Near Term, But Consumer Spending in Good Shape



Harvey Weighed on Auto Sales in August, But Will Bounce Back With Need to Replace Damaged Vehicles



Expansion Will Continue With Household Economic Stress Index at Long-Run Average



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PNC Economics Group
September, 2017

Baseline U.S. Economic Outlook, Expanded Table

	1Q'17a	2Q'17p	3Q'17f	4Q'17f	1Q'18f	2Q'18f	3Q'18f	4Q'18f	2016a	2017f	2018f	2019f
Output												
Nominal GDP (*Billions $*)	19058	19245	19474	19713	19931	20171	20384	20602	18624	19373	20272	21146
Percent Change Annualized	**3.3**	**4.0**	**4.8**	**5.0**	**4.5**	**4.9**	**4.3**	**4.4**	**2.8**	**4.0**	**4.6**	**4.3**
Real GDP (*Chained 2009 Billions $*)	16903	17030	17146	17279	17382	17503	17597	17695	16716	17089	17544	17930
Percent Change Annualized	**1.2**	**3.0**	**2.7**	**3.1**	**2.4**	**2.8**	**2.2**	**2.2**	**1.5**	**2.2**	**2.7**	**2.2**
Pers. Consumption Expenditures	11758	11854	11902	12001	12071	12142	12217	12290	11572	11879	12180	12461
Percent Change Annualized	**1.9**	**3.3**	**1.6**	**3.4**	**2.4**	**2.4**	**2.5**	**2.4**	**2.7**	**2.6**	**2.5**	**2.3**
Nonresidential Fixed Investment	2264	2302	2322	2347	2362	2379	2391	2403	2210	2308	2384	2431
Percent Change Annualized	**7.1**	**6.9**	**3.5**	**4.4**	**2.7**	**2.9**	**2.0**	**2.1**	**-0.6**	**4.4**	**3.3**	**2.0**
Residential Investment	606	595	599	608	613	618	621	626	587	602	619	640
Percent Change Annualized	**11.1**	**-6.5**	**2.7**	**5.7**	**3.9**	**2.9**	**1.8**	**3.4**	**5.5**	**2.5**	**2.9**	**3.3**
Change in Private Inventories	1	2	33	33	42	51	52	53	33	17	49	55
Net Exports	-622	-613	-615	-628	-636	-636	-644	-655	-586	-620	-643	-666
Government Expenditures	2897	2894	2910	2923	2934	2952	2966	2982	2900	2906	2959	3013
Percent Change Annualized	**-0.6**	**-0.3**	**2.2**	**1.9**	**1.5**	**2.5**	**1.8**	**2.2**	**0.8**	**0.2**	**1.8**	**1.9**
Industrial Prod. Index (*2012 = 100*)	103.7	105.0	105.1	105.6	106.2	107.1	107.7	108.5	103.1	104.9	107.4	110.1
Percent Change Annualized	**1.6**	**5.2**	**0.3**	**2.1**	**2.3**	**3.1**	**2.6**	**2.8**	**-1.2**	**1.7**	**2.4**	**2.6**
Capacity Utilization (*Percent*)	75.8	76.6	76.5	76.9	77.2	77.5	77.7	77.9	75.7	76.4	77.6	78.5
Prices												
CPI (*1982-84 = 100*)	244.1	243.9	245.2	245.8	247.3	248.8	250.3	251.8	240.0	244.8	249.6	255.6
Percent Change Annualized	**3.1**	**-0.3**	**2.1**	**1.0**	**2.4**	**2.4**	**2.4**	**2.4**	**1.3**	**2.0**	**2.0**	**2.4**
Core CPI Index (1982-84 = 100)	251.0	251.4	252.3	253.7	255.1	256.6	258.1	259.5	247.6	252.1	257.3	263.3
Percent Change Annualized	**2.5**	**0.6**	**1.5**	**2.2**	**2.3**	**2.3**	**2.3**	**2.3**	**2.2**	**1.8**	**2.1**	**2.3**
PCE Price Index (*2009 = 100*)	112.2	112.3	112.7	113.1	113.7	114.3	114.9	115.5	110.8	112.6	114.6	117.0
Percent Change Annualized	**2.2**	**0.3**	**1.6**	**1.3**	**2.1**	**2.1**	**2.1**	**2.1**	**1.2**	**1.6**	**1.8**	**2.1**
Core PCE Price Index (*2009 = 100*)	112.6	112.8	113.3	113.8	114.4	115.0	115.5	116.1	111.4	113.1	115.3	117.6
Percent Change Annualized	**1.8**	**0.9**	**1.5**	**1.9**	**2.0**	**2.0**	**2.0**	**2.0**	**1.8**	**1.6**	**1.9**	**2.0**
GDP Price Index (*2009 = 100*)	112.7	113.0	113.6	114.1	114.7	115.3	115.9	116.5	111.4	113.4	115.6	118.1
Percent Change Annualized	**2.0**	**1.0**	**2.1**	**1.9**	**2.1**	**2.1**	**2.1**	**2.1**	**1.3**	**1.8**	**2.0**	**2.1**
Crude Oil, WTI (*$/Barrel*)	51.8	48.2	47.9	49.9	50.4	51.4	52.7	53.9	43.1	49.5	52.1	56.2
Labor Markets												
Payroll Jobs (*Millions*)	145.7	146.2	146.7	147.2	147.6	148.0	148.4	148.8	144.3	146.4	148.2	149.6
Percent Change Annualized	**1.5**	**1.3**	**1.3**	**1.3**	**1.2**	**1.1**	**1.0**	**1.0**	**1.8**	**1.5**	**1.2**	**1.0**
Unemployment Rate (*Percent*)	4.7	4.4	4.4	4.3	4.2	4.2	4.2	4.1	4.9	4.4	4.2	4.0
Average Weekly Hours, Prod. Works.	33.6	33.7	33.7	33.8	33.8	33.8	33.9	33.9	33.6	33.7	33.8	33.9
Personal Income												
Average Hourly Earnings (*$*)	21.86	21.99	22.14	22.31	22.48	22.66	22.84	23.03	21.56	22.08	22.75	23.50
Percent Change Annualized	**2.0**	**2.4**	**2.8**	**3.0**	**3.1**	**3.2**	**3.3**	**3.3**	**2.5**	**2.4**	**3.1**	**3.3**
Real Disp. Income (*2009 Billions $*)	12680	12780	12879	12982	13067	13144	13229	13306	12608	12830	13186	13475
Percent Change Annualized	**2.9**	**3.2**	**3.1**	**3.3**	**2.6**	**2.4**	**2.6**	**2.3**	**1.4**	**1.8**	**2.8**	**2.2**
Housing												
Housing Starts (*Ths., Ann. Rate*)	1238	1165	1169	1211	1247	1274	1299	1326	1177	1196	1287	1342
Ext. Home Sales (*Ths., Ann Rate*)	5620	5563	5531	5639	5748	5844	5925	5990	5440	5588	5877	6082
New SF Home Sales (*Ths., Ann Rate*)	617	613	591	618	641	653	664	676	561	610	658	697
Case/Shiller HPI (*Jan. 2000 = 100*)	188.2	189.9	191.0	192.2	193.5	194.7	196.0	197.1	181.1	190.3	195.3	199.7
Percent Change Year Ago	**5.6**	**5.7**	**5.2**	**3.8**	**2.8**	**2.6**	**2.6**	**2.5**	**5.1**	**5.1**	**2.6**	**2.2**
Consumer												
Household Economic Stress Index	1.6	0.5	1.1	2.0	2.7	3.6	3.6	4.0	1.0	1.3	3.5	4.2
Auto Sales (*Millions*)	17.1	16.8	16.7	17.1	17.3	17.5	17.5	17.5	17.5	16.9	17.4	17.4
Consumer Credit (*Billions $*)	3813	3856	3892	3934	3979	4022	4066	4112	3679	3874	4045	4221
Percent Change Annualized	**5.1**	**4.6**	**3.8**	**4.4**	**4.6**	**4.4**	**4.5**	**4.6**	**6.3**	**5.3**	**4.4**	**4.3**
Interest Rates (Percent)												
Prime Rate	3.80	4.05	4.25	4.30	4.50	4.54	4.78	5.05	3.51	4.10	4.72	5.45
Federal Funds	0.70	0.95	1.15	1.17	1.38	1.42	1.65	1.92	0.40	0.99	1.59	2.39
3-Month Treasury Bill	0.61	0.91	1.05	1.19	1.36	1.49	1.65	1.91	0.32	0.94	1.60	2.34
10-Year Treasury Note	2.45	2.26	2.23	2.28	2.45	2.60	2.75	2.91	1.84	2.31	2.67	3.05
30-Year Fixed Mortgage	4.17	3.99	3.90	3.94	4.07	4.19	4.32	4.46	3.65	4.00	4.26	4.58

a = actual f = forecast p = preliminary

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