

NATIONAL ECONOMIC OUTLOOK

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Executive Summary

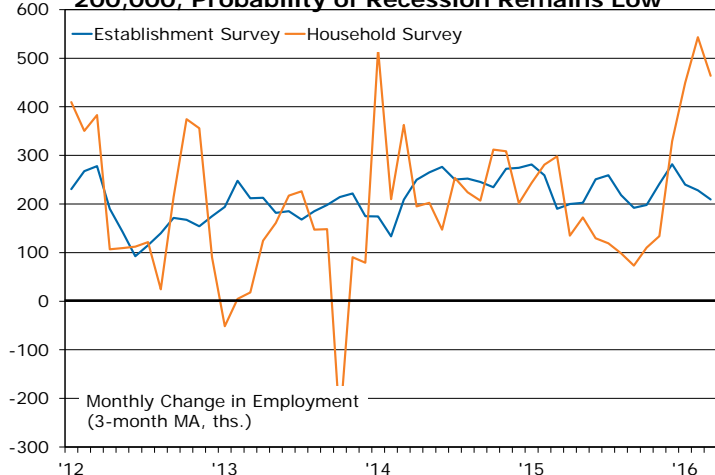
Improving Labor Market Will Support Another Fed Rate Hike in June

- Payroll jobs rose by 215,000 in March, above the market consensus of 200,000. March private-sector employment was up 195,000, with government jobs up by 20,000. There was a small net downward revision to job growth in January and February of 1,000. The average monthly payroll job gain for the first quarter of 2016 was 209,000, compared to 228,000 per month in 2015 and 243,000 per month in 2014. The March unemployment rate rose slightly to 5.0 percent in March from 4.9 percent in January and February. The increase in the unemployment rate came not because fewer people were working, but because more people were looking for jobs. The number of people who reported having jobs in the household survey (different from the survey of employers) rose by 246,000 in March. The labor force rose by 246,000 in March, and was up by an average of 464,000 per month in the first quarter, a big vote of confidence in the job market.
- As expected, the Federal Open Market Committee kept the federal funds rate unchanged on March 16, in a range of 0.25 to 0.50 percent. More importantly, the FOMC lowered its expectations for the federal funds rate in 2016. In its projections, the median FOMC participant had the fed funds rate in a range between 0.75 percent and 1.00 percent at the end of 2016; this implies two more 25 basis point rate increases this year. This is down from a range of 1.25 to 1.50 percent in the prior set of projections, in December 2015, so the FOMC has cut its expectations for rate increases this year from four to two over the past three months. The revised projections are consistent with PNC's forecast for a rate increase at the FOMC's June meeting, and then again at the December meeting.
- Industrial production fell 0.5 percent in February, worse than the consensus expectation of a 0.3 percent decline. Manufacturing output rose 0.2 percent, but utilities output fell 4.0 percent as warmer-than-usual weather depressed demand. Mining output fell 1.4 percent, and has fallen in 12 of the past 14 months. On a year-ago basis industrial production was down 1.0 percent from one year earlier, but manufacturing production was up 1.8 percent in February. Energy production is in recession because the huge decline in prices has led to big cutbacks in output. Manufacturing is in better shape, but is neither expanding nor contracting. The strong dollar and the collapse in demand for energy-related infrastructure are drags, but consumer demand for manufactured goods is a positive.

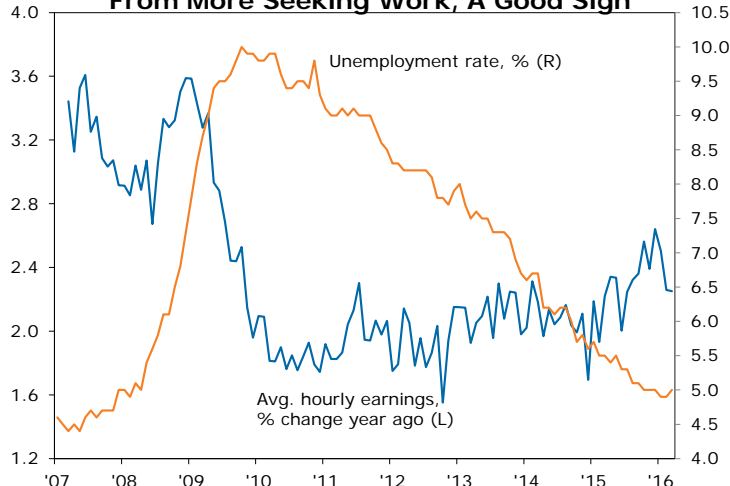
Baseline U.S. Economic Outlook, Summary Table*

	1Q'16f	2Q'16f	3Q'16f	4Q'16f	1Q'17f	2Q'17f	3Q'17f	4Q'17f	2015a	2016f	2017f	2018f
Output & Prices												
Real GDP (Chained 2009 Billions \$)	16513	16630	16725	16821	16911	17003	17097	17189	16349	16672	17050	17426
Percent Change Annualized	1.0	2.9	2.3	2.3	2.2	2.2	2.2	2.2	2.4	2.0	2.3	2.2
CPI (1982-84 = 100)	237.9	239.0	240.0	241.2	242.6	244.0	245.3	246.7	237.0	239.5	244.7	250.1
Percent Change Annualized	-0.3	1.8	1.8	2.0	2.2	2.3	2.3	2.2	0.1	1.1	2.1	2.2
Labor Markets												
Payroll Jobs (Millions)	143.5	144.1	144.6	145.1	145.6	146.0	146.5	147.0	141.8	144.3	146.3	148.1
Percent Change Annualized	1.9	1.4	1.5	1.4	1.5	1.0	1.4	1.5	2.1	1.8	1.4	1.2
Unemployment Rate (Percent)	4.9	4.8	4.8	4.7	4.7	4.7	4.7	4.6	5.3	4.8	4.7	4.7
Interest Rates (Percent)												
Federal Funds	0.37	0.42	0.60	0.65	0.90	1.15	1.38	1.60	0.13	0.51	1.26	2.01
Treasury Note, 10-year	1.92	1.98	2.26	2.28	2.34	2.47	2.58	2.63	2.14	2.11	2.51	2.86
a = actual f = forecast p = preliminary * Please see the Expanded Table for more forecast series.												

With Continued Job Growth of Better Than 200,000, Probability of Recession Remains Low



Rise in Unemployment Rate in March Came From More Seeking Work, A Good Sign



Small Businesses Cautious Amid Pessimism about U.S. Economy

Small and mid-sized business owners are cautious about the next six months amid greater pessimism about the U.S. economy given the stock market volatility and presidential election rhetoric, according to the latest PNC Economic Outlook Survey findings. The spring findings of PNC's biannual telephone survey, which began in 2003, reveal that 43 percent are pessimistic about the U.S. economy, the most since 2012, and up from 33 percent in the fall. Meanwhile, 30 percent are pessimistic about their local economy, which is the highest share since 2013. Yet one in four (24 percent) plan to hire additional employees during the next six months, similar to the 26 percent last fall and 22 percent a year ago. The bright spot is that 43 percent of manufacturing firms plan to hire, which is up from 26 percent six months ago.

Stock market volatility early in 2016 and presidential campaign rhetoric may have hurt business owners' mood since the start of the year. More than half of respondents (53 percent) said they were not satisfied the potential presidential candidates were addressing the key issues for business owners. But their cautious optimism about sales, profits and hiring represents solid fundamentals for the economy. These findings are far from a warning sign of recession from small business owners. PNC currently estimates only a 20 percent probability of a U.S. recession in 2016.

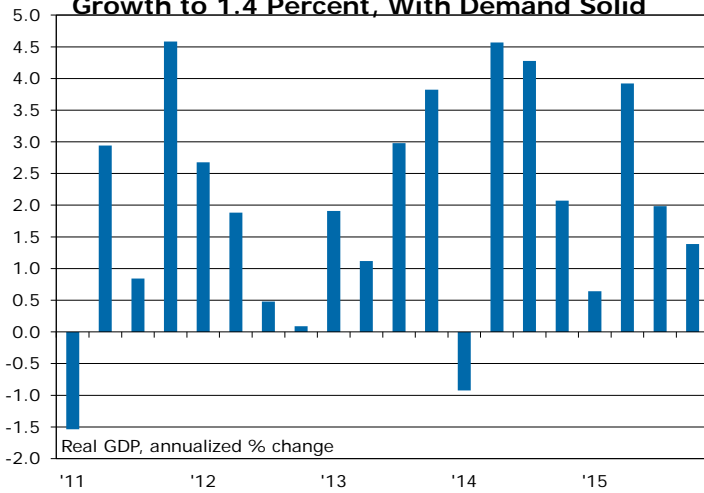
PNC's survey findings show a positive trend over the past five years among small and mid-sized business owners when it comes to making money. Nearly half (45 percent) expect profits to increase during the next six months while 41 percent expect the bottom line to remain the same. Only 12 percent expect a decrease, the lowest since 2006. In terms of sales, 51 percent expect an increase, compared to 52 percent in the fall.

About one-third of small-business owners (34 percent) expect to increase employees' pay, compared to 42 percent in the fall, which was the most since 2007. Three in 10 say it is harder to find qualified employees compared to 6-12 months ago. The biggest hiring challenge is that candidates do not have the technical skills specific to the business, i.e., computer applications, tools or machinery.

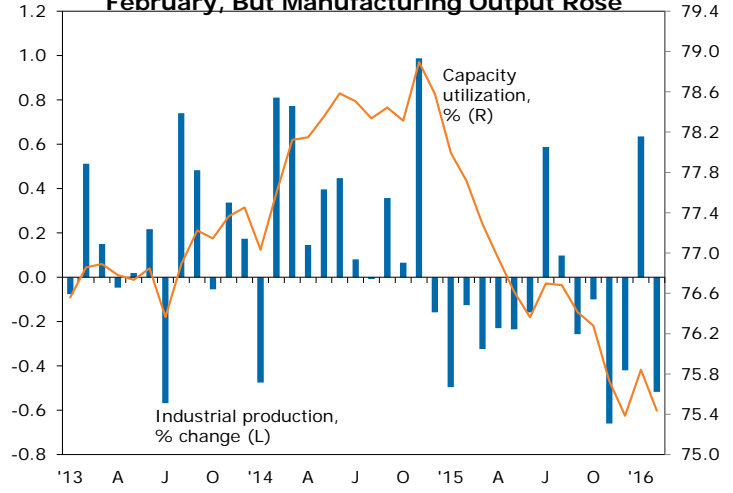
Nearly three in 10 (29 percent) of small business owners plan to charge higher prices, on par with (28 percent) in the fall. For prices charged by suppliers, 44 percent expect price hikes compared to 50 percent six months ago. Seventy-seven percent expect consumer prices to rise this year, partly reflecting the sharp drop in energy prices. Asked about the Affordable Care Act, 78 percent say it had no effect on their 2015 hiring and a similar number (82 percent) do not expect an impact this year. Most (56 percent) said insurance premiums increased in 2015—and nearly half said they went up 10 percent or more. Looking ahead to 2016, 40 percent of small business owners expect costs to increase, down from 49 percent in the fall. A majority (57 percent) expect house prices to rise in their local market in the next 6-12 months, on par with 58 percent in the fall.

Overall, the survey results reinforce PNC's view that fundamentals are solid for the U.S. economy, and support PNC's forecast for real GDP growth of 2.0 percent this year, slightly slower than the 2015 pace of 2.4 percent. Consumer spending will continue to lead overall economic growth in 2016, rising 2.4 percent, as job and wage gains and the big declines in energy prices since late 2014 allow households to boost their purchases. Housing and commercial construction will also support the economy this year, offsetting drags from trade and the downturn in energy production. PNC is forecasting average monthly job growth of 185,000 this year, and a continued reduction in labor market slack. The unemployment rate is expected to fall from 5.0 percent in March to 4.7 percent at the end of the year. The tighter job market will lead businesses to raise wages in an effort to attract workers, with growth in average hourly earnings increasing from 2.0 percent in 2015 to 2.5 percent in 2016; this, in turn, will support consumer spending. Inflation will gradually accelerate as energy prices and the dollar stabilize, stronger demand gives businesses more pricing power, and higher wages boost costs. PNC is forecasting a 1.1 percent increase in the consumer price index this year, up from 0.1 percent inflation in 2015.

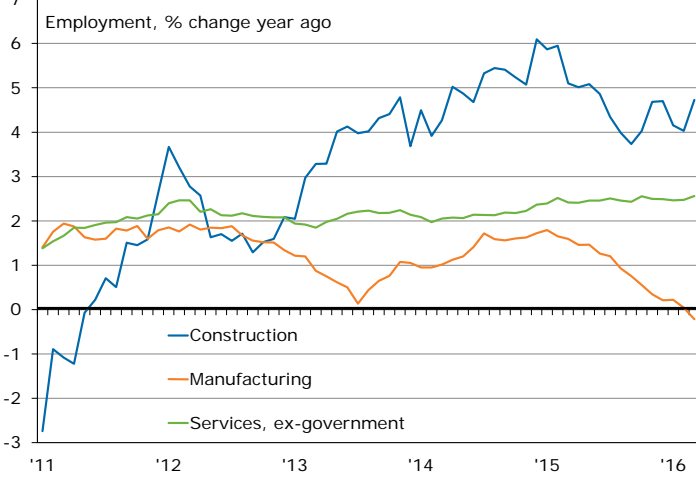
Upward Revision in Fourth Quarter GDP Growth to 1.4 Percent, With Demand Solid



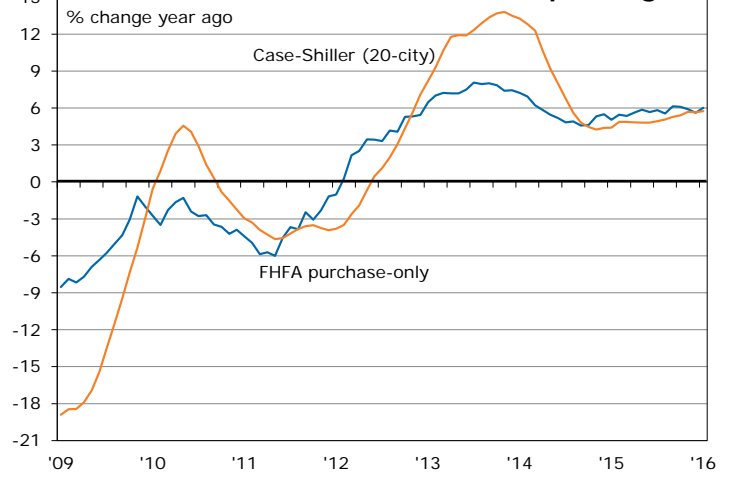
Warm Weather, Mining Weighed on Production in February, But Manufacturing Output Rose



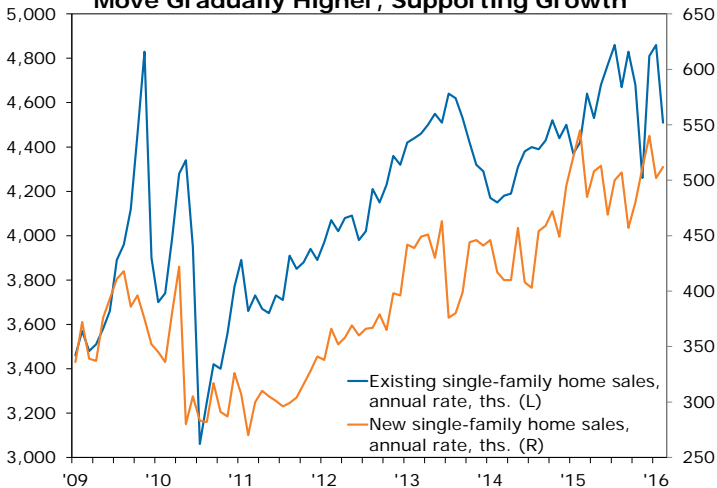
Strong Dollar, Weak Global Growth Weighing on Manufacturing Jobs, But Other Sectors in Good Shape



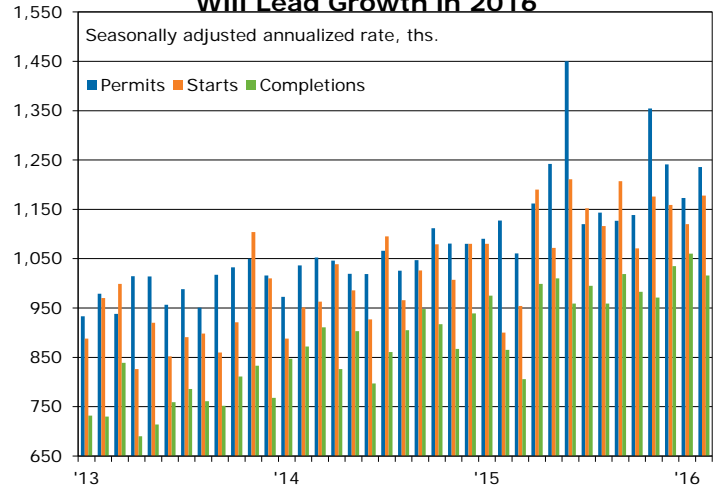
Stable, Sustainable House Price Growth a Plus for Household Wealth and Consumer Spending



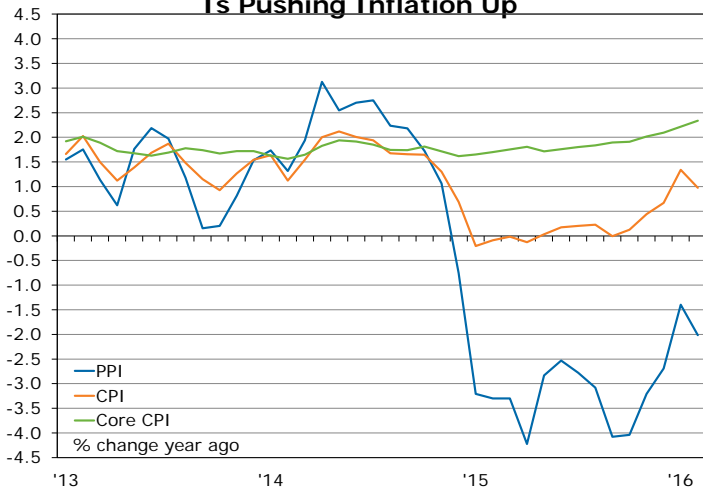
New and Existing Home Sales Continue to Move Gradually Higher, Supporting Growth



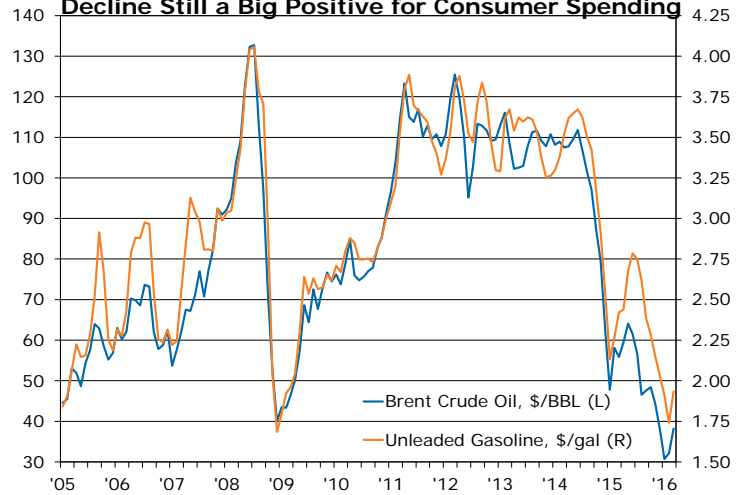
With Good Fundamentals, Homebuilding Will Lead Growth in 2016



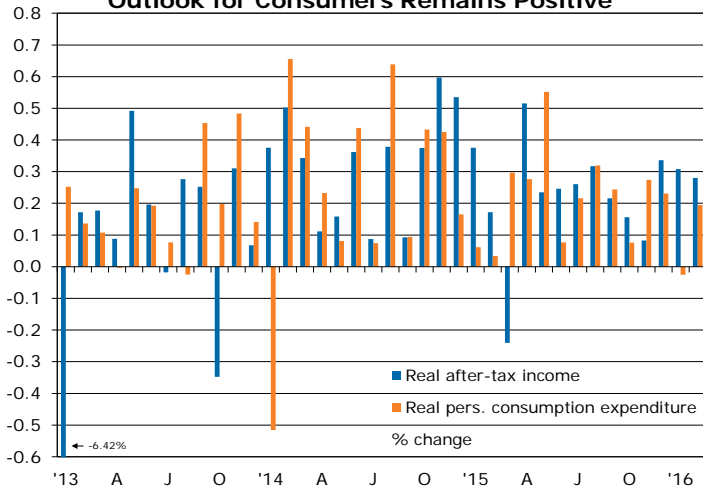
Stabilization in Energy Prices Is Pushing Inflation Up



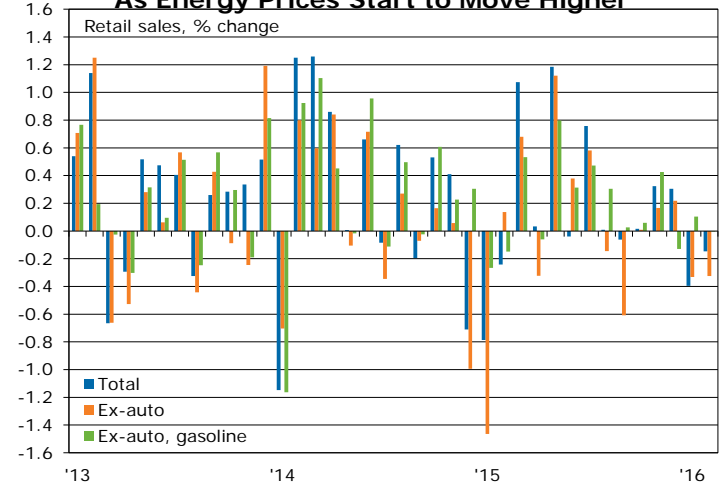
Energy Prices May Have Finally Bottomed Out; Decline Still a Big Positive for Consumer Spending



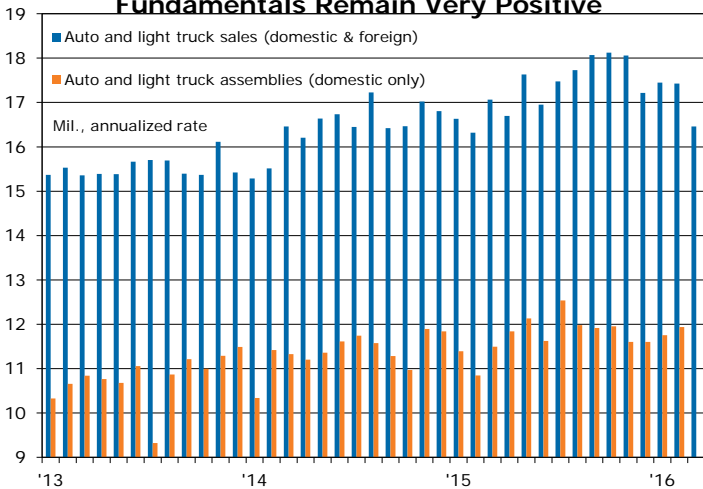
With Low Inflation, More Jobs and Rising Wages, Outlook for Consumers Remains Positive



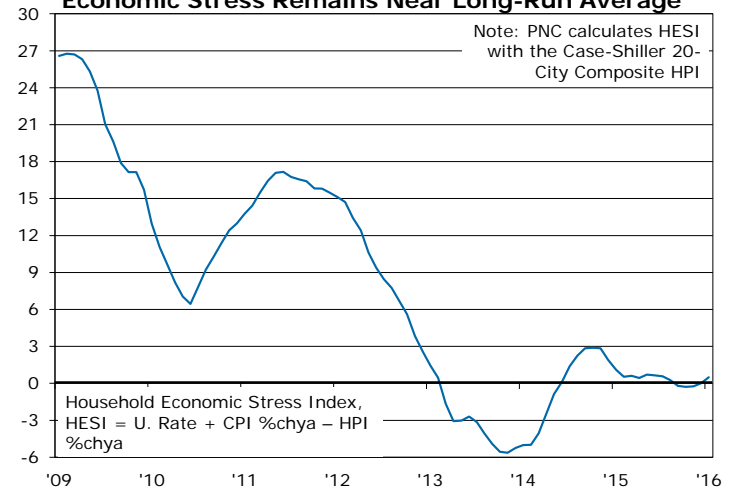
Drop in Retail Sales Only Temporary As Energy Prices Start to Move Higher



Auto Sales Dipped in March, But the Fundamentals Remain Very Positive



With Low Inflation, Low Unemployment, Household Economic Stress Remains Near Long-Run Average



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PNC Economics Group
April 2016

Baseline U.S. Economic Outlook, Expanded Table

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Output												
Nominal GDP (Billions \$)	18230	18424	18595	18778	18969	19163	19360	19558	17947	18507	19262	20066
Percent Change Annualized	1.4	4.3	3.8	4.0	4.1	4.2	4.2	4.2	3.5	3.1	4.1	4.2
Real GDP (Chained 2009 Billions \$)	16513	16630	16725	16821	16911	17003	17097	17189	16349	16672	17050	17426
Percent Change Annualized	1.0	2.9	2.3	2.3	2.2	2.2	2.2	2.2	2.4	2.0	2.3	2.2
Pers. Consumption Expenditures	11373	11453	11518	11584	11650	11715	11781	11845	11213	11482	11748	12009
Percent Change Annualized	1.5	2.8	2.3	2.3	2.3	2.3	2.3	2.2	3.1	2.4	2.3	2.2
Nonresidential Fixed Investment	2214	2232	2252	2268	2285	2303	2319	2335	2209	2242	2310	2365
Percent Change Annualized	0.2	3.3	3.6	3.0	3.0	3.0	2.8	2.8	2.8	1.5	3.1	2.4
Residential Investment	561	577	586	594	601	607	609	612	530	579	607	619
Percent Change Annualized	10.0	12.0	6.5	5.5	4.9	4.0	1.2	2.0	8.9	9.4	4.8	1.9
Change in Private Inventories	63	60	57	57	57	58	57	58	98	59	57	61
Net Exports	-564	-572	-584	-592	-606	-616	-619	-623	-543	-578	-616	-623
Government Expenditures	2884	2898	2914	2927	2942	2954	2968	2980	2859	2906	2961	3012
Percent Change Annualized	1.9	2.0	2.2	1.8	2.0	1.7	1.8	1.7	0.7	1.6	1.9	1.7
Industrial Prod. Index (2012 = 100)	104.6	105.1	105.5	105.9	106.4	107.0	107.5	108.0	105.2	105.3	107.2	109.5
Percent Change Annualized	-0.1	1.9	1.5	1.9	1.9	2.3	1.8	1.9	0.3	0.0	1.9	2.1
Capacity Utilization (Percent)	75.6	75.6	75.5	75.6	75.6	75.6	75.7	75.7	76.7	75.6	75.7	75.8
Prices												
CPI (1982-84 = 100)	237.9	239.0	240.0	241.2	242.6	244.0	245.3	246.7	237.0	239.5	244.7	250.1
Percent Change Annualized	-0.3	1.8	1.8	2.0	2.2	2.3	2.3	2.2	0.1	1.1	2.1	2.2
Core CPI Index (1982-84 = 100)	245.8	247.0	248.1	249.3	250.6	251.9	253.2	254.5	242.2	247.5	252.5	257.9
Percent Change Annualized	2.8	1.9	1.9	1.9	2.0	2.1	2.1	2.1	1.8	2.2	2.0	2.1
PCE Price Index (2009 = 100)	109.8	110.2	110.6	111.0	111.5	112.0	112.6	113.2	109.4	110.4	112.3	114.6
Percent Change Annualized	-0.1	1.5	1.4	1.6	1.8	1.9	2.0	2.0	0.3	0.9	1.8	2.0
Core PCE Price Index (2009 = 100)	110.5	110.9	111.4	111.8	112.3	112.8	113.3	113.9	109.4	111.2	113.1	115.2
Percent Change Annualized	1.9	1.6	1.6	1.6	1.7	1.8	1.9	1.9	1.3	1.6	1.7	1.9
GDP Price Index (2009 = 100)	110.4	110.8	111.2	111.7	112.2	112.8	113.3	113.9	109.8	111.0	113.0	115.3
Percent Change Annualized	0.4	1.5	1.5	1.7	2.0	2.0	2.0	2.0	1.0	1.1	1.8	2.0
Crude Oil, WTI (\$/Barrel)	33.2	33.0	34.0	36.0	37.0	38.0	39.0	40.0	48.7	34.1	38.5	43.4
Labor Markets												
Payroll Jobs (Millions)	143.5	144.1	144.6	145.1	145.6	146.0	146.5	147.0	141.8	144.3	146.3	148.1
Percent Change Annualized	1.9	1.4	1.5	1.4	1.5	1.0	1.4	1.5	2.1	1.8	1.4	1.2
Unemployment Rate (Percent)	4.9	4.8	4.8	4.7	4.7	4.7	4.7	4.6	5.3	4.8	4.7	4.7
Average Weekly Hours, Prod. Works.	33.6	33.6	33.6	33.7	33.7	33.7	33.7	33.7	33.7	33.6	33.7	33.7
Personal Income												
Average Hourly Earnings (\$)	21.34	21.48	21.63	21.78	21.93	22.08	22.24	22.41	21.04	21.56	22.17	22.82
Percent Change Annualized	2.1	2.6	2.8	2.8	2.8	2.8	2.9	3.0	2.1	2.5	2.8	3.0
Real Disp. Income (2009 Billions \$)	12451	12519	12591	12664	12736	12809	12882	12955	12239	12556	12845	13131
Percent Change Annualized	3.0	2.2	2.3	2.3	2.3	2.3	2.3	2.3	3.4	2.6	2.3	2.2
Housing												
Housing Starts (Ths., Ann. Rate)	1138	1180	1205	1219	1223	1232	1230	1231	1107	1185	1229	1235
Ext. Home Sales (Ths., Ann. Rate)	5350	5483	5548	5590	5672	5715	5730	5753	5233	5493	5718	5875
New SF Home Sales (Ths., Ann. Rate)	510	525	534	543	549	554	559	564	503	528	557	565
Case/Shiller HPI (Jan. 2000 = 100)	179.1	180.1	181.5	183.5	185.5	186.5	187.6	190.2	172.4	181.0	187.4	193.5
Percent Change Year Ago	5.4	5.4	5.3	4.1	3.6	3.6	3.3	3.7	4.6	5.0	3.5	3.3
Consumer												
Household Economic Stress Index	0.6	0.3	0.5	2.0	3.1	3.2	3.5	3.3	0.8	0.9	3.3	3.7
Auto Sales (Millions)	17.3	17.6	17.7	17.7	17.6	17.6	17.4	17.4	17.3	17.6	17.5	17.4
Consumer Credit (Billions \$)	3583	3636	3677	3728	3773	3824	3868	3913	3457	3656	3844	4024
Percent Change Annualized	5.7	6.1	4.6	5.6	4.9	5.5	4.7	4.7	6.8	5.8	5.2	4.7
Interest Rates (Percent)												
Prime Rate	3.50	3.55	3.75	3.80	4.05	4.30	4.53	4.75	3.26	3.65	4.41	5.16
Federal Funds	0.37	0.42	0.60	0.65	0.90	1.15	1.38	1.60	0.13	0.51	1.26	2.01
3-Month Treasury Bill	0.29	0.37	0.56	0.69	0.87	1.13	1.35	1.48	0.05	0.48	1.21	1.97
10-Year Treasury Note	1.92	1.98	2.26	2.28	2.34	2.47	2.58	2.63	2.14	2.11	2.51	2.86
30-Year Fixed Mortgage	3.74	3.76	4.01	4.01	4.04	4.15	4.22	4.25	3.85	3.88	4.16	4.42
a = actual f = forecast p = preliminary												

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