

# NATIONAL ECONOMIC OUTLOOK

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## Executive Summary

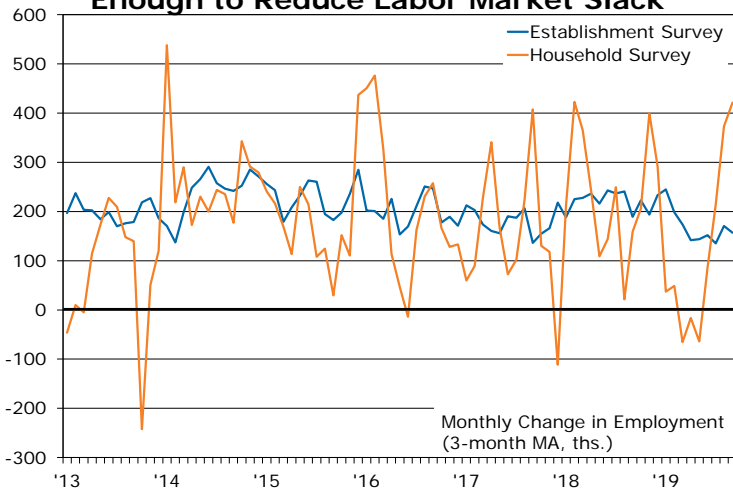
### Lowest Unemployment Rate in 50 Years; Trade Tensions Ease

- The unemployment rate fell to 3.5 percent in September, from 3.7 percent in the three previous months. This is the lowest unemployment rate since December 1969. The details underlying the drop in the unemployment rate were positive. Employment in the household survey rose a solid 391,000 in September, the fifth consecutive increase, while the labor force increased by 117,000. The broader U-6 unemployment rate (unemployed, underemployed and too discouraged to look for a job) fell to 6.9 percent in September from 7.2 percent in August; this is the lowest U-6 rate since late 2000. Job growth according to a survey of employers (different from the household survey) slowed to 136,000 in September, from 168,000 in August and 166,000 in July. However, job growth was revised higher by a combined 45,000 over the previous two months (from 159,000 in July and 130,000 in August). Job growth has averaged 157,000 over the past three months, down a bit from 168,000 per month in the year through March 2019 (taking into account preliminary revisions).
- After temporary disruptions in the repurchase (repo) market in September led to big jumps in overnight interest rates, in mid-October the Federal Reserve restarted purchases of Treasury bills (\$60 billion per month) and lending through the central bank's repo facility to expand the Fed's balance sheet and inject liquidity into financial markets. The Fed's goal is to maintain a stable supply of excess reserves (cash that commercial banks keep on deposit at the Fed) in the financial system and avoid another incident like the September spike in repo interest rates. Fed officials have emphasized that this is not a substantive change in monetary policy, but instead an effort to ensure more effective implementation of current policy.
- President Trump announced on October 11 that the U.S. government would not raise tariffs on \$250 billion of Chinese goods imports by five percentage points on October 15 as previously scheduled. The U.S. and China continue negotiations on a "phase one" deal, addressing tariffs, Chinese purchases of U.S. agricultural products, the opening up of financial services in China to U.S. firms, and intellectual property issues. There is still a round of tariff increases on Chinese exports to the U.S. scheduled for December 15.

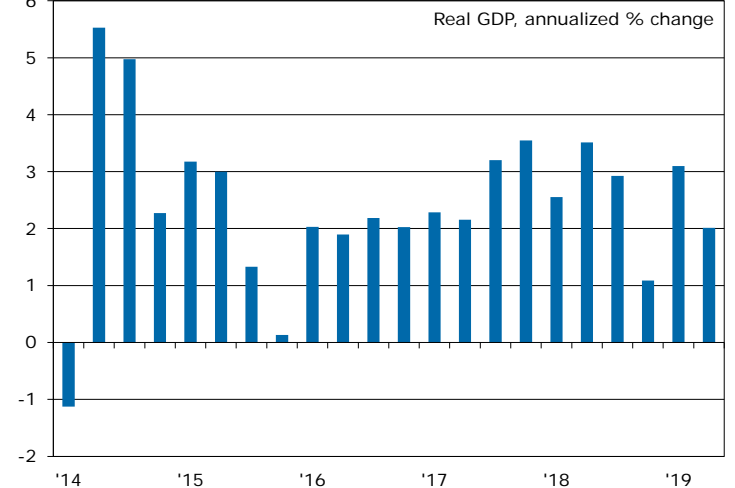
### **Baseline U.S. Economic Outlook, Summary Table\***

	2Q'19p	3Q'19f	4Q'19f	1Q'20f	2Q'20f	3Q'20f	4Q'20f	1Q'21f	2018a	2019f	2020f	2021f
<b>Output &amp; Prices</b>												
Real GDP (Chained 2012 Billions \$)	19022	19125	19208	19276	19347	19432	19535	19638	18638	19070	19398	19776
Percent Change Annualized	2.0	2.2	1.7	1.4	1.5	1.8	2.1	2.1	2.9	2.3	1.7	2.0
CPI (1982-84 = 100)	255.1	256.3	257.0	258.3	259.5	260.8	262.1	263.5	251.1	255.4	260.2	265.6
Percent Change Annualized	2.9	1.8	1.2	2.0	1.9	2.0	2.1	2.1	2.4	1.7	1.8	2.1
<b>Labor Markets</b>												
Payroll Jobs (Millions)	151.1	151.6	151.8	151.9	152.1	152.4	152.6	153.0	149.1	151.3	152.3	153.4
Percent Change Annualized	1.2	1.2	0.5	0.5	0.5	0.6	0.8	0.9	1.7	1.5	0.7	0.8
Unemployment Rate (Percent)	3.6	3.6	3.7	3.8	3.9	3.9	3.9	3.9	3.8	3.7	3.9	3.9
<b>Interest Rates (Percent)</b>												
Federal Funds	2.40	2.18	1.71	1.63	1.63	1.63	1.63	1.63	1.83	2.17	1.63	1.63
Treasury Note, 10-year	2.33	1.75	1.71	1.77	1.81	1.85	1.90	1.95	2.91	2.11	1.83	2.00
a = actual    f = forecast    p = preliminary    *Please see the Expanded Table for more forecast series.												

## Job Growth Slower in 2019, But Still Strong Enough to Reduce Labor Market Slack



## Even With Slower Second Quarter, Economic Growth of Better than 2 Percent Over the Past Year



## With Results At or Near Record Highs, PNC Small Business Survey Points to Continued Expansion

Despite pricing pressures and tariff concerns, measures of optimism in the fall of 2019 are approaching the record-setting highs measured in spring 2018, according to the latest PNC semi-annual survey of small and mid-size business owners and executives. Optimism among business leaders about their own company is particularly strong at 55% compared to one year ago (51%) and near the spring 2018 record high for this 16-year survey (58%). Thirty-nine percent of respondents describe their outlook for the national economy as highly optimistic. Those pessimistic about the national economy hit a survey record low of 7%. Those expecting an increase in the need for financing (8%), employee health care costs (35%), and personal compensation and retirement (22% and 25%, respectively) all declined from a year ago.

U.S. economic fundamentals remain solid, despite slower economic growth and the ongoing trade war between the United States and China. Nearly two-thirds (63%) of small and mid-size business leaders expect their company's sales to increase, little changed from fall 2018 (64%), but below the near-record high of 69% (spring 2018). However, 52% expect their profits to increase, down from fall 2018 (59%).

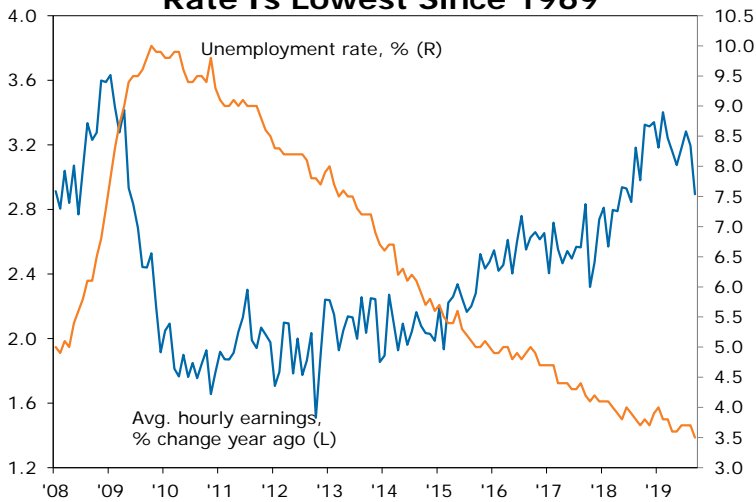
Tariff concerns appear most notably in relation to supply chains. Thirty-eight percent of small and mid-size business owners and executives anticipate tariff policies to trigger higher supplier prices over the next six months, and a small but increasing number (13%) expect their total sales to decrease based upon their understanding of tariffs. Overall, supplier price increases are expected most by industries that are the biggest purchasers of goods: wholesalers/retailers (50%); construction (43%); and manufacturers (42%). Only 26% of respondents from the services sector anticipate rising costs from suppliers. The survey was taken before President Trump announced a round of tariff increases on imports from China in August, and China responded with higher tariffs and non-tariff barriers on U.S. exports.

Two-thirds (67%) of respondents say a recession is unlikely and 30% say it is likely before the end of 2019. But there is a shift in the outlook for a recession in 2020, with businesses split on their outlook: 46% believe it is unlikely, while 47% believe it is likely. Looking further ahead, optimism wanes, with only 34% believing a recession is unlikely in 2021. PNC expects the current economic expansion, already the longest in U.S. history, to last into 2020. However, the risk of recession in 2020 and 2021 has risen in recent months, due to increased trade tensions, slower global economic growth, and reduced fiscal stimulus.

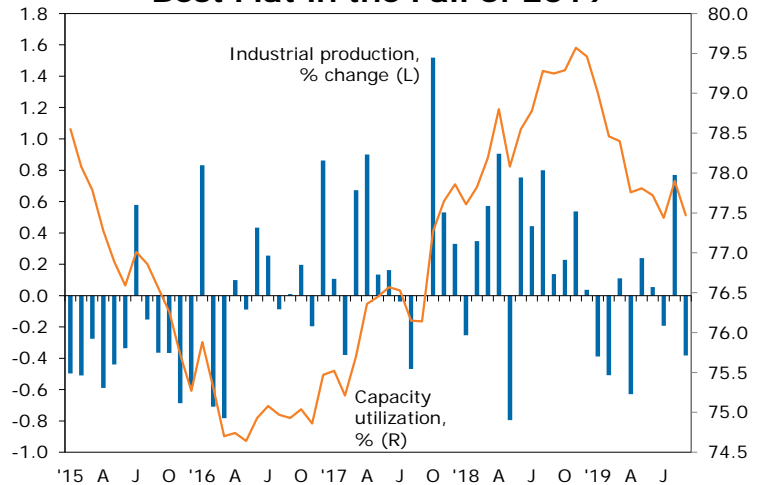
One-third (33%) of small and mid-size business leaders plan to increase the number of full-time employees within the next six months, tying the survey record high from spring 2005, while those expecting to reduce the number of full-time employees remains at 3%, near the survey low (2% spring and fall 2018). Nearly half (47%)—a record high for the survey—say it is harder to find qualified employees than it was six months to a year ago, with 54% reporting increased wages/salaries, up from 44% in fall 2018. In addition, 31% have allowed more flexible work arrangements, 27% have increased benefits, and 25% have offered or increased bonuses.

The solid results from PNC's survey of small and mid-size business owners and executives are consistent with U.S. economic expansion into 2020. Growth will continue thanks to job and wage gains that will power increased consumer spending. Real GDP growth will soften to around 1.6 percent on a year-over-year basis in the middle of 2020, however, due to slower global growth, the trade war, and a fading boost from the 2018 tax cuts. Monthly job growth will slow to around 60,000 by mid-2020, then gradually pick back up. The unemployment rate will slowly increase from its current 50-year low, ending 2019 at around 3.7 percent and 2020 at around 4.0 percent, still very low on an historical basis. The Federal Open Market Committee will cut the fed funds rate one more time this year to guard against downside risks to the expansion, and then keep it in a range of 1.50 to 1.75 percent through 2020. Risks are weighted to the downside, although a quick resolution to the U.S.-China trade war is a significant upside risk.

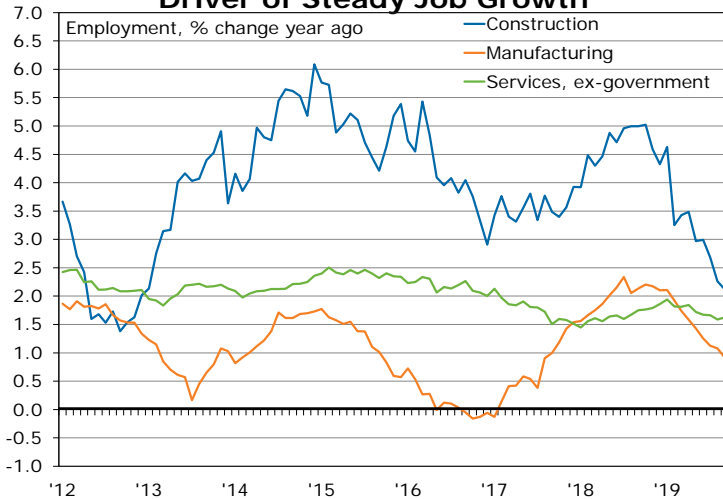
## September Unemployment Rate Is Lowest Since 1969



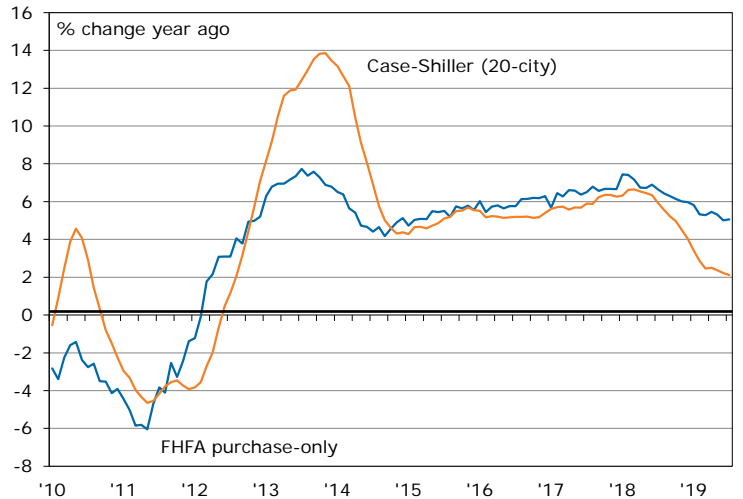
## U.S. Manufacturing Is at Best Flat in the Fall of 2019



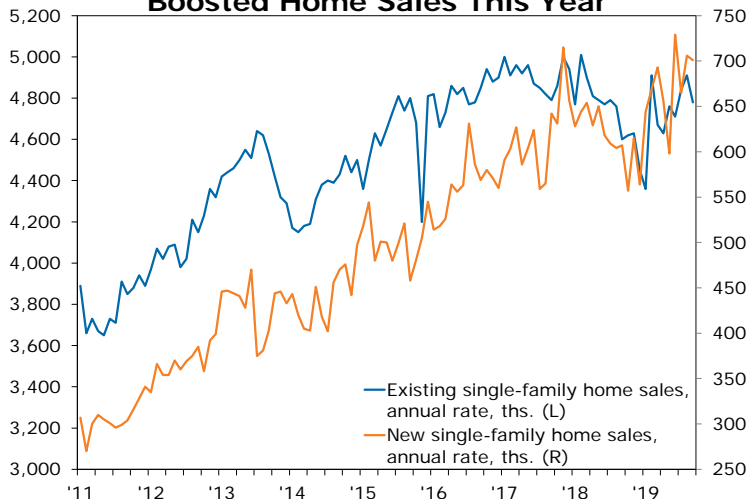
## Services Remains the Key Driver of Steady Job Growth



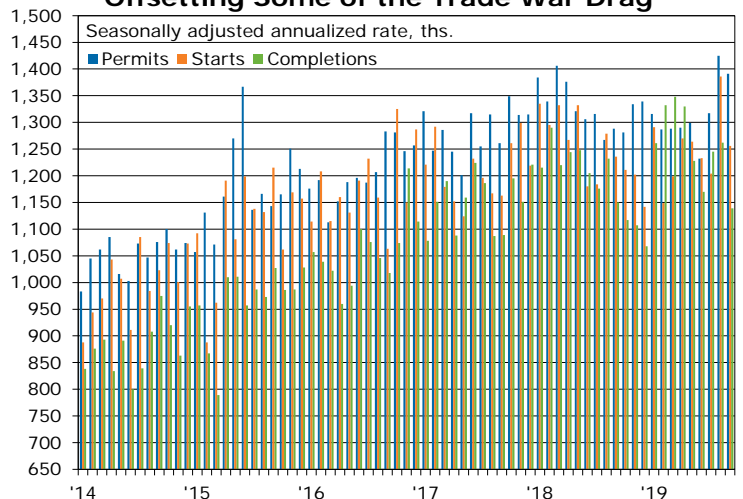
## No Sign of Overheating in National House Prices



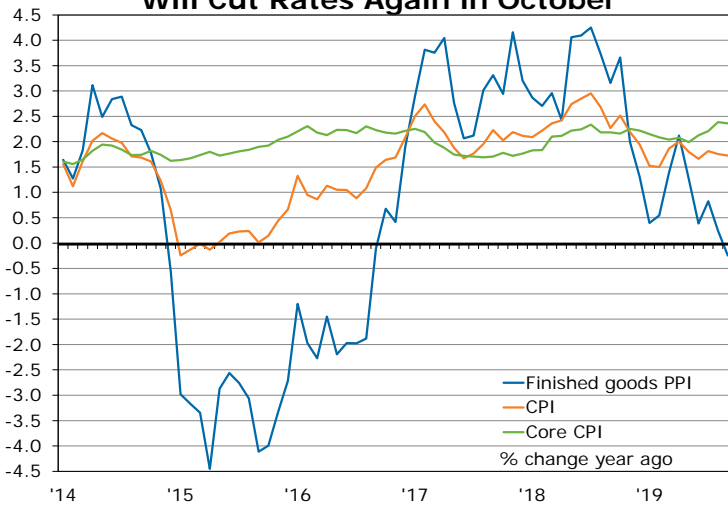
## Lower Mortgage Rates Have Boosted Home Sales This Year



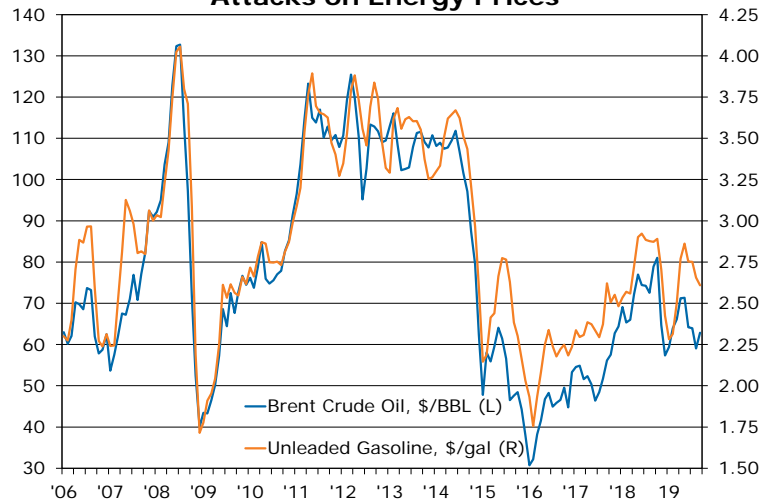
## Stronger Homebuilding in 2019 Is Offsetting Some of the Trade War Drag



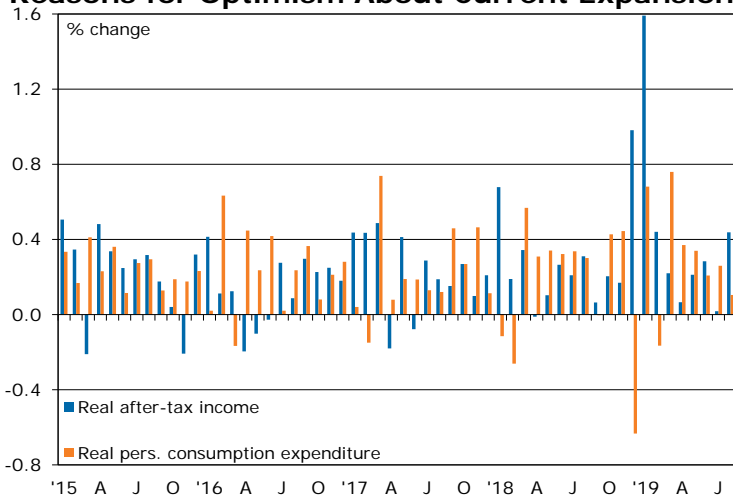
## With Few Inflation Pressures, FOMC Will Cut Rates Again in October



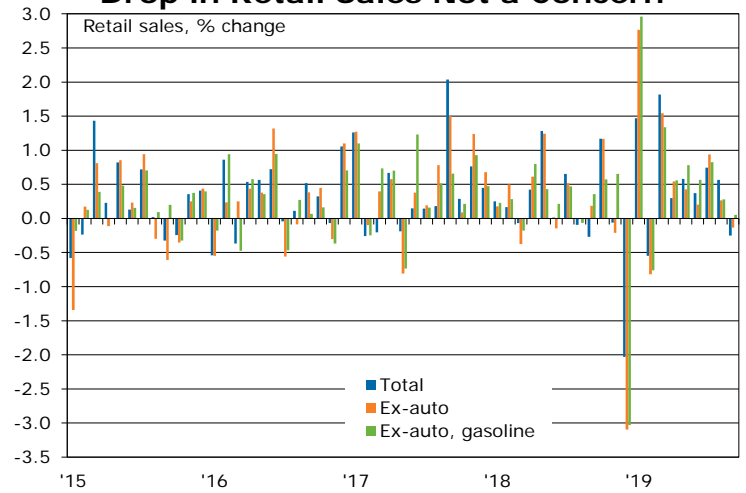
## Little Fallout From Saudi Arabia Attacks on Energy Prices



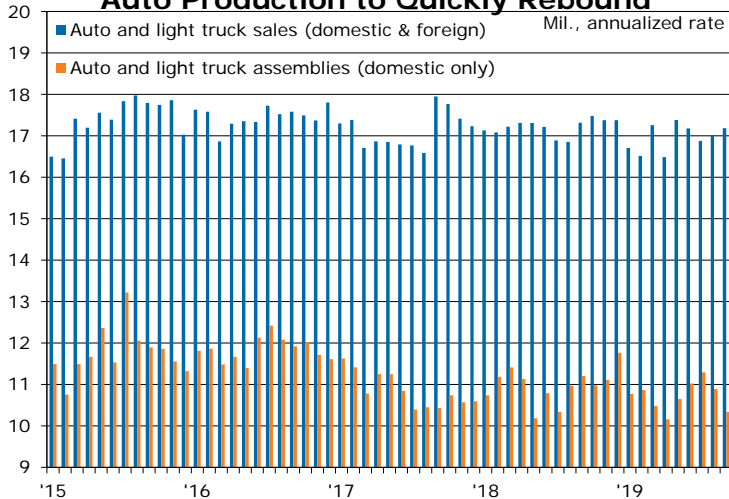
## Consumer Incomes and Spending Are Best Reasons for Optimism About Current Expansion



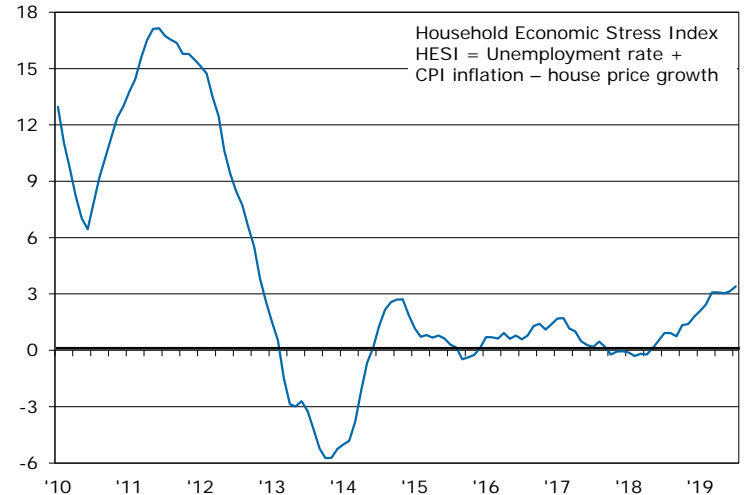
## After Six Months of Solid Gains, September Drop in Retail Sales Not a Concern



## Now That GM Strike Is Settled, Auto Production to Quickly Rebound



## Weaker Growth in House Prices, But Household Economic Stress Is Still Low



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

	2Q'19p	3Q'19f	4Q'19f	1Q'20f	2Q'20f	3Q'20f	4Q'20f	1Q'21f	2018a	2019f	2020f	2021f
<b>Output</b>												
Nominal GDP (Billions \$)	21340	21564	21726	21904	22087	22289	22514	22753	20580	21432	22198	23101
Percent Change Annualized	4.7	4.3	3.0	3.3	3.4	3.7	4.1	4.3	5.4	4.1	3.6	4.1
Real GDP (Chained 2012 Billions \$)	19022	19125	19208	19276	19347	19432	19535	19638	18638	19070	19398	19776
Percent Change Annualized	2.0	2.2	1.7	1.4	1.5	1.8	2.1	2.1	2.9	2.3	1.7	2.0
Pers. Consumption Expenditures	13250	13321	13370	13417	13471	13527	13589	13654	12945	13261	13501	13742
Percent Change Annualized	4.6	2.2	1.5	1.4	1.6	1.7	1.8	1.9	3.0	2.4	1.8	1.8
Nonresidential Fixed Investment	2759	2783	2791	2805	2813	2824	2838	2858	2692	2774	2820	2889
Percent Change Annualized	-1.0	3.6	1.2	2.0	1.3	1.5	2.1	2.8	6.4	3.1	1.6	2.4
Residential Investment	587	596	606	609	614	618	622	626	603	595	616	630
Percent Change Annualized	-3.0	6.6	6.4	2.3	3.2	2.4	2.7	2.8	-1.5	-1.3	3.4	2.3
Change in Private Inventories	69	68	36	27	17	21	30	37	48	72	24	44
Net Exports	-981	-1005	-979	-974	-968	-960	-955	-957	-920	-977	-964	-961
Government Expenditures	3297	3320	3344	3352	3357	3362	3370	3378	3224	3305	3360	3392
Percent Change Annualized	4.8	2.9	2.8	1.0	0.7	0.6	0.9	1.0	1.7	2.5	1.7	0.9
Industrial Prod. Index (2012 = 100)	109.2	109.7	109.8	110.2	110.6	110.9	111.3	111.7	108.6	109.6	110.8	112.3
Percent Change Annualized	-2.1	1.8	0.6	1.4	1.2	1.3	1.6	1.4	3.9	1.0	1.0	1.4
Capacity Utilization (Percent)	77.8	78.1	78.2	78.5	78.8	79.1	79.4	79.7	78.7	78.2	79.0	80.1
<b>Prices</b>												
CPI (1982-84 = 100)	255.1	256.3	257.0	258.3	259.5	260.8	262.1	263.5	251.1	255.4	260.2	265.6
Percent Change Annualized	2.9	1.8	1.2	2.0	1.9	2.0	2.1	2.1	2.4	1.7	1.8	2.1
Core CPI Index (1982-84 = 100)	262.2	264.1	265.8	267.4	268.8	270.3	271.7	273.2	257.6	263.3	269.6	275.5
Percent Change Annualized	1.8	3.0	2.5	2.5	2.1	2.1	2.2	2.2	2.1	2.2	2.4	2.2
PCE Price Index (2012 = 100)	109.5	109.9	110.3	110.7	111.2	111.7	112.1	112.7	108.1	109.6	111.4	113.5
Percent Change Annualized	2.4	1.5	1.2	1.7	1.7	1.7	1.8	1.9	2.1	1.4	1.6	1.9
Core PCE Price Index (2012 = 100)	111.4	112.1	112.8	113.4	113.9	114.4	115.0	115.6	109.9	111.8	114.2	116.4
Percent Change Annualized	1.9	2.6	2.2	2.3	1.8	1.9	1.9	2.0	1.9	1.7	2.1	2.0
GDP Price Index (2012 = 100)	112.2	112.8	113.1	113.6	114.2	114.7	115.3	115.9	110.4	112.4	114.4	116.8
Percent Change Annualized	2.6	2.0	1.3	1.9	1.9	1.9	1.9	2.1	2.4	1.8	1.8	2.1
Crude Oil, WTI (\$/Barrel)	60.0	56.4	55.2	55.0	54.8	55.1	55.6	56.3	64.8	56.6	55.1	57.3
<b>Labor Markets</b>												
Payroll Jobs (Millions)	151.1	151.6	151.8	151.9	152.1	152.4	152.6	153.0	149.1	151.3	152.3	153.4
Percent Change Annualized	1.2	1.2	0.5	0.5	0.5	0.6	0.8	0.9	1.7	1.5	0.7	0.8
Unemployment Rate (Percent)	3.6	3.6	3.7	3.8	3.9	3.9	3.9	3.9	3.8	3.7	3.9	3.9
Average Weekly Hours, Prod. Works.	33.6	33.6	33.6	33.5	33.5	33.5	33.5	33.5	33.7	33.6	33.5	33.5
<b>Personal Income</b>												
Average Hourly Earnings (\$)	23.37	23.59	23.80	24.00	24.21	24.41	24.61	24.82	22.70	23.48	24.31	25.12
Percent Change Annualized	3.4	3.8	3.5	3.5	3.5	3.4	3.4	3.4	3.0	3.4	3.5	3.4
Real Disp. Income (2012 Billions \$)	14967	15077	15179	15254	15328	15395	15463	15529	14556	15025	15360	15629
Percent Change Annualized	2.4	3.0	2.7	2.0	1.9	1.8	1.8	1.7	4.0	3.2	2.2	1.7
<b>Housing</b>												
Housing Starts (Ths., Ann. Rate)	1256	1303	1338	1352	1365	1369	1357	1358	1250	1277	1361	1364
Ext. Home Sales (Ths., Ann. Rate)	5287	5428	5505	5601	5615	5658	5698	5737	5341	5357	5643	5745
New SF Home Sales (Ths., Ann. Rate)	661	682	698	706	714	712	703	701	615	677	709	701
Case/Shiller HPI (Jan. 2000 = 100)	208.8	211.2	213.6	215.9	218.0	219.9	221.9	223.8	205.7	213.6	221.9	229.5
Percent Change Year Ago	3.4	3.7	3.8	4.2	4.4	4.2	3.9	3.7	4.9	3.8	3.9	3.4
<b>Consumer</b>												
Household Economic Stress Index	2.0	1.7	1.6	1.6	1.2	1.5	2.0	2.2	0.5	1.7	1.6	2.5
Auto Sales (Millions)	17.0	17.0	16.8	16.8	16.9	16.9	17.0	17.0	17.2	16.9	16.9	17.0
Consumer Credit (Billions \$)	4100	4135	4169	4200	4232	4268	4307	4348	4010	4169	4307	4480
Percent Change Year Ago	5.0	4.5	4.0	3.6	3.2	3.2	3.3	3.5	4.7	4.0	3.3	4.0
<b>Interest Rates (Percent)</b>												
Prime Rate	5.50	5.30	4.83	4.75	4.75	4.75	4.75	4.75	4.90	5.28	4.75	4.75
Federal Funds	2.40	2.18	1.71	1.63	1.63	1.63	1.63	1.63	1.83	2.17	1.63	1.63
3-Month Treasury Bill	2.33	1.94	1.46	1.40	1.40	1.40	1.40	1.40	1.95	2.04	1.40	1.40
10-Year Treasury Note	2.33	1.75	1.71	1.77	1.81	1.85	1.90	1.95	2.91	2.11	1.83	2.00
30-Year Fixed Mortgage	4.01	3.67	3.62	3.62	3.62	3.62	3.62	3.63	4.54	3.91	3.62	3.63
a = actual f = forecast p = preliminary												

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