

NATIONAL ECONOMIC OUTLOOK

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Executive Summary

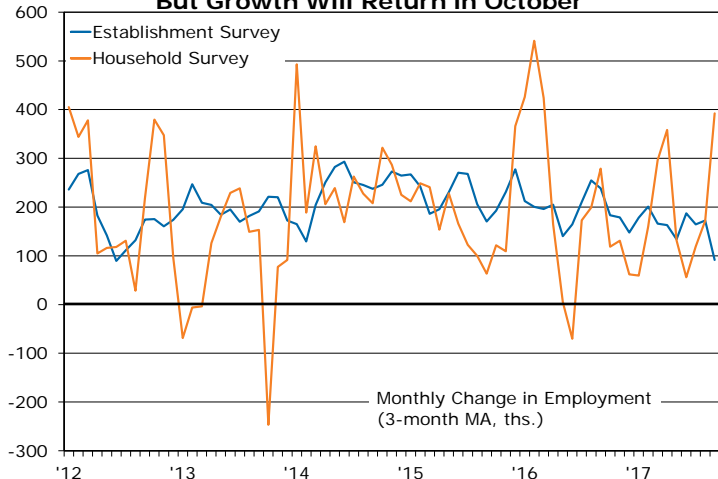
Hurricane-Related Job Losses in September, But U.S. Labor Market Still in Good Shape

- The September jobs report was skewed by Hurricanes Harvey and Irma, with mixed results that should be discounted. The U.S. economy lost 33,000 jobs in September, the first outright decline in employment since September 2010. Employment at restaurants fell by 105,000 in the wake of the storms. But the hurricanes appear to have had little impact on the unemployment rate; it fell to 4.2 percent from 4.4 percent in August, the lowest unemployment rate since February 2001. The number of jobs in the household survey of employment (different from the survey of employers) rose by a whopping 906,000, the biggest one-month jump in almost four years. But about 4.4 million people reported either shorter hours or being employed but not reporting for work in September because of the weather, obviously tied to the hurricanes. Abstracting from the storms, the job market remains in good shape and the trends in 2017 are positive.
- Wages surged in September, up 0.5 percent for the month and up 2.9 percent from one year earlier. This was the strongest year-over-year wage growth since mid-2009. However, September wage growth was likely overstated because of the hurricanes. The huge job losses over the month at restaurants, where workers earn below-average pay, skewed September wages. But average hourly earnings were revised higher in both July and August, and the tightening labor market is pushing up wages.
- The Federal Reserve began to reduce the size of its balance sheet at the beginning of October. In response to the financial crisis the central bank's balance sheet increased from less than \$1 trillion in early 2009 to about \$4.5 trillion in mid-2017. The Fed created money electronically and used the proceeds to purchase long-term Treasuries and mortgage-backed securities to push down long-term interest rates and promote economic growth. That effort was largely successful, and now that the labor market is close to full employment, the Fed is letting these securities run off its balance sheet. This will be very gradual, lasting well into the next decade, and will put modest upward pressure on long-term interest rates. The Fed is initially rolling off \$6 billion a month of long-term Treasuries and \$4 billion a month of mortgage-backed securities and Fannie Mae/Freddie Mac debt (\$10 billion/month total). This total monthly amount will increase by \$10 billion every three months (maintaining the 60/40 split) until it reaches a total of \$50 billion/month.

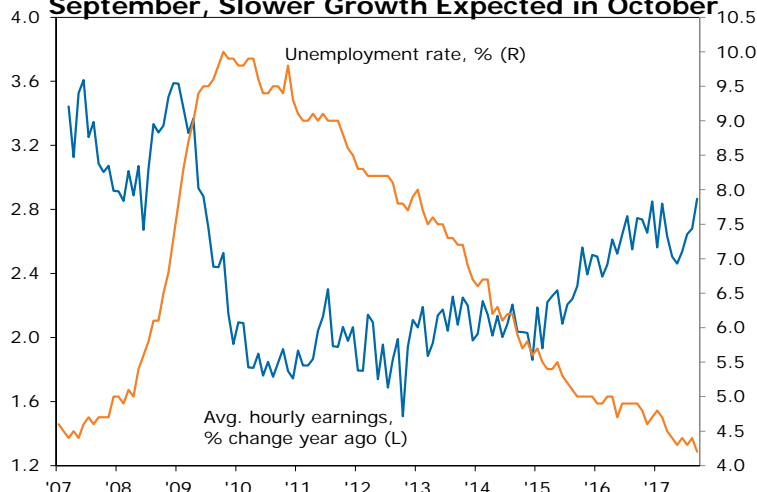
Baseline U.S. Economic Outlook, Summary Table*

	1Q'17a	2Q'17a	3Q'17f	4Q'17f	1Q'18f	2Q'18f	3Q'18f	4Q'18f	2016a	2017f	2018f	2019f
Output & Prices												
Real GDP (Chained 2009 Billions \$)	16903	17031	17149	17274	17372	17482	17572	17665	16716	17089	17523	17898
Percent Change Annualized	1.2	3.1	2.8	2.9	2.3	2.6	2.1	2.2	1.5	2.2	2.5	2.1
CPI (1982-84 = 100)	244.1	243.9	245.2	245.8	247.3	248.8	250.3	251.8	240.0	244.7	249.5	255.6
Percent Change Annualized	3.1	-0.3	2.0	1.1	2.4	2.4	2.4	2.5	1.3	2.0	2.0	2.4
Labor Markets												
Payroll Jobs (Millions)	145.7	146.2	146.6	147.2	147.6	148.0	148.3	148.7	144.3	146.4	148.1	149.5
Percent Change Annualized	1.5	1.3	1.2	1.5	1.1	1.1	1.0	1.0	1.8	1.5	1.2	0.9
Unemployment Rate (Percent)	4.7	4.4	4.3	4.2	4.2	4.2	4.1	4.1	4.9	4.4	4.1	4.0
Interest Rates (Percent)												
Federal Funds	0.70	0.95	1.16	1.17	1.38	1.42	1.65	1.92	0.40	1.00	1.59	2.39
Treasury Note, 10-year	2.45	2.26	2.24	2.45	2.61	2.72	2.83	2.94	1.84	2.35	2.78	3.05
a = actual f = forecast p = preliminary * Please see the Expanded Table for more forecast series.												

Job Losses in September After the Hurricanes, But Growth Will Return in October



Job Losses at Restaurants Skewed Wage Growth in September, Slower Growth Expected in October



Small and Mid-Size Business Owners Curb Their Enthusiasm Somewhat, But Still Optimistic

Optimism among business owners and leaders remains high, but has moderated significantly since the spring, according to PNC's fall 2017 Survey of Small and Middle-Market Business Owners. The biennial survey began in 2003. The share of respondents who described their outlook for the U.S. economy as strongly optimistic dropped from 40 percent to 29 percent, balanced by those with a moderately optimistic outlook rising from 48 percent to 58 percent. Just 12 percent of business owners and leaders expressed pessimism, up slightly from an all-time low of 9 percent in the spring. Small businesses are a key source of economic activity and employment, and owners' perceptions can be good indicators of what is to come. Further solidifying the anticipation of continued growth, more than half of business owners and leaders anticipate increases in sales (54 percent) and profits (51 percent) during the next six months, an increase over fall 2016, but a slight drop from post-election highs reported in spring 2017. The overall findings from the survey confirm that the U.S. economic expansion, now more than eight years old and the third-longest in U.S. history, will continue into 2018.

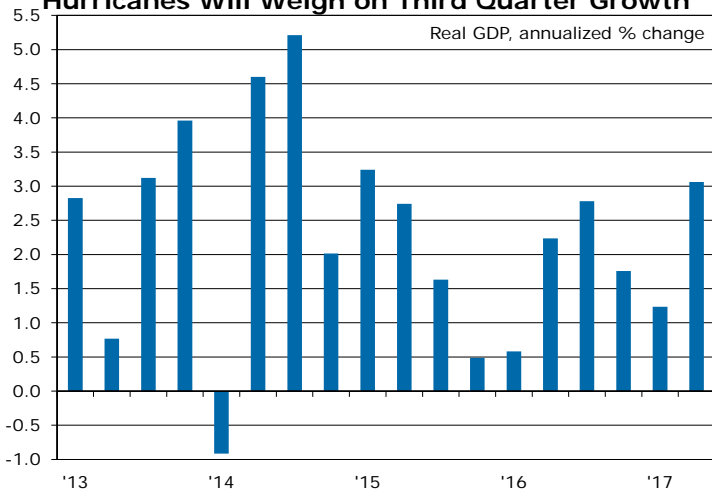
One in three (34 percent) say it is harder to hire qualified employees than it was six months to a year ago. Specifically, the manufacturing and construction sectors most frequently cited hiring difficulties. The top challenges in hiring cited were inadequate skills and experience (44 percent), overall lack of applicants (18 percent), and candidates requiring higher compensation than the business owner can afford (9 percent).

Hiring has become more difficult across all skill levels. Organizations even report that they have turned down business because of a lack of workers. That said, the one ongoing problem with the economic expansion remains persistently soft wage growth. Given the low unemployment rate and consistent complaints from firms about the difficulty in finding workers, wage growth should be stronger. Wage growth is likely to pick up as the job market continues to tighten. The proportion of employers anticipating to increase employee compensation continues to be relatively high, with 37 percent expecting to do so, a slight dip from 41 percent in the spring, but still well above the 28 percent from fall 2016. Among the majority (58 percent) who do not anticipate increasing pay, most believe their provided compensation is sufficient—either asserting that their current compensation level isn't affecting hiring or retention (34 percent), or that their pay is competitive for the industry (32 percent).

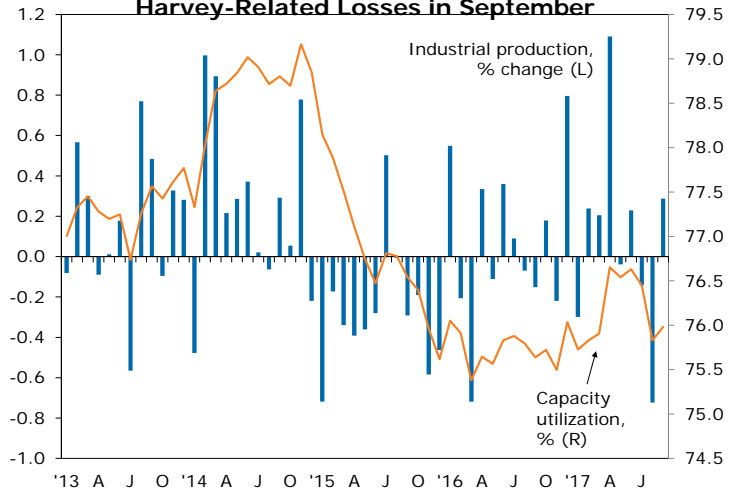
Business owners remain uncertain about the outlook for federal government policy. Thirty-six percent of respondents expect policy changes from the new administration and Congress to have a positive impact on their business over the next year if they were to go into effect. One in eight (13 percent) anticipate a negative impact (a small increase over 9 percent in spring 2017), while 40 percent are unsure and 11 percent anticipate no effect.

Although economic growth likely slowed in the third quarter because of Hurricanes Harvey and Maria, it should quickly rebound because of rebuilding that is funded by federal aid and insurance payments. After job losses in September, job growth will bounce back strongly in October as businesses rehire after the storms. With solid fundamentals for consumer spending, business investment, and the housing market, the U.S. economy will continue to expand throughout 2018. Real GDP will grow by 2.2 percent in 2017, accelerating to 2.5 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 by 2019, as businesses find it more and more difficult to hire as the labor market further tightens. The unemployment rate will fall a bit, bottoming out at slightly below 4 percent in 2020; as a result annual wage growth will accelerate to 3.0 percent, supporting gains in consumer spending. Inflation pressures will gradually build, and the Federal Open Market Committee will raise the federal funds rate once this year and three times next year.

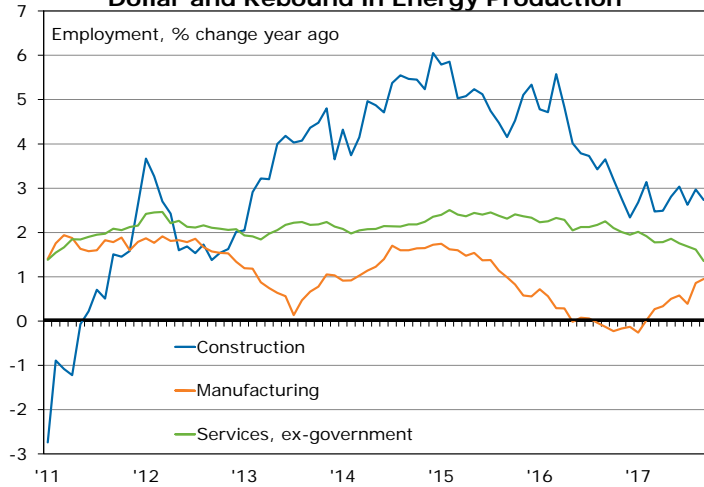
Second Quarter GDP Revised Higher Again; Hurricanes Will Weigh on Third Quarter Growth



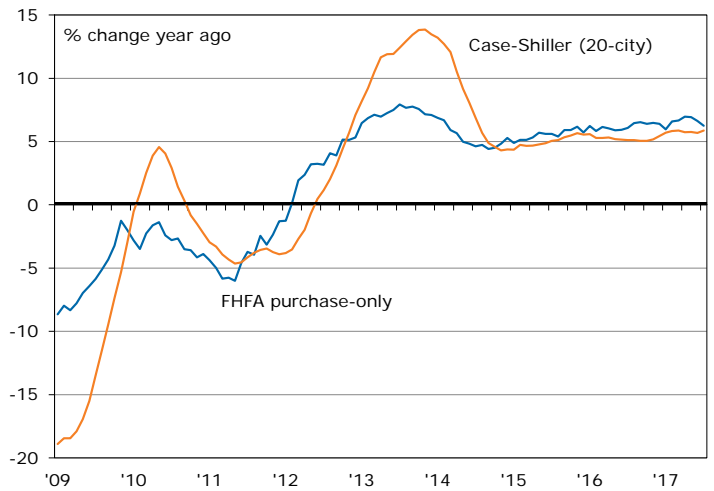
Manufacturing Made Up Some of Its Harvey-Related Losses in September



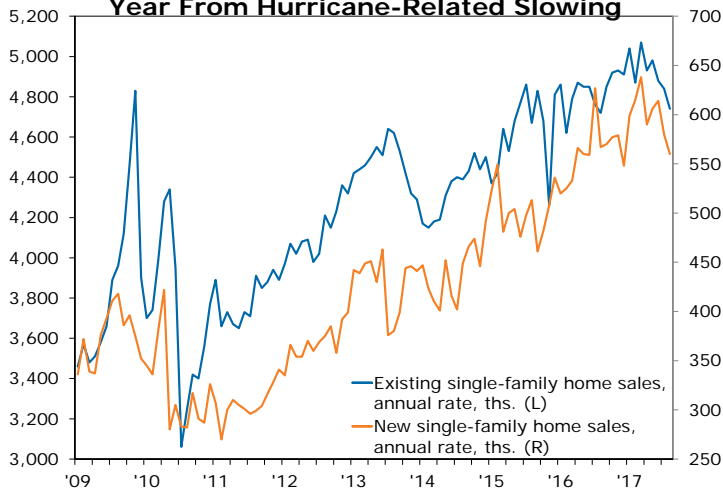
Manufacturing Is Recovering Thanks to Weaker Dollar and Rebound in Energy Production



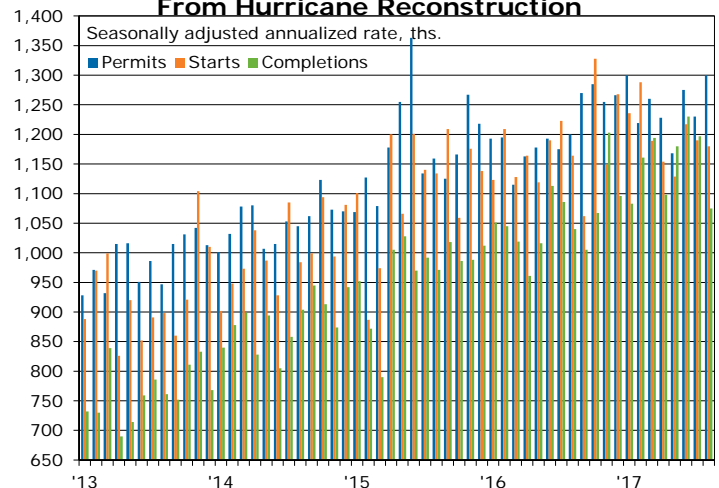
Stable House Price Growth For Almost Four Years



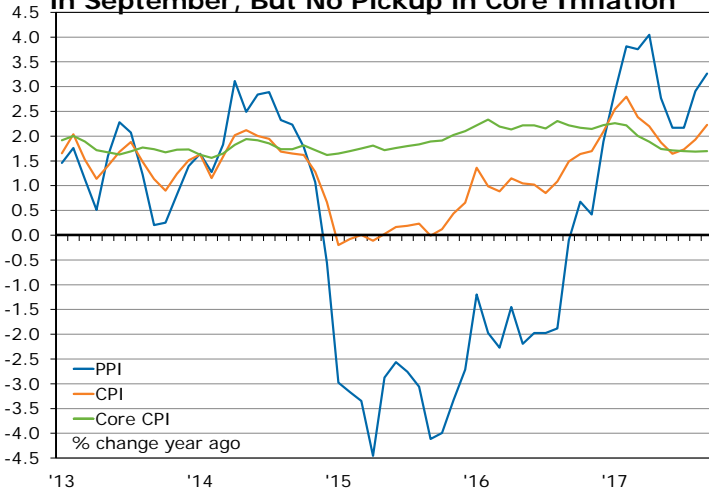
Home Sales Will Recover Later This Year From Hurricane-Related Slowing



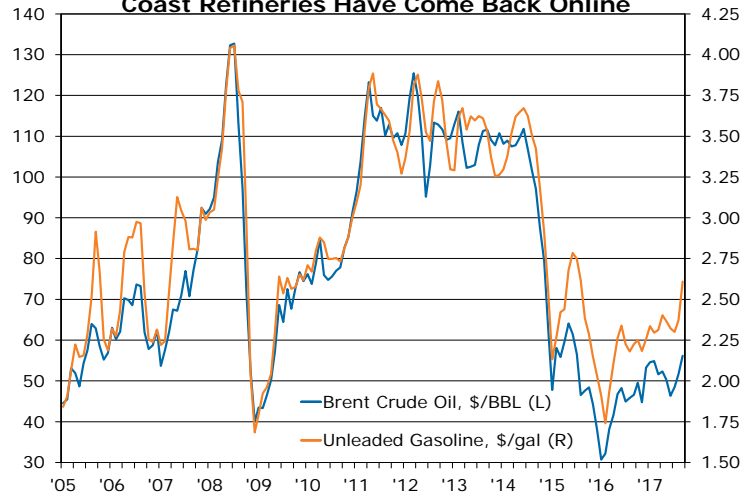
Housing Starts Will Get a Boost From Hurricane Reconstruction



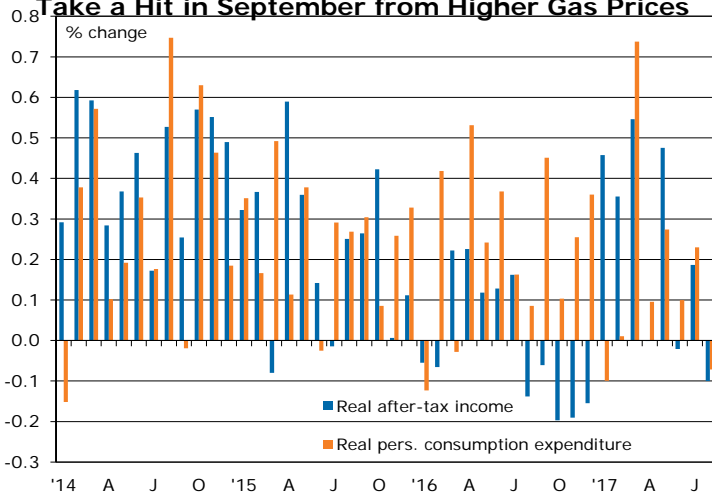
Higher Gas Prices Temporarily Boosted Inflation in September, But No Pickup in Core Inflation



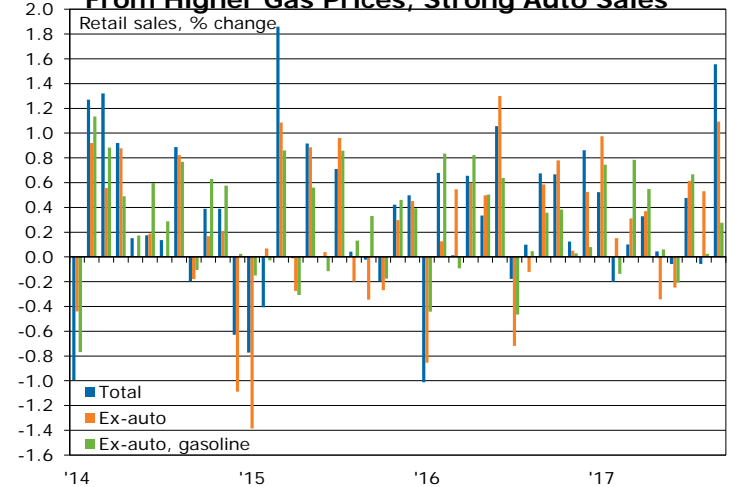
Gasoline Prices Will Fall in October as Gulf Coast Refineries Have Come Back Online



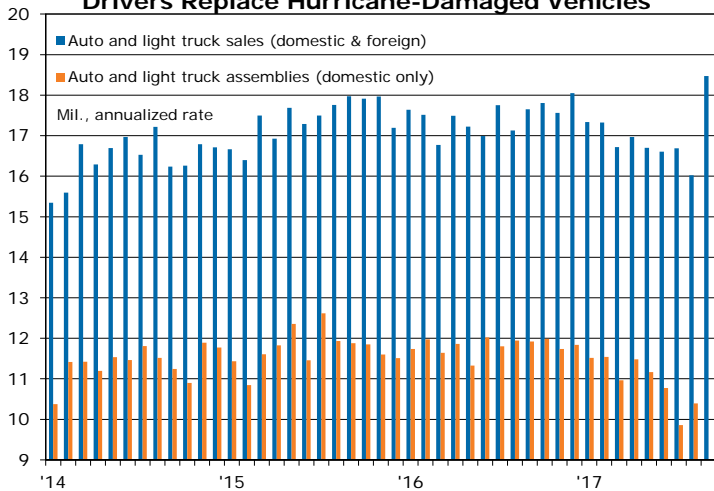
After-Inflation Consumer Spending, Income Will Take a Hit in September from Higher Gas Prices



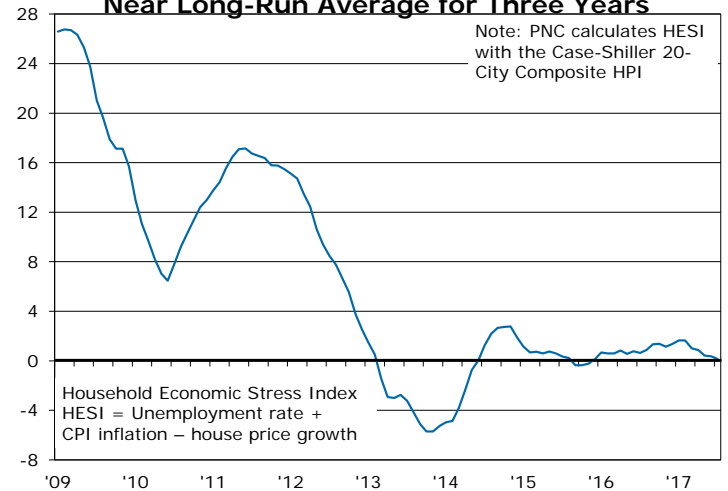
Retail Sales Rebounded in September, In Part From Higher Gas Prices, Strong Auto Sales



September Auto Sales Best in 12 Years as Drivers Replace Hurricane-Damaged Vehicles



Household Economic Stress Has Been Near Long-Run Average for Three Years



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PNC Economics Group
October, 2017

Baseline U.S. Economic Outlook, Expanded Table

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Output												
Nominal GDP (Billions \$)	19058	19249	19479	19710	19921	20149	20356	20570	18624	19374	20249	21111
Percent Change Annualized	3.3	4.1	4.9	4.8	4.4	4.7	4.2	4.3	2.8	4.0	4.5	4.3
Real GDP (Chained 2009 Billions \$)	16903	17031	17149	17274	17372	17482	17572	17665	16716	17089	17523	17898
Percent Change Annualized	1.2	3.1	2.8	2.9	2.3	2.6	2.1	2.2	1.5	2.2	2.5	2.1
Pers. Consumption Expenditures	11758	11853	11913	11999	12055	12116	12187	12260	11572	11881	12154	12430
Percent Change Annualized	1.9	3.3	2.0	2.9	1.9	2.0	2.4	2.4	2.7	2.7	2.3	2.3
Nonresidential Fixed Investment	2264	2301	2317	2340	2356	2372	2383	2396	2210	2306	2377	2423
Percent Change Annualized	7.1	6.7	3.0	4.0	2.6	2.7	2.0	2.1	-0.6	4.3	3.1	1.9
Residential Investment	606	594	590	600	607	612	616	622	587	598	615	638
Percent Change Annualized	11.1	-7.3	-2.7	7.2	4.6	3.5	2.5	4.0	5.5	1.7	2.9	3.8
Change in Private Inventories	1	6	33	33	47	58	56	55	33	18	54	56
Net Exports	-622	-614	-606	-619	-626	-625	-631	-642	-586	-615	-631	-654
Government Expenditures	2897	2895	2906	2924	2937	2952	2965	2978	2900	2905	2958	3010
Percent Change Annualized	-0.6	-0.2	1.5	2.6	1.8	2.1	1.7	1.8	0.8	0.2	1.8	1.7
Industrial Prod. Index (2012 = 100)	103.7	105.1	105.4	106.0	106.5	107.0	107.5	108.1	103.1	105.1	107.3	109.8
Percent Change Annualized	1.5	5.7	1.0	2.5	1.6	2.2	1.9	2.2	-1.2	1.9	2.1	2.3
Capacity Utilization (Percent)	75.8	76.6	76.8	77.2	77.4	77.6	77.6	77.7	75.7	76.6	77.6	78.4
Prices												
CPI (1982-84 = 100)	244.1	243.9	245.2	245.8	247.3	248.8	250.3	251.8	240.0	244.7	249.5	255.6
Percent Change Annualized	3.1	-0.3	2.0	1.1	2.4	2.4	2.4	2.5	1.3	2.0	2.0	2.4
Core CPI Index (1982-84 = 100)	251.0	251.4	252.4	253.8	255.3	256.7	258.2	259.7	247.6	252.2	257.5	263.5
Percent Change Annualized	2.5	0.6	1.7	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	115.6	116.1	111.4	113.1	115.3	117.6
Percent Change Annualized	1.8	0.9	1.6	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	146.6	147.2	147.6	148.0	148.3	148.7	144.3	146.4	148.1	149.5
Percent Change Annualized	1.5	1.3	1.2	1.5	1.1	1.1	1.0	1.0	1.8	1.5	1.2	0.9
Unemployment Rate (Percent)	4.7	4.4	4.3	4.2	4.2	4.2	4.1	4.1	4.9	4.4	4.1	4.0
Average Weekly Hours, Prod. Works.	33.6	33.7	33.6	33.7	33.7	33.7	33.8	33.8	33.6	33.6	33.7	33.8
Personal Income												
Average Hourly Earnings (\$)	21.86	21.99	22.15	22.32	22.49	22.67	22.85	23.04	21.56	22.08	22.76	23.51
Percent Change Annualized	2.0	2.4	2.9	3.0	3.1	3.2	3.3	3.3	2.5	2.4	3.1	3.3
Real Disp. Income (2009 Billions \$)	12680	12783	12884	12989	13071	13148	13229	13303	12608	12834	13188	13470
Percent Change Annualized	2.9	3.3	3.2	3.3	2.5	2.4	2.5	2.3	1.4	1.8	2.8	2.1
Housing												
Housing Starts (Ths., Ann. Rate)	1238	1167	1170	1212	1249	1273	1295	1316	1177	1197	1283	1360
Ext. Home Sales (Ths., Ann. Rate)	5620	5563	5531	5639	5749	5845	5927	5992	5440	5588	5878	6093
New SF Home Sales (Ths., Ann. Rate)	617	603	582	609	631	642	652	661	561	603	647	681
Case/Shiller HPI (Jan. 2000 = 100)	188.1	190.0	191.3	192.4	193.4	194.5	195.4	196.3	181.1	190.4	194.9	198.4
Percent Change Year Ago	5.6	5.8	5.3	3.9	2.8	2.3	2.2	2.1	5.1	5.1	2.3	1.8
Consumer												
Household Economic Stress Index	1.6	0.5	0.9	1.8	2.7	3.8	4.0	4.5	1.0	1.2	3.7	4.6
Auto Sales (Millions)	17.1	16.8	17.1	17.5	17.3	17.1	17.1	17.1	17.5	17.1	17.2	17.0
Consumer Credit (Billions \$)	3693	3735	3770	3811	3852	3891	3933	3976	3559	3752	3913	4080
Percent Change Annualized	5.3	4.7	3.8	4.4	4.4	4.1	4.3	4.5	3.7	5.4	4.3	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	1.16	1.17	1.38	1.42	1.65	1.92	0.40	1.00	1.59	2.39
3-Month Treasury Bill	0.61	0.91	1.05	1.18	1.36	1.49	1.65	1.91	0.32	0.94	1.60	2.34
10-Year Treasury Note	2.45	2.26	2.24	2.45	2.61	2.72	2.83	2.94	1.84	2.35	2.78	3.05
30-Year Fixed Mortgage	4.17	3.99	3.90	4.02	4.17	4.27	4.38	4.48	3.65	4.02	4.33	4.58
a = actual f = forecast p = preliminary												

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