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NATIONAL ECONOMIC OUTLOOK

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Executive Summary

Continued Improvement in U.S. Labor Market, Even With Surprise First Quarter Contraction in GDP

- The March jobs report was another solid one, with job growth over the month of 431,000 based on a survey of employers. There was a big combined upward revision to job growth in January and February of 95,000. The three-month moving average of job growth through March was a very good 562,000. The private sector added 426,000 jobs in March, while government employment rose by 5,000. The unemployment rate fell to 3.6% in March from 3.8% in January. The unemployment rate, which soared to 14.7% in April 2020 with the pandemic, is now just barely above its pre-pandemic level of 3.5% in February 2020, and has fallen by a very large 2.4 percentage points over the past year. The labor force—the number of adults working or looking for work—increased by 418,000, while the labor force participation rate—the share of adults working or looking for work—rose to 62.4% in March from 62.3% in February. The labor force participation rate was above 63% in early 2020, so it has not fully recovered from the pandemic, but it has risen steadily over the past year, up by almost a full percentage point.

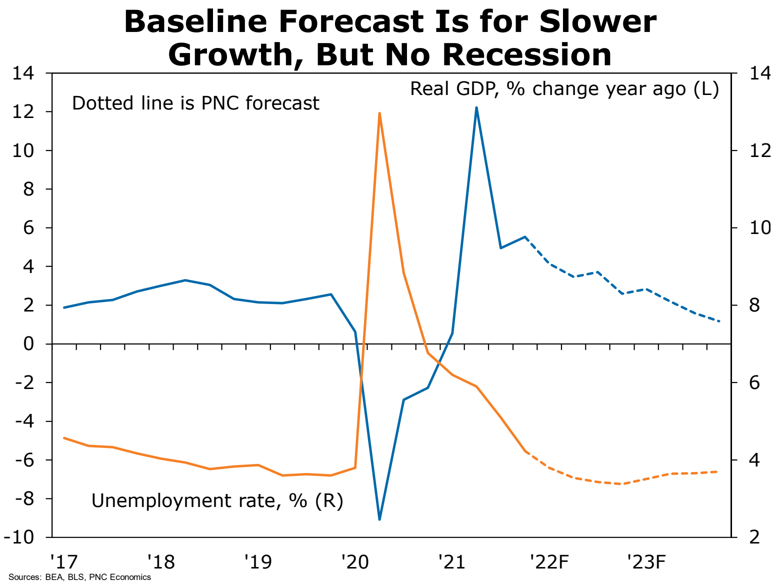
- The U.S. economy contracted slightly in the first quarter of 2022, with real GDP down 1.4% at an annualized rate, according to the advance estimate from the Bureau of Economic Analysis. This was the first contraction in real GDP since the second quarter of 2020, when the pandemic caused a short but very severe recession. Although GDP fell in the first quarter, the U.S. economy is not in recession. Underlying demand remains strong, with solid increases in the first quarter in consumer spending, business fixed investment, and investment in housing. Growth will resume in the second quarter. The big drags on growth in the quarter came from a much larger trade deficit, which subtracted 3.2 percentage points from annualized growth; inventories; and government spending. The GDP release came after PNC's April forecast was finalized.

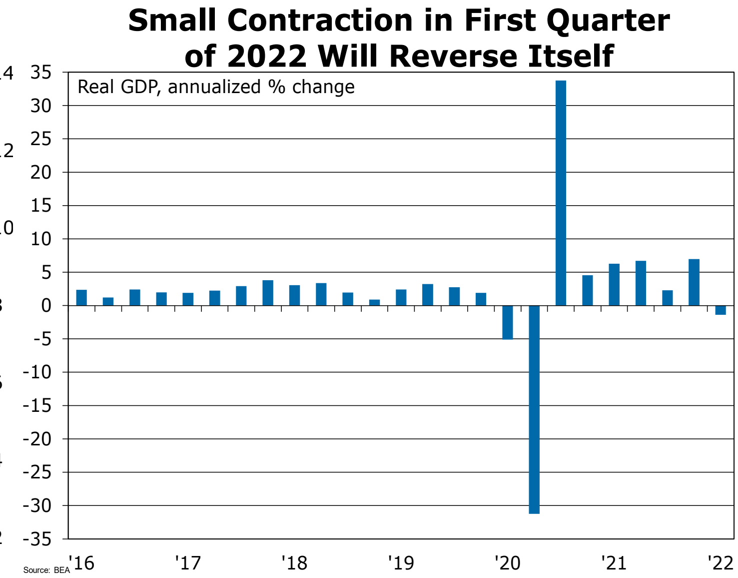
- Inflation continues to run at the fastest pace in decades. The personal consumption expenditures price index jumped 0.9% in March from February, the biggest one-month jump in prices since 2005. Higher energy prices in the wake of the Russian invasion of Ukraine were the catalyst for higher inflation; the index rose 0.5% in both January and March. But the core PCE price index, excluding volatile food and energy prices, rose a much more moderate 0.3% in March, the same pace as in February and down from 0.5% in January. On a year-ago basis overall PCE inflation was 6.6%, up from 6.3% in February and the fastest pace since 1982. But core PCE inflation actually slowed slightly on a year-over-year basis in March to 5.2%, from 5.3% in February.

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

	4Q'21a	1Q'22p	2Q'22f	3Q'22f	4Q'22f	1Q'23f	2021a	2022f	2023f	2024f
Output & Prices										
Real GDP (*Chained 2012 Billions $*)	19806	19848	20040	20203	20320	20411	19427	20103	20493	20646
Percent Change Annualized	**6.9**	**0.8**	**3.9**	**3.3**	**2.3**	**1.8**	**5.7**	**3.5**	**1.9**	**0.7**
CPI (*1982-84 = 100*)	278.4	284.6	288.7	291.2	292.9	294.4	271.0	289.3	296.9	304.4
Percent Change Annualized	**7.9**	**9.2**	**5.8**	**3.5**	**2.4**	**2.0**	**4.7**	**6.8**	**2.6**	**2.5**
Labor Markets										
Payroll Jobs (*Millions*)	148.6	150.4	151.5	152.2	152.8	153.2	146.1	151.7	153.5	154.1
Percent Change Annualized	**4.9**	**4.8**	**2.9**	**1.9**	**1.6**	**1.0**	**2.8**	**3.8**	**1.2**	**0.4**
Unemployment Rate (*Percent*)	4.2	3.8	3.5	3.4	3.4	3.5	5.4	3.5	3.6	3.7
Interest Rates (Percent)										
Federal Funds	0.08	0.12	0.71	1.50	1.92	2.33	0.08	1.06	2.69	2.88
10-Year Treasury Note	1.53	1.94	2.45	2.60	2.75	2.88	1.43	2.44	2.95	2.99

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





Interest Rates Will Continue to Move Higher as the Fed Seeks to Slow Inflation; Recession Risks Are Elevated

After increasing the federal funds rate in March, the Federal Open Market Committee is set to raise their key policy benchmark again when they meet in early May, and then further throughout 2022 and into 2023. With inflation running well above the FOMC's 2% objective the central bank is looking to cool off economic growth to reduce inflationary pressures, while avoiding a recession. The baseline forecast is for a slowing in economic growth over the next couple of years, but no recession, and for inflation to move back toward 2%. But while the risk of an economic contraction this year is low, the risk of recession in 2023 or 2024 has increased since the Russian invasion of Ukraine.

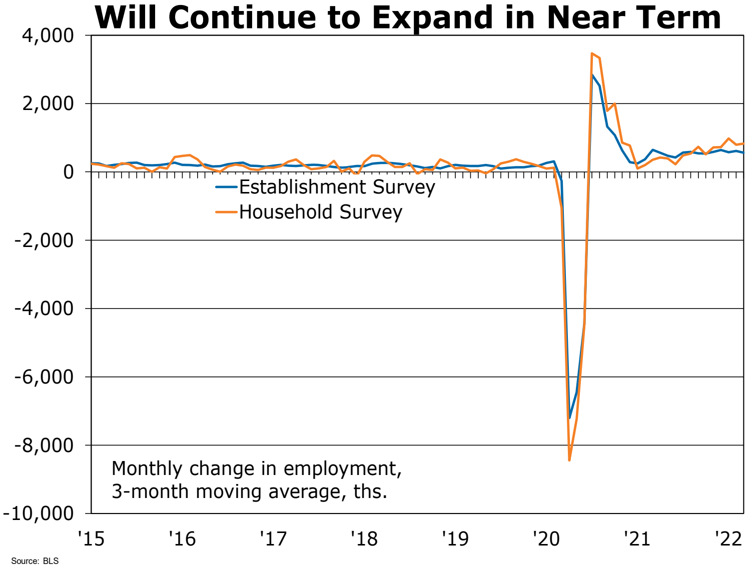
The FOMC moved quickly to support the economy when the coronavirus pandemic came to the United States. The committee rapidly cut the federal funds rate—their key short-term policy rate—to close to zero. It also expanded the central bank's balance sheet by creating money electronically, using the proceeds to purchase longer-term Treasurys and mortgage-backed securities. This pushed down long-term interest rates: the yield on a 10-year Treasury note—what it costs the federal government to borrow for 10 years—quickly fell from 1.8% in early 2020 to all-time lows, and was below 1% for most of the rest of that year. Similarly, the interest rate of a typical 30-year fixed mortgage fell to an all-time low of below 3% in 2020. These lower rates, along with aid from the federal government, did their job, spurring consumer spending, business investment, and a strong housing market, leading to an unprecedented economic recovery in the second half of 2020 and in 2021.

In fact, very expansionary monetary and fiscal policies have worked perhaps too well. Very strong demand, coupled with supply shortages coming out of the worst of the pandemic, have led to the highest consumer inflation in four decades. One of the objectives of the Federal Reserve is low inflation. With inflation running well above the FOMC's 2% objective, the committee is looking to cool off economic growth to slow inflation. To achieve this the FOMC is looking to increase interest rates; higher rates weigh on borrowing and overall economic activity. The FOMC already increased the fed funds rate by one-quarter of a percentage point in March, and will raise it by one-half of a percentage point in early May, to a range of 0.75% to 1.00%. Further rate hikes will come this year, with the fed funds rate set to end 2022 at above 2%, and it will move even higher next year, to close to 3%. The Fed will also reduce the size of its balance sheet by not rolling over maturing long-term Treasurys and mortgage-backed securities, likely starting in May. With financial markets already anticipating these moves the yield on the 10-year Treasury has risen sharply this year, up to 2.9% at the end of April, the highest it has been in three years, and the 30-year fixed mortgage rate has moved above 5% for the first time since 2009.

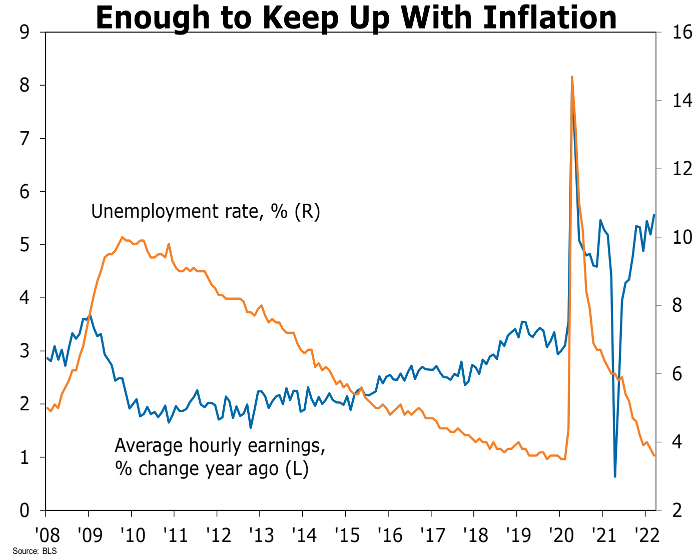
Higher interest rates throughout the economy will eventually lead to slower growth in consumer spending, particularly on big-ticket items, and in business investment, as well as a weaker housing market. But the FOMC has a difficult task ahead. Their hope is to raise interest rates by enough to slow economic growth and reduce inflationary pressures, but not by so much as to cause a recession—an outright contraction in the U.S. economy. That task has only gotten more difficult with the Russian invasion of Ukraine, which has added to U.S. inflation, but is also likely to weigh on U.S. growth, through higher energy prices and a weaker European economy. The most likely outcome over the next couple of years is still expansion, albeit weaker in 2023 and then again in 2024. But the risks of a Fed misstep have increased, and it may even be that the only way the central bank can slow inflation is to engineer a (hopefully) mild recession. With current solid fundamentals, in particular a very strong labor market, if a recession does come it would likely not be until 2023 or even 2024. The probability of recession over the next couple of years is around 30%, up from around 15% before the invasion of Ukraine.

PNC's baseline forecast is for economic growth of around 3.5% this year, with weaker growth in 2023 and 2024. Core PCE inflation is expected to slow to below 4% by the end of this year, and to the Fed's objective of around 2% by the end of 2023. With average monthly job growth of about 300,000 through the rest of this year, the unemployment rate will move even lower in the months ahead, to its lowest level in 50 years, even as rising wages bring some people who dropped out of the labor force in the wake of the pandemic back into the job market. Risks to the outlook remain tilted to the downside, including further supply-chain disruptions, a more significant slowing in growth from the Ukraine-Russia conflict, and continued high inflation that would force the FOMC to raise interest rates even more aggressively than in the baseline forecast.

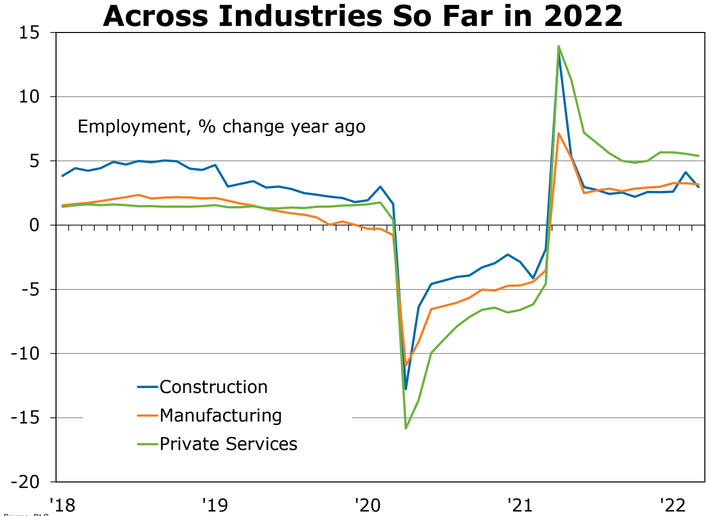
Strong Labor Market Means Economy Will Continue to Expand in Near Term



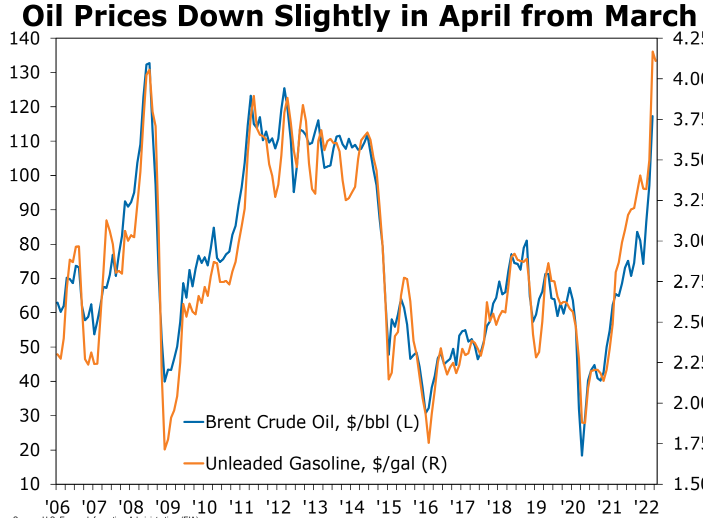
Very Strong Wage Growth, But Not Enough to Keep Up With Inflation



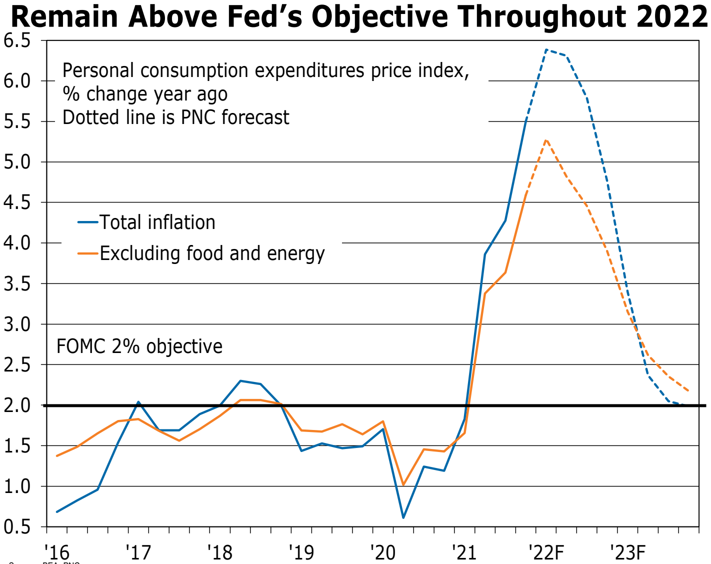
Job Growth Remains Broad-Based Across Industries So Far in 2022



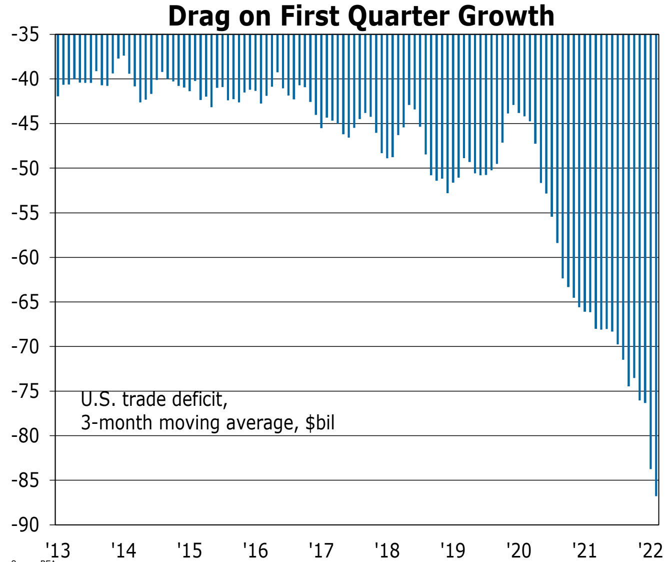
Oil Prices Down Slightly in April from March



Inflation Will Soon Start to Slow, But Will Remain Above Fed's Objective Throughout 2022



Much Wider Trade Deficit a Big Drag on First Quarter Growth



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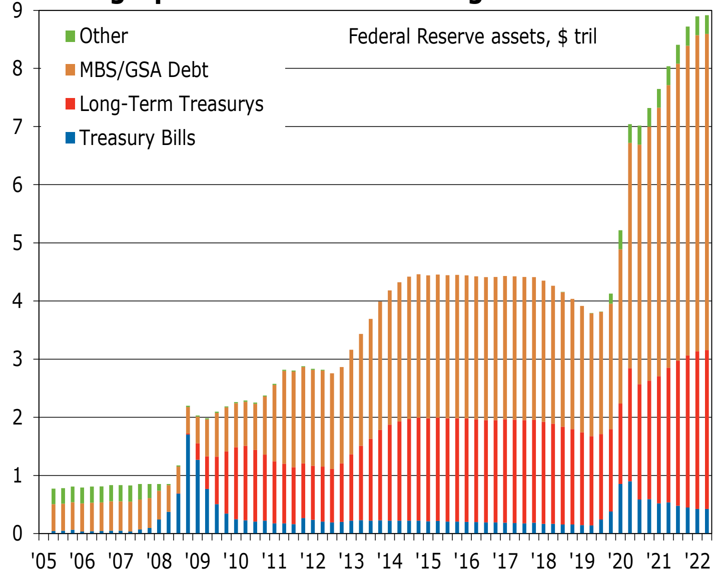
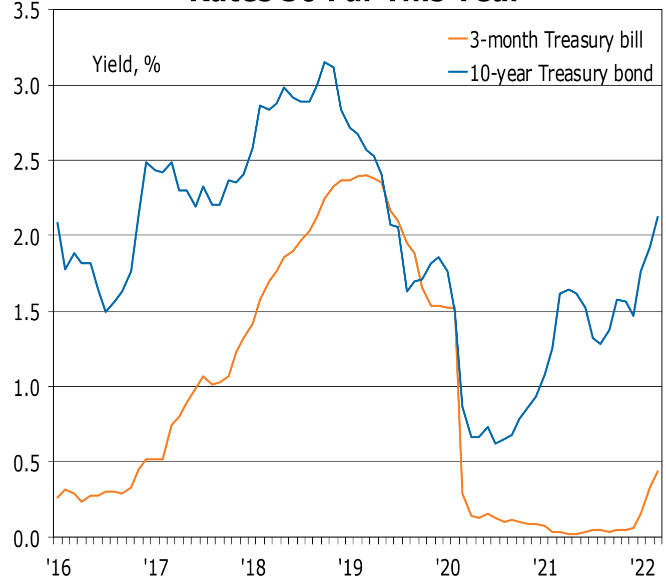
Fed Plans to Reduce Size of Balance Sheet Are Putting Upward Pressure on Longer-Term Rates...



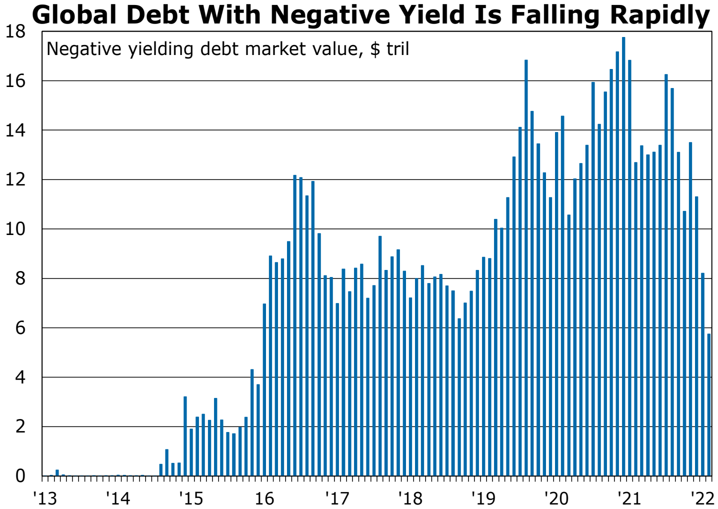
Source: Federal Reserve

...With a Smaller Increase in Shorter-Term Rates So Far This Year



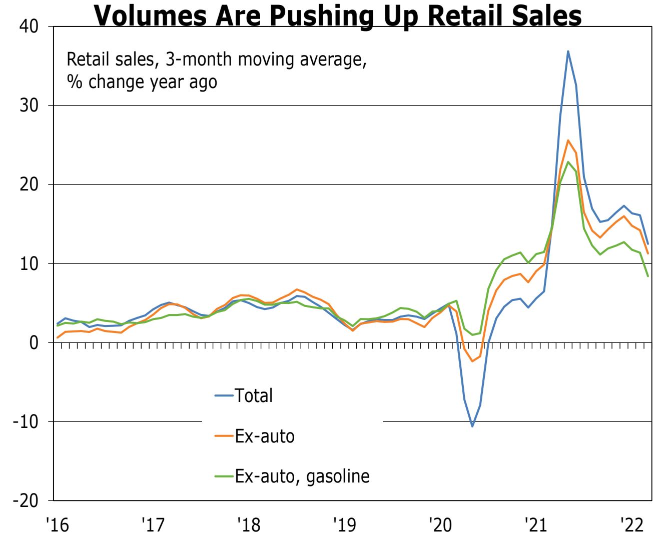
Source: Federal Reserve Board

With Inflation a Worldwide Problem, Value of Global Debt With Negative Yield Is Falling Rapidly



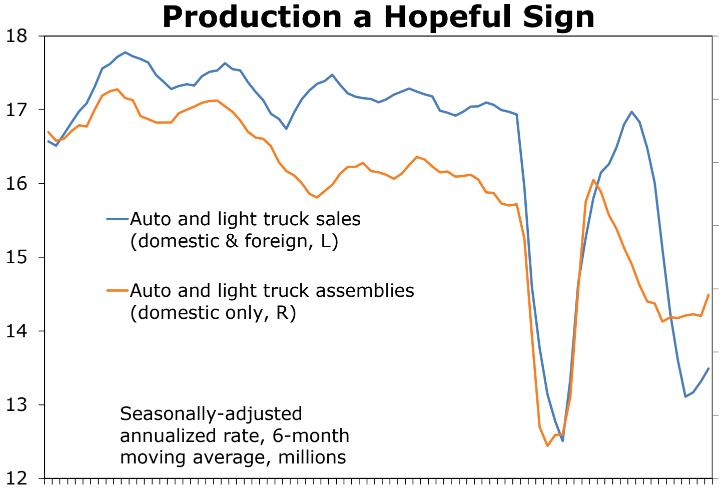
Source: Bloomberg

Both Higher Prices and Higher Volumes Are Pushing Up Retail Sales



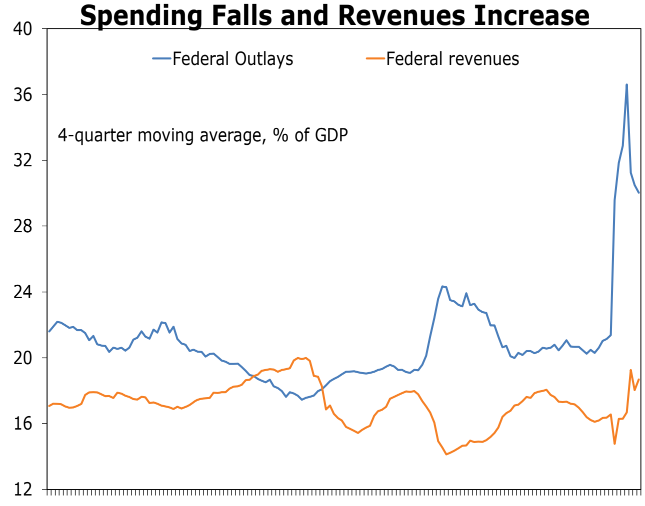
Source: U.S. Census Bureau

2022 Pickup in Auto Production a Hopeful Sign



Source: BEA

Federal Budget Deficit Is Declining As Spending Falls and Revenues Increase



Sources: U.S. Department of the Treasury, BEA

Baseline U.S. Economic Outlook, Expanded Table

	4Q'21a	1Q'22p	2Q'22f	3Q'22f	4Q'22f	1Q'23f	2021a	2022f	2023f	2024f
Output										
Nominal GDP (*Billions $*)	24003	24427	25027	25503	25855	26139	22996	25203	26441	27138
Percent Change Annualized	**14.5**	**7.3**	**10.2**	**7.8**	**5.6**	**4.5**	**10.1**	**9.6**	**4.9**	**2.6**
Real GDP (*Chained 2012 Billions $*)	19806	19848	20040	20203	20320	20411	19427	20103	20493	20646
Percent Change Annualized	**6.9**	**0.8**	**3.9**	**3.3**	**2.3**	**1.8**	**5.7**	**3.5**	**1.9**	**0.7**
Pers. Consumption Expenditures	13818	13904	14013	14135	14231	14305	13625	14071	14394	14540
Percent Change Annualized	**2.5**	**2.5**	**3.2**	**3.5**	**2.7**	**2.1**	**7.9**	**3.3**	**2.3**	**1.0**
Nonresidential Fixed Investment	2906	2926	2949	2982	3017	3052	2868	2968	3102	3219
Percent Change Annualized	**2.9**	**2.8**	**3.2**	**4.6**	**4.8**	**4.6**	**7.4**	**3.5**	**4.5**	**3.8**
Residential Investment	698	705	728	741	750	744	708	731	717	664
Percent Change Annualized	**2.2**	**4.2**	**13.8**	**7.1**	**4.8**	**-3.2**	**9.2**	**3.3**	**-1.9**	**-7.4**
Change in Private Inventories	193	156	171	154	139	124	-33	155	112	75
Net Exports	-1350	-1382	-1350	-1340	-1341	-1329	-1284	-1353	-1344	-1372
Government Expenditures	3359	3357	3346	3348	3342	3334	3376	3348	3330	3338
Percent Change Annualized	**-2.6**	**-0.3**	**-1.2**	**0.2**	**-0.8**	**-1.0**	**0.5**	**-0.8**	**-0.6**	**0.2**
Industrial Prod. Index (*2012 = 100*)	101.6	103.6	105.1	106.1	106.9	107.3	100.1	105.4	107.6	108.1
Percent Change Annualized	**3.7**	**8.2**	**5.7**	**4.0**	**3.0**	**1.4**	**5.4**	**5.3**	**2.1**	**0.5**
Capacity Utilization (*Percent*)	76.3	77.7	78.6	79.3	79.8	79.9	75.4	79.9	79.9	79.8
Prices										
CPI (*1982-84 = 100*)	278.4	284.6	288.7	291.2	292.9	294.4	271.0	289.3	296.9	304.4
Percent Change Annualized	**7.9**	**9.2**	**5.8**	**3.5**	**2.4**	**2.0**	**4.7**	**6.8**	**2.6**	**2.5**
Core CPI Index (1982-84 = 100)	283.2	287.7	291.3	294.1	296.5	298.5	277.3	292.4	301.2	308.0
Percent Change Annualized	**5.6**	**6.5**	**5.0**	**4.0**	**3.2**	**2.8**	**3.6**	**5.5**	**3.0**	**2.3**
PCE Price Index (*2012 = 100*)	118.1	120.2	122.0	123.0	123.7	124.3	115.5	122.2	125.2	127.9
Percent Change Annualized	**6.4**	**7.4**	**6.2**	**3.3**	**2.3**	**1.9**	**3.9**	**5.8**	**2.4**	**2.1**
Core PCE Price Index (*2012 = 100*)	119.5	121.1	122.4	123.3	124.2	124.9	117.3	122.7	125.9	128.2
Percent Change Annualized	**5.0**	**5.4**	**4.3**	**3.1**	**2.8**	**2.4**	**3.3**	**4.6**	**2.6**	**1.9**
GDP Price Index (*2012 = 100*)	121.2	123.1	124.9	126.2	127.2	128.1	118.3	125.4	129.0	131.4
Percent Change Annualized	**7.1**	**6.4**	**6.0**	**4.4**	**3.2**	**2.6**	**4.1**	**5.9**	**2.9**	**1.9**
Crude Oil, WTI (*$/Barrel*)	77.2	95.0	105.0	99.9	94.7	84.5	68.0	98.7	79.3	74.7
Labor Markets										
Payroll Jobs (*Millions*)	148.6	150.4	151.5	152.2	152.8	153.2	146.1	151.7	153.5	154.1
Percent Change Annualized	**4.9**	**4.8**	**2.9**	**1.9**	**1.6**	**1.0**	**2.8**	**3.8**	**1.2**	**0.4**
Unemployment Rate (*Percent*)	4.2	3.8	3.5	3.4	3.4	3.5	5.4	3.5	3.6	3.7
Average Weekly Hours, Prod. Works.	34.2	34.1	34.1	34.0	34.0	33.9	34.3	34.0	33.8	33.7
Personal Income										
Average Hourly Earnings (*$*)	26.6	27.0	27.4	27.8	28.2	28.6	25.9	27.6	29.2	30.6
Percent Change Annualized	**7.3**	**6.0**	**6.2**	**6.2**	**6.3**	**6.1**	**4.9**	**6.5**	**5.9**	**4.7**
Real Disp. Income (*2012 Billions $*)	15418	15455	15527	15690	15862	16037	16021	15634	16255	16714
Percent Change Annualized	**-5.6**	**1.0**	**1.9**	**4.3**	**4.5**	**4.5**	**2.2**	**-2.4**	**4.0**	**2.8**
Housing										
Housing Starts (*Ths., Ann. Rate*)	1670	1753	1791	1838	1855	1717	1605	1809	1567	1341
Ext. Home Sales (*Ths., Ann Rate*)	6203	6063	6317	6527	6377	6029	6127	6321	5807	5586
New SF Home Sales (*Ths., Ann Rate*)	760	802	830	842	824	786	773	825	735	675
Case/Shiller HPI (*Jan. 2000 = 100*)	276.6	288.3	297.6	303.5	307.3	308.9	276.6	307.3	311.6	311.3
Percent Change Year Ago	**18.9**	**19.1**	**16.9**	**13.7**	**11.1**	**7.1**	**18.9**	**11.1**	**1.4**	**-0.1**
Consumer										
Auto Sales (*Millions*)	12.9	14.1	15.2	16.4	16.9	17.0	15.0	15.6	17.0	16.0
Consumer Credit (*Billions $*)	4434	4515	4611	4705	4794	4875	4434	4794	5083	5305
Percent Change Year Ago	**6.0**	**6.9**	**7.1**	**7.9**	**8.1**	**8.0**	**6.0**	**8.1**	**6.0**	**4.4**
Interest Rates (Percent)										
Prime Rate	3.25	3.29	3.85	4.63	5.05	5.45	**3.25**	**4.20**	**5.81**	**6.00**
Federal Funds	0.08	0.12	0.71	1.50	1.92	2.33	**0.08**	**1.06**	**2.69**	**2.88**
3-Month Treasury Bill	0.04	0.28	0.88	1.53	1.87	2.24	**0.03**	**1.14**	**2.61**	**2.79**
10-Year Treasury Note	1.53	1.94	2.45	2.60	2.75	2.88	**1.43**	**2.44**	**2.95**	**2.99**
30-Year Fixed Mortgage	3.08	3.79	4.59	4.66	4.76	4.85	**2.96**	**4.45**	**4.88**	**4.89**

a = actual *f = forecast* *p = preliminary*

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