ECONOMIC 2017: REASON FOR OPTIMISM

Stuart Hoffman:

Stu Hoffman
SVP and Chief Economist
The PNC Financial Services Group, Inc.
412-762-3101
stu.hoffman@pnc.com

I am Stuart Hoffman, PNC's Chief Economist.

What a difference a year makes! When I delivered my annual outlook one year ago, stock and oil prices were collapsing and fears of an economic recession were mounting. I argued that this pessimism was unwarranted and, indeed, the economy and jobs, and stock and oil prices, moved up as 2016 progressed.

Now as 2017 begins, stock and oil prices are moving higher and economic outlooks for 2017 are being revised up. Of course, much depends on the policies of the Trump Administration and Republican-controlled Congress. Likely enactment of corporate and personal income tax cuts including a repatriation tax cut on foreign held earnings, less regulation including replacing Obamacare, and higher infrastructure and defense spending would stimulate faster economic growth. But trade protection policies such as tariffs and quota would retard economic growth. We are forecasting stronger economic growth near 2.4% in 2017, up from 2.0% in 2016. Jobs should rise by close to 2 million this year, pushing the unemployment rate down to 4.5%, and workers' wage gains will speed up to near 3%.

First half 2017 economic growth will stay close to 2% awaiting enactment of the tax cut and increased spending which will likely be phased in over 2017 and 2018. We expect stronger economic growth near 3% in the latter half of 2017 and carrying over into 2018. Along with faster economic growth will come faster inflation, especially as gasoline prices rise along with oil prices.

I expect the Fed to raise interest rate twice in 2017 and four times in 2018, each time by 25 bps. Treasury and mortgage rates will move higher but to a lesser extent than the Fed rate. PNC Wealth Management continues to recommend a 65%/35% allocation between stocks and fixed income investments for a balanced investor. With corporate profits, inflation and interest rates rising in 2017–2018, stock returns should handily outperform fixed income investments.

In summary, risks and uncertainties abound in early 2017 but when was the future ever known with certainty! My assessment is that economic growth will be faster in 2017–2018 with assists from consumer spending, construction spending, business investment and Federal government spending more than offsetting weakness in U.S. exports as the dollar continues to strengthen and growth outside the U.S. remains slow. Moreover, U.S. energy production will turn from a BIG negative in 2015–2016 to a positive in 2017–2018. In the environment, U.S. interest rate will move gradually higher, making stocks a better investment than bonds.

I conclude by wishing all of you a happy, healthy and prosperous New Year. And thank you for your confidence in PNC as your financial partner. We will do all we can to deserve your trust.

CIB ENT PDF 0117-091-450101

PNC