

# NATIONAL ECONOMIC OUTLOOK

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## Executive Summary

### Recession Fears Fade With Stronger March Job Growth, Retail Sales

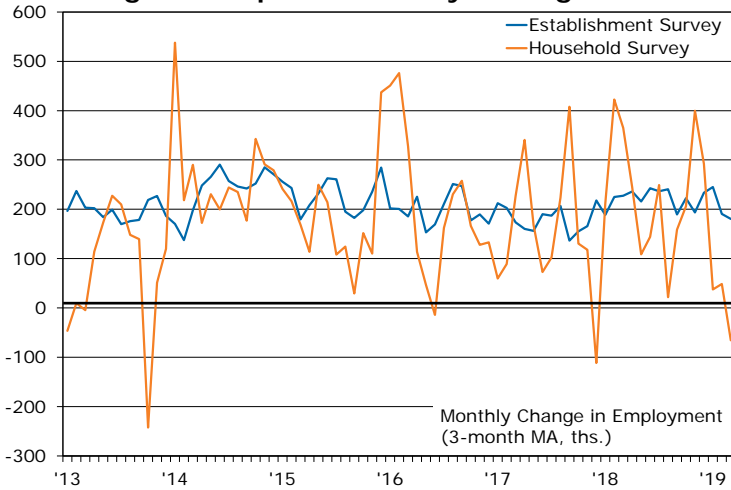
- Job growth bounced back in March, with an increase in employment of 196,000. February job growth was revised higher to 33,000; the initial report of 20,000 had sparked recession concerns. But employment gains have averaged 180,000 per month so far in 2019, well above the pace needed to keep up with underlying growth in the labor force, although below the 2018 average of 223,000. The unemployment rate held steady at 3.8 percent in March; outside of a 3.7 percent rate in late 2018, this is the lowest the unemployment rate has been since 1969. Other measures also show a very tight labor market. Growth in average hourly earnings slowed a bit in March to 3.2 percent from one year earlier, but remains solid; competition for workers is boosting pay. Income gains in turn are allowing consumers to gradually increase their spending.
- Retail sales increased 1.6 percent in March, the biggest one-month gain since September 2017. Higher gasoline prices and good auto sales accounted for some of the increase, but sales excluding autos and gasoline were up a strong 0.9 percent over the month. After a big 1.6 percent drop in retail sales in December, and weak growth in subsequent months, media reports questioned the durability of consumers given that the expansion is almost ten years old. But with the excellent job market and consumer balance sheets in great shape, household spending will continue to push the economy forward throughout 2019. Total retail sales were up a solid 3.6 percent in March from one year earlier, with sales excluding autos and gasoline up by the same amount.
- The consumer price index rose 0.4 percent in March, the strongest month of inflation since January 2018. Energy prices rose 3.5 percent over the month, including a 6.5 percent jump in gasoline prices, pushing the overall index higher. Core inflation, excluding food and energy, was a tamer 0.1 percent; it has been between 0.1 and 0.2 percent for more than a year. Overall inflation was 1.9 percent on a year-over-year basis in March, while core inflation was 2.0 percent. Total inflation is set to increase a bit in the near term with higher energy prices, but core inflation remains tame, and businesses remain reluctant to raise prices, even with wage pressures building. This gives the Federal Reserve room to keep interest rates low.

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

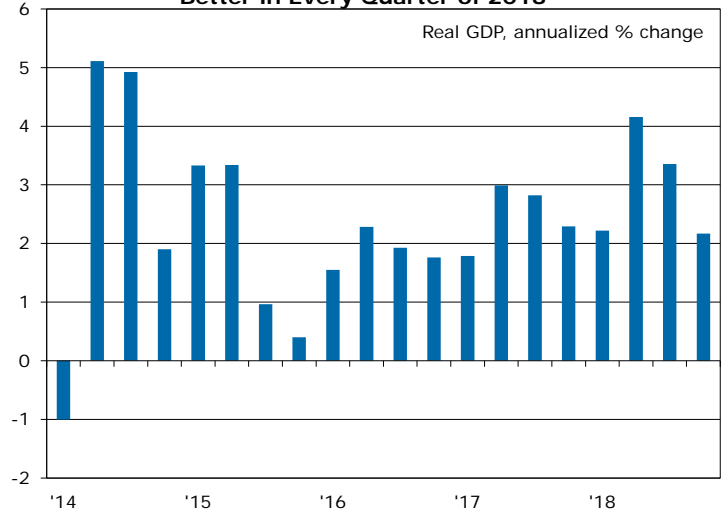
	1Q'19f	2Q'19f	3Q'19f	4Q'19f	1Q'20f	2Q'20f	3Q'20f	4Q'20f	2018a	2019f	2020f	2021f
<b>Output &amp; Prices</b>												
Real GDP (Chained 2012 Billions \$)	18810	18945	19064	19165	19250	19331	19412	19488	18566	18996	19370	19678
Percent Change Annualized	1.0	2.9	2.5	2.1	1.8	1.7	1.7	1.6	2.9	2.3	2.0	1.6
CPI (1982-84 = 100)	253.3	255.1	256.7	258.1	259.5	260.9	262.3	263.8	251.1	255.8	261.6	267.5
Percent Change Annualized	0.9	2.9	2.4	2.2	2.2	2.2	2.2	2.2	2.4	1.9	2.3	2.2
<b>Labor Markets</b>												
Payroll Jobs (Millions)	150.7	151.2	151.6	152.0	152.3	152.5	152.8	153.0	149.1	151.4	152.6	153.6
Percent Change Annualized	1.7	1.3	1.1	1.0	0.9	0.6	0.6	0.6	1.7	1.5	0.9	0.6
Unemployment Rate (Percent)	3.9	3.7	3.6	3.5	3.5	3.6	3.7	3.7	3.9	3.7	3.6	3.9
<b>Interest Rates (Percent)</b>												
Federal Funds	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	1.83	2.40	2.40	2.40
Treasury Note, 10-year	2.65	2.49	2.55	2.60	2.64	2.63	2.63	2.63	2.91	2.57	2.63	2.63

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

## A Bit Slower Job Growth So Far This Year, But Still Enough to Keep the Economy Moving Forward



## Real GDP Growth of 2 Percent or Better in Every Quarter of 2018



## With Growth Set to Slow Over 2019 and Risks to the Downside, Fed Is Now on Hold

Recession fears have eased in recent weeks after job growth and retail sales both bounced back in March after a couple of soft months. The concerns were overblown, as the economy was never in any great danger given solid fundamentals, in particular the very good labor market. But economic growth is set to slow over the course of this year and into next, and risks to the outlook are weighted toward the downside. Also, the yield curve briefly inverted in March, with short-term interest rates temporarily moving above long-term rates; this has been a traditional signal of impending recession. In light of all this, the Federal Open Market Committee has signaled that it does not plan to raise short-term interest rates this year, a change from their previous stance. As a result, PNC has revised its forecast for the federal funds rate and is assuming no rate hike this year.

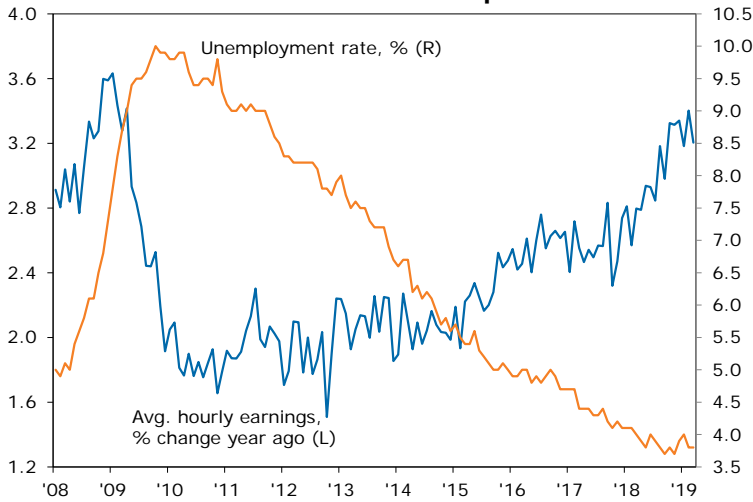
Although the U.S. economy is not in imminent danger of recession, growth is set to slow in the second half of 2019 and into 2020. Reported real GDP growth will be weak in the first quarter at around 1 percent, in part due to the partial government shutdown that lasted through most of January, in part due to difficulties the Bureau of Economic Analysis has had with seasonal adjustment of the data in recent years, and in part due to other transitory factors. Growth should then bounce back in the second quarter, to close to 3 percent.

But the trend will be toward slower growth. First, fiscal stimulus will wear off later this year, and turn into fiscal drag by 2020. The corporate and personal income tax cuts passed at the end of 2017 took effect last year and are providing temporary boosts to consumer spending and business investment. But with no new tax cuts, the lift to growth is coming to an end. Similarly, early in 2018 Congress voted to temporarily raise federal spending, lifting government purchases of goods and services, but without additional action that impact will wane in 2020. Second, weaker labor force growth going forward will weigh on economic growth. There was a huge amount of labor market slack coming out of the Great Recession, and the movement of unemployed and discouraged workers into employment allowed businesses to increase output. But with the unemployment rate near a 50-year low and the job market extremely tight, labor force and job growth are set to slow significantly over the next few years, weighing on hiring and overall economic growth. Finally, a slowing international economy will constrain U.S. economic growth. The International Monetary Fund recently marked down its forecast for world economic growth in 2019 to 3.3 percent, from a forecast of 3.7 percent last year; global growth was 3.6 percent in 2018. Trade tensions between the U.S. and China, weaker manufacturing activity in Europe, and recessions in Argentina and Turkey are all contributing to softer global growth.

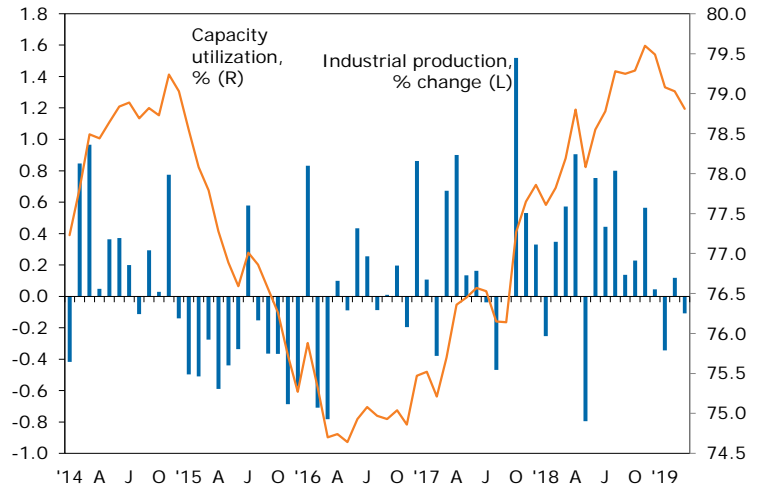
Risks to the U.S. outlook are weighted to the downside; these include the possibilities of an all-out trade war with China, a hard Brexit between Great Britain and the European Union, and a big drop in stock prices that spooks consumers and businesses. But one downside risk has faded. The Federal Open Market Committee indicated in March that it does not expect to raise its key policy rate this year, reducing concerns that monetary policy could start to weigh on growth at a time when the economy is slowing. With inflation low and risks to the downside, the FOMC can afford to be patient. Monetary policy is still slightly supportive of growth, and the FOMC can even cut rates later this year or in 2020 if the economy starts to falter.

After growth of 2.9 percent in 2018, the U.S. economy should expand 2.3 percent this year. By June the current expansion will have lasted a full decade and become the longest expansion in U.S. history. Growth will slow to 2.0 percent in 2020 and 1.6 percent in 2021. Monthly job growth will slow to around 150,000 in 2019 and below 100,000 in 2020 because of the tight labor market. The unemployment rate will gradually fall to end this year at around 3.5 percent, then rise a bit in 2020 with slower economic growth. PNC expects the FOMC to keep the federal funds rate in its current 2.25 to 2.50 percent range in the foreseeable future, although long-term rates will move a bit higher, reversing recent months' declines, as recession concerns fade and inflation slowly picks up.

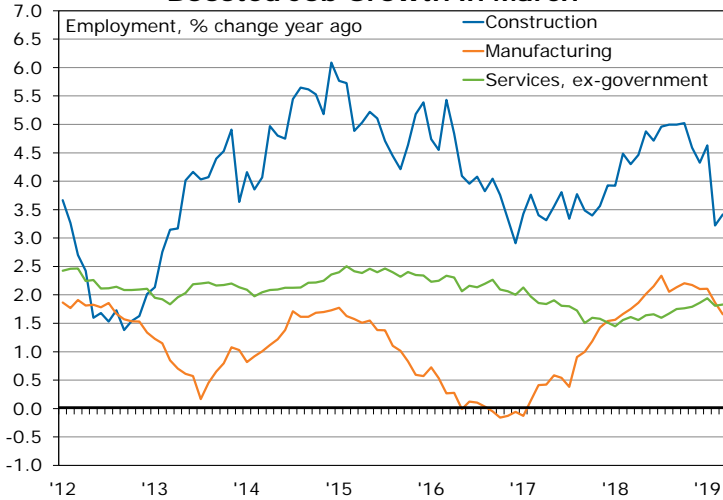
## Clear Acceleration in Wage Growth as Job Market Has Improved



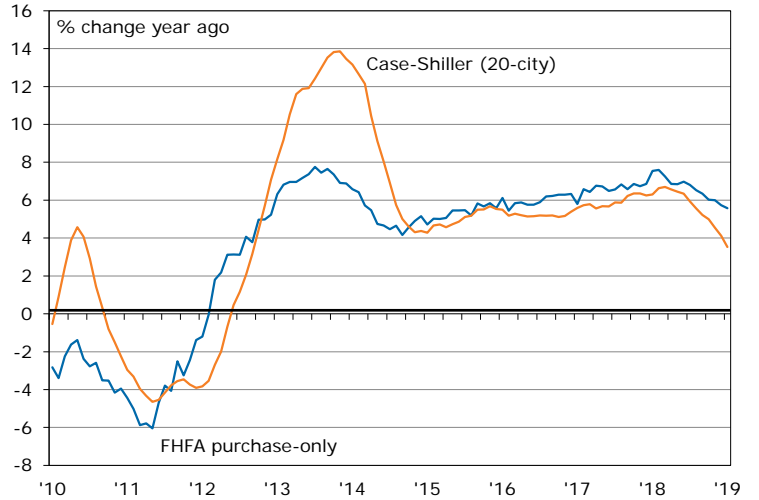
## Potential Trade War Is Downside Risk for the Industrial Sector



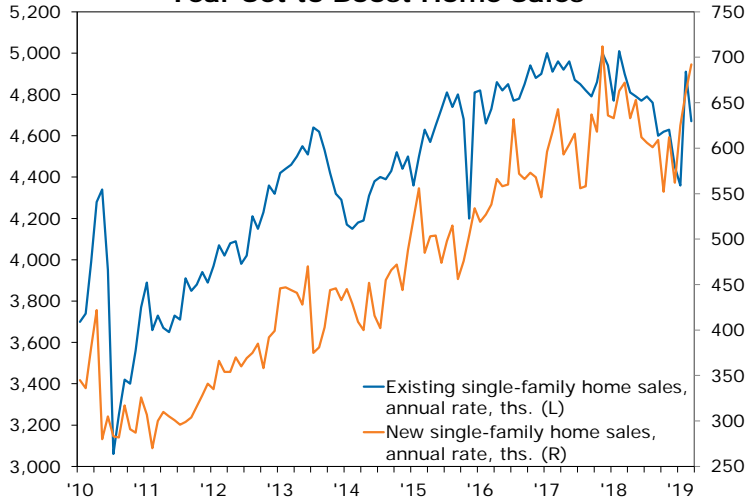
## With Better Weather, Pickup in Construction Boosted Job Growth in March



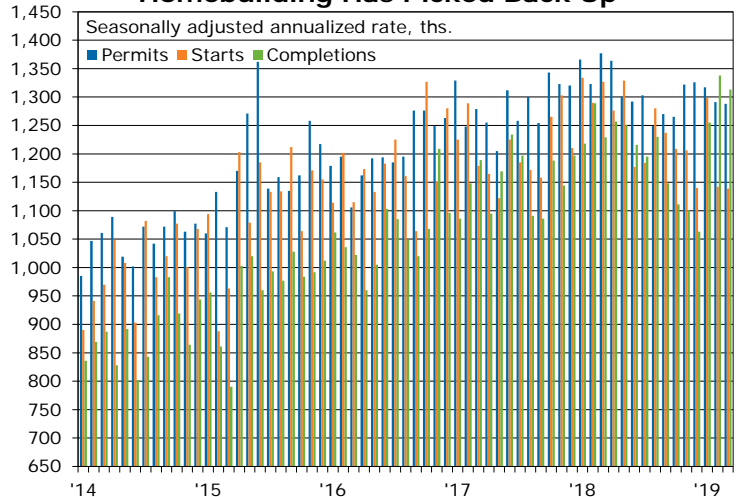
## House Price Growth Set to Slow Further in 2019



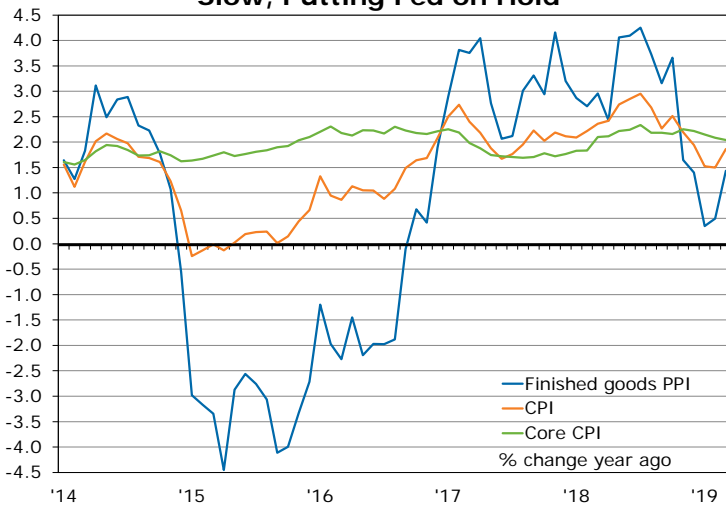
## Lower Mortgage Rates This Year Set to Boost Home Sales



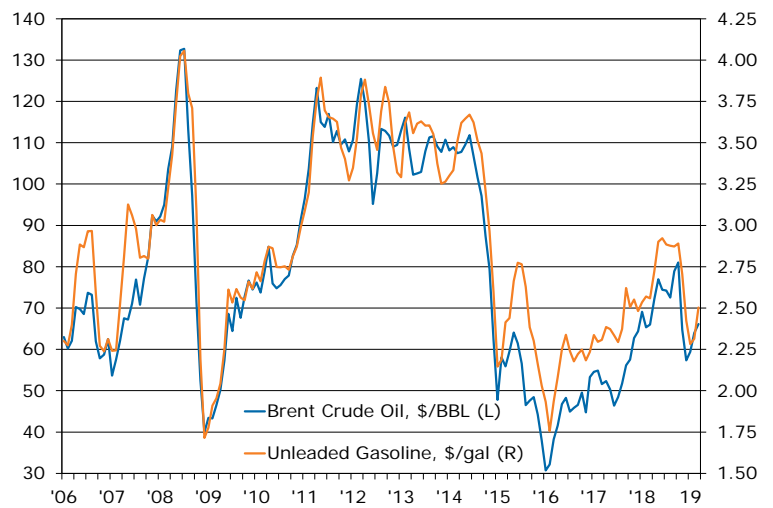
## After Softness in Late 2018, Homebuilding Has Picked Back Up



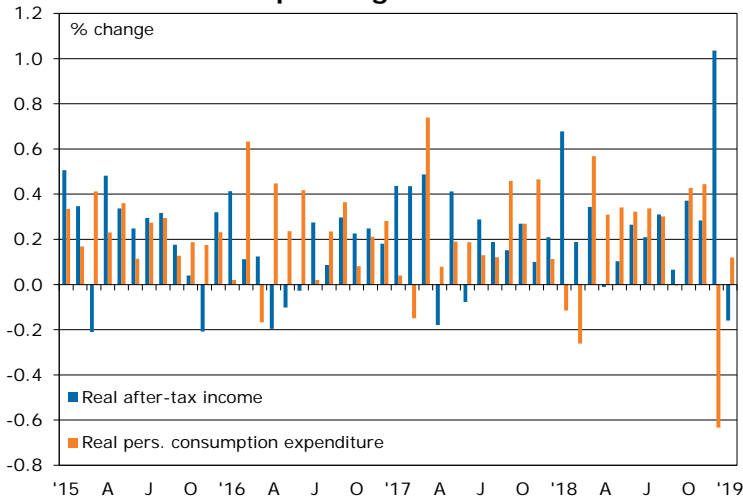
### Core Inflation Continues to Slow, Putting Fed on Hold



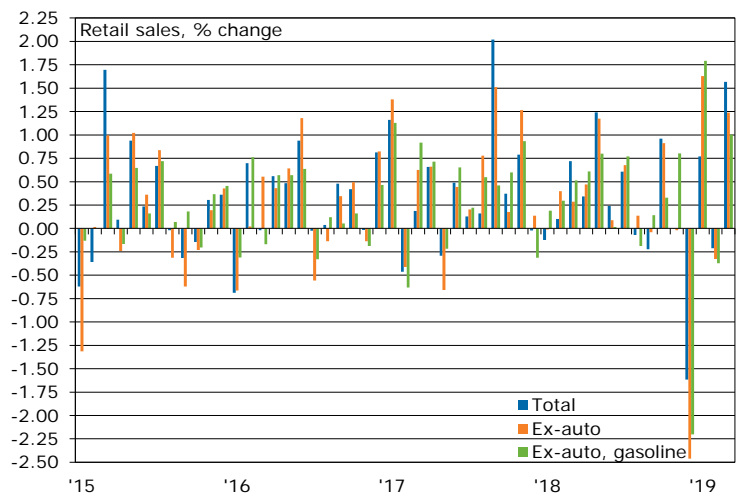
### Modest Recovery in Energy Prices So Far in 2019



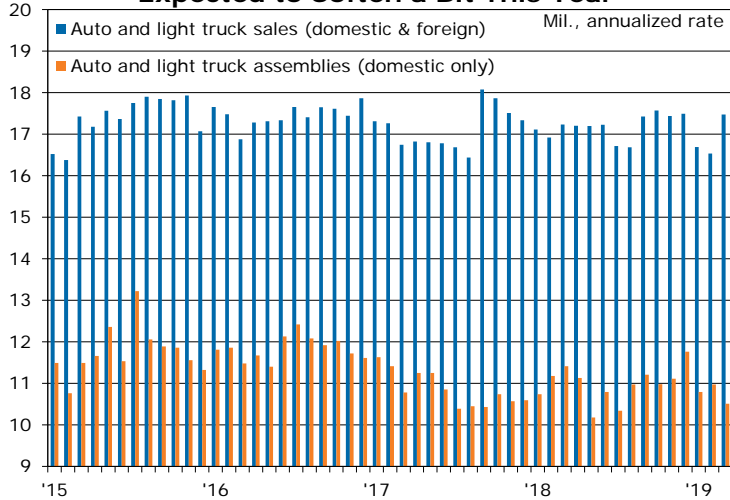
### Solid Labor Market Supports Continued Consumer Spending Growth This Year



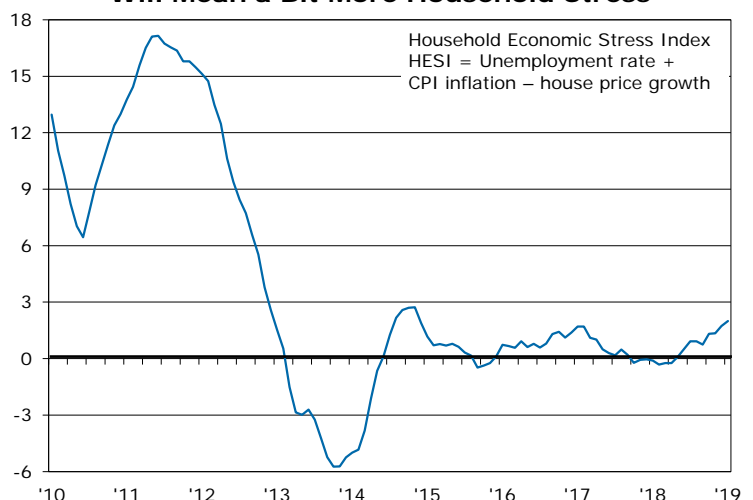
### Solid March Retail Sales Ease Recession Worries



### Better March, But Auto Sales Still Expected to Soften a Bit This Year



### Slower House Price Growth in 2019 Will Mean a Bit More Household Stress



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PNC Economics Group

April, 2019

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

	1Q'19f	2Q'19f	3Q'19f	4Q'19f	1Q'20f	2Q'20f	3Q'20f	4Q'20f	2018a	2019f	2020f	2021f
<b>Output</b>												
Nominal GDP (Billions \$)	20981	21248	21506	21740	21959	22173	22389	22599	20494	21369	22280	23138
Percent Change Annualized	2.2	5.2	4.9	4.4	4.1	4.0	4.0	3.8	5.2	4.3	4.3	3.9
Real GDP (Chained 2012 Billions \$)	18810	18945	19064	19165	19250	19331	19412	19488	18566	18996	19370	19678
Percent Change Annualized	1.0	2.9	2.5	2.1	1.8	1.7	1.7	1.6	2.9	2.3	2.0	1.6
Pers. Consumption Expenditures	13048	13139	13216	13287	13353	13416	13471	13523	12888	13173	13441	13655
Percent Change Annualized	0.5	2.8	2.4	2.2	2.0	1.9	1.7	1.6	2.6	2.2	2.0	1.6
Nonresidential Fixed Investment	2795	2829	2860	2885	2904	2920	2934	2948	2714	2842	2927	2987
Percent Change Annualized	4.7	5.0	4.4	3.6	2.7	2.1	2.0	2.0	6.9	4.7	3.0	2.0
Residential Investment	604	605	609	612	615	617	622	625	609	608	620	634
Percent Change Annualized	2.2	1.0	2.9	1.7	1.7	1.8	2.7	2.4	-0.3	-0.3	2.0	2.3
Change in Private Inventories	86	76	66	57	51	45	44	43	45	71	46	41
Net Exports	-952	-964	-975	-986	-990	-988	-983	-979	-912	-969	-985	-969
Government Expenditures	3190	3219	3249	3269	3277	3281	3286	3287	3176	3232	3283	3291
Percent Change Annualized	0.2	3.7	3.7	2.6	0.9	0.5	0.5	0.2	1.5	1.8	1.6	0.2
Industrial Prod. Index (2012 = 100)	110.3	110.8	111.4	111.8	112.0	112.2	112.4	112.5	107.9	111.1	112.3	112.8
Percent Change Annualized	2.2	2.1	2.0	1.4	0.9	0.7	0.5	0.5	4.0	3.0	1.1	0.4
Capacity Utilization (Percent)	79.0	79.3	79.7	79.9	80.1	80.3	80.4	80.5	78.0	79.5	80.3	80.7
<b>Prices</b>												
CPI (1982-84 = 100)	253.3	255.1	256.7	258.1	259.5	260.9	262.3	263.8	251.1	255.8	261.6	267.5
Percent Change Annualized	0.9	2.9	2.4	2.2	2.2	2.2	2.2	2.2	2.4	1.9	2.3	2.2
Core CPI Index (1982-84 = 100)	261.0	262.4	263.7	265.1	266.5	268.0	269.4	270.9	257.6	263.1	268.7	274.6
Percent Change Annualized	2.3	2.1	2.1	2.1	2.1	2.2	2.2	2.2	2.1	2.1	2.1	2.2
PCE Price Index (2012 = 100)	109.1	109.8	110.4	110.9	111.5	112.0	112.6	113.1	108.2	110.0	112.3	114.5
Percent Change Annualized	0.7	2.6	2.2	2.0	2.0	2.0	2.0	2.0	2.0	1.7	2.1	2.0
Core PCE Price Index (2012 = 100)	111.3	111.8	112.3	112.8	113.4	113.9	114.5	115.1	110.0	112.0	114.2	116.5
Percent Change Annualized	2.0	1.8	1.9	1.9	1.9	2.0	2.0	2.0	1.9	1.9	1.9	2.0
GDP Price Index (2012 = 100)	111.5	112.2	112.8	113.5	114.1	114.8	115.4	116.1	110.4	112.5	115.1	117.7
Percent Change Annualized	1.3	2.3	2.4	2.3	2.3	2.3	2.3	2.3	2.3	1.9	2.3	2.3
Crude Oil, WTI (\$/Barrel)	54.8	60.6	61.3	61.9	62.5	63.1	64.0	64.8	65.0	59.6	63.6	67.0
<b>Labor Markets</b>												
Payroll Jobs (Millions)	150.7	151.2	151.6	152.0	152.3	152.5	152.8	153.0	149.1	151.4	152.6	153.6
Percent Change Annualized	1.7	1.3	1.1	1.0	0.9	0.6	0.6	0.6	1.7	1.5	0.9	0.6
Unemployment Rate (Percent)	3.9	3.7	3.6	3.5	3.5	3.6	3.7	3.7	3.9	3.7	3.6	3.9
Average Weekly Hours, Prod. Works.	33.7	33.7	33.7	33.7	33.7	33.7	33.7	33.6	33.7	33.7	33.7	33.6
<b>Personal Income</b>												
Average Hourly Earnings (\$)	23.18	23.37	23.56	23.75	23.95	24.14	24.33	24.52	22.70	23.47	24.23	25.00
Percent Change Annualized	3.2	3.4	3.3	3.3	3.3	3.3	3.2	3.2	3.0	3.4	3.3	3.2
Real Disp. Income (2012 Billions \$)	14605	14645	14701	14755	14799	14839	14879	14921	14350	14676	14860	15042
Percent Change Annualized	2.2	1.1	1.6	1.5	1.2	1.1	1.1	1.2	2.9	2.3	1.2	1.2
<b>Housing</b>												
Housing Starts (Ths., Ann. Rate)	1236	1268	1283	1281	1278	1274	1281	1289	1249	1267	1281	1306
Ext. Home Sales (Ths., Ann Rate)	5004	5133	5276	5345	5408	5408	5439	5464	5341	5190	5430	5519
New SF Home Sales (Ths., Ann Rate)	596	611	622	622	623	621	622	625	620	613	623	628
Case/Shiller HPI (Jan. 2000 = 100)	207.7	209.2	210.6	211.8	213.0	214.1	215.2	216.4	202.8	209.9	214.6	219.3
Percent Change Year Ago	4.0	3.7	3.4	2.9	2.5	2.3	2.2	2.1	5.9	3.5	2.3	2.2
<b>Consumer</b>												
Household Economic Stress Index	1.5	1.9	2.1	2.7	3.5	3.6	3.7	3.8	0.5	2.0	3.6	4.0
Auto Sales (Millions)	16.9	17.0	17.0	17.1	17.1	17.1	17.0	17.0	17.2	17.0	17.0	16.8
Consumer Credit (Billions \$)	4058	4102	4143	4186	4228	4270	4313	4356	3932	4122	4292	4466
Percent Change Annualized	4.0	4.4	4.1	4.3	4.0	4.0	4.1	4.1	4.6	4.8	4.1	4.1
<b>Interest Rates (Percent)</b>												
Prime Rate	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	4.90	5.50	5.50	5.50
Federal Funds	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	1.83	2.40	2.40	2.40
3-Month Treasury Bill	2.44	2.35	2.31	2.27	2.25	2.25	2.25	2.25	1.97	2.34	2.25	2.25
10-Year Treasury Note	2.65	2.49	2.55	2.60	2.64	2.63	2.63	2.63	2.91	2.57	2.63	2.63
30-Year Fixed Mortgage	4.37	4.19	4.21	4.23	4.25	4.25	4.25	4.25	4.54	4.25	4.25	4.25
a = actual    f = forecast    p = preliminary												

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