

NATIONAL ECONOMIC OUTLOOK

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Executive Summary

Payroll Job Growth Was Soft in March, But With a Big Drop in the Unemployment Rate

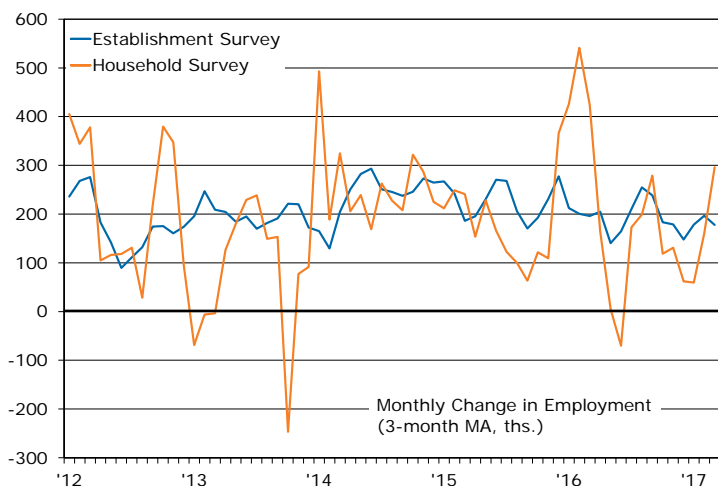
- Payroll employment rose by just 98,000 in March, well below the market consensus of 180,000. March private-sector employment growth was 89,000, far below the ADP figure of 263,000. There was a downward revision to job growth in February to 219,000 (from 238,000) and in January to 216,000 (from 238,000), for a net downward revision of 38,000. Construction job growth slowed to 6,000 in March, after gains of 59,000 in February and 34,000 in January; warmer-than-usual winter weather pushed building projects earlier into the year, and so this year's spring pickup in hiring is smaller than in past years. One-time factors—the slowing in construction hiring, the mid-March snowstorm on the East Coast, a late Easter, and big store closings—explain much of the weakness. But despite the soft March number, job growth in the first quarter averaged 178,000 per month, close to last year's monthly average of 187,000. Average hourly earnings were up 2.7 percent in March from one year earlier, down from 2.8 percent growth in February, but up from sub-2 percent growth a few years ago, as the tighter job market is pushing wages higher.
- The unemployment rate fell to 4.5 percent in March from 4.7 percent in February; this was the lowest unemployment rate since May 2007. The number of people who reported having jobs in the household survey (different from the survey of employers) rose by a large 472,000 in March, after a big 447,000 increase in February. The labor force participation rate held steady at 63.0 percent, well below its pre-recession level. The broader U-6 unemployment rate (unemployed, underemployed and too discouraged to look for a job) fell to 8.9 percent in March from 9.2 percent in February and 9.4 percent in January, and is at its lowest since the beginning of 2008.
- Retail sales fell 0.2 percent in March, with growth in February revised lower. Motor vehicle and parts sales fell 1.2 percent over the month, as unit auto sales dropped, and gasoline sales fell 1.0 percent with lower gas prices. Core sales, excluding autos and gasoline, were up a scant 0.1 percent. A late Easter likely restrained spending growth in March as well. Sales fell over the month for furniture and home furnishings, building materials, sporting goods and hobby supplies, and restaurants. Sales were higher in March for electronics and appliances, clothing and accessories, and for nonstore retailers.

Baseline U.S. Economic Outlook, Summary Table*

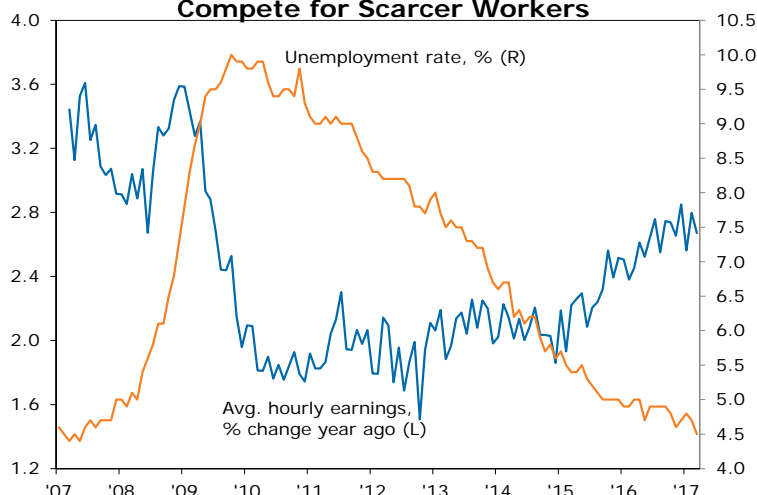
	1Q'17f	2Q'17f	3Q'17f	4Q'17f	1Q'18f	2Q'18f	3Q'18f	4Q'18f	2016a	2017f	2018f	2019f
Output & Prices												
Real GDP (Chained 2009 Billions \$)	16845	16982	17112	17229	17352	17474	17592	17709	16662	17042	17532	17936
Percent Change Annualized	0.8	3.3	3.1	2.8	2.9	2.8	2.7	2.7	1.6	2.3	2.9	2.3
CPI (1982-84 = 100)	244.1	245.2	246.6	248.1	249.5	251.0	252.5	254.0	240.0	246.0	251.8	257.8
Percent Change Annualized	3.1	1.8	2.3	2.4	2.4	2.4	2.4	2.4	1.3	2.5	2.4	2.4
Labor Markets												
Payroll Jobs (Millions)	145.7	146.3	146.8	147.3	147.7	148.2	148.7	149.1	144.3	146.5	148.4	150.4
Percent Change Annualized	1.5	1.5	1.3	1.4	1.2	1.3	1.3	1.2	1.8	1.5	1.3	1.3
Unemployment Rate (Percent)	4.7	4.6	4.5	4.4	4.4	4.4	4.4	4.4	4.9	4.5	4.4	4.4
Interest Rates (Percent)												
Federal Funds	0.70	0.92	1.13	1.17	1.38	1.42	1.65	1.92	0.40	0.98	1.59	2.39
Treasury Note, 10-year	2.45	2.58	2.79	2.85	2.92	3.00	3.10	3.28	1.84	2.67	3.07	3.43

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

Job Growth in 2017 Running at Close to Last Year's Pace



Wages Are Rising as Businesses Compete for Scarcer Workers



Are Improved Business and Consumer Confidence Enough to Push the Economy Forward?

Since the election of President Trump and a Republican Congress, “soft” data, such as consumer and business confidence surveys, have improved markedly. Both the University of Michigan’s consumer sentiment measure and the Conference Board’s consumer confidence index are up sharply since November. On the business side, the Business Roundtable survey and the National Federation of Independent Business’s small business optimism index have jumped since the election. But while the “soft” data are better, some of the “hard” data—real measures of economic activity such as consumer spending and business investment—have shown little improvement. Call it the “Peter Pan Syndrome”: if consumers and businesses think happy thoughts about the economy, will it fly?

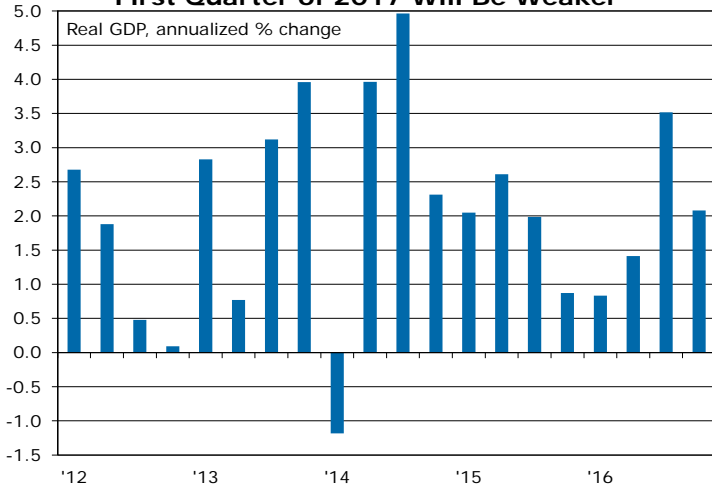
Some of the “hard” data are looking better. Housing starts were up in the first quarter of 2017 to 1.253 million at a seasonally-adjusted annualized rate, the strongest pace since the start of the housing bust in 2007. Starts fell in March from February, but that was mostly because, with the warmer-than-usual winter, projects that would not have started until the spring instead got underway in January and February, and the normal seasonal pickup in starts in March was smaller than expected. Similarly residential construction permits in the first quarter were at the highest level in almost a decade, which means that homebuilding should stay strong through at least the middle of the year. The fundamentals for housing remain solid with an improving labor market and good affordability; mortgage rates, although higher than they were before the election, remain low and have come down recently. Residential construction will add to economic growth through the rest of 2017.

Consumer spending growth was soft in the first quarter, in part because utilities spending was down with the warm weather. Light vehicle sales fell to 17.3 million units at an annual rate in the first quarter, from 18.1 million units in the fourth quarter of 2016. And a drop in energy prices held down nominal household spending. But consumers are in good shape: the number of jobs is steadily increasing, wages are rising, consumer debt is very low relative to income, interest rates are low, and household wealth is going up with rising stock prices and home values. Retail sales excluding autos were up by a decent 4.4 percent per annum in the first quarter, which looks even better when after adjusting for the minimal 0.4 percent increase in goods prices. Retail sales excluding autos, gasoline, building materials and restaurant sales rose at a solid 4.0 percent per annum during the first quarter, with an even bigger gain in March as delayed tax refunds of \$160 billion reached consumers in late February and throughout March.

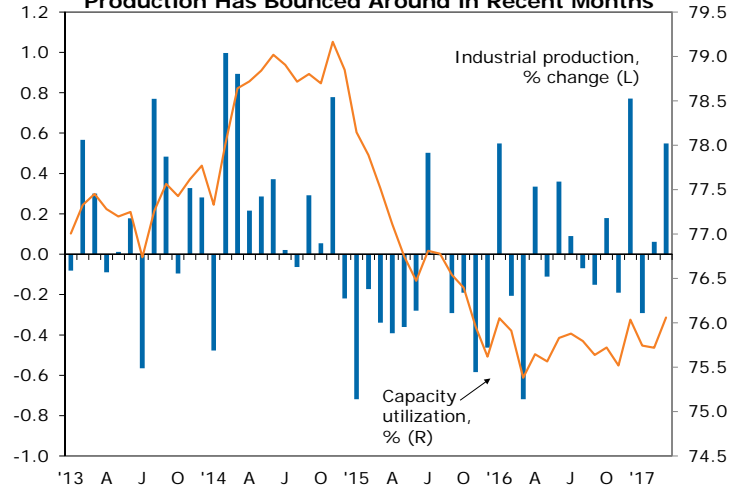
“Hard” data on manufacturing has also been better in early 2017. Manufacturing production rose 2.8 percent at an annual rate in the first quarter, the biggest gain in almost three years. Manufacturers are benefitting from a stabilization in the U.S. dollar; it strengthened sharply against most other currencies from 2014 to early 2016, making exports into the U.S. less expensive and imports into the U.S. more expensive. Manufacturing is also benefitting from improving demand from a recovering energy industry; with energy prices stabilizing over the past year, after falling sharply in 2014 and 2015, demand for equipment has rebounded. And the Institute of Supply Management’s manufacturing index indicates that manufacturing should continue to expand in the near term.

Although some of the “hard” data is improving, first quarter real GDP growth will be only about 0.8 percent at an annual rate, slowed by the warm winter weather that reduced consumer spending on utility services. Measured first-quarter growth was also once again held back by long-standing seasonal adjustment problems; in five of the past eight years the first quarter was the weakest for real GDP growth, and that will likely be the case again this year. The economy will look better later in the year, with real GDP growth of about 3.3 percent per annum in the second quarter and 2.5-3.0 percent per annum in the second half of 2017 as some fiscal stimulus starts to kick in. Growth will be 2.3 percent for all of 2017, and then stronger at 2.9 percent in 2018, as personal and corporate income tax cuts and infrastructure spending boost demand. The unemployment rate will remain near its current 4.5 percent throughout 2017.

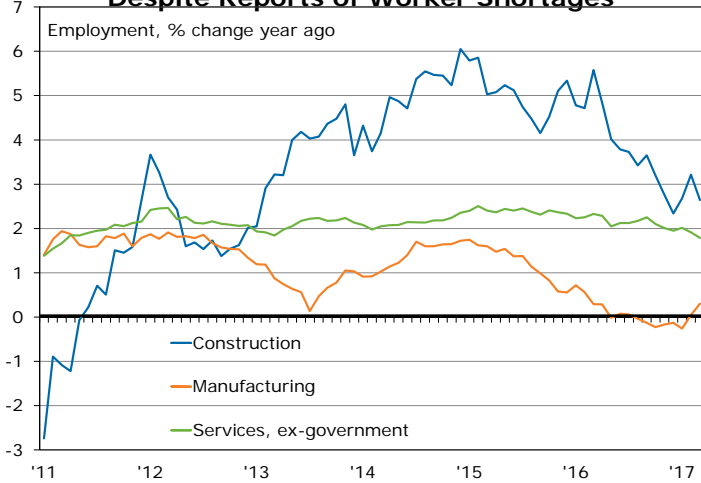
Solid Growth in Late 2016, But the First Quarter of 2017 Will Be Weaker



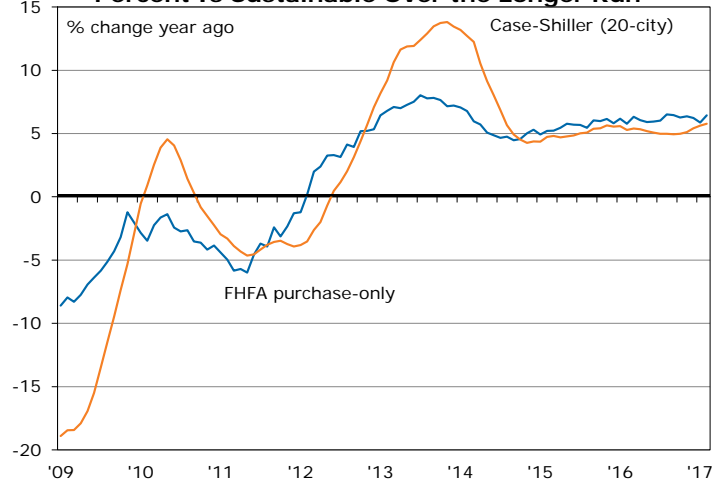
With Big Swings in the Weather, Industrial Production Has Bounced Around in Recent Months



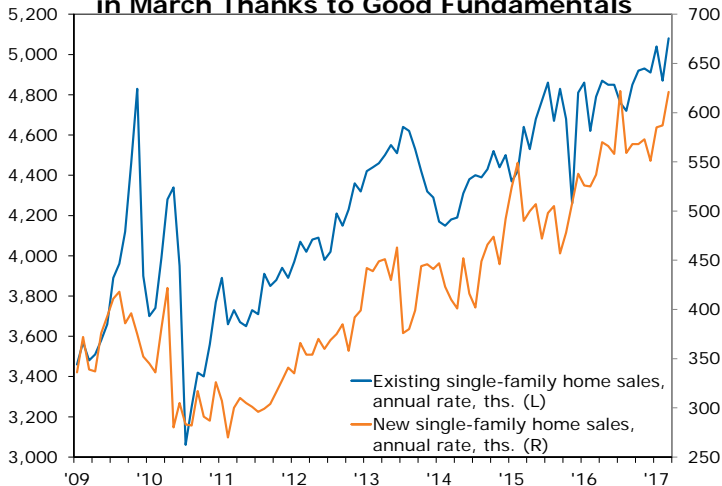
Construction Continues to Lead Job Growth, Despite Reports of Worker Shortages



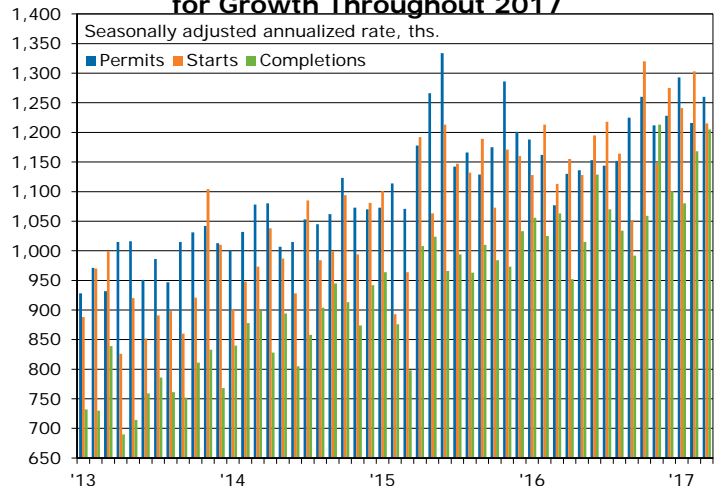
Moderate House Price Growth of 5 to 6 Percent Is Sustainable Over the Longer Run



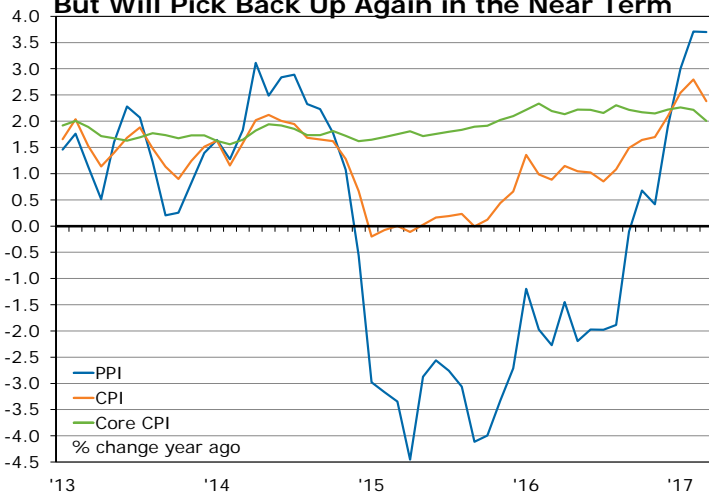
Both New and Existing Home Sales Rose in March Thanks to Good Fundamentals



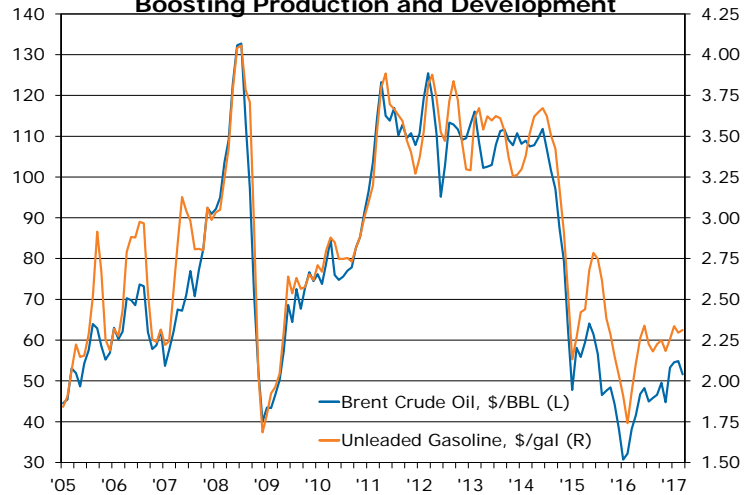
Homebuilding Will Be a Plus for Growth Throughout 2017



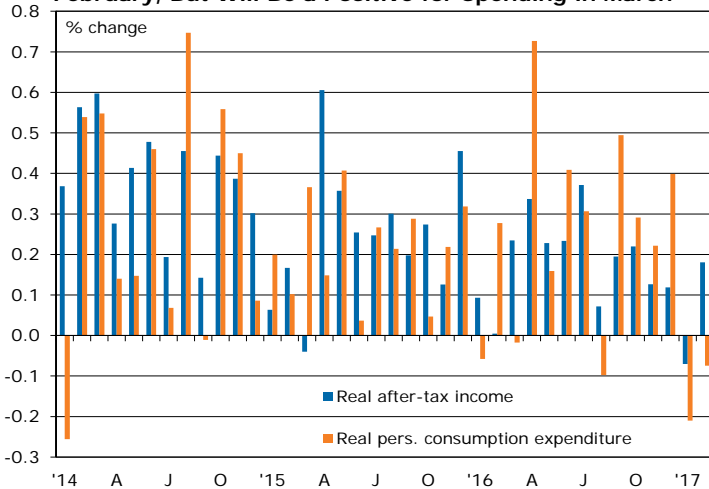
Inflation Slowed in March As Energy Prices Fell, But Will Pick Back Up Again in the Near Term



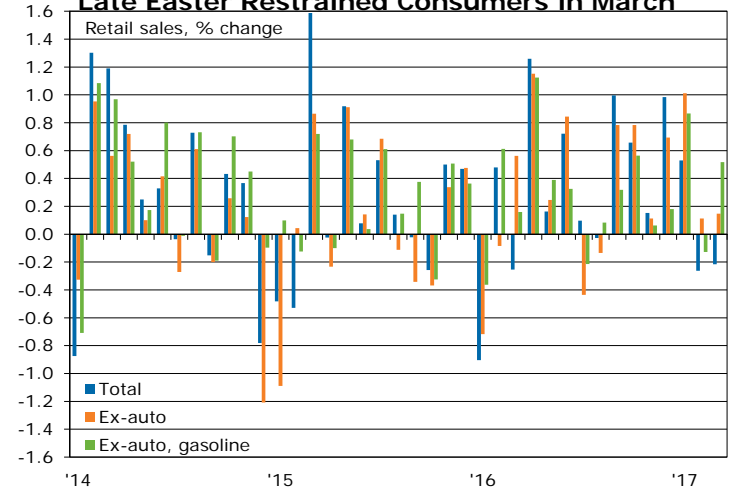
Energy Prices Are Off Their 2016 Lows, Boosting Production and Development



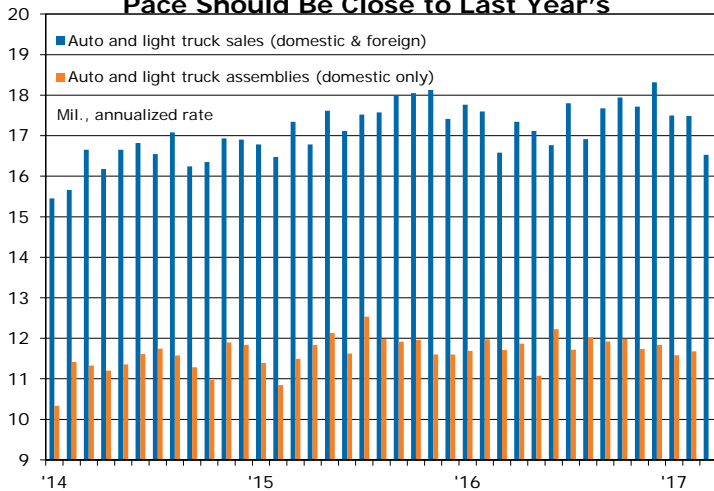
Utilities Weighed on Consumer Spending in January and February, But Will Be a Positive for Spending in March



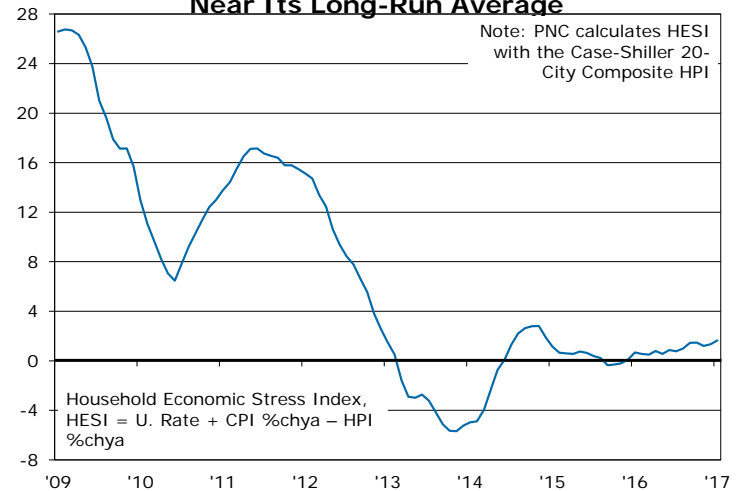
Falling Energy Prices, Weaker Auto Sales, Late Easter Restrained Consumers in March



Auto Sales Fell in March, But This Year's Pace Should Be Close to Last Year's



Household Economic Stress Remains Near Its Long-Run Average



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PNC Economics Group
April, 2017

Baseline U.S. Economic Outlook, Expanded Table

	1Q'17f	2Q'17f	3Q'17f	4Q'17f	1Q'18f	2Q'18f	3Q'18f	4Q'18f	2016a	2017f	2018f	2019f
Output												
Nominal GDP (Billions \$)	19018	19237	19485	19718	19960	20202	20441	20682	18569	19365	20321	21217
Percent Change Annualized	3.2	4.7	5.2	4.9	5.0	4.9	4.8	4.8	3.0	4.3	4.9	4.4
Real GDP (Chained 2009 Billions \$)	16845	16982	17112	17229	17352	17474	17592	17709	16662	17042	17532	17936
Percent Change Annualized	0.8	3.3	3.1	2.8	2.9	2.8	2.7	2.7	1.6	2.3	2.9	2.3
Pers. Consumption Expenditures	11683	11771	11846	11915	11987	12061	12137	12218	11522	11804	12101	12377
Percent Change Annualized	0.5	3.0	2.6	2.3	2.4	2.5	2.5	2.7	2.7	2.4	2.5	2.3
Nonresidential Fixed Investment	2214	2237	2260	2282	2299	2315	2332	2347	2189	2248	2323	2380
Percent Change Annualized	3.2	4.1	4.1	4.0	3.1	2.8	2.9	2.6	-0.5	2.7	3.3	2.4
Residential Investment	610	618	624	630	635	639	643	648	592	621	641	663
Percent Change Annualized	9.7	5.4	4.1	3.5	3.1	2.6	2.6	3.2	4.9	4.8	3.3	3.5
Change in Private Inventories	45	52	60	63	66	65	66	66	22	55	65	65
Net Exports	-615	-616	-620	-625	-624	-621	-627	-637	-563	-619	-627	-648
Government Expenditures	2910	2922	2944	2967	2992	3017	3043	3069	2907	2936	3030	3101
Percent Change Annualized	0.3	1.7	3.0	3.2	3.4	3.5	3.5	3.5	0.8	1.0	3.2	2.3
Industrial Prod. Index (2012 = 100)	104.8	105.6	106.3	106.9	107.6	108.2	108.9	109.7	104.2	105.9	108.6	111.1
Percent Change Annualized	1.5	3.1	2.7	2.3	2.4	2.4	2.4	2.9	-1.0	1.7	2.5	2.3
Capacity Utilization (Percent)	75.8	76.1	76.3	76.4	76.6	76.9	77.2	77.3	75.4	76.2	77.0	77.7
Prices												
CPI (1982-84 = 100)	244.1	245.2	246.6	248.1	249.5	251.0	252.5	254.0	240.0	246.0	251.8	257.8
Percent Change Annualized	3.1	1.8	2.3	2.4	2.4	2.4	2.4	2.4	1.3	2.5	2.4	2.4
Core CPI Index (1982-84 = 100)	251.0	252.4	253.8	255.2	256.6	258.1	259.6	261.1	247.6	253.1	258.9	264.8
Percent Change Annualized	2.4	2.2	2.2	2.2	2.3	2.3	2.3	2.3	2.2	2.2	2.3	2.3
PCE Price Index (2009 = 100)	112.1	112.6	113.1	113.7	114.3	114.9	115.5	116.1	110.7	112.9	115.2	117.6
Percent Change Annualized	2.3	1.9	1.8	2.1	2.1	2.1	2.1	2.1	1.1	2.0	2.1	2.1
Core PCE Price Index (2009 = 100)	112.5	113.0	113.5	114.1	114.7	115.2	115.8	116.4	111.4	113.3	115.5	117.8
Percent Change Annualized	1.8	1.8	1.9	2.0	2.0	2.0	2.0	2.0	1.7	1.7	2.0	2.0
GDP Price Index (2009 = 100)	112.9	113.3	113.9	114.5	115.1	115.7	116.3	116.9	111.4	113.6	116.0	118.4
Percent Change Annualized	2.4	1.4	2.1	2.1	2.1	2.1	2.1	2.1	1.3	2.0	2.1	2.1
Crude Oil, WTI (\$/Barrel)	49.3	49.3	49.8	50.3	51.8	53.1	54.4	55.6	43.1	49.7	53.7	57.6
Labor Markets												
Payroll Jobs (Millions)	145.7	146.3	146.8	147.3	147.7	148.2	148.7	149.1	144.3	146.5	148.4	150.4
Percent Change Annualized	1.5	1.5	1.3	1.4	1.2	1.3	1.3	1.2	1.8	1.5	1.3	1.3
Unemployment Rate (Percent)	4.7	4.6	4.5	4.4	4.4	4.4	4.4	4.4	4.9	4.5	4.4	4.4
Average Weekly Hours, Prod. Works.	33.6	33.6	33.6	33.7	33.7	33.7	33.7	33.8	33.6	33.6	33.7	33.8
Personal Income												
Average Hourly Earnings (\$)	21.86	22.00	22.15	22.32	22.49	22.66	22.85	23.04	21.56	22.08	22.76	23.51
Percent Change Annualized	2.0	2.5	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 \$)	12843	12933	13034	13124	13215	13308	13399	13488	12685	12983	13353	13673
Percent Change Annualized	1.3	2.9	3.1	2.8	2.8	2.8	2.8	2.7	2.8	2.3	2.8	2.4
Housing												
Housing Starts (Ths., Ann. Rate)	1255	1260	1272	1273	1279	1288	1297	1308	1176	1265	1293	1332
Ext. Home Sales (Ths., Ann. Rate)	5605	5675	5731	5766	5826	5876	5927	5967	5440	5695	5899	6032
New SF Home Sales (Ths., Ann. Rate)	575	580	586	591	594	596	598	603	559	583	598	613
Case/Shiller HPI (Jan. 2000 = 100)	188.6	188.8	189.8	190.9	192.6	193.2	194.5	195.6	181.3	189.5	194.0	199.5
Percent Change Year Ago	5.7	5.2	4.5	2.9	2.1	2.3	2.5	2.5	5.2	4.6	2.3	2.8
Consumer												
Household Economic Stress Index	1.5	1.8	2.6	3.9	4.5	4.5	4.3	4.4	0.9	2.5	4.4	4.0
Auto Sales (Millions)	17.2	17.6	17.5	17.6	17.4	17.6	17.5	17.6	17.5	17.5	17.5	17.4
Consumer Credit (Billions \$)	3808	3850	3891	3932	3973	4016	4059	4105	3677	3870	4039	4213
Percent Change Annualized	4.6	4.4	4.4	4.3	4.3	4.3	4.4	4.6	6.2	5.3	4.3	4.3
Interest Rates (Percent)												
Prime Rate	3.80	4.04	4.25	4.30	4.50	4.54	4.78	5.05	3.51	4.10	4.72	5.45
Federal Funds	0.70	0.92	1.13	1.17	1.38	1.42	1.65	1.92	0.40	0.98	1.59	2.39
3-Month Treasury Bill	0.61	0.89	1.07	1.20	1.33	1.47	1.65	1.91	0.32	0.94	1.59	2.34
10-Year Treasury Note	2.45	2.58	2.79	2.85	2.92	3.00	3.10	3.28	1.84	2.67	3.07	3.43
30-Year Fixed Mortgage	4.17	4.31	4.50	4.55	4.59	4.63	4.71	4.86	3.65	4.38	4.69	4.98

a = actual f = forecast p = preliminary

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