

# NATIONAL ECONOMIC OUTLOOK

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## Executive Summary

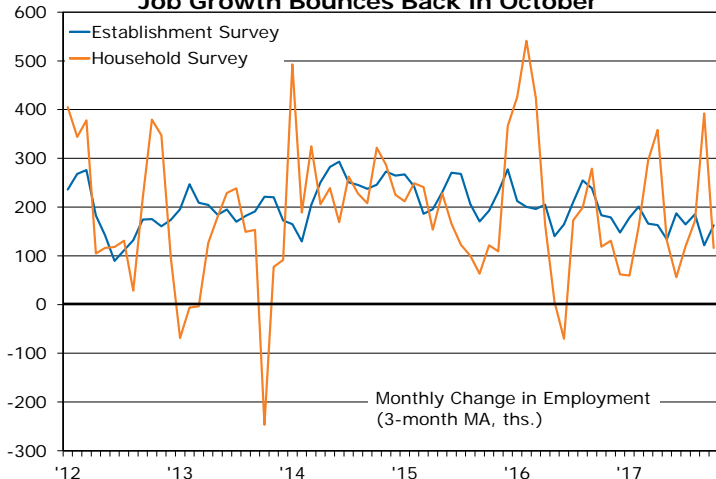
### Job Market Quickly Bounces Back After Hurricanes, With Lowest Unemployment Rate Since 2000

- Real GDP increased at a very good 3.0 percent annual rate in the third quarter despite the drag from Hurricanes Harvey and Irma, just a slight slowing from 3.1 percent growth in the second quarter. On a year-ago basis real GDP was up 2.3 percent in the third quarter, close to its average pace during the current economic expansion. Consumer spending growth slowed in the third quarter to 2.4 percent annualized from 3.3 percent in the second quarter, held back by the hurricanes. Investment in housing fell 6.0 percent, pushed lower by the storms. Business fixed investment rose a solid 3.9 percent. Investment in inventories added 0.7 percentage point to growth, but is likely to subtract from growth at the end of the year.
- The U.S. economy added 261,000 jobs in October, bouncing back from very weak job growth in September in the wake of Harvey and Irma. The October increase was below the consensus expectation of 315,000 jobs. September jobs were revised higher, however, from a loss of 33,000 to a small gain of 18,000. August job growth was also revised higher, by 39,000, to an increase of 208,000, for a very large combined upward revision of 90,000. Over the past three months, averaging through the hurricanes, the U.S. economy has added 162,000 jobs per month, very close to the average of 168,000 for all of 2017. This is down from the pace of 187,000 jobs per month in 2016. The unemployment rate fell to 4.1 percent in October from 4.2 percent in September; this is the lowest unemployment rate since December 2000. The hurricanes appear to have had little impact on the unemployment rate over the past couple of months.
- President Trump nominated current Federal Reserve Governor and former investment banker and Treasury Department official Jerome Powell to be chair of the Federal Reserve Board when current chair Janet Yellen's term expires early next year. Powell is a continuity choice, with monetary policy likely to be similar to that under Yellen. The Federal Open Market Committee is expected to continue along the path of gradual rate increases as has been the case over the past couple of years. Governor Powell should be easily confirmed by the Senate, given that he is currently on the Board, has received bipartisan support previously (he is a Republican, but was appointed to the Board by President Obama), and represents continuity with Chair Yellen.

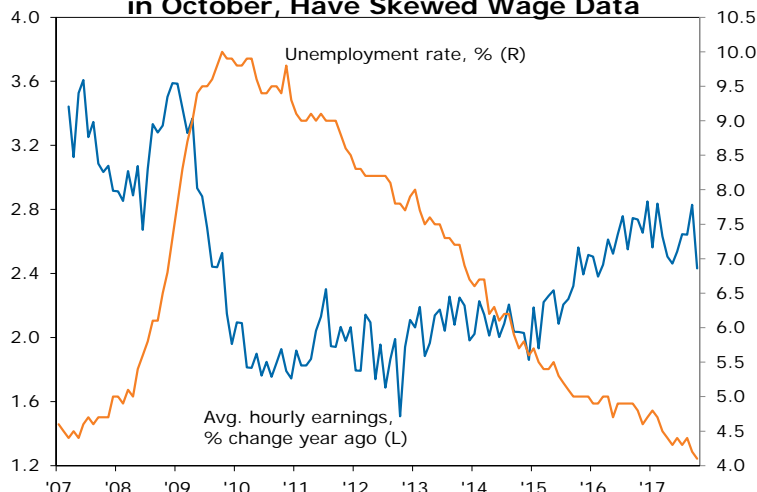
### Baseline U.S. Economic Outlook, Summary Table\*

	1Q'17a	2Q'17a	3Q'17p	4Q'17f	1Q'18f	2Q'18f	3Q'18f	4Q'18f	2016a	2017f	2018f	2019f
<b>Output &amp; Prices</b>												
Real GDP (Chained 2009 Billions \$)	16903	17031	17157	17286	17388	17502	17602	17706	16716	17094	17549	17941
Percent Change Annualized	1.2	3.1	3.0	3.1	2.4	2.6	2.3	2.4	1.5	2.3	2.7	2.2
CPI (1982-84 = 100)	244.1	243.9	245.2	246.3	247.8	249.1	250.5	252.0	240.0	244.9	249.8	255.8
Percent Change Annualized	3.1	-0.3	2.0	1.9	2.4	2.1	2.3	2.4	1.3	2.0	2.0	2.4
<b>Labor Markets</b>												
Payroll Jobs (Millions)	145.7	146.2	146.7	147.2	147.7	148.1	148.5	148.9	144.3	146.5	148.3	149.8
Percent Change Annualized	1.5	1.3	1.3	1.6	1.2	1.1	1.1	1.0	1.8	1.5	1.3	1.0
Unemployment Rate (Percent)	4.7	4.4	4.3	4.1	4.0	4.0	3.9	3.9	4.9	4.4	4.0	3.8
<b>Interest Rates (Percent)</b>												
Federal Funds	0.70	0.95	1.16	1.18	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	2.44	2.60	2.68	2.77	2.92	1.84	2.35	2.74	3.05
a = actual    f = forecast    p = preliminary    * Please see the Expanded Table for more forecast series.												

**After a Hurricane Hit in September, Job Growth Bounces Back in October**



**Job Losses at Restaurants in September, Recovery in October, Have Skewed Wage Data**



## **Solid Growth in Holiday Spending, But Traditional Retailers Will Continue to Suffer**

The 2018 holiday season will be a good one, with solid economic fundamentals supporting moderate growth in consumer purchases. But traditional retailing, which has been under increasing pressure in recent months from the movement toward online sales, will continue to struggle, and employment in retail will continue to fall.

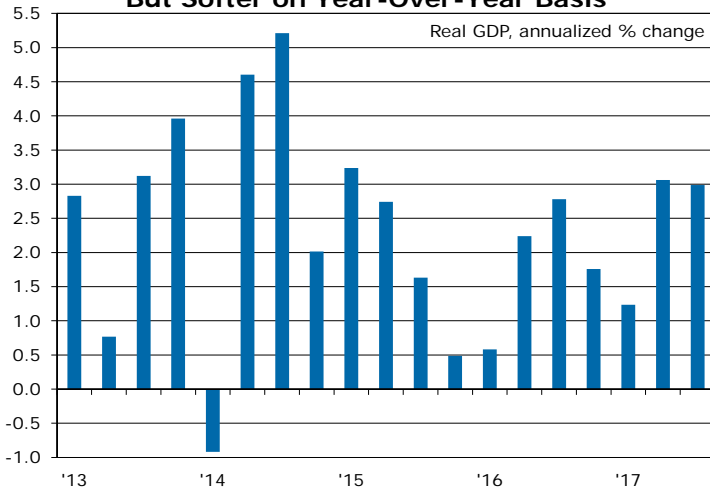
Consumers are in good shape going into the holiday season. Abstracting from the hurricanes the U.S. economy is now adding around 165,000 jobs per month, about double the number needed to keep up with long-run growth in the number of job seekers. Thus the slack in the job market that has persisted since the Great Recession is steadily receding, with the unemployment rate falling to 4.1 percent in October, its lowest in almost 17 years. In turn, the tighter labor market is boosting workers' pay. Wage growth has been disappointing throughout this expansion, but there are encouraging signs that low unemployment and increasing competition for employees is finally leading businesses to raise pay, looking through hurricane-related distortions. More jobs and higher wages give households more money to spend on holiday purchases.

There are other big supports to holiday spending in 2017. Even with higher energy prices this year inflation is very low, giving consumers more buying power. Record-high stock prices and rising home values have boosted household wealth, loosening up purse strings. Low interest rates make borrowing cheap for big ticket items, and households have historically low levels of debt. There is also the possibility of personal income tax cuts over the next year that would free up more cash. Given all of this, it is not surprising that consumer confidence measures are near their highest levels in decades. PNC is expecting holiday spending growth in 2017 of about 4.5 percent compared to 2016. With low inflation, about 3.5 percentage points of this will be an increase in volumes, and about 1 percentage point will come from higher prices. This will be somewhat stronger than the increase in spending in 2016.

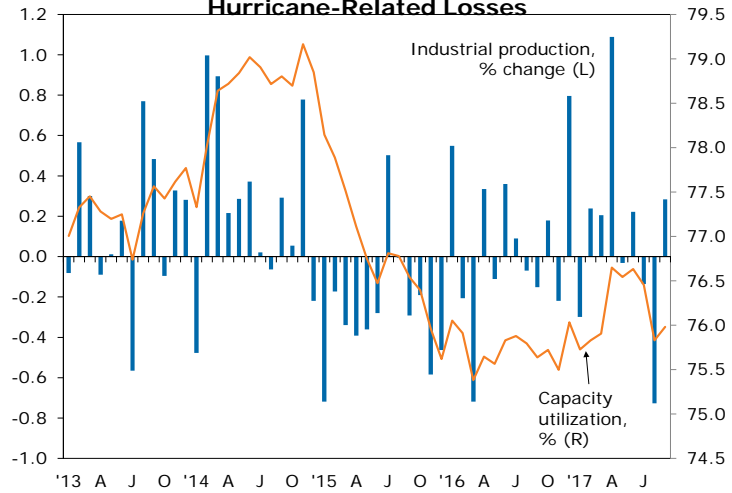
Traditional retailers will get little benefit from stronger holiday sales, however. In part this is because consumer spending generally is moving toward services and away from goods. But more important is the rapid shift to online spending. Sales at non-store retailers are increasing at a double-digit pace, while sales at traditional department stores are growing much more slowly. As a result the retail industry is contracting. Employment in retail trade, which increased steadily through the economic expansion, has fallen in eight of the past nine months, and is down by more than 100,000 from its peak earlier this year. Although retailers will temporarily boost staffing for the holiday season, employment at traditional brick and mortar stores will steadily decline over the longer run. In addition, vacancy rates for retail space will remain much higher than for other commercial property types. However, online sales will continue to create new jobs in industries such as information technology, transportation, and warehousing, and overall U.S. employment will steadily increase.

The U.S. economy is in solid shape at the end of 2017 and will continue to improve well into 2018. With a good holiday season consumer spending will remain the bedrock for the expansion. Housing, business investment, and an expanding global economy are all positives for near-term growth, and rebuilding in the wake of Hurricanes Harvey and Irma will contribute in late 2017 and early 2018. Congress is likely to pass corporate and personal income tax cuts that will provide a temporary boost to growth in 2018. Real GDP will increase by 2.3 percent in 2017, accelerating to 2.7 percent next year. Job gains will gradually slow over the next few years, from around 165,000 per month currently to 115,000 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 around 3.7 percent in 2020; as a result wage growth will gradually accelerate, supporting continued growth in consumer spending. Inflation pressures will gradually build, and the Federal Open Market Committee will raise the federal funds rate in December of this year, and then three times next year.

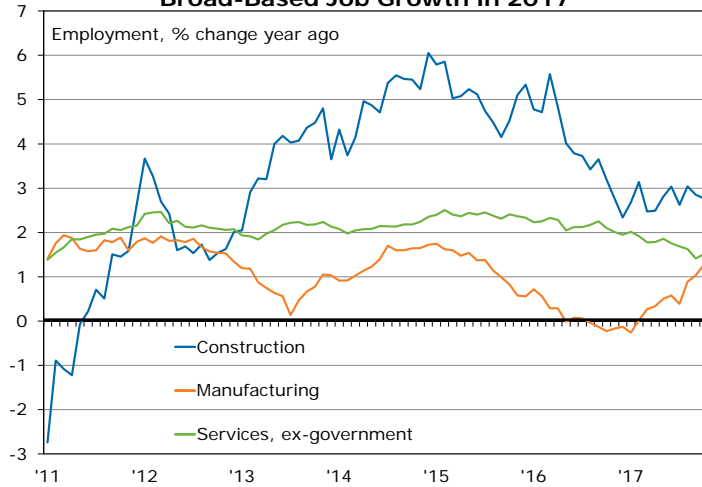
**Two Straight Quarters of 3% GDP Growth, But Softer on Year-Over-Year Basis**



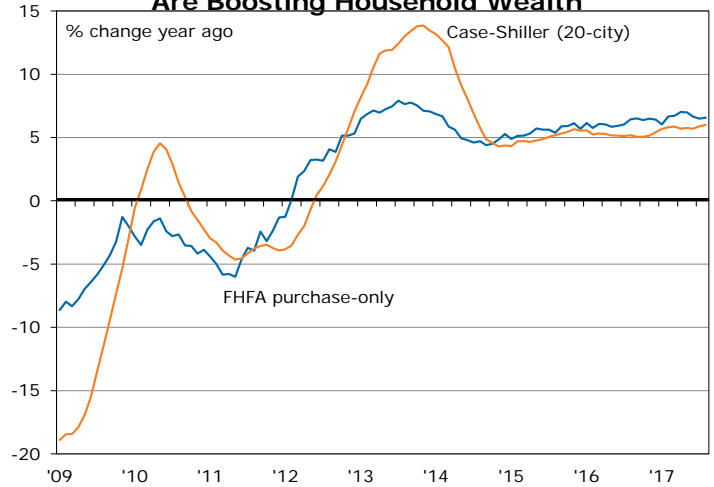
**Output Is Recovering from Hurricane-Related Losses**



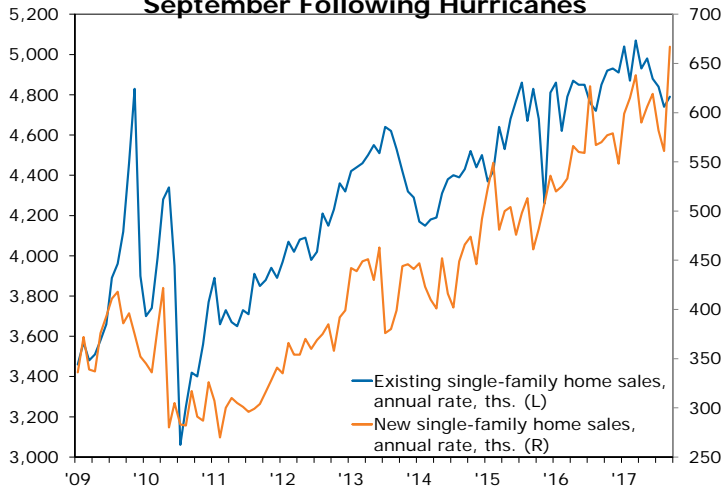
**With Recovery in Manufacturing, Broad-Based Job Growth in 2017**



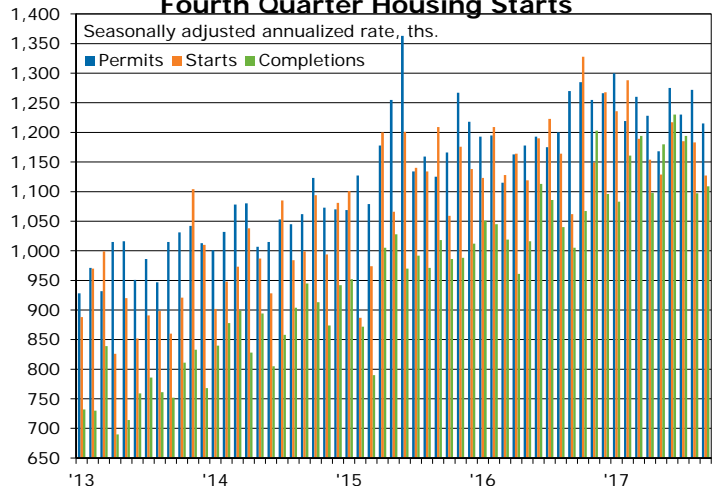
**Gradually Rising House Prices Are Boosting Household Wealth**



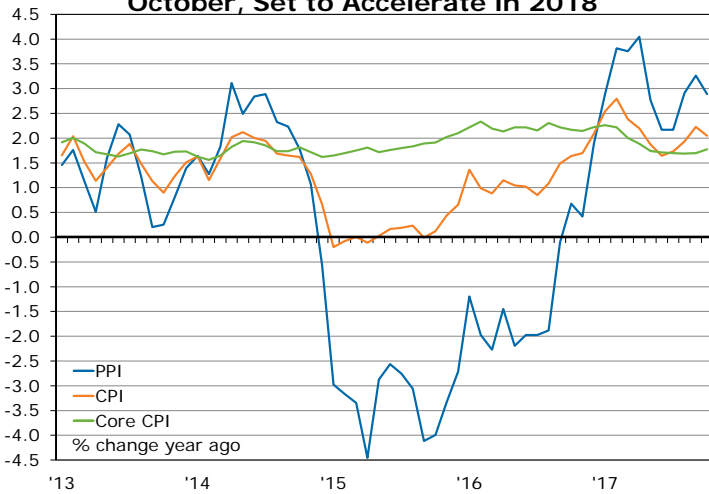
**Home Sales Bounce Back in September Following Hurricanes**



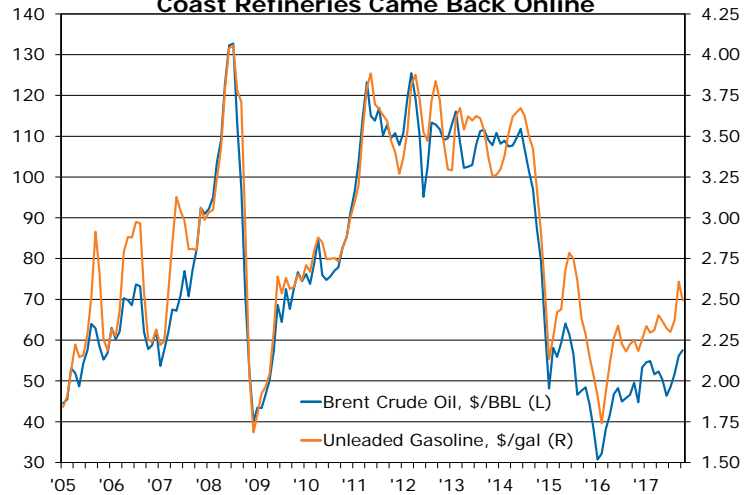
**Hurricane Rebuilding Will Boost Fourth Quarter Housing Starts**



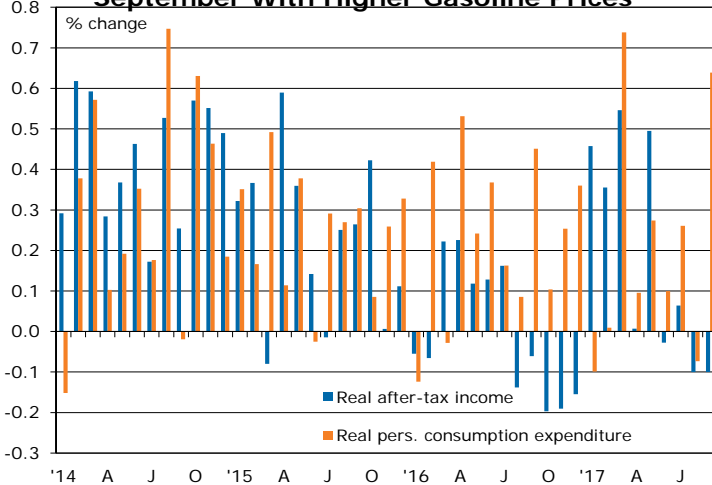
**Core Inflation Picked Up in October, Set to Accelerate in 2018**



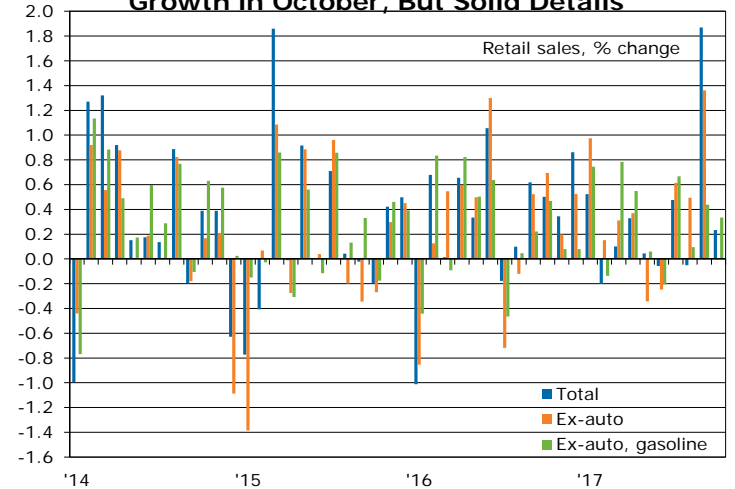
**Gasoline Prices Fell in October as Gulf Coast Refineries Came Back Online**



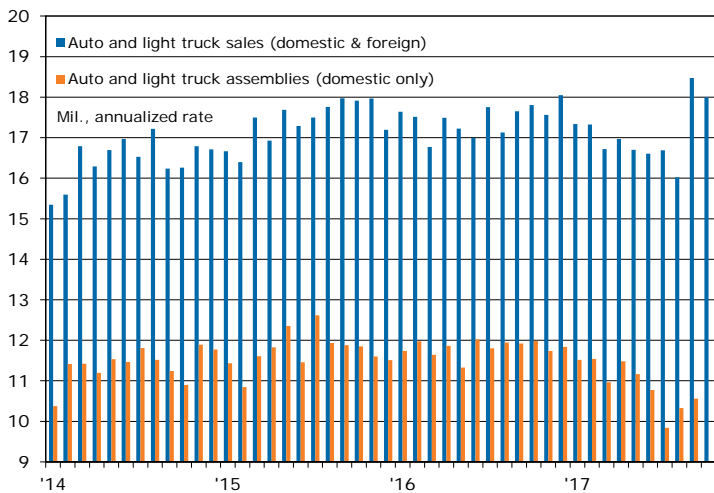
**Consumer Spending Surged in September With Higher Gasoline Prices**



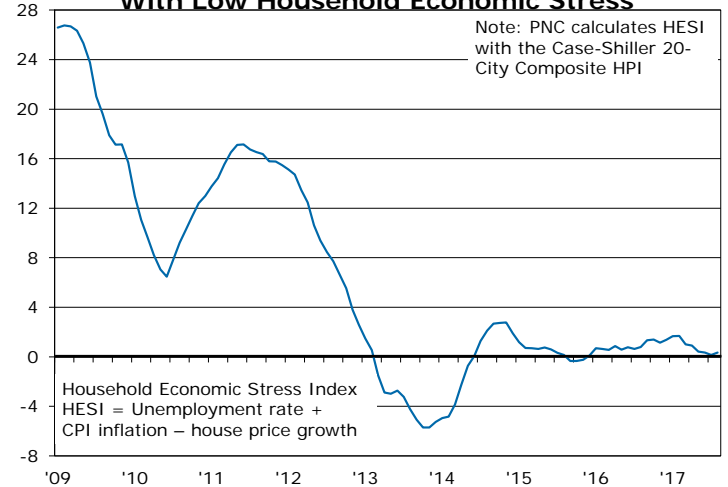
**Falling Gas Prices Restrained Retail Sales Growth in October, But Solid Details**



**Another Great Month for Auto Sales in October**



**Expansion Will Continue in 2018 With Low Household Economic Stress**



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# NATIONAL ECONOMIC OUTLOOK

PNC Economics Group  
November, 2017

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

	1Q'17a	2Q'17a	3Q'17p	4Q'17f	1Q'18f	2Q'18f	3Q'18f	4Q'18f	2016a	2017f	2018f	2019f
<b>Output</b>												
Nominal GDP (Billions \$)	19058	19249	19491	19736	19950	20185	20403	20626	18624	19383	20291	21170
<b>Percent Change Annualized</b>	<b>3.3</b>	<b>4.1</b>	<b>5.1</b>	<b>5.1</b>	<b>4.4</b>	<b>4.8</b>	<b>4.4</b>	<b>4.4</b>	<b>2.8</b>	<b>4.1</b>	<b>4.7</b>	<b>4.3</b>
Real GDP (Chained 2009 Billions \$)	16903	17031	17157	17286	17388	17502	17602	17706	16716	17094	17549	17941
<b>Percent Change Annualized</b>	<b>1.2</b>	<b>3.1</b>	<b>3.0</b>	<b>3.1</b>	<b>2.4</b>	<b>2.6</b>	<b>2.3</b>	<b>2.4</b>	<b>1.5</b>	<b>2.3</b>	<b>2.7</b>	<b>2.2</b>
Pers. Consumption Expenditures	11758	11853	11922	12013	12065	12124	12197	12271	11572	11886	12164	12439
<b>Percent Change Annualized</b>	<b>1.9</b>	<b>3.3</b>	<b>2.4</b>	<b>3.1</b>	<b>1.7</b>	<b>2.0</b>	<b>2.4</b>	<b>2.4</b>	<b>2.7</b>	<b>2.7</b>	<b>2.3</b>	<b>2.3</b>
Nonresidential Fixed Investment	2264	2301	2323	2346	2366	2393	2414	2432	2210	2308	2401	2471
<b>Percent Change Annualized</b>	<b>7.2</b>	<b>6.7</b>	<b>3.9</b>	<b>4.0</b>	<b>3.5</b>	<b>4.6</b>	<b>3.6</b>	<b>3.1</b>	<b>-0.6</b>	<b>4.4</b>	<b>4.0</b>	<b>2.9</b>
Residential Investment	606	594	585	595	602	607	612	616	587	595	609	626
<b>Percent Change Annualized</b>	<b>11.1</b>	<b>-7.3</b>	<b>-6.0</b>	<b>7.2</b>	<b>4.6</b>	<b>3.6</b>	<b>3.0</b>	<b>3.0</b>	<b>5.5</b>	<b>1.3</b>	<b>2.4</b>	<b>2.7</b>
Change in Private Inventories	1	5	36	33	50	61	58	57	33	19	56	58
Net Exports	-622	-614	-595	-606	-613	-617	-624	-629	-586	-609	-621	-643
Government Expenditures	2897	2895	2894	2913	2925	2940	2953	2966	2900	2900	2946	2998
<b>Percent Change Annualized</b>	<b>-0.6</b>	<b>-0.2</b>	<b>-0.1</b>	<b>2.6</b>	<b>1.8</b>	<b>2.1</b>	<b>1.7</b>	<b>1.8</b>	<b>0.8</b>	<b>0.0</b>	<b>1.6</b>	<b>1.8</b>
Industrial Prod. Index (2012 = 100)	103.7	105.1	104.7	105.6	106.0	106.7	107.5	108.2	103.1	104.8	107.1	109.7
<b>Percent Change Annualized</b>	<b>1.5</b>	<b>5.6</b>	<b>-1.5</b>	<b>3.5</b>	<b>1.7</b>	<b>2.6</b>	<b>3.0</b>	<b>2.5</b>	<b>-1.2</b>	<b>1.6</b>	<b>2.2</b>	<b>2.4</b>
Capacity Utilization (Percent)	75.8	76.6	76.1	76.7	77.0	77.3	77.5	77.7	75.7	76.3	77.4	78.3
<b>Prices</b>												
CPI (1982-84 = 100)	244.1	243.9	245.2	246.3	247.8	249.1	250.5	252.0	240.0	244.9	249.8	255.8
<b>Percent Change Annualized</b>	<b>3.1</b>	<b>-0.3</b>	<b>2.0</b>	<b>1.9</b>	<b>2.4</b>	<b>2.1</b>	<b>2.3</b>	<b>2.4</b>	<b>1.3</b>	<b>2.0</b>	<b>2.0</b>	<b>2.4</b>
Core CPI Index (1982-84 = 100)	251.0	251.4	252.4	253.8	255.3	256.8	258.3	259.7	247.6	252.2	257.5	263.5
<b>Percent Change Annualized</b>	<b>2.5</b>	<b>0.6</b>	<b>1.7</b>	<b>2.2</b>	<b>2.3</b>	<b>2.3</b>	<b>2.3</b>	<b>2.3</b>	<b>2.2</b>	<b>1.8</b>	<b>2.1</b>	<b>2.3</b>
PCE Price Index (2009 = 100)	112.2	112.3	112.7	113.2	113.8	114.3	114.9	115.5	110.8	112.6	114.6	117.0
<b>Percent Change Annualized</b>	<b>2.2</b>	<b>0.3</b>	<b>1.5</b>	<b>1.7</b>	<b>2.1</b>	<b>1.9</b>	<b>2.0</b>	<b>2.1</b>	<b>1.2</b>	<b>1.6</b>	<b>1.8</b>	<b>2.1</b>
Core PCE Price Index (2009 = 100)	112.6	112.8	113.2	113.8	114.4	114.9	115.5	116.1	111.4	113.1	115.2	117.6
<b>Percent Change Annualized</b>	<b>1.8</b>	<b>0.9</b>	<b>1.3</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>1.8</b>	<b>1.5</b>	<b>1.9</b>	<b>2.0</b>
GDP Price Index (2009 = 100)	112.7	113.0	113.6	114.2	114.8	115.4	116.0	116.6	111.4	113.4	115.7	118.1
<b>Percent Change Annualized</b>	<b>2.0</b>	<b>1.0</b>	<b>2.1</b>	<b>2.1</b>	<b>2.1</b>	<b>2.1</b>	<b>2.1</b>	<b>2.1</b>	<b>1.3</b>	<b>1.8</b>	<b>2.0</b>	<b>2.1</b>
Crude Oil, WTI (\$/Barrel)	51.8	48.2	48.2	56.0	54.4	53.7	54.5	55.7	43.1	51.0	54.6	57.9
<b>Labor Markets</b>												
Payroll Jobs (Millions)	145.7	146.2	146.7	147.2	147.7	148.1	148.5	148.9	144.3	146.5	148.3	149.8
<b>Percent Change Annualized</b>	<b>1.5</b>	<b>1.3</b>	<b>1.3</b>	<b>1.6</b>	<b>1.2</b>	<b>1.1</b>	<b>1.1</b>	<b>1.0</b>	<b>1.8</b>	<b>1.5</b>	<b>1.3</b>	<b>1.0</b>
Unemployment Rate (Percent)	4.7	4.4	4.3	4.1	4.0	4.0	3.9	3.9	4.9	4.4	4.0	3.8
Average Weekly Hours, Prod. Works.	33.6	33.7	33.6	33.7	33.7	33.7	33.8	33.8	33.6	33.7	33.8	33.9
<b>Personal Income</b>												
Average Hourly Earnings (\$)	21.86	21.99	22.15	22.30	22.47	22.65	22.83	23.02	21.56	22.08	22.74	23.50
<b>Percent Change Annualized</b>	<b>2.0</b>	<b>2.4</b>	<b>2.9</b>	<b>2.7</b>	<b>3.0</b>	<b>3.2</b>	<b>3.3</b>	<b>3.3</b>	<b>2.5</b>	<b>2.4</b>	<b>3.0</b>	<b>3.3</b>
Real Disp. Income (2009 Billions \$)	12680	12783	12800	12895	12975	13060	13152	13233	12608	12789	13105	13402
<b>Percent Change Annualized</b>	<b>2.9</b>	<b>3.3</b>	<b>0.6</b>	<b>3.0</b>	<b>2.5</b>	<b>2.7</b>	<b>2.8</b>	<b>2.5</b>	<b>1.4</b>	<b>1.4</b>	<b>2.5</b>	<b>2.3</b>
<b>Housing</b>												
Housing Starts (Ths., Ann. Rate)	1238	1167	1165	1208	1245	1270	1295	1313	1177	1194	1281	1342
Ext. Home Sales (Ths., Ann Rate)	5620	5563	5393	5520	5628	5726	5810	5871	5440	5524	5759	5955
New SF Home Sales (Ths., Ann Rate)	617	605	603	632	656	668	680	688	561	614	673	703
Case/Shiller HPI (Jan. 2000 = 100)	188.1	190.0	191.9	193.4	194.7	195.7	196.7	197.6	181.1	190.8	196.2	199.9
<b>Percent Change Year Ago</b>	<b>5.6</b>	<b>5.8</b>	<b>5.6</b>	<b>4.5</b>	<b>3.5</b>	<b>3.0</b>	<b>2.5</b>	<b>2.2</b>	<b>5.1</b>	<b>5.4</b>	<b>2.8</b>	<b>1.9</b>
<b>Consumer</b>												
Household Economic Stress Index	1.6	0.5	0.6	1.3	2.0	3.1	3.6	4.0	1.0	1.0	3.2	4.3
Auto Sales (Millions)	17.1	16.8	17.1	17.8	17.6	17.3	17.3	17.3	17.5	17.2	17.4	17.2
Consumer Credit (Billions \$)	3693	3735	3770	3813	3855	3894	3936	3980	3559	3753	3916	4084
<b>Percent Change Annualized</b>	<b>5.3</b>	<b>4.7</b>	<b>3.8</b>	<b>4.7</b>	<b>4.4</b>	<b>4.2</b>	<b>4.4</b>	<b>4.6</b>	<b>3.7</b>	<b>5.4</b>	<b>4.4</b>	<b>4.3</b>
<b>Interest Rates (Percent)</b>												
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	1.18	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	2.44	2.60	2.68	2.77	2.92	1.84	2.35	2.74	3.05
30-Year Fixed Mortgage	4.17	3.99	3.90	3.98	4.14	4.21	4.30	4.45	3.65	4.01	4.27	4.58
a = actual    f = forecast    p = preliminary												

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