

# NATIONAL ECONOMIC OUTLOOK

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## Executive Summary

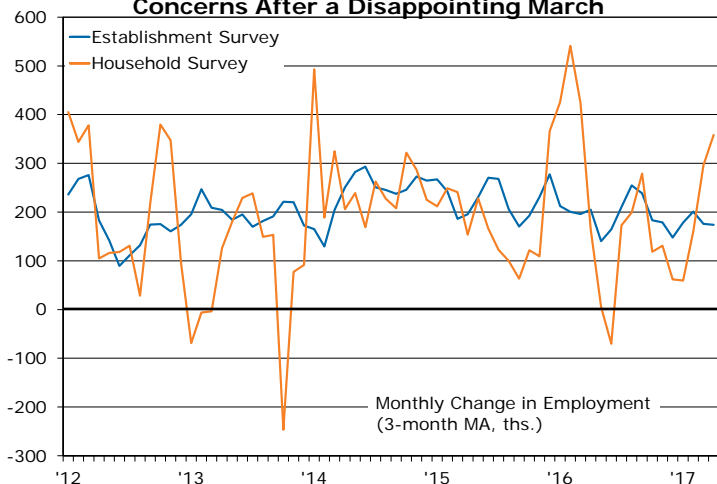
### With Job Market in Good Shape, Slow Growth at the Beginning of 2017 Won't Persist

- The U.S. economy grew just 0.7 percent at an annual rate in the first quarter of 2017, according to the preliminary estimate of real GDP from the Bureau of Economic Analysis, well below the 2.8 percent pace in the second half of 2016. A number of one-time factors slowed growth in the first quarter. Consumers spent less on utilities because of the mild winter; there was also a drop in consumer spending on autos and other durable goods, in part because of delayed tax refunds. There was also a big reduction in business investment in inventories in the first quarter. And the BEA has been having trouble with seasonal adjustment of the data; over the past 30 years growth in the first quarter has been significantly lower than in the other three quarters. The drags should fade in the second quarter, with growth rebounding to close to 4 percent.
- After very disappointing job growth of 79,000 in March, the labor market rebounded in April with establishment job gains of 211,000. Most industries added jobs over the month. Job growth has averaged 185,000 per month this year, very close to last year's pace of 187,000 per month. The unemployment rate (derived from a different survey of individuals) fell to 4.4 percent in April, down from 4.5 percent in March and 4.7 percent in February; the last time the unemployment rate was this low was May 2007. The broader U-6 unemployment rate (unemployed, underemployed and too discouraged to look for a job) fell to 8.6 percent in April from 8.9 percent in March and 9.4 percent in January. With a tighter job market average hourly earnings rose 0.3 percent in April, although March wage growth was revised down to 0.1 percent, from 0.2 percent. Average hourly earnings were up 2.5 percent in April, down from 2.6 percent growth in March and 2.9 percent in December 2016, but up from sub-2 percent growth a few years ago.
- Inflation rebounded in April, with the consumer price index up 0.2 percent over the month, after a fall in prices of 0.3 percent in March. Some of the stronger inflation came from higher energy prices; they rose 1.1 percent in April, after a 3.2 percent decline in March. But core inflation (excluding food and energy) also bounced back, with the core index up 0.1 percent, after a 0.1 percent drop in March. Inflation has accelerated over the past year as energy prices have risen and a tighter labor market has pushed up wages, leading firms to raise prices for their goods and services. Rising inflation will push the Federal Open Market committee to raise the federal funds rate two more times this year.

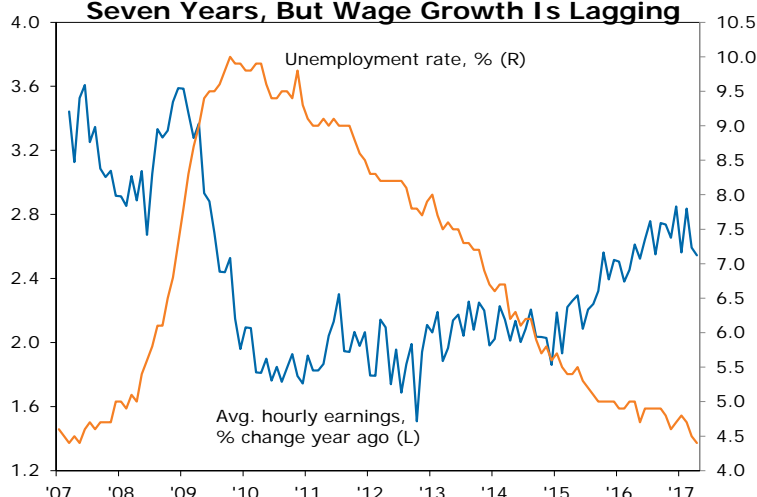
### Baseline U.S. Economic Outlook, Summary Table\*

	1Q'17p	2Q'17f	3Q'17f	4Q'17f	1Q'18f	2Q'18f	3Q'18f	4Q'18f	2016a	2017f	2018f	2019f
<b>Output &amp; Prices</b>												
Real GDP (Chained 2009 Billions \$)	16842	16999	17138	17257	17386	17505	17628	17742	16662	17059	17565	17972
Percent Change Annualized	0.7	3.8	3.3	2.8	3.0	2.8	2.8	2.6	1.6	2.4	3.0	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	2.3	2.4
<b>Labor Markets</b>												
Payroll Jobs (Millions)	145.7	146.3	146.8	147.3	147.7	148.2	148.7	149.2	144.3	146.5	148.5	150.3
Percent Change Annualized	1.5	1.5	1.4	1.3	1.3	1.3	1.3	1.2	1.8	1.5	1.3	1.2
Unemployment Rate (Percent)	4.7	4.5	4.5	4.4	4.4	4.4	4.4	4.4	4.9	4.5	4.4	4.4
<b>Interest Rates (Percent)</b>												
Federal Funds	0.70	0.93	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	2.42	2.72	2.81	2.88	2.93	3.02	3.22	1.84	2.60	3.01	3.42
a = actual    f = forecast    p = preliminary    * Please see the Expanded Table for more forecast series.												

**Job Growth Picked Back Up in April, Easing Concerns After a Disappointing March**



**Unemployment Rate at Its Lowest in Seven Years, But Wage Growth Is Lagging**



## **Small Business Owners' Confidence about U.S. Economy, Own Business Soars to Record Highs**

PNC's Survey of Small- and Middle-Market Business Owners finds that business owners nationwide are more optimistic in the spring of 2017 than they have been in the last 15 years. Small businesses are a key source of economic activity and employment, and owners' perceptions can be good indicators of what is to come for the U.S. economy. The overall findings from the biannual survey, which began in 2003, confirm that the economic fundamentals remain solid.

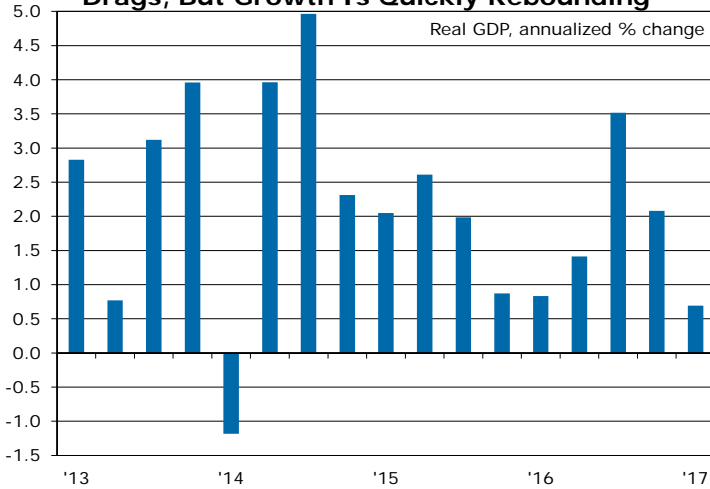
Nearly two-thirds (62 percent) of business owners anticipate sales increases over the next six months, the highest share since spring 2007. More than one-half (57 percent) anticipate an increase in profits, the highest since spring 2005, and more than one-quarter (28 percent) expect to increase full-time hiring, the highest proportion of businesses since spring 2012. Business owners' optimism for the next six months for the national economy (88 percent), local economy (89 percent), and their own company's prospects (94 percent) are at the highest levels seen in the history of PNC's survey. Accompanying these increased expectations is a significant rise in the number feeling enthusiastic about the business climate (38 percent versus 16 percent in the fall); hope remains the most common emotion (42 percent), while the numbers feeling fear and anger have declined significantly.

The view on the Trump administration and Congress is mixed. Overall, four in ten say they expect the policies of the new administration and Congress in general to have a positive impact on their business this year. One-third (32 percent) say it's too early to predict, and 17 percent say it will have no impact. Only 9 percent anticipate a negative impact. Business owners are evenly divided when it comes to the impact of trade restrictions or tariffs and taxes on imports; 33 percent are in support, 32 percent are against, and 31 percent are unsure. Three in ten feel that federal (32 percent) or state (31 percent) regulations have a negative impact on their business, but most are neutral on regulations. However, 44 percent say they would see a bump in profits if regulations were eased or eliminated. One-third (32 percent) say reductions in regulations would have a positive impact on hiring. Business owners are hopeful about the pro-business stance they are seeing from Washington, and are eager to see what regulation and policy changes may be ahead. But they seem to be taking a wait-and-see attitude, as it takes time for these kinds of changes to generate longer-term impacts.

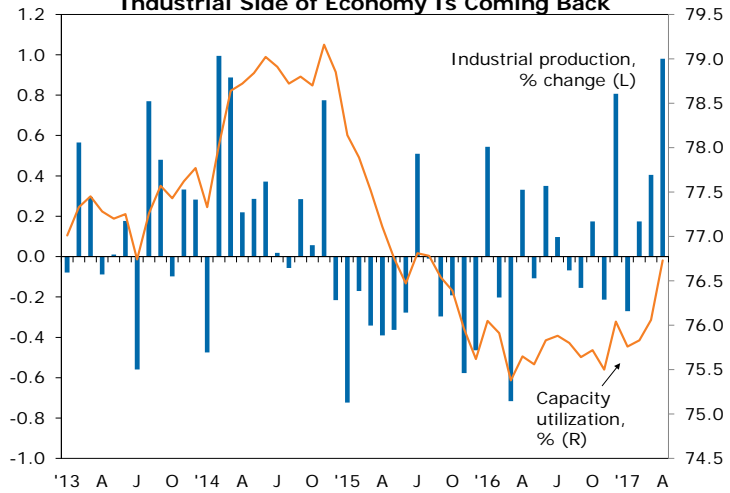
Few (13 percent, nearly unchanged from 14 percent in fall 2016) expect their business' need for financing to increase. Among the 29 percent who anticipate increased capital spending, over one-half (54 percent) say they will rely on internal funds only, 10 percent say they will borrow, and 25 percent say they will do both. Most say that the prospect of rising interest rates will have little impact on their decision to pursue a loan or line of credit. Almost three-quarters (73 percent) say further interest rate increases in 2017 would have very little impact on their business. Only 11 percent said it would put pressure on profits and 9 percent said it would lead to pricing adjustments.

PNC's Survey of Small- and Middle-Market Business Owners is consistent with other surveys of consumers and businesses that find increased optimism about the economy. Although growth was disappointing in the first quarter, the economy is bouncing back in the second quarter, as highlighted in the strong April jobs report. Growth over the final three quarters of 2017 should be better than 3 percent at an annual rate, and close to 3 percent for all of 2018 given expected cuts to personal and corporate income taxes, and perhaps a boost to infrastructure spending. With the economy near full employment the unemployment rate will settle in near its current level at around 4.4 percent, but not much below that. The Federal Open Market Committee will raise the federal funds rate twice again this year, most likely in June and December, with another three rate increases in 2018.

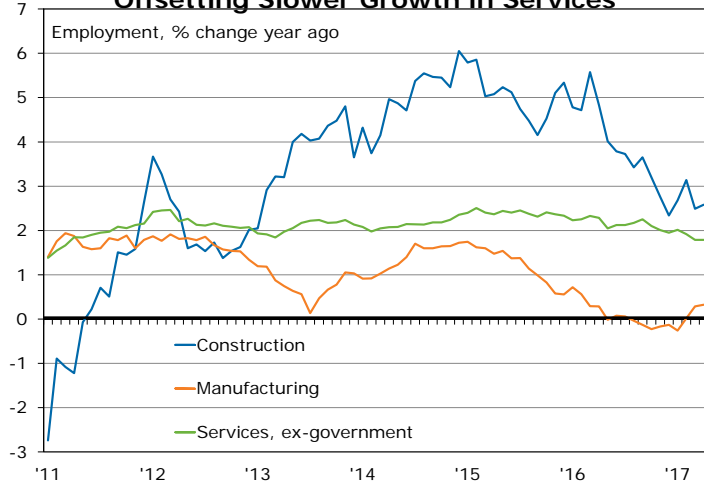
**Soft First Quarter With Some One-Time Drags, But Growth Is Quickly Rebounding**



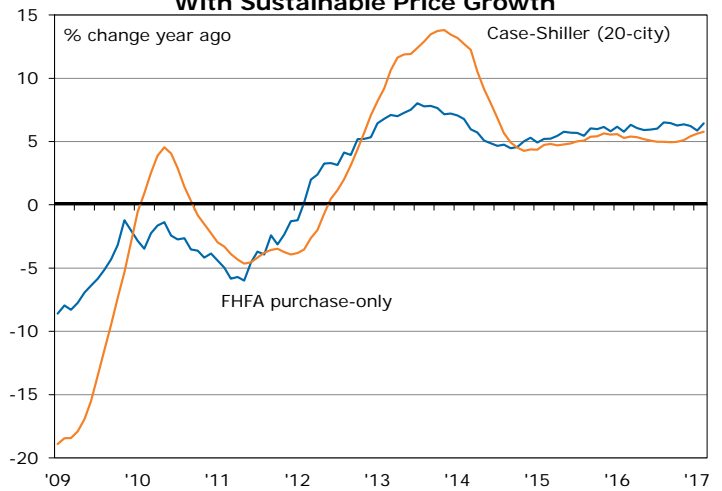
**With Stable Dollar, Higher Energy Prices, Industrial Side of Economy Is Coming Back**



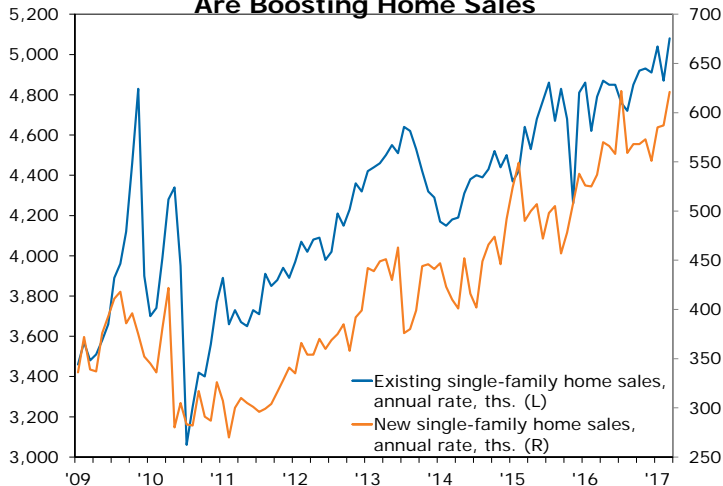
**Manufacturing Employment Is Recovering, Offsetting Slower Growth in Services**



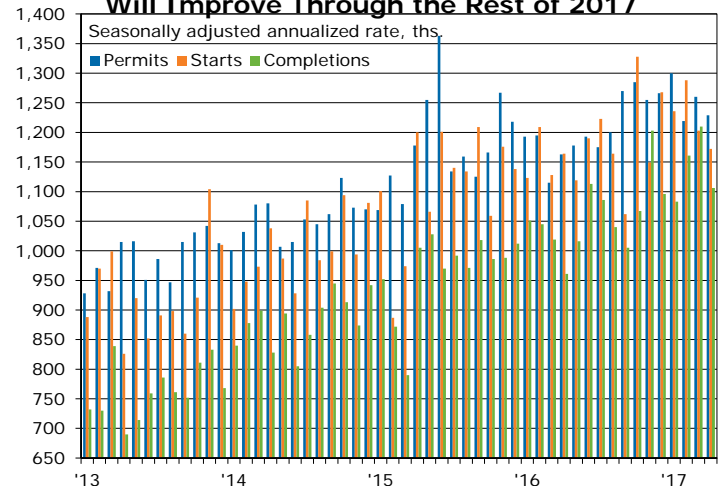
**Housing Market Is Settling in With Sustainable Price Growth**



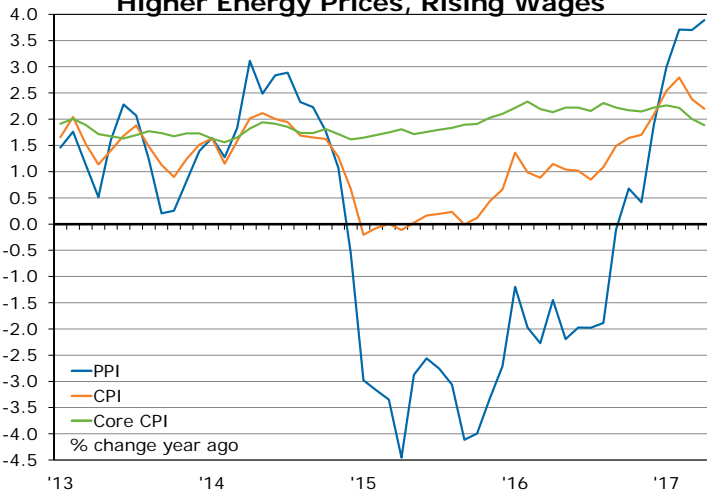
**Good Affordability, Rising Demand Are Boosting Home Sales**



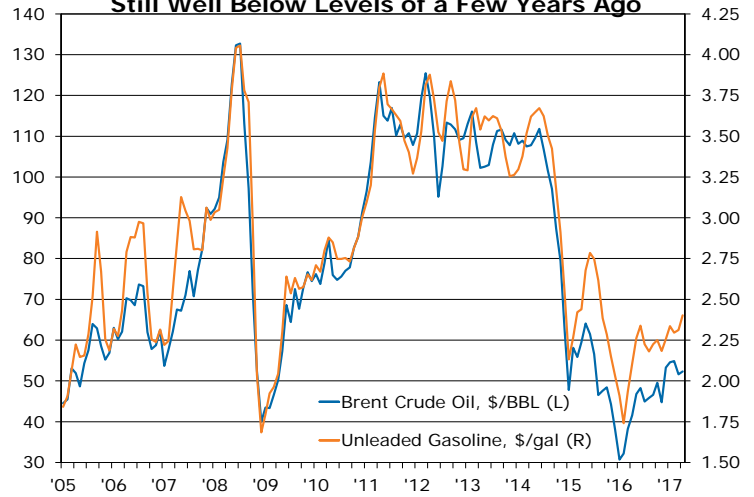
**Homebuilding Slowed in April, But Will Improve Through the Rest of 2017**



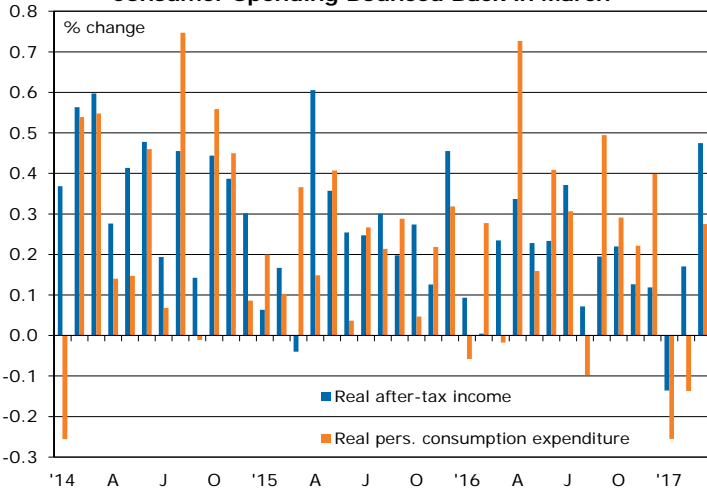
**Inflation Will Pick Back Up With Higher Energy Prices, Rising Wages**



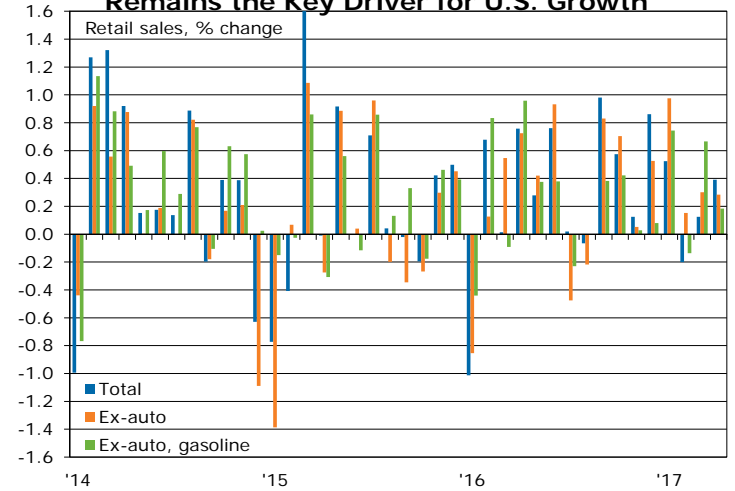
**Energy Prices Are Up From 2016, But Still Well Below Levels of a Few Years Ago**



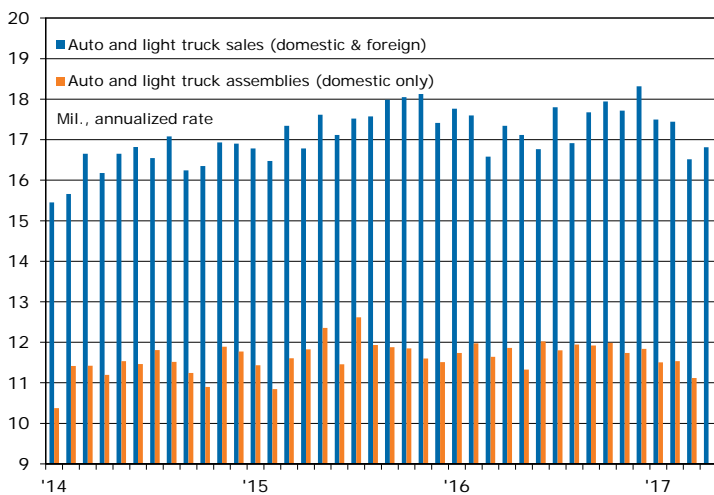
**With Tax Refunds, Return to More Seasonal Weather, Consumer Spending Bounced Back in March**



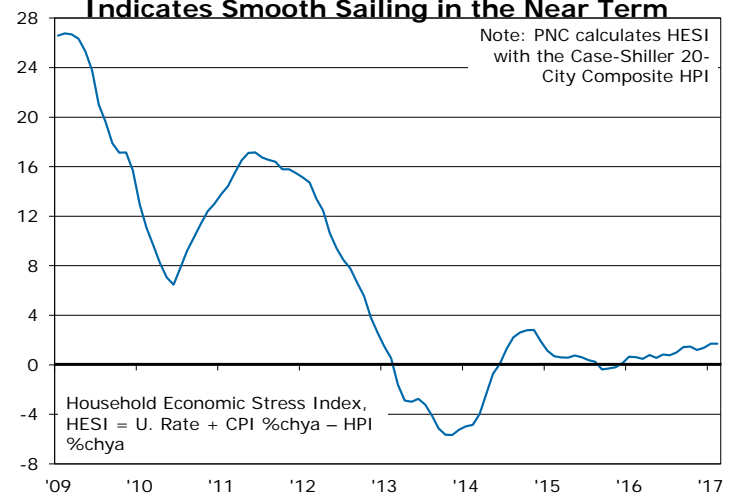
**With More Jobs, Rising Wages, Consumer Spending Remains the Key Driver for U.S. Growth**



**Auto Sales Have Softened So Far in 2017**



**Household Economic Stress Index Indicates Smooth Sailing in the Near Term**



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# NATIONAL ECONOMIC OUTLOOK

PNC Economics Group  
May, 2017

## Baseline U.S. Economic Outlook, Expanded Table

	1Q'17p	2Q'17f	3Q'17f	4Q'17f	1Q'18f	2Q'18f	3Q'18f	4Q'18f	2016a	2017f	2018f	2019f
<b>Output</b>												
Nominal GDP (Billions \$)	19007	19244	19501	19737	19986	20225	20470	20707	18569	19373	20347	21246
Percent Change Annualized	3.0	5.1	5.4	4.9	5.1	4.9	4.9	4.7	3.0	4.3	5.0	4.4
Real GDP (Chained 2009 Billions \$)	16842	16999	17138	17257	17386	17505	17628	17742	16662	17059	17565	17972
Percent Change Annualized	0.7	3.8	3.3	2.8	3.0	2.8	2.8	2.6	1.6	2.4	3.0	2.3
Pers. Consumption Expenditures	11680	11753	11834	11903	11985	12053	12135	12212	11522	11793	12096	12374
Percent Change Annualized	0.3	2.5	2.8	2.4	2.8	2.3	2.7	2.6	2.7	2.3	2.6	2.3
Nonresidential Fixed Investment	2247	2269	2293	2315	2333	2349	2366	2382	2189	2281	2358	2415
Percent Change Annualized	9.4	4.0	4.3	4.0	3.1	2.8	2.9	2.6	-0.5	4.2	3.4	2.5
Residential Investment	615	623	629	635	640	644	648	654	592	626	647	669
Percent Change Annualized	13.7	5.1	4.1	3.7	3.2	2.7	2.6	3.3	4.9	5.7	3.3	3.5
Change in Private Inventories	10	47	60	63	66	65	66	66	22	45	65	65
Net Exports	-603	-598	-605	-610	-611	-606	-613	-623	-563	-604	-613	-634
Government Expenditures	2895	2907	2929	2952	2976	3002	3028	3054	2907	2921	3015	3085
Percent Change Annualized	-1.7	1.7	3.0	3.2	3.3	3.5	3.5	3.5	0.8	0.5	3.2	2.3
Industrial Prod. Index (2012 = 100)	103.7	104.5	105.1	105.7	106.4	107.0	107.7	108.5	103.1	104.7	107.4	109.9
Percent Change Annualized	1.5	3.0	2.4	2.2	2.7	2.5	2.6	2.9	-1.2	1.6	2.5	2.4
Capacity Utilization (Percent)	75.8	76.2	76.4	76.5	76.9	77.2	77.5	77.7	75.7	76.2	77.3	78.1
<b>Prices</b>												
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	2.3	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	258.8	264.8
Percent Change Annualized	2.5	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	2.4	1.6	1.8	2.2	2.1	2.1	2.1	2.1	1.1	1.9	2.0	2.1
Core PCE Price Index (2009 = 100)	112.5	113.0	113.6	114.1	114.7	115.3	115.9	116.4	111.4	113.3	115.6	117.9
Percent Change Annualized	2.0	1.8	1.9	2.0	2.0	2.0	2.0	2.0	1.7	1.8	2.0	2.0
GDP Price Index (2009 = 100)	112.9	113.2	113.8	114.4	115.0	115.6	116.2	116.8	111.4	113.6	115.9	118.4
Percent Change Annualized	2.2	1.3	2.1	2.1	2.1	2.1	2.1	2.1	1.3	1.9	2.1	2.1
Crude Oil, WTI (\$/Barrel)	51.8	51.8	52.3	52.8	54.4	55.7	57.0	58.3	43.1	52.2	56.4	60.4
<b>Labor Markets</b>												
Payroll Jobs (Millions)	145.7	146.3	146.8	147.3	147.7	148.2	148.7	149.2	144.3	146.5	148.5	150.3
Percent Change Annualized	1.5	1.5	1.4	1.3	1.3	1.3	1.3	1.2	1.8	1.5	1.3	1.2
Unemployment Rate (Percent)	4.7	4.5	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
<b>Personal Income</b>												
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 \$)	12834	12931	13038	13126	13220	13312	13406	13495	12685	12982	13359	13673
Percent Change Annualized	1.0	3.1	3.4	2.7	2.9	2.8	2.9	2.7	2.8	2.3	2.9	2.4
<b>Housing</b>												
Housing Starts (Ths., Ann. Rate)	1253	1256	1269	1272	1280	1290	1300	1312	1176	1263	1295	1337
Ext. Home Sales (Ths., Ann Rate)	5623	5715	5774	5812	5875	5929	5982	6023	5440	5731	5952	6090
New SF Home Sales (Ths., Ann Rate)	598	602	609	616	620	623	626	631	560	606	625	642
Case/Shiller HPI (Jan. 2000 = 100)	188.7	190.8	192.4	193.3	194.3	195.0	195.5	195.9	181.2	191.3	195.2	197.4
Percent Change Year Ago	5.8	6.3	5.9	4.3	3.0	2.2	1.6	1.3	5.2	5.6	2.0	1.1
<b>Consumer</b>												
Household Economic Stress Index	1.4	0.7	1.1	2.6	3.6	4.6	5.2	5.5	1.0	1.5	4.7	5.6
Auto Sales (Millions)	17.2	17.2	17.3	17.4	17.4	17.5	17.5	17.5	17.5	17.2	17.5	17.4
Consumer Credit (Billions \$)	3808	3847	3889	3930	3972	4014	4058	4104	3677	3868	4037	4212
Percent Change Annualized	4.6	4.1	4.4	4.3	4.4	4.3	4.5	4.6	6.2	5.2	4.4	4.3
<b>Interest Rates (Percent)</b>												
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	0.93	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	0.87	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	2.42	2.72	2.81	2.88	2.93	3.02	3.22	1.84	2.60	3.01	3.42
30-Year Fixed Mortgage	4.17	4.16	4.43	4.49	4.53	4.55	4.61	4.79	3.65	4.31	4.62	4.96
a = actual    f = forecast    p = preliminary												

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