

NATIONAL ECONOMIC OUTLOOK

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Executive Summary

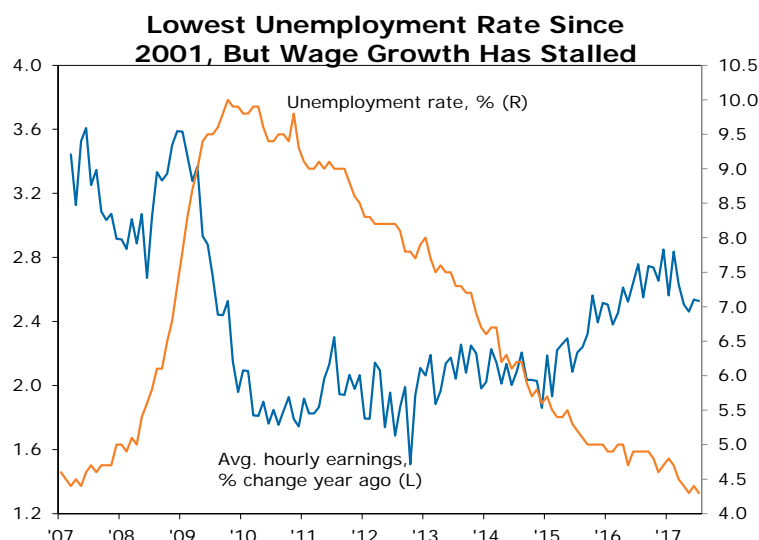
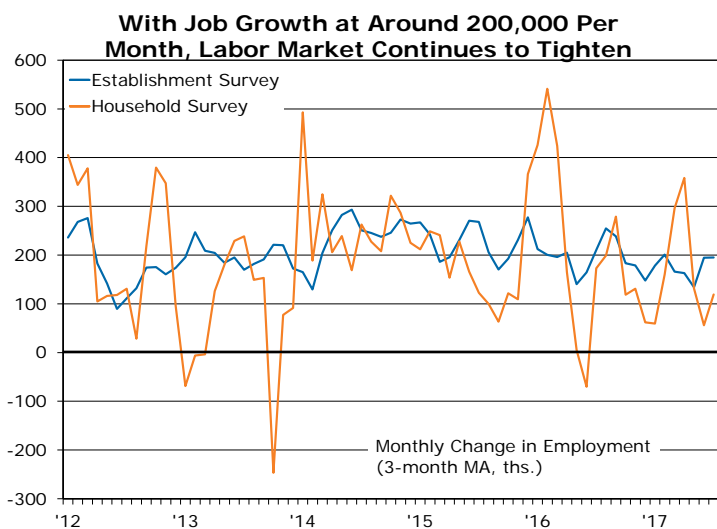
Job Growth Remains Solid in Mid-2017, With Better GDP Growth in the Second Quarter

- Real GDP increased 2.6 percent at an annual rate in the second quarter in the advance estimate, matching the consensus. Growth in the first quarter was 1.2 percent. Consumer spending was up 2.8 percent in the second quarter, after adjusting for inflation, and accounted for about three-fourths of overall economic growth. Business fixed investment was also a positive for growth in the second quarter, as were net exports and government. Investment in housing was a drag on growth in the quarter, while inventories were neutral for growth. On a year-over-year basis economic growth was 2.1 percent in the second quarter, up slightly from 2.0 percent in the first quarter. This release included revisions to the GDP data going back to 2014; they were minimal. Eight years into the expansion, the U.S. economy continues to expand at a moderate pace.
- The U.S. economy added 209,000 jobs in July, above the consensus expectation for an increase of 183,000. Job growth in June was revised up by 9,000 to 231,000, while May growth was revised lower by 7,000 to 145,000. So far in 2017 the economy has added an average of 184,000 jobs per month, essentially the same pace as last year's average of 187,000. Private-sector job growth was 205,000 in July, with government adding 4,000 jobs. Goods-producing industries added 22,000 jobs in July, with gains in both manufacturing and construction. Retail employment rose by 1,000 in July, but was down by 7,000 from one year earlier, the first year-over-year decline since 2010, when the U.S. economy was coming out of the Great Recession. The continued movement of commerce toward online sales is leading to job losses in traditional retailing. The unemployment rate fell to 4.3 percent in July, from 4.4 percent in June. This is the lowest the unemployment rate has been since early 2001.
- Housing starts fell 4.8 percent in July to 1.155 million at a seasonally-adjusted annualized rate; starts in June were 1.213 million, revised down slightly from 1.215 million. Single-family starts fell 0.5 percent to 856,000, while more volatile apartment and condominium starts dropped 15.3 percent to 299,000, their lowest since September 2016. Starts jumped in June, after some weather-related weakness in the spring. But despite the July decline, the overall trend for residential construction, particularly single-family, is positive. The drivers for single-family building are solid, with an improving labor market and the 30-year fixed mortgage rate under 4 percent.

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	17011	17145	17249	17345	17475	17579	17680	16716	17077	17520	17907
Percent Change Annualized	1.2	2.6	3.2	2.4	2.2	3.0	2.4	2.3	1.5	2.2	2.6	2.2
CPI (1982-84 = 100)	244.1	243.9	244.7	245.8	247.3	248.8	250.3	251.8	240.0	244.6	249.6	255.6
Percent Change Annualized	3.1	-0.3	1.3	1.9	2.4	2.4	2.4	2.4	1.3	1.9	2.0	2.4
Labor Markets												
Payroll Jobs (Millions)	145.7	146.2	146.7	147.2	147.6	148.0	148.4	148.7	144.3	146.4	148.2	149.6
Percent Change Annualized	1.5	1.4	1.4	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	4.3	4.2	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	1.14	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	2.37	2.59	2.75	2.80	2.86	2.95	1.84	2.42	2.84	3.05

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



With Solid Fundamentals Consumer Spending Will Hold Up Into 2018, Supporting Expansion

Consumer spending accounts for about two-thirds of GDP in the United States, so the health of consumers is vital for the overall economy. With the U.S. expansion now more than eight years old, consumers have more than held up their end of the bargain. As a share of the economy consumer spending was at a record high in the first quarter of 2017, although it fell slightly in the second quarter; the data go back to 1947. The good news is that household finances are in good shape in the second half of 2017, and that consumer spending growth and the expansion will continue well into next year.

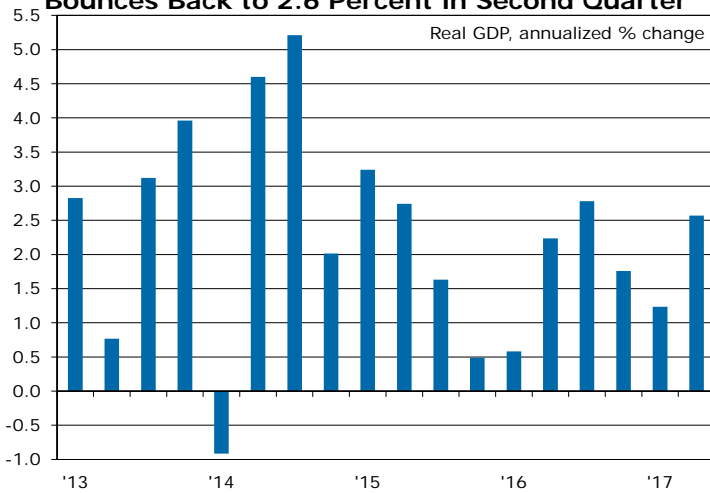
Consumer spending is typically less volatile than other components of GDP, in particular business investment, homebuilding, and international trade. During the Great Recession household spending, adjusted for inflation, declined by about a total of 2.7 percent over five quarters, while real GDP fell 4.2 percent over six quarters. Since the recovery began in the second quarter of 2009 inflation-adjusted consumer spending has improved at an annualized pace of 2.4 percent, slightly faster than 2.1 percent for real GDP.

Consumer spending cannot continue to grow faster than the overall economy indefinitely, but it will be able to increase at a pace of 2.0-2.5 percent over the next few years, close to the pace of overall economic growth. The fundamentals for consumers are solid. Most important is the job market. Over the past year the economy has added about 180,000 jobs per month, about double the pace needed to keep up with underlying growth in the labor force. Thus job market slack has continued to diminish. In turn, the tighter labor market has led to stronger wage growth. Annual growth in average hourly earnings has accelerated from 1.8 percent in late 2012 to about 2.5 percent currently. The recovery in wages has been disappointing, but with the job market continuing to tighten, wage growth will accelerate. More jobs and higher wages will allow households to increase their spending over the next couple of years.

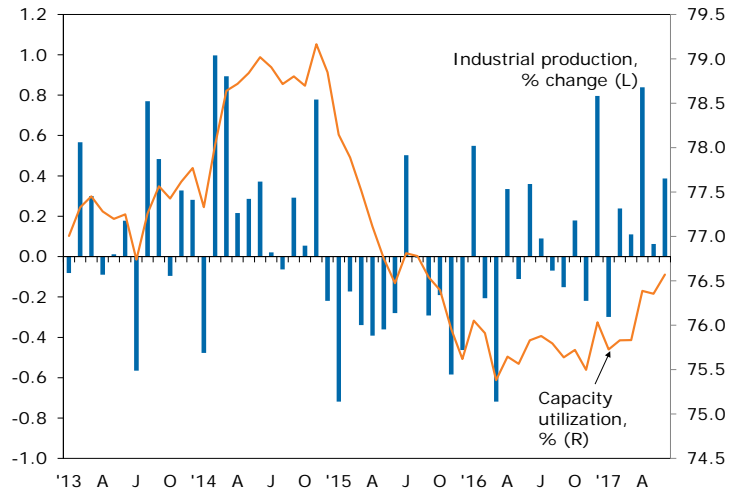
There are other positives for consumers as well. Low inflation, in particular the big drop in energy prices since late 2014, has allowed consumers to boost their purchases. Net household wealth is at a record and continues to rise, thanks to record-high stock prices and rising home values. This, in turn, makes consumers more willing to spend, what economists call the “wealth effect.” Low interest rates are supporting consumer spending, particularly on big-ticket durable goods such as autos and appliances. Another positive is that credit ratings have improved with the recovery, giving more consumers access to credit. And debt payments as a share of after-tax income are near a record low, so households have more space to take on debt to fund spending. Household finances could also receive a boost from proposed personal income tax cuts. Although the political outlook remains in flux in mid-2017, Republicans in Congress are likely to work with President Trump to cut personal income tax rates sometime next year, boosting after-tax incomes. This could provide an extra push to spending at a time when consumers might otherwise be getting winded.

With consumers in good shape, the U.S. economy will continue to expand through the rest of this year and into 2018. Housing and business fixed investment will also be positives for near-term growth, and inventories will provide a boost in the second half of this year. Real GDP growth will be 2.2 percent in 2017 and accelerate to 2.6 percent in 2018, with support from tax cuts and perhaps infrastructure spending, up from 1.6 percent growth last year. 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; this will put upward pressure on wages. The FOMC is expected to raise the federal funds rate again at the end of this year, and three times in 2018, which would bring it to a range of 2.00 to 2.25 percent at the end of 2018.

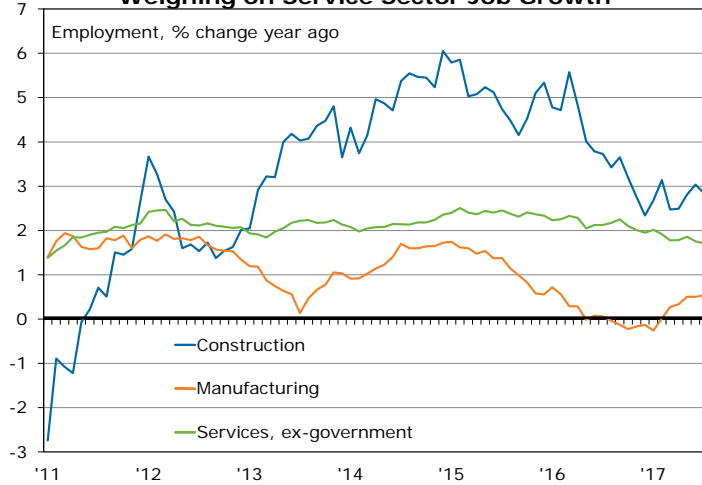
After Some One-Time Drags, GDP Growth Bounces Back to 2.6 Percent in Second Quarter



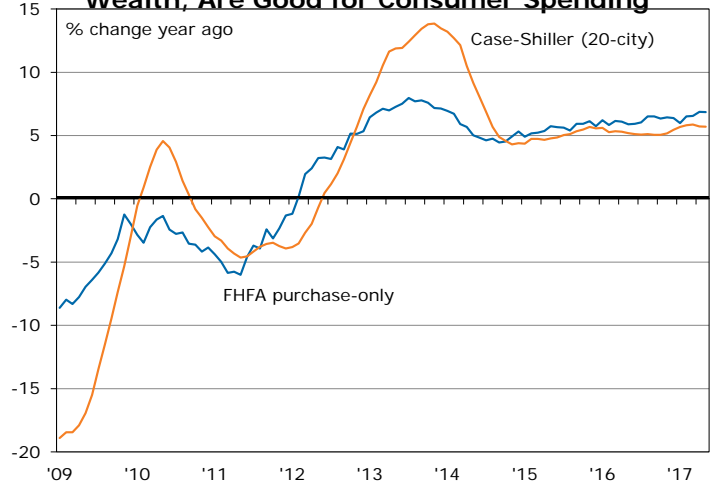
Manufacturing, Mining Are Both Expanding This Year



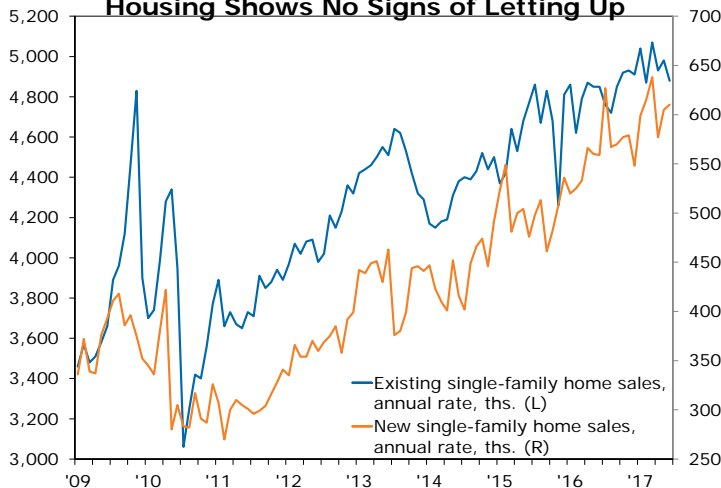
With Spread of Online Sales, Retailing Is Weighing on Service Sector Job Growth



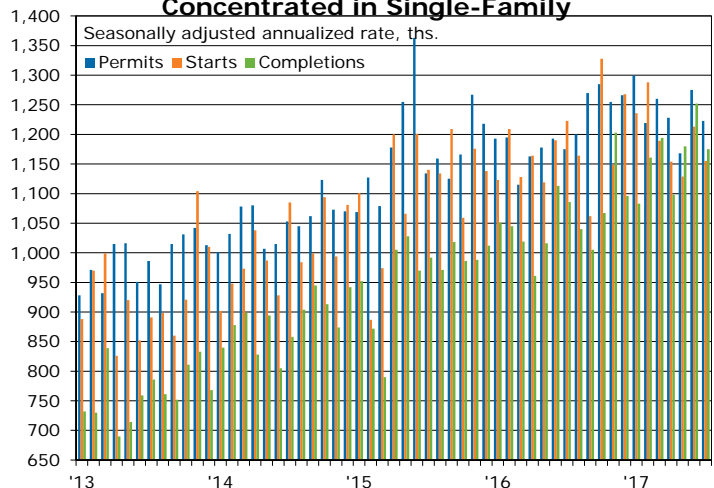
Rising House Prices, and Household Wealth, Are Good for Consumer Spending



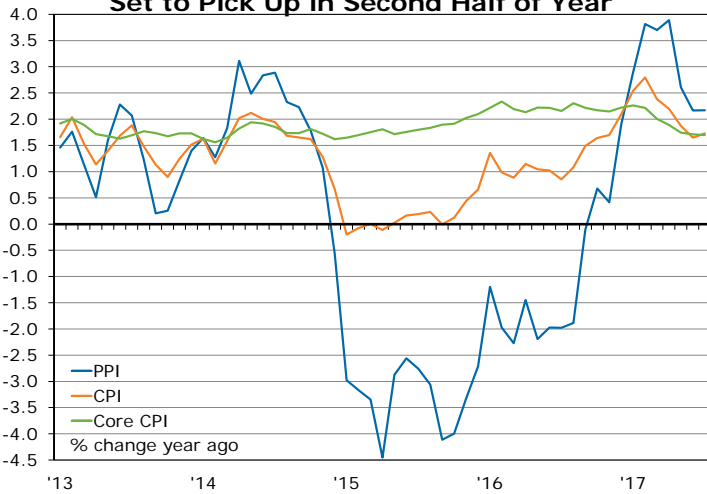
Continued Gradual Recovery in Housing Shows No Signs of Letting Up



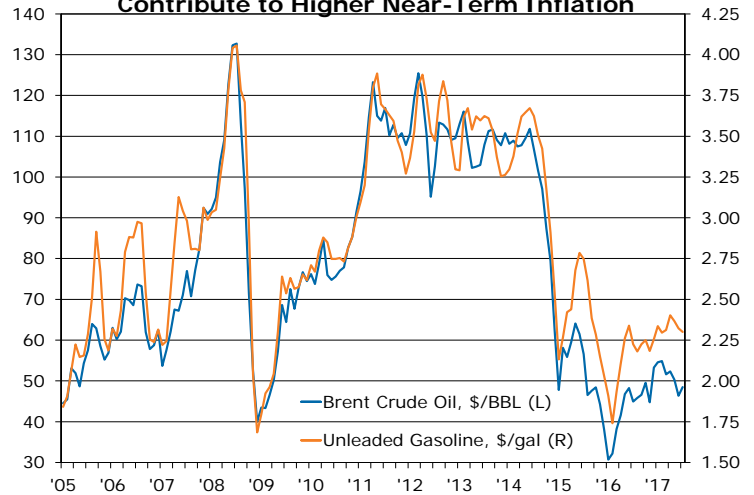
Homebuilding Expansion Is Now Concentrated in Single-Family



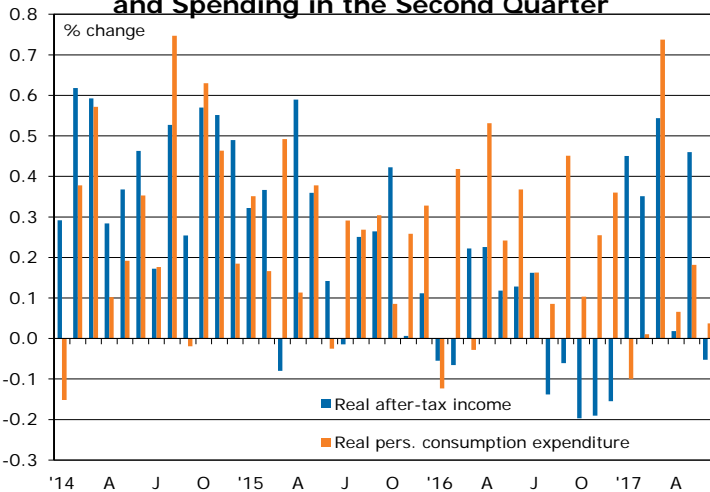
Inflation Has Stabilized in Mid-2017, Set to Pick Up in Second Half of Year



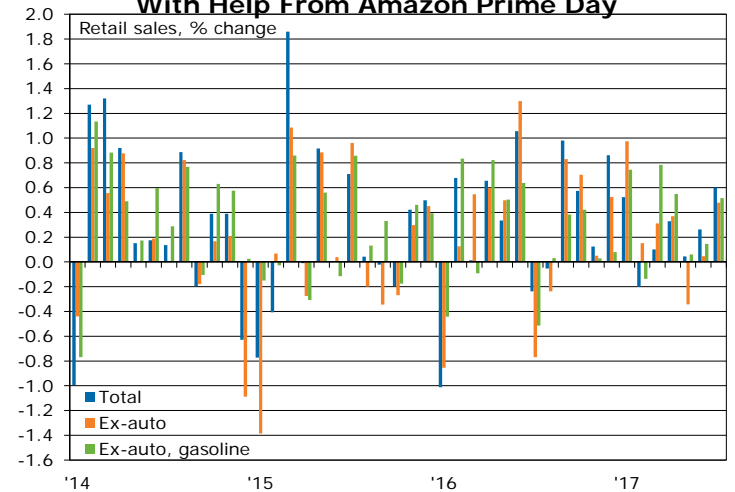
Gradual Increase in Energy Prices Will Contribute to Higher Near-Term Inflation



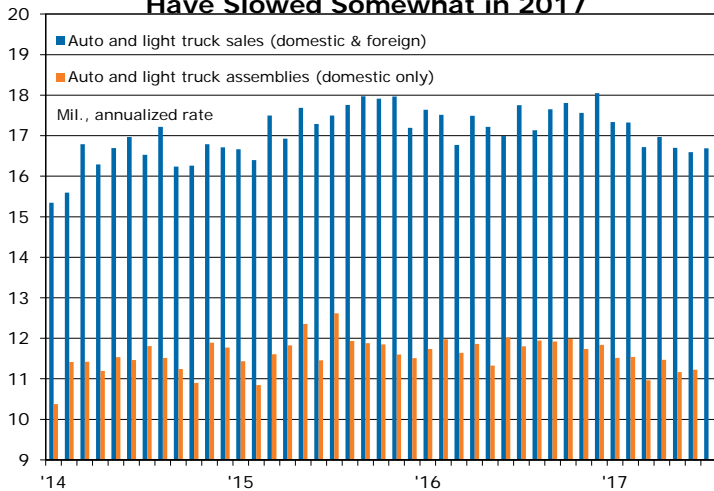
Solid Growth in Consumers' Incomes and Spending in the Second Quarter



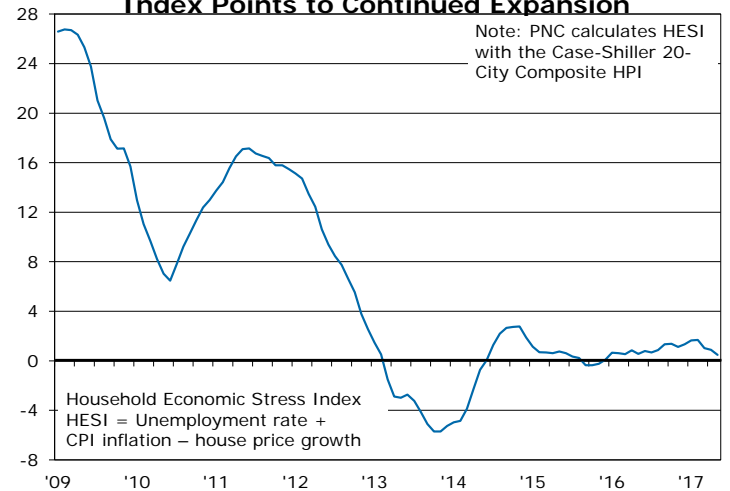
Retail Sales Bounced Back in July, With Help From Amazon Prime Day



After Two Record Years, Auto Sales Have Slowed Somewhat in 2017



Low Household Economic Stress Index Points to Continued Expansion



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PNC Economics Group
August, 2017

Baseline U.S. Economic Outlook, Expanded Table

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Output												
Nominal GDP (Billions \$)	19058	19226	19467	19682	19891	20141	20364	20587	18624	19358	20246	21121
Percent Change Annualized	3.3	3.6	5.1	4.5	4.3	5.1	4.5	4.4	2.8	3.9	4.6	4.3
Real GDP (Chained 2009 Billions \$)	16903	17011	17145	17249	17345	17475	17579	17680	16716	17077	17520	17907
Percent Change Annualized	1.2	2.6	3.2	2.4	2.2	3.0	2.4	2.3	1.5	2.2	2.6	2.2
Pers. Consumption Expenditures	11758	11840	11908	11976	12045	12124	12207	12282	11572	11870	12165	12441
Percent Change Annualized	1.9	2.8	2.3	2.3	2.3	2.6	2.8	2.5	2.7	2.6	2.5	2.3
Nonresidential Fixed Investment	2264	2292	2316	2335	2348	2366	2378	2391	2210	2302	2371	2420
Percent Change Annualized	7.1	5.2	4.1	3.4	2.3	3.0	2.1	2.2	-0.6	4.1	3.0	2.1
Residential Investment	606	595	602	606	610	617	620	625	587	602	618	640
Percent Change Annualized	11.1	-6.8	4.8	2.9	2.8	4.5	1.8	3.3	5.5	2.5	2.7	3.6
Change in Private Inventories	1	0	25	33	40	49	50	52	33	15	48	55
Net Exports	-622	-615	-618	-627	-636	-637	-648	-657	-586	-621	-644	-668
Government Expenditures	2897	2902	2915	2929	2940	2959	2974	2989	2900	2910	2965	3021
Percent Change Annualized	-0.6	0.7	1.9	1.9	1.5	2.6	2.0	2.1	0.8	0.4	1.9	1.9
Industrial Prod. Index (2012 = 100)	103.7	104.9	105.2	105.6	106.1	106.8	107.6	108.4	103.1	104.8	107.2	109.9
Percent Change Annualized	1.4	4.7	1.2	1.7	1.9	2.7	2.8	3.1	-1.2	1.7	2.3	2.5
Capacity Utilization (Percent)	75.8	76.4	76.5	76.8	77.0	77.3	77.5	77.7	75.7	76.4	77.4	78.3
Prices												
CPI (1982-84 = 100)	244.1	243.9	244.7	245.8	247.3	248.8	250.3	251.8	240.0	244.6	249.6	255.6
Percent Change Annualized	3.1	-0.3	1.3	1.9	2.4	2.4	2.4	2.4	1.3	1.9	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	112.6	113.1	113.7	114.3	114.9	115.5	110.8	112.5	114.6	117.0
Percent Change Annualized	2.2	0.3	1.1	1.9	2.1	2.1	2.1	2.1	1.2	1.6	1.8	2.1
Core PCE Price Index (2009 = 100)	112.6	112.9	113.2	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	1.4	2.1	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	1.9	2.0	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	48.9	50.4	50.9	52.2	53.4	43.1	49.2	51.8	55.7
Labor Markets												
Payroll Jobs (Millions)	145.7	146.2	146.7	147.2	147.6	148.0	148.4	148.7	144.3	146.4	148.2	149.6
Percent Change Annualized	1.5	1.4	1.4	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	4.3	4.2	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	22.00	22.15	22.31	22.48	22.66	22.85	23.03	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 \$)	12678	12778	12885	12975	13063	13142	13227	13304	12608	12829	13184	13471
Percent Change Annualized	2.8	3.2	3.4	2.8	2.7	2.4	2.6	2.3	1.4	1.8	2.8	2.2
Housing												
Housing Starts (Ths., Ann. Rate)	1238	1164	1218	1245	1265	1283	1296	1310	1177	1216	1288	1340
Ext. Home Sales (Ths., Ann Rate)	5620	5567	5670	5740	5810	5877	5940	5993	5440	5649	5905	6085
New SF Home Sales (Ths., Ann Rate)	617	597	626	641	652	656	661	669	561	620	659	685
Case/Shiller HPI (Jan. 2000 = 100)	188.2	190.2	192.0	193.7	195.2	196.6	198.0	199.3	181.2	191.0	197.2	202.3
Percent Change Year Ago	5.6	5.9	5.7	4.6	3.7	3.4	3.1	2.9	5.1	5.4	3.3	2.6
Consumer												
Household Economic Stress Index	1.7	0.3	0.3	1.2	1.8	2.8	3.3	3.6	1.0	0.9	2.9	3.9
Auto Sales (Millions)	17.1	16.8	16.9	17.1	17.3	17.4	17.5	17.5	17.5	17.0	17.4	17.5
Consumer Credit (Billions \$)	3811	3848	3889	3930	3973	4015	4060	4105	3679	3870	4038	4213
Percent Change Annualized	4.9	3.9	4.3	4.3	4.4	4.3	4.5	4.6	6.3	5.2	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	1.14	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	1.11	1.24	1.36	1.49	1.65	1.91	0.32	0.97	1.60	2.34
10-Year Treasury Note	2.45	2.26	2.37	2.59	2.75	2.80	2.86	2.95	1.84	2.42	2.84	3.05
30-Year Fixed Mortgage	4.17	3.99	4.02	4.22	4.37	4.39	4.43	4.51	3.65	4.10	4.42	4.58

a = actual f = forecast p = preliminary

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