May 2016

NATIONAL ECONOMIC OUTLOOK

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Executive Summary

Some Softer Data, But U.S. Economy Continues to Expand

- Payroll jobs rose by 160,000 in April, below the market consensus of 208,000 and PNC's forecast of 205,000. April private-sector employment was up by 171,000, but government employment fell by 11,000. There was a net downward revision to job growth in February and March of 19,000. The average monthly payroll job gain for the first four months of 2016 was 192,000; during all of 2015 payroll job growth averaged 228,000 per month. The unemployment rate held steady at 5.0 percent in April. The number of people who reported having jobs in the household survey (different from the survey of employers) fell by 316,000 in April, while the labor force fell by 362,000. Over the past year, however, the labor force has increased by 1.9 million, a big vote of confidence in the job market. The share of adults working or looking for work fell 0.2 percentage point over the month to 62.8 percent, but is still up from a trough of 62.4 percent in September 2015.

- Real gross domestic product grew a scant 0.5 percent at an annual rate in the first quarter, according to the advance estimate from the Bureau of Economic Analysis, following disappointing 1.4 percent growth in the fourth quarter of 2015. Seasonal adjustment issues likely explain some of the weakness in the first quarter, and growth is likely to be revised higher, but the figure is still disappointing. Consumer spending led growth in the first quarter, although the pace slowed from late 2015, and housing was also a positive. Trade, business fixed investment and inventories were all drags on growth in early 2016. Real GDP was up 2 percent in the first quarter from one year earlier, the same pace as in the fourth quarter of last year.

- Industrial production fell 0.6 percent in March, after falling 0.6 percent in February. For the first quarter of 2016 as a whole total industrial production fell 2.2 percent at an annual rate; this included an annualized gain of 0.6 percent for manufacturing, but declines of 6.3 percent for utilities and 19.0 percent for mining. The industrial side of the U.S. economy is contracting. Mining output continues to plunge as low commodity prices, especially for energy, lead firms to cut back on higher-cost production. Manufacturing is in better shape, but is essentially flat. The strong dollar, weak demand from overseas, and a huge reduction in investment in energy are all weighing on manufacturing. Some segments are doing better, however, especially those tied to consumers and construction.

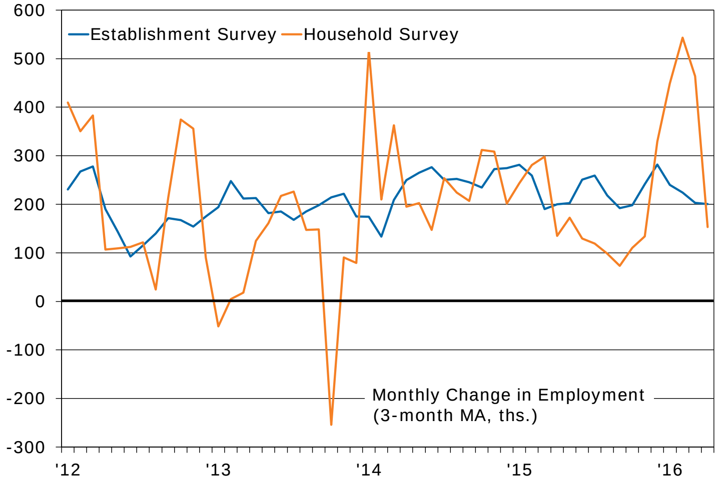
Baseline U.S. Economic Outlook, Summary Table*

	1Q'16p	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 $*)	16493	16595	16698	16794	16884	16976	17069	17161	16349	16645	17022	17397
Percent Change Annualized	**0.5**	**2.5**	**2.5**	**2.3**	**2.2**	**2.2**	**2.2**	**2.2**	**2.4**	**1.8**	**2.3**	**2.2**
CPI (*1982-84 = 100*)	237.9	239.1	240.3	241.5	242.8	244.2	245.6	247.0	237.0	239.7	244.9	250.3
Percent Change Annualized	**-0.3**	**2.0**	**2.0**	**2.0**	**2.2**	**2.3**	**2.3**	**2.3**	**0.1**	**1.1**	**2.2**	**2.2**
Labor Markets												
Payroll Jobs (*Millions*)	143.5	144.0	144.5	145.0	145.5	145.9	146.4	146.9	141.8	144.3	146.2	148.0
Percent Change Annualized	**1.9**	**1.4**	**1.3**	**1.4**	**1.3**	**1.3**	**1.3**	**1.3**	**2.1**	**1.7**	**1.3**	**1.2**
Unemployment Rate (*Percent*)	4.9	4.9	4.8	4.7	4.7	4.7	4.7	4.7	5.3	4.9	4.7	4.7
Interest Rates (Percent)												
Federal Funds	0.37	0.37	0.37	0.41	0.60	0.65	0.88	1.15	0.13	0.38	0.82	1.57
Treasury Note, 10-year	1.91	1.83	1.96	2.12	2.24	2.27	2.33	2.45	2.14	1.95	2.32	2.65

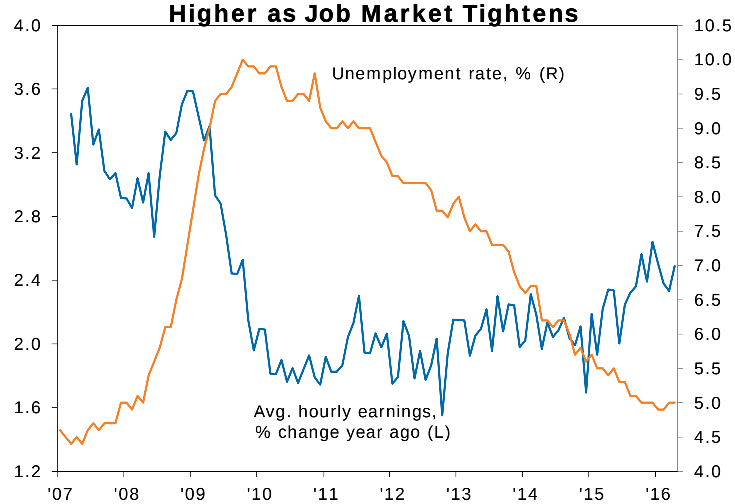
*a = actual f = forecast p = preliminary * Please see the Expanded Table for more forecast series.*

PNC

Slower, But Still Solid Job Growth in April



Wages Continue to Creep Higher as Job Market Tightens



PNC Pushes Forecast for Next Increase in Federal Funds Rate Out to December 2016

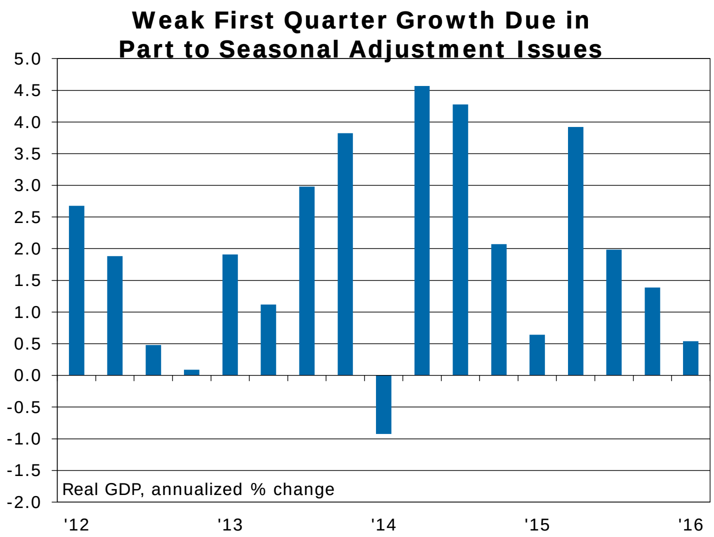
With disappointing GDP growth in the first quarter, a slowing in inflation, and softer job growth in April, PNC's May baseline forecast pushes out the next expected increase in the federal funds target rate range to December 2016. In the April forecast PNC was expecting an increase in the Federal Reserve's main policy rate in both June and December. The Federal Open Market Committee sets a target range for the federal funds rate, the rate at which banks lend to one another overnight; the FOMC's goal in adjusting the funds rate is to meet the central bank's statutory dual mandate of full employment and low and stable inflation, which the FOMC has defined as 2 percent using the personal consumption expenditures price index. In response to the Great Recession, the funds rate remained in a 0.00-0.25 percent target range for seven years, from December 2008 to December 2015, when the FOMC raised the rate by 0.25 percentage point to a range of 0.25-0.50 percent; this was the first rate increase since September 2006.

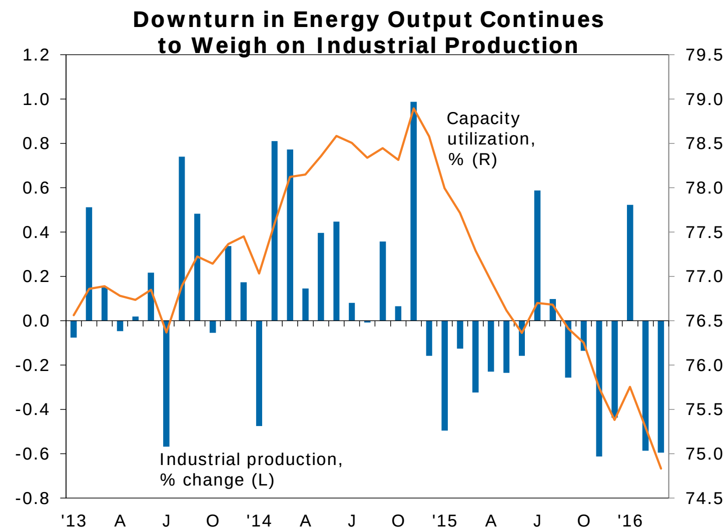
Since raising the funds rate by 25 basis points in December 2015, the FOMC has held the funds rate steady at its three subsequent meetings, and has said in its post-meeting statements that it expects "gradual increases" in the funds rate, with the path dependent on incoming data. The most recent FOMC economic projections, from March, show a median value for the funds rate of 0.9 percent at the end of this year, implying two rate increases in 2016. That was consistent with PNC's April forecast, which called for 0.25 percentage point increases in the funds rate at the FOMC's June and December meetings.

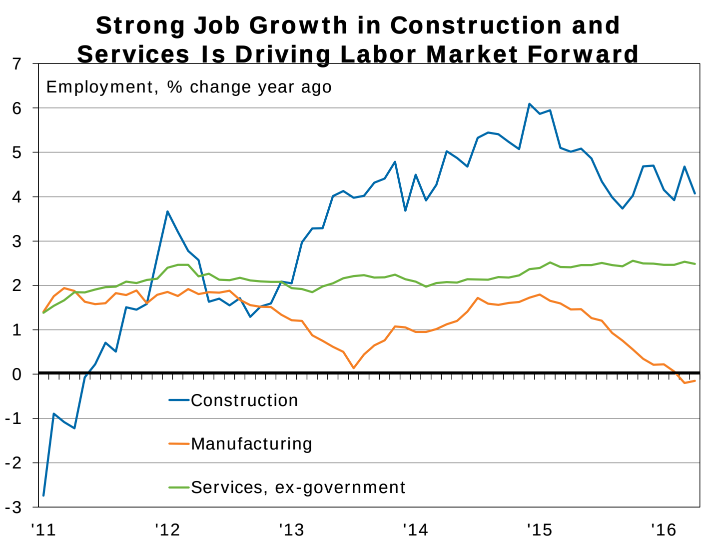
In its May forecast, however, PNC now expects only one 0.25 percentage point rate increase this year, at the FOMC's December meeting. There are two main reasons for this change in the forecast. First, recent data have been soft, including the advance estimate for first quarter GDP and the April employment report. Second, inflation has slowed in recent months, whether looking at the overall PCE price index or the core index, which excludes volatile food and energy prices. Overall PCE inflation slowed to 0.8 percent in March on a year-ago basis, down from 1.3 percent in January, as energy prices fell again in early 2016, while core inflation slowed from 1.7 percent in January and February from one year earlier to 1.6 percent in March. It would be hard for the FOMC to justify a rate increase if inflation is moving further away from the Committee's 2 percent target.

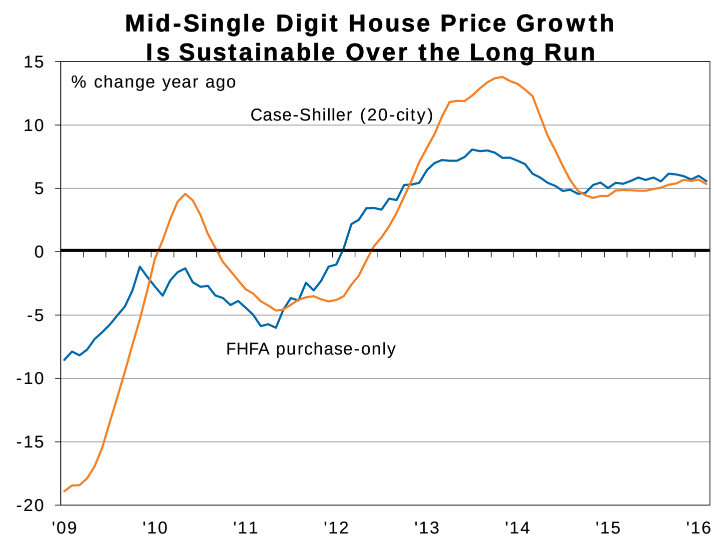
Institutional factors will also cause the FOMC to hold off on a funds rate increase. Currently the FOMC only releases its economic and fed funds rate projections, and Chair Yellen only holds a press conference, at every other meeting; it would be surprising, although not impossible, for the FOMC to raise rates at a meeting without a scheduled press conference and a release of projections. Also, the FOMC would be highly reluctant to raise rates in the middle what promises to be a highly charged presidential election campaign, concerned about the appearance of meddling in politics. For both of these reasons rate increases are unlikely at the FOMC's July, September and November meetings. The December meeting will include a press conference and a projections release, and would be after the election; thus PNC pegs this as the most plausible time for the next fed funds rate hike, although a rate increase before then is certainly possible. In addition, by December the data will likely show an acceleration in GDP growth, a lower unemployment rate, a pickup in inflation from stabilizations in both energy prices and the U.S. dollar, and stronger wage growth from a tighter labor market. PNC is forecasting three 0.25 percentage point increases in the fed funds rate in 2017, which would bring it up to a range of 1.25-1.50 percent at the end of next year. This is a slightly more aggressive path than the fed funds futures market is projecting; as of mid-May it is projecting one rate hike through the rest of this year, with just one more in 2017.

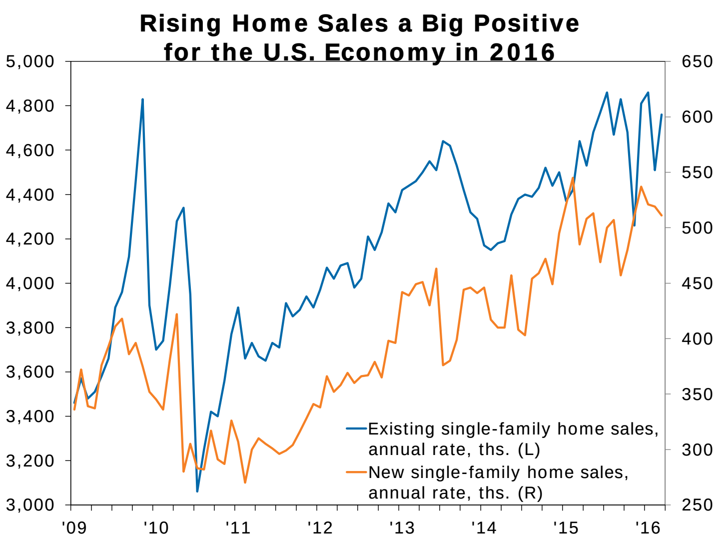
U.S. economic growth should bounce back over the rest of 2016 from the soft first quarter, pushed forward by solid gains in consumer spending, continued improvement in the housing market, and a rebound in business investment. PNC is forecasting real GDP growth of 2.0 percent in the fourth quarter of 2016 from one year earlier, with average monthly job gains of around 175,000 this year and the unemployment rate falling from 5.0 percent in April to 4.7 percent at the end of 2016. The tighter job market will lead businesses to raise wages in an effort to attract workers, supporting gains in household income and consumer spending. Trade will continue to weigh on the U.S. economy throughout 2016, due to the strong dollar and weak global growth, but the drags from inventories and the downturn in energy production will fade over the rest of this year.

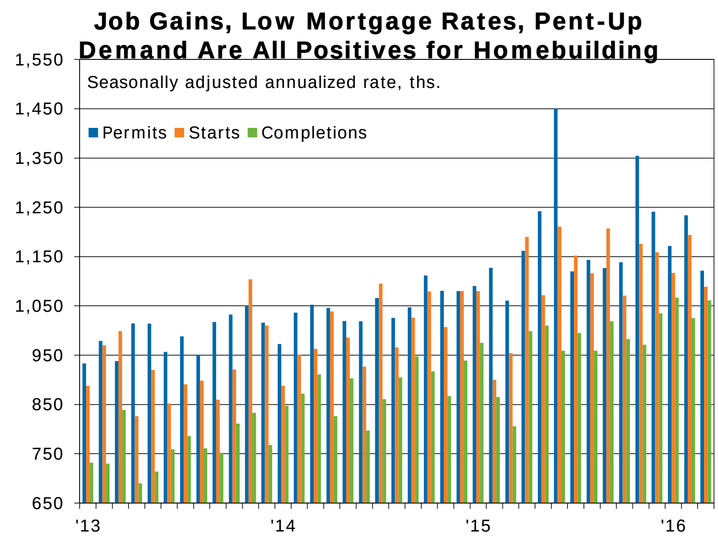












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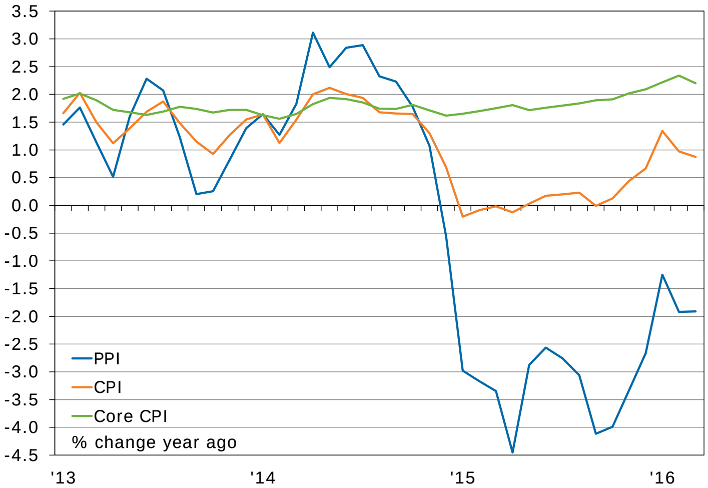
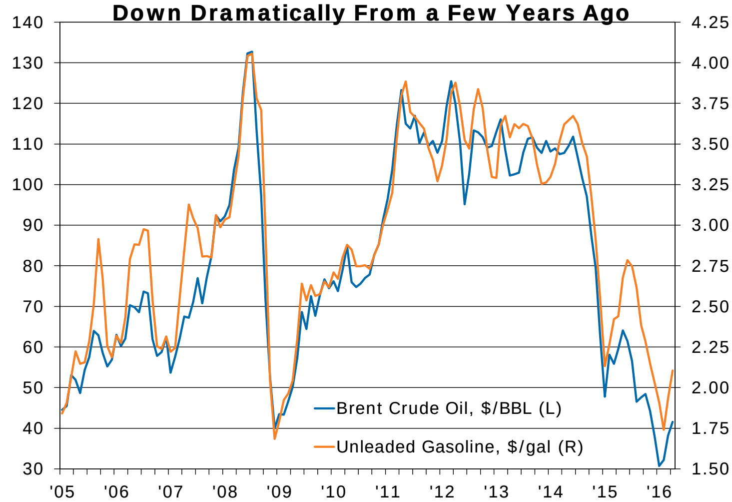
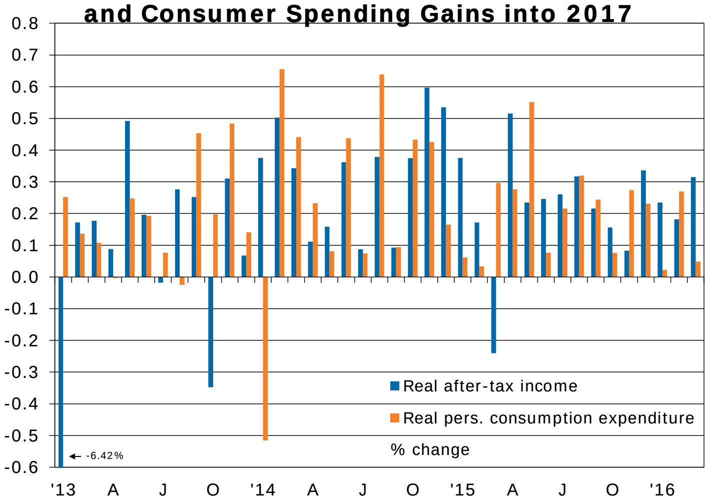
Inflation Taking a Step Back in the Spring



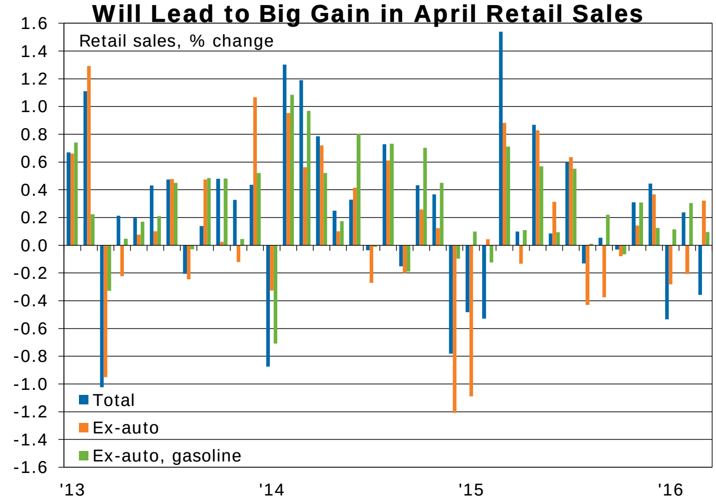
Energy Prices Have Stabilized, But Are Still Down Dramatically From a Few Years Ago



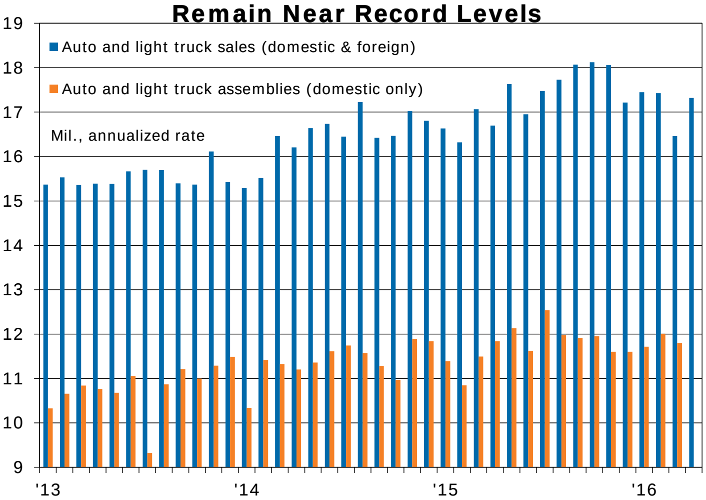
More Jobs, Rising Wages Will Power Income and Consumer Spending Gains into 2017



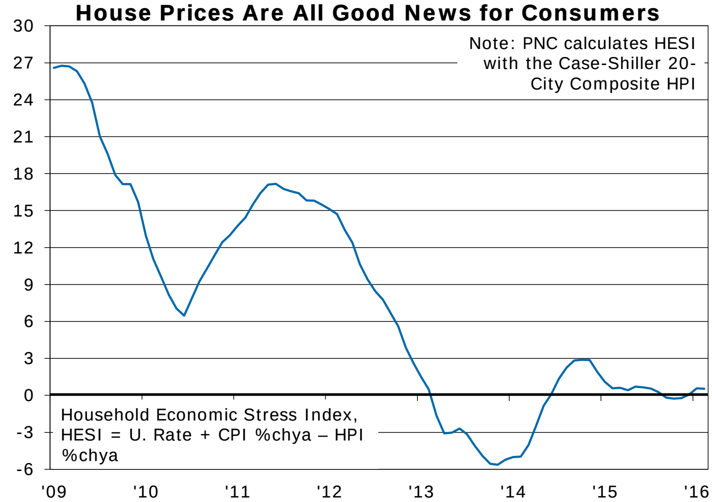
Rising Gas Prices, Higher Auto Sales Will Lead to Big Gain in April Retail Sales



Auto Sales Recovered in April, Remain Near Record Levels



Low Inflation, Low Unemployment, Rising House Prices Are All Good News for Consumers



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PNC Economics Group
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Baseline U.S. Economic Outlook, Expanded Table

	1Q'16p	2Q'16f	3Q'16f	4Q'16f	1Q'17f	2Q'17f	3Q'17f	4Q'17f	2015a	2016f	2017f	2018f
Output												
Nominal GDP (*Billions $*)	18221	18406	18592	18771	18959	19152	19349	19546	17947	18497	19252	20054
Percent Change Annualized	**1.2**	**4.1**	**4.1**	**3.9**	**4.1**	**4.2**	**4.2**	**4.1**	**3.5**	**3.1**	**4.1**	**4.2**
Real GDP (*Chained 2009 Billions $*)	16493	16595	16698	16794	16884	16976	17069	17161	16349	16645	17022	17397
Percent Change Annualized	**0.5**	**2.5**	**2.5**	**2.3**	**2.2**	**2.2**	**2.2**	**2.2**	**2.4**	**1.8**	**2.3**	**2.2**
Pers. Consumption Expenditures	11383	11453	11518	11584	11650	11715	11781	11845	11213	11485	11748	12009
Percent Change Annualized	**1.9**	**2.5**	**2.3**	**2.3**	**2.3**	**2.3**	**2.3**	**2.2**	**3.1**	**2.4**	**2.3**	**2.2**
Nonresidential Fixed Investment	2180	2194	2217	2234	2250	2267	2283	2299	2209	2206	2275	2329
Percent Change Annualized	**-5.8**	**2.7**	**4.2**	**3.0**	**3.0**	**3.0**	**2.8**	**2.8**	**2.8**	**-0.1**	**3.1**	**2.4**
Residential Investment	567	583	592	600	607	613	615	618	530	585	614	625
Percent Change Annualized	**14.9**	**12.0**	**6.5**	**5.5**	**4.9**	**4.0**	**1.2**	**2.0**	**8.9**	**10.6**	**4.8**	**1.9**
Change in Private Inventories	61	57	57	57	57	58	57	58	98	58	57	61
Net Exports	-567	-574	-585	-593	-606	-616	-619	-623	-543	-580	-616	-624
Government Expenditures	2879	2893	2909	2922	2937	2949	2962	2975	2859	2901	2956	3007
Percent Change Annualized	**1.2**	**2.0**	**2.2**	**1.8**	**2.0**	**1.7**	**1.8**	**1.7**	**0.7**	**1.5**	**1.9**	**1.7**
Industrial Prod. Index (*2012 = 100*)	104.0	104.2	104.7	105.2	105.7	106.3	106.7	107.2	105.2	104.5	106.5	108.8
Percent Change Annualized	**-2.2**	**0.8**	**1.9**	**1.9**	**1.9**	**2.3**	**1.8**	**1.9**	**0.3**	**-0.7**	**1.9**	**2.1**
Capacity Utilization (*Percent*)	75.3	75.0	75.1	75.2	75.2	75.2	75.3	75.3	76.7	75.2	75.3	75.4
Prices												
CPI (*1982-84 = 100*)	237.9	239.1	240.3	241.5	242.8	244.2	245.6	247.0	237.0	239.7	244.9	250.3
Percent Change Annualized	**-0.3**	**2.0**	**2.0**	**2.0**	**2.2**	**2.3**	**2.3**	**2.3**	**0.1**	**1.1**	**2.2**	**2.2**
Core CPI Index (1982-84 = 100)	245.8	246.9	248.1	249.3	250.5	251.8	253.2	254.5	242.2	247.5	252.5	257.9
Percent Change Annualized	**2.7**	**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*)	109.9	110.3	110.8	111.2	111.7	112.3	112.8	113.3	109.4	110.6	112.5	114.7
Percent Change Annualized	**0.3**	**1.6**	**1.6**	**1.6**	**1.8**	**1.9**	**1.9**	**1.9**	**0.3**	**1.0**	**1.8**	**2.0**
Core PCE Price Index (*2009 = 100*)	110.6	111.0	111.4	111.9	112.4	112.9	113.4	113.9	109.4	111.2	113.1	115.2
Percent Change Annualized	**2.1**	**1.6**	**1.6**	**1.6**	**1.7**	**1.8**	**1.8**	**1.8**	**1.3**	**1.7**	**1.7**	**1.9**
GDP Price Index (*2009 = 100*)	110.5	110.9	111.4	111.8	112.3	112.9	113.4	114.0	109.8	111.1	113.2	115.4
Percent Change Annualized	**0.7**	**1.6**	**1.6**	**1.6**	**1.9**	**2.0**	**2.0**	**2.0**	**1.0**	**1.2**	**1.8**	**2.0**
Crude Oil, WTI (*$/Barrel*)	33.2	35.0	37.0	39.0	40.0	41.0	42.0	43.0	48.7	36.0	41.5	46.4
Labor Markets												
Payroll Jobs (*Millions*)	143.5	144.0	144.5	145.0	145.5	145.9	146.4	146.9	141.8	144.3	146.2	148.0
Percent Change Annualized	**1.9**	**1.4**	**1.3**	**1.4**	**1.3**	**1.3**	**1.3**	**1.3**	**2.1**	**1.7**	**1.3**	**1.2**
Unemployment Rate (*Percent*)	4.9	4.9	4.8	4.7	4.7	4.7	4.7	4.7	5.3	4.9	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	21.62	21.77	21.92	22.07	22.23	22.39	21.04	21.55	22.15	22.80
Percent Change Annualized	**2.1**	**2.6**	**2.6**	**2.7**	**2.8**	**2.8**	**2.9**	**3.0**	**2.1**	**2.5**	**2.8**	**3.0**
Real Disp. Income (*2009 Billions $*)	12448	12514	12578	12643	12715	12787	12864	12937	12239	12546	12826	13112
Percent Change Annualized	**2.9**	**2.1**	**2.1**	**2.1**	**2.3**	**2.3**	**2.4**	**2.3**	**3.4**	**2.5**	**2.2**	**2.2**
Housing												
Housing Starts (*Ths., Ann. Rate*)	1133	1175	1201	1214	1218	1227	1224	1226	1107	1181	1224	1229
Ext. Home Sales (*Ths., Ann Rate*)	5290	5454	5519	5562	5646	5689	5706	5729	5233	5456	5692	5851
New SF Home Sales (*Ths., Ann Rate*)	517	532	542	551	558	564	569	574	503	536	566	575
Case/Shiller HPI (*Jan. 2000 = 100*)	179.2	179.8	181.0	183.0	184.6	185.4	187.2	189.3	172.4	180.7	186.6	192.9
Percent Change Year Ago	**5.4**	**5.3**	**4.9**	**3.8**	**3.0**	**3.1**	**3.4**	**3.4**	**4.6**	**4.8**	**3.2**	**3.4**
Consumer												
Household Economic Stress Index	0.6	0.6	1.0	2.3	3.7	3.7	3.5	3.5	0.8	1.1	3.6	3.5
Auto Sales (*Millions*)	17.1	17.2	17.4	17.5	17.5	17.4	17.2	17.2	17.3	17.3	17.3	17.1
Consumer Credit (*Billions $*)	3585	3637	3678	3730	3775	3826	3870	3915	3459	3658	3846	4025
Percent Change Annualized	**5.7**	**5.9**	**4.6**	**5.7**	**4.9**	**5.5**	**4.7**	**4.7**	**6.9**	**5.7**	**5.2**	**4.7**
Interest Rates (Percent)												
Prime Rate	3.50	3.50	3.50	3.55	3.75	3.80	4.03	4.30	3.26	3.51	3.97	4.72
Federal Funds	0.37	0.37	0.37	0.41	0.60	0.65	0.88	1.15	0.13	0.38	0.82	1.57
3-Month Treasury Bill	0.29	0.24	0.34	0.46	0.58	0.72	0.89	1.15	0.05	0.33	0.84	1.60
10-Year Treasury Note	1.91	1.83	1.96	2.12	2.24	2.27	2.33	2.45	2.14	1.95	2.32	2.65
30-Year Fixed Mortgage	3.74	3.60	3.68	3.82	3.91	3.92	3.96	4.06	3.85	3.71	3.96	4.22

a = actual f = forecast p = preliminary

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