

Solid Growth in Second Quarter, Even as Inflation Slows; Consumer Spending Is Doing Well in Mid-2024

- The U.S. economy expanded 2.8% at an annual rate in the second quarter of 2024, according to the advance estimate of real GDP from the Bureau of Economic Analysis. This followed an increase of 1.4% in the first quarter. Real GDP has increased by 2% or more in seven of the past eight quarters as the U.S. economy continues to lead the developed world in the recovery from the Viral Recession. On a year-ago basis real GDP growth was a strong 3.1%. The increase in second quarter GDP was broad-based. Consumer spending rose 2.3% at an annual rate, adding 1.6 percentage points to growth. Business fixed investment rose more than 5%, adding 0.7 percentage point to growth. Inventories added 0.8 percentage point to growth, after subtracting from growth in each of the two previous quarters. Government spending rose more than 3%, adding 0.5 percentage point to growth. Trade was a drag for a second straight quarter, subtracting 0.7 percentage point from growth, as imports rose more than exports; imports surged as U.S. consumers and businesses purchased from abroad, and higher imports reduce GDP. Residential investment (housing) was a slight negative for growth; this was the first contraction in residential investment in a year. The GDP release came after PNC had prepared its July baseline forecast.
- Although growth was strong in the second quarter, inflation is slowing. The personal consumption expenditures price index rose a scant 0.1% in June, after no increase in May. The core PCE price index, the Federal Reserve's preferred inflation measure, rose 0.2% over the month, slightly more than the 0.1% increase in May. On a year-ago basis overall PCE inflation slowed to 2.5% in June from 2.6% in May, and a peak of more than 7% in mid-2022. The core PCE price index was unchanged in June from May at 2.6%, and down from above 3% in November 2023. Inflation has slowed over the past couple of months after little progress on earlier in the year.
- Retail sales were essentially unchanged in June from May (down less than 0.1%). This followed an increase of 0.3% in May (revised higher from 0.1%). The soft headline number was due to big drops in gasoline sales (down 3.0%) from lower prices, and auto sales (down 2.0%) from the CDK Global cyberattack that disrupted operations at many auto dealerships. Retail sales excluding autos were up 0.4%, and sales were up 0.8% excluding autos and gasoline. Control sales—sales excluding food service, autos, gasoline, and building materials, and which go into nominal consumer spending in GDP—rose a strong 0.9% in June. Consumers remain in good shape in mid-2024. Job growth has slowed somewhat but remains solid, wages continue to increase, inflation has slowed, and household wealth is increasing thanks to a strong stock market and rising home values, although high interest rates are a drag.

Baseline U.S. Economic Outlook, Summary Table*

| | 4Q'23a | 1Q'24a | 2Q'24p | 3Q'24f | 4Q'24f | 1Q'25f | 2023a | 2024f | 2025f | 2026f |
|--|------------|------------|------------|------------|------------|---|-------------|-------------|-------------|-------------|
| Output | | | | | | | | | | |
| Real GDP (Chained 2017 Billions \$) | 22679 | 22759 | 22923 | 23023 | 23101 | 23208 | 22377 | 22951 | 23418 | 23967 |
| Percent Change Annualized | 3.4 | 1.4 | 2.9 | 1.8 | 1.4 | 1.9 | 2.5 | 2.6 | 2.0 | 2.3 |
| CPI (1982-84 = 100) | 308.1 | 311.0 | 313.2 | 315.0 | 316.9 | 319 | 304.7 | 314.0 | 321.6 | 328.6 |
| Percent Change Annualized | 2.7 | 3.8 | 2.8 | 2.4 | 2.4 | 2.4 | 4.1 | 3.1 | 2.4 | 2.2 |
| Labor Markets | | | | | | | | | | |
| Payroll Jobs (Millions) | 157.1 | 157.8 | 158.4 | 158.9 | 159.2 | 159.4 | 156.1 | 158.6 | 159.9 | 161.3 |
| Percent Change Annualized | 1.6 | 2.0 | 1.5 | 1.1 | 0.8 | 0.7 | 2.3 | 1.6 | 0.8 | 0.9 |
| Unemployment Rate (Percent) | 3.7 | 3.8 | 4.0 | 4.0 | 4.2 | 4.2 | 3.6 | 4.0 | 4.3 | 4.0 |
| Interest Rates (Percent) | | | | | | | | | | |
| Federal Funds | 5.33 | 5.33 | 5.33 | 5.30 | 5.09 | 4.85 | 5.02 | 5.26 | 4.47 | 4.13 |
| 10-Year Treasury Note | 4.43 | 4.15 | 4.44 | 4.35 | 4.21 | 4.17 | 3.95 | 4.29 | 4.17 | 4.19 |
| <i>a = actual f = forecast p = preliminary</i> | | | | | | <i>*Please see the Expanded Table for more forecast series.</i> | | | | |

The U.S. Labor Market Is Easing in But Is Still Very Strong, Supporting Continued Growth Into 2025

After a historically strong 2023 the U.S. labor market has eased this year. But it is still very good with solid job gains, a low unemployment rate, and rising real wages. In fact, the Federal Reserve has welcomed the softening in the job market, which is reducing inflationary pressures in the U.S. economy. PNC expects a further slowing in job growth and a slightly higher unemployment rate in the near term. But the labor market should remain strong through the rest of this year and next, supporting consumer spending and overall economic growth.

The U.S. economy added 206,000 jobs in June, according to a survey of employers from the Bureau of Labor Statistics. Job growth in April and May was revised substantially lower, by a combined 111,000. In the three months through June the economy has added 177,000 jobs on average, down from 250,000 on average in 2023, and close to the economy's long-run potential. Private-sector job growth has also slowed in 2024, with average gains of 146,000 in the three months through June, down from an average of 192,000 for all of 2023. That being said, the share of employment in the private sector is still higher than it was before the pandemic.

The unemployment rate increased to 4.1% in June from 4.0% in May and 3.9% in April. Although the unemployment rate is still historically low, this is the highest it has been since November 2021. The unemployment rate is up from a decades-long low of 3.4% in early 2023 and from 3.7% in early 2024. Employment in a survey of households (different from the survey of employers) rose by 116,000 in June. In recent months job growth in the household survey has been running lower than in the employer survey, with essentially no growth so far in 2024. The household number is more volatile, but could be signaling that the employer number is overstating job growth somewhat in 2024, and could be revised lower.

The labor force—the number of adults either working or looking for work—has increased by about 90,000 per month so far in 2024, less than one-half of the average monthly increase in 2023. The labor force participation rate—the share of adults either working or looking for work—rose to 62.6% in June from 62.5% in May, and has been between 62.5% and 62.8% for more than a year. This is below the 63%+ rate before the pandemic, and the labor market now is structurally tighter than it was pre-pandemic.

Average hourly earnings increased 0.3% in June, a slowing from 0.4% growth in May. On a year-ago basis average wage growth slowed to 3.9% in June from 4.1% in May and 4.4% at the beginning of this year. Wage

growth was almost 6% in early 2022 as businesses competed for workers and is gradually easing as the labor market continues to normalize after the pandemic. But although wage growth is slowing, inflation has slowed even more, so real (inflation-adjusted) wages have been rising since mid-2022, and are about 1.5% higher than they were before the pandemic.

The June jobs report confirmed that the U.S. labor market is softening in 2024 but remains very good. Job growth is slowing to a more sustainable long-run pace; the unemployment rate is rising but is still very low, indicating a bit more slack; and wage growth continues to gradually ease. Wage growth needs to be around 3.5% to be consistent with the Federal Reserve's 2% inflation objective, and so this is the type of labor market that the central bank is looking for. And while job growth is slowing, it remains positive and wages continue to increase more rapidly than prices; this is supporting growth in consumer spending, and so the current economic expansion will continue. One concern is that the employer survey could be somewhat overstating job growth. We will get a better sense of this in August, when the BLS releases the preliminary benchmark revisions to the jobs data, based on more complete data from unemployment insurance records.

The strong labor market of mid-2024 is consistent with the Federal Reserve's legislated goal of maximum employment. The other part of the central bank's dual mandate is stable prices, which the Fed has defined as inflation of 2% measured using the personal consumption expenditures price index excluding food and energy. With inflation moving toward 2% and the labor market at maximum employment but softening, PNC expects the Federal Open Market Committee to cut their key short-term policy rate, the federal funds rate, by 0.25 percentage point at their meeting in mid-September. PNC then expects the FOMC to cut the fed funds rate again in December, bringing it down to a range of 4.75 % to 5.00% at the end of this year. PNC expects further rate cuts next year, with the fed funds rate in a range between 4.00% and 4.25% at the end of 2025.

PNC expects real GDP growth of around 2% this year on a fourth quarter-to-fourth quarter basis, down from 3% in 2023, as high interest rates remain a drag on housing, business investment, and consumer spending on big-ticket items. But the still-strong labor market and generally solid consumer fundamentals will help the U.S. economy avoid a near-term recession. Job growth will slow to below 100,000 by the end of this year, but remain positive, and the unemployment rate will increase slightly into 2025, peaking at around 4.3% in the middle of next year. Fed funds rate cuts will support a pickup in economic growth by mid-2025.

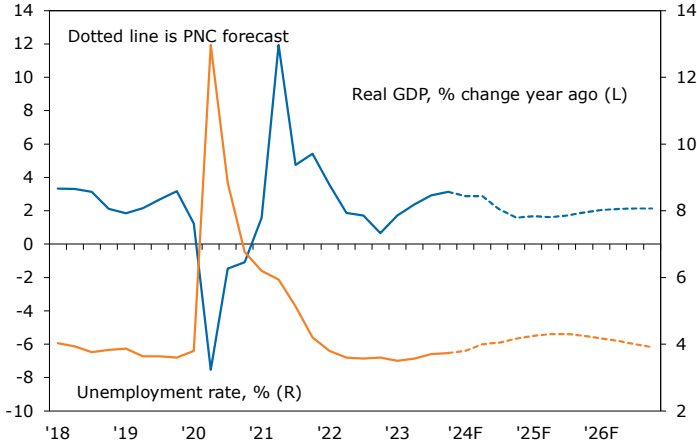
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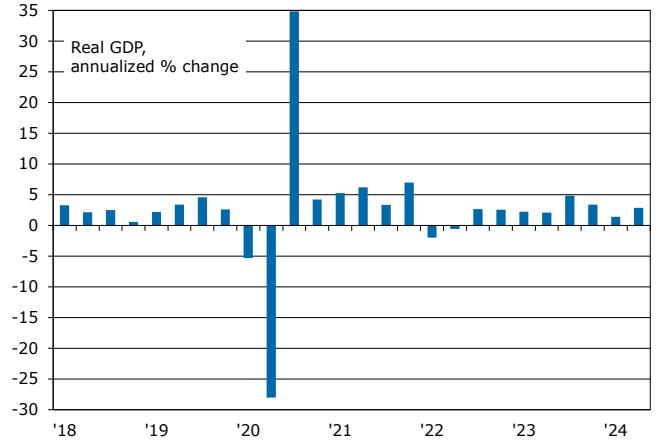
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Expansion Set to Continue In 2025



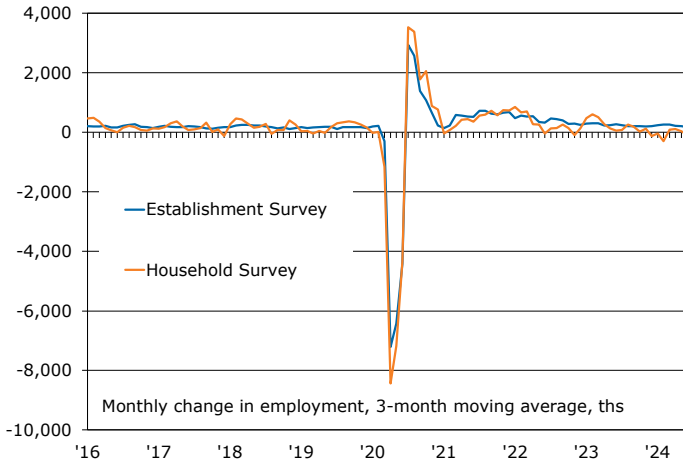
Source: BEA, BLS, PNC

Two Straight Years of Good GDP Growth



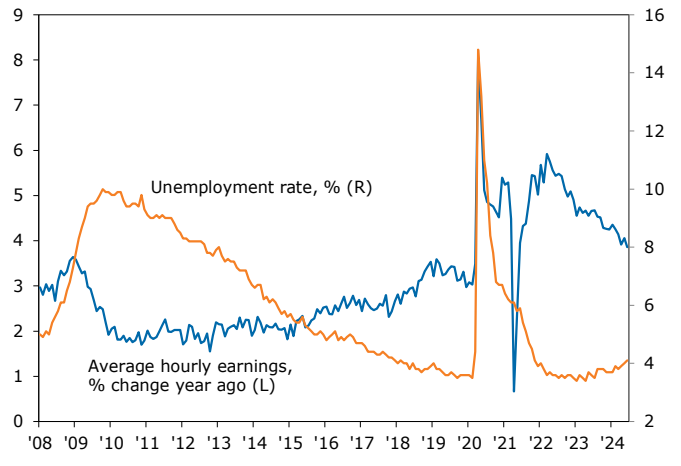
Source: BEA

Job Growth Is Softer in the Household Survey Compared to the Employer Survey



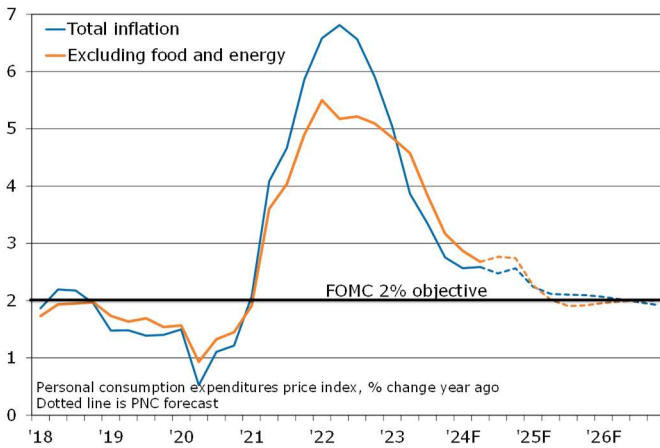
Source: BLS

Wage Growth Continues to Soften as Unemployment Rate Moves Above 4%



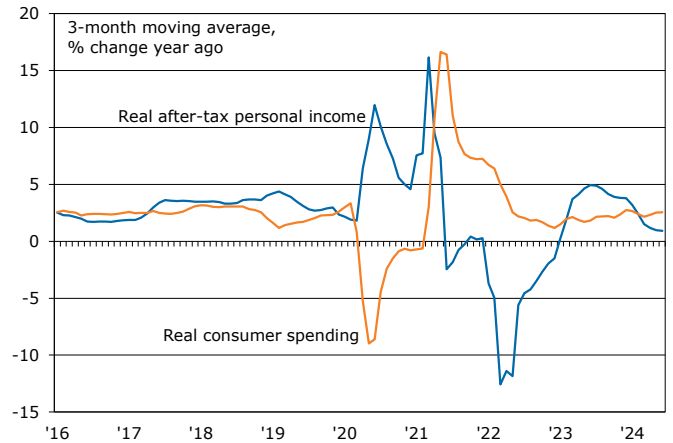
Source: BLS

Inflation Continues to Ease Toward Fed's 2% Objective



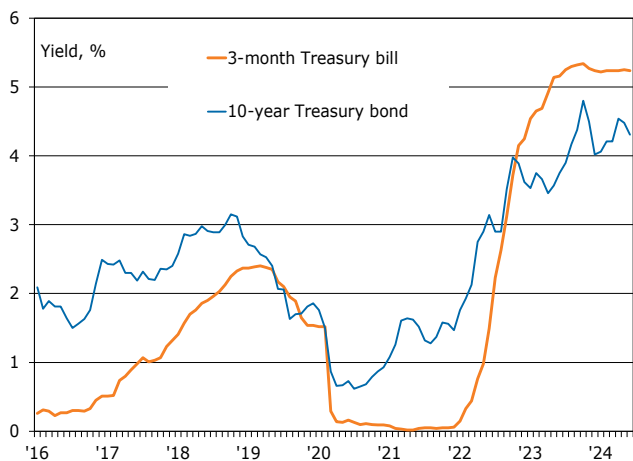
Source: BEA, PNC

Real After-Tax Income Growth Is Slowing With Weaker Job and Wage Gains



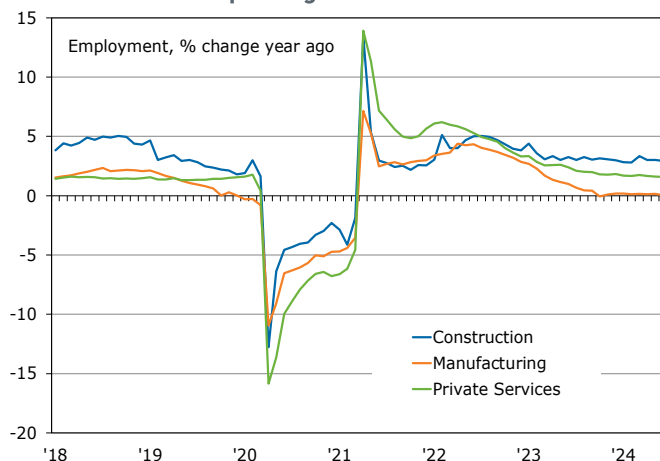
Source: BEA

Long-Term Rates Peaked in the Fall of 2023, But Remain Elevated



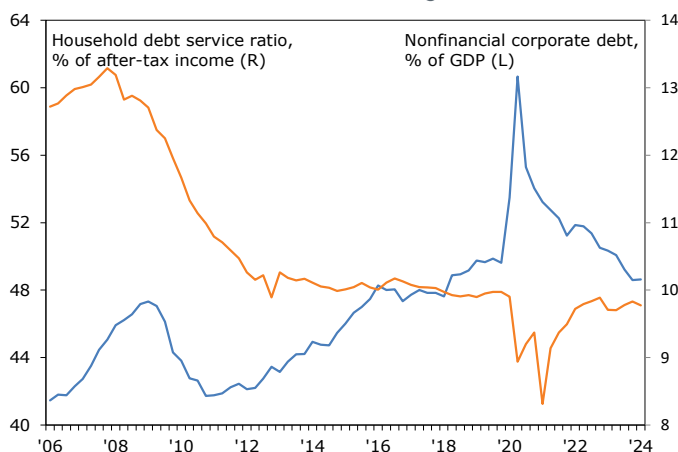
Source: Federal Reserve Board

Construction Job Gains Continue Despite High Interest Rates



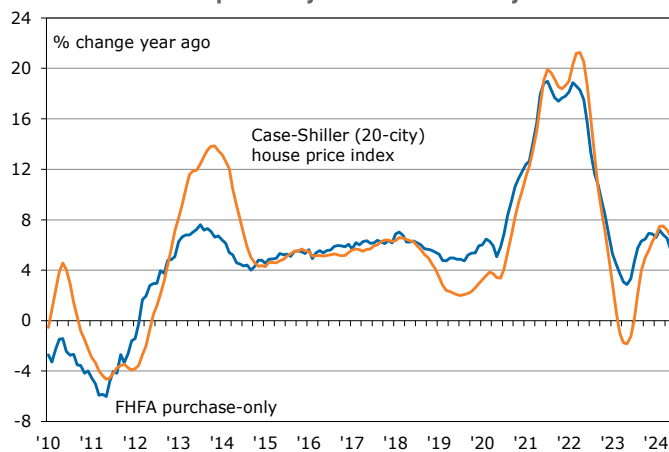
Source: BLS

Strong Household and Business Balance Sheets Are a Big Positive



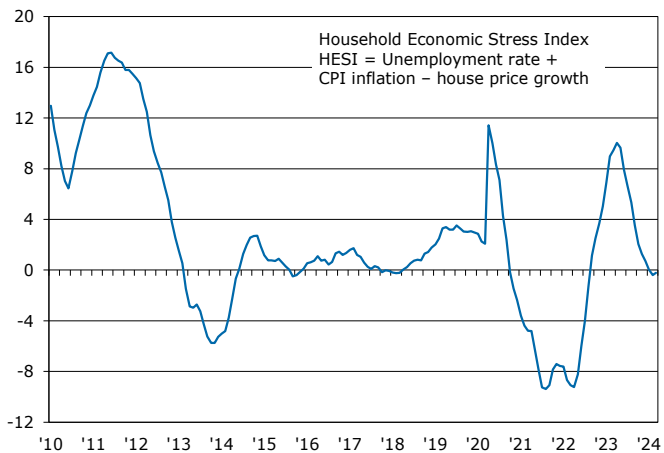
Source: Federal Reserve Board

House Prices Continue to Increase Despite Very Low Affordability



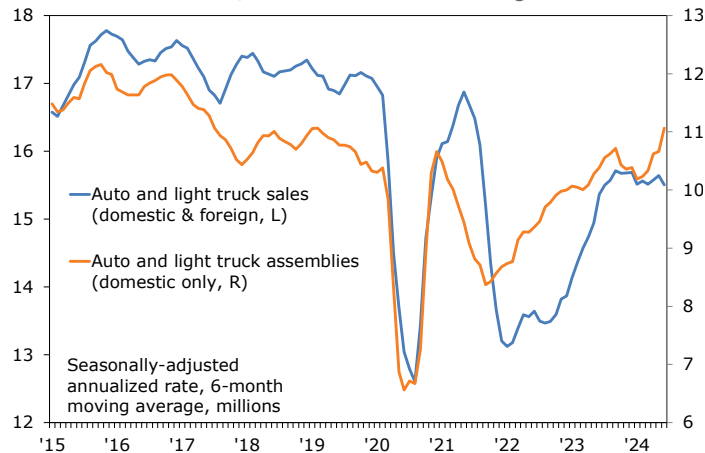
Source: FHFA, S&P CoreLogic Case-Shiller

Little Household Stress as Inflation Eases and House Price Growth Resumes



Source: BLS, S&P CoreLogic Case-Shiller, PNC

Cyberattack Hit Auto Sales in June, But Production Is Rising



Source: BEA

Baseline U.S. Economic Outlook, Expanded Table, July 2024

| | 4Q'23a | 1Q'24a | 2Q'24p | 3Q'24f | 4Q'24f | 1Q'25f | 2023a | 2024f | 2025f | 2026f |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|------------|--------------|-------------|-------------|-------------|
| Output | | | | | | | | | | |
| Nominal GDP (Billions \$) | 27957 | 28269 | 28601 | 28853 | 29087 | 29350 | 27361 | 28703 | 29813 | 31036 |
| Percent Change Annualized | 5.1 | 4.5 | 4.8 | 3.6 | 3.3 | 3.7 | 6.3 | 4.9 | 3.9 | 4.1 |
| Real GDP (Chained 2017 Billions \$) | 22679 | 22759 | 22923 | 23023 | 23101 | 23208 | 22377 | 22951 | 23418 | 23967 |
| Percent Change Annualized | 3.4 | 1.4 | 2.9 | 1.8 | 1.4 | 1.9 | 2.5 | 2.6 | 2.0 | 2.3 |
| Pers. Consumption Expenditures | 15587 | 15643 | 15735 | 15824 | 15891 | 15963 | 15426 | 15773 | 16088 | 16430 |
| Percent Change Annualized | 3.3 | 1.5 | 2.4 | 2.3 | 1.7 | 1.8 | 2.2 | 2.3 | 2.0 | 2.1 |
| Nonresidential Fixed Investment | 3315 | 3351 | 3398 | 3430 | 3450 | 3467 | 3272 | 3407 | 3506 | 3642 |
| Percent Change Annualized | 3.7 | 4.4 | 5.7 | 3.9 | 2.3 | 2.0 | 4.5 | 4.1 | 2.9 | 3.9 |
| Residential Investment | 744 | 772 | 770 | 760 | 758 | 770 | 735 | 765 | 791 | 835 |
| Percent Change Annualized | 2.8 | 16.0 | -1.3 | -5.0 | -0.9 | 6.5 | -10.6 | 4.0 | 3.4 | 5.6 |
| Change in Private Inventories | 55 | 29 | 71 | 82 | 80 | 77 | 44 | 65 | 87 | 80 |
| Net Exports | -919 | -960 | -1008 | -1044 | -1059 | -1063 | -928 | -1018 | -1069 | -1085 |
| Government Expenditures | 3887 | 3904 | 3936 | 3951 | 3962 | 3974 | 3820 | 3938 | 3996 | 4045 |
| Percent Change Annualized | 4.6 | 1.8 | 3.3 | 1.5 | 1.1 | 1.2 | 4.1 | 3.1 | 1.5 | 1.2 |
| Industrial Prod. Index (2012 = 100) | 102.7 | 102.3 | 103.3 | 103.8 | 104.3 | 104.8 | 102.8 | 103.4 | 105.8 | 108.4 |
| Percent Change Annualized | -2.0 | -1.7 | 4.3 | 1.9 | 1.8 | 2.1 | 0.2 | 0.6 | 2.3 | 2.5 |
| Capacity Utilization (Percent) | 78.8 | 78.2 | 79.1 | 79.8 | 80.7 | 81.6 | 79.3 | 79.5 | 82.6 | 83.0 |
| Prices | | | | | | | | | | |
| CPI (1982-84 = 100) | 308.1 | 311.0 | 313.2 | 315.0 | 316.9 | 319 | 304.7 | 314.0 | 321.6 | 328.6 |
| Percent Change Annualized | 2.7 | 3.8 | 2.8 | 2.4 | 2.4 | 2.4 | 4.1 | 3.1 | 2.4 | 2.2 |
| Core CPI Index (1982-84 = 100) | 312.3 | 315.6 | 318.0 | 320.1 | 322.0 | 324 | 308.4 | 318.9 | 326.1 | 333.1 |
| Percent Change Annualized | 3.4 | 4.2 | 3.2 | 2.7 | 2.3 | 1.9 | 4.8 | 3.4 | 2.2 | 2.2 |
| PCE Price Index (2017 = 100) | 121.4 | 122.4 | 123.1 | 123.8 | 124.5 | 125.1 | 120.4 | 123.4 | 126.1 | 128.6 |
| Percent Change Annualized | 1.8 | 3.4 | 2.6 | 2.1 | 2.1 | 2.1 | 3.7 | 2.5 | 2.1 | 2.0 |
| Core PCE Price Index (2017 = 100) | 120.1 | 121.3 | 122.1 | 122.8 | 123.4 | 124.0 | 119.1 | 122.4 | 124.9 | 127.4 |
| Percent Change Annualized | 2.0 | 3.7 | 2.9 | 2.4 | 2.0 | 1.8 | 4.1 | 2.8 | 2.0 | 2.0 |
| GDP Price Index (2017 = 100) | 123.3 | 124.2 | 124.8 | 125.3 | 125.9 | 126.5 | 122.3 | 125.1 | 127.3 | 129.5 |
| Percent Change Annualized | 1.7 | 3.1 | 1.8 | 1.8 | 1.9 | 1.8 | 3.6 | 2.3 | 1.8 | 1.7 |
| Crude Oil, WTI (\$/Barrel) | 78.5 | 77.5 | 82.8 | 78.1 | 79.6 | 81.4 | 77.6 | 79.5 | 83.7 | 88.8 |
| Labor Markets | | | | | | | | | | |
| Payroll Jobs (Millions) | 157.1 | 157.8 | 158.4 | 158.9 | 159.2 | 159.4 | 156.1 | 158.6 | 159.9 | 161.3 |
| Percent Change Annualized | 1.6 | 2.0 | 1.5 | 1.1 | 0.8 | 0.7 | 2.3 | 1.6 | 0.8 | 0.9 |
| Unemployment Rate (Percent) | 3.7 | 3.8 | 4.0 | 4.0 | 4.2 | 4.2 | 3.6 | 4.0 | 4.3 | 4.0 |
| Average Weekly Hours, Prod. Works. | 33.8 | 33.7 | 33.7 | 33.7 | 33.7 | 33.7 | 33.8 | 33.7 | 33.8 | 33.8 |
| Personal Income | | | | | | | | | | |
| Average Hourly Earnings (\$) | 29.4 | 29.7 | 29.9 | 30.2 | 30.5 | 30.7 | 28.9 | 30.1 | 31.1 | 32.0 |
| Percent Change Annualized | 4.3 | 4.2 | 3.2 | 3.6 | 3.5 | 3.3 | 5.0 | 4.0 | 3.3 | 2.9 |
| Real Disp. Income (2017 Billions \$) | 16856 | 16912 | 17014 | 17127 | 17248 | 17355 | 16784 | 17075 | 17518 | 17955 |
| Percent Change Annualized | 0.9 | 1.3 | 2.4 | 2.7 | 2.9 | 2.5 | 4.1 | 1.7 | 2.6 | 2.5 |
| Housing | | | | | | | | | | |
| Housing Starts (Ths., Ann. Rate) | 1481 | 1407 | 1348 | 1291 | 1334 | 1402 | 1421 | 1345 | 1465 | 1544 |
| Ext. Home Sales (Ths., Ann Rate) | 3880 | 4200 | 4047 | 4189 | 4494 | 4867 | 4101 | 4232 | 5372 | 5974 |
| New SF Home Sales (Ths., Ann Rate) | 646 | 664 | 579 | 595 | 622 | 650 | 666 | 615 | 675 | 710 |
| Case/Shiller HPI (Jan. 2000 = 100) | 313.6 | 317.1 | 319.0 | 320.0 | 320.7 | 321.1 | 313.6 | 320.7 | 321.9 | 323.9 |
| Percent Change Year Ago | 5.2 | 6.4 | 5.5 | 3.7 | 2.2 | 1.3 | 5.2 | 2.2 | 0.4 | 0.6 |
| Consumer | | | | | | | | | | |
| Auto Sales (Millions) | 15.7 | 15.3 | 15.7 | 16.0 | 15.8 | 15.7 | 15.5 | 15.7 | 15.6 | 15.6 |
| Consumer Credit (Billions \$) | 5024 | 5047 | 5066 | 5086 | 5113 | 5175 | 5024 | 5113 | 5367 | 5673 |
| Percent Change Year Ago | 2.6 | 2.1 | 1.6 | 1.9 | 1.8 | 2.5 | 2.6 | 1.8 | 5.0 | 5.7 |
| Interest Rates (Percent) | | | | | | | | | | |
| Prime Rate | 8.50 | 8.50 | 8.50 | 8.47 | 8.22 | 7.97 | 8.19 | 8.42 | 7.60 | 7.25 |
| Federal Funds | 5.33 | 5.33 | 5.33 | 5.30 | 5.09 | 4.85 | 5.02 | 5.26 | 4.47 | 4.13 |
| 3-Month Treasury Bill | 5.42 | 5.37 | 5.38 | 5.20 | 4.83 | 4.56 | 5.16 | 5.20 | 4.21 | 3.95 |
| 10-Year Treasury Note | 4.43 | 4.15 | 4.44 | 4.35 | 4.21 | 4.17 | 3.95 | 4.29 | 4.17 | 4.19 |
| 30-Year Fixed Mortgage | 7.20 | 6.75 | 6.99 | 6.86 | 6.60 | 6.40 | 6.78 | 6.80 | 6.17 | 5.97 |

a = actual f = forecast p = preliminary