

MARKET EXPECTATIONS SURVEY

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Real GDP growth in the second quarter was revised slightly higher in the second estimate, to 4.2 percent at an annual rate, up from 4.1 percent in the advance estimate. There were upward revisions to business fixed investment and investment in inventories, somewhat offset by a downward revision to consumer spending. Economic growth was 2.2 percent in the first quarter of 2018. Real GDP was up 2.9 percent in the second quarter from one year earlier, the strongest year-over-year pace since the first half of 2015.

Corporate profits rose 3.3 percent in the second quarter of 2018 from the first quarter, not annualized and not adjusted for inflation. Profits were \$2.25 trillion at an annual rate. Profits from nonfinancial domestic industries rose 5.1 percent, while profits from financial domestic industries rose 3.8 percent. Profits from the rest of the world fell 1.7 percent.

This was the first read on real gross domestic income, another measure of the size of the economy looking at income going to households and firms. It increased noticeably slower than real GDP, 1.8 percent at an annualized rate in the second quarter, down from 3.9 percent growth in the first quarter. On a year-ago basis real gross domestic income was up 2.1 percent in the second quarter.

The economy is in good shape, with the best year-over-year increase in three years. But one-time factors boosted growth in the second quarter, including a big surge in soybean exports ahead of tariffs imposed by China. Goods exports added a full percentage point to growth in the second quarter, up from a contribution of 0.3 percentage point in the first quarter. There was also a huge increase in consumer spending, after a much smaller gain in the first quarter.

But growth of above 4 percent is unsustainable and the economy is set to slow somewhat in the second half of 2018, to around 3 percent at an annual rate. This is still above the economy's long-run potential. Business investment will get a boost from the corporate income tax cut passed at the end of 2017. Strong job growth, rising wages, and the personal income tax cut will support consumer spending in the last six months of the year. With a big increase in federal spending government will also support economic growth well into 2019. Overall trade will be a drag on growth through the rest of this year as imports increase more than exports; an escalation in current trade tensions is a significant downside risk for U.S. growth.

Economic growth will slow in 2019 and again in 2020 as the fiscal stimulus from tax cuts and spending increases fades. Higher interest rates, as the Federal Reserve tightens monetary policy, will also be a drag. After real GDP growth of 2.5 percent in 2017 (fourth quarter to fourth quarter), growth will be 3.0 percent this year, 2.4 percent next year, and 1.6 percent in 2020.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Fed Funds Rate Target Range Mid-Point (after the FOMC meeting on 9/26/18) Range: 2.00 to 2.25 percent Median: 2.125 percent	1.88%	A 25 bps rate hike in the FOMC's target Fed funds rate range to 2.00-2.25 percent is all but guaranteed at the Sept. 25- 26 meeting.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Aug ISM (9/4, Tuesday) Range: 56.0 to 59.0 percent Median: 57.6 percent	58.1% (July)	<u>Down</u> to a still strong 57.
July Construction Spending (9/4, Tuesday) Range: -0.2 to 1.5 percent Median: 0.4 percent	-1.1% (June)	<u>Up</u> 0.2 percent. Residential construction <u>down</u> 0.3 percent.
July Trade Balance (9/5, Wednesday) Range: -\$51.2 to -\$45.4 billion Median: -\$49.9 billion	-\$46.3B (June)	A large <u>widening</u> to -\$50.3 billion as exports fall and imports rise. A wider trade deficit will be a big drag on real GDP growth this quarter offsetting the big boost from a smaller trade deficit in the second quarter.
Aug ADP Employment (9/6, Thursday) Range: 160 to 215 Median: 190	219 (July)	<u>Up</u> 190,000.
Q2 Nonfarm Productivity (Revised) (9/6, Thursday) Range: 2.8 to 3.1 percent Median: 3.0 percent	2.9% (Q2 1st est)	<u>Up</u> a solid 3.0 percent.
Q2 Unit Labor Costs (Revised) (9/6, Thursday) Range: -1.1 to -0.7 percent Median: -0.9 percent	-0.9% (Q2 1st est)	<u>Down</u> 1.0 percent.
July Factory Orders (9/6, Thursday) Range: -1.2 to -0.4 percent Median: -0.6 percent	0.7% (June)	<u>Down</u> 0.8 percent. Factory sales <u>up</u> 0.1 percent.
Aug ISM-NMI (9/6, Thursday) Range: 56.0 to 58.5 percent Median: 56.5 percent	55.7% (July)	<u>Up</u> to a solid 56.5.
Aug Nonfarm Payrolls (9/7, Friday) Range: 160,000 to 225,000 Median: 190,000	157K (July)	<u>Up</u> 200,000, very close to the monthly average rise thus far this year.
Aug Private Nonfarm Payrolls (9/7, Friday) Range: 161,000 to 223,000 Median: 189,000	170K (July)	<u>Up</u> 185,000. State and local government jobs up 15,000 as teachers return to their classrooms.

ACTION ECONOMICS SURVEY	Last Actual	PNC FINANCIAL SERVICES GROUP COMMENT
Aug Manufacturing Payrolls (9/7, Friday) Range: 10,000 to 30,000 Median: 23,000	37K (July)	<u>Up</u> 20,000.
Aug Unemployment Rate (9/7, Friday) Range: 3.8 to 3.9 percent Median: 3.8 percent	3.9% (July)	<u>Down</u> to 3.8 percent as the household measure of jobs rises by more than the labor force.
Aug Average Hourly Earnings (9/7, Friday) Range: 0.2 to 0.3 percent Median: 0.2 percent	0.3% (July)	<u>Up</u> 0.3 percent pushing the Y/Y gain <u>up</u> to 2.8 percent.
Aug Hours Worked (9/7, Friday) Range: 34.5 to 34.5 hours Median: 34.5 hours	34.5hrs (July)	<u>Steady</u> at 34.5 hours.

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MONTHLY CALENDAR OF ECONOMIC DATA

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Aug/Sept 2018

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY																																																																																																
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	<p>CASE-SHILLER HPI 20-City Composite(SA)</p> <table border="1"> <thead> <tr> <th></th> <th>M/M</th> <th>Y/Y</th> </tr> </thead> <tbody> <tr> <td>Apr</td> <td>0.2%</td> <td>6.7%</td> </tr> <tr> <td>May</td> <td>0.2</td> <td>6.5</td> </tr> <tr> <td>June</td> <td>0.1</td> <td>6.3</td> </tr> </tbody> </table> <p>CB CONSUMER CONFIDENCE</p> <table border="1"> <thead> <tr> <th></th> <th>Total</th> <th>Current</th> <th>Expect</th> </tr> </thead> <tbody> <tr> <td>June</td> <td>127.1</td> <td>161.7</td> <td>104.0</td> </tr> <tr> <td>July</td> <td>127.9</td> <td>166.1</td> <td>102.4</td> </tr> <tr> <td>Aug</td> <td>133.4</td> <td>172.2</td> <td>107.6</td> </tr> </tbody> </table>		M/M	Y/Y	Apr	0.2%	6.7%	May	0.2	6.5	June	0.1	6.3		Total	Current	Expect	June	127.1	161.7	104.0	July	127.9	166.1	102.4	Aug	133.4	172.2	107.6	<p>GROSS DOMESTIC PRODUCT 2nd Qtr (2nd estimate)</p> <table border="1"> <thead> <tr> <th></th> <th>Real GDP</th> <th>Price Index</th> </tr> </thead> <tbody> <tr> <td>2Q'17</td> <td>3.0%</td> <td>1.2%</td> </tr> <tr> <td>3Q'17</td> <td>2.8</td> <td>2.2</td> </tr> <tr> <td>4Q'17</td> <td>2.3</td> <td>2.5</td> </tr> <tr> <td>1Q'18</td> <td>2.2</td> <td>2.0</td> </tr> <tr> <td>2Q'18(1st)</td> <td>4.1</td> <td>3.0</td> </tr> <tr> <td>2Q'18(2nd)</td> <td>4.2</td> <td>3.0</td> </tr> </tbody> </table>		Real GDP	Price Index	2Q'17	3.0%	1.2%	3Q'17	2.8	2.2	4Q'17	2.3	2.5	1Q'18	2.2	2.0	2Q'18(1 st)	4.1	3.0	2Q'18(2 nd)	4.2	3.0	<p>PERSONAL</p> <table border="1"> <thead> <tr> <th></th> <th>Income</th> <th>Spending</th> </tr> </thead> <tbody> <tr> <td>May</td> <td>0.3%</td> <td>0.5%</td> </tr> <tr> <td>June</td> <td>0.4</td> <td>0.4</td> </tr> <tr> <td>July</td> <td>0.3</td> <td>0.4</td> </tr> </tbody> </table> <p>Unemployment Claims (000)</p> <table border="1"> <thead> <tr> <th></th> <th>June</th> <th>July</th> <th>Aug</th> <th>Sept</th> </tr> </thead> <tbody> <tr> <td>222</td> <td>215</td> <td>214</td> <td></td> <td></td> </tr> <tr> <td>221</td> <td>208</td> <td>212</td> <td></td> <td></td> </tr> <tr> <td>218</td> <td>217</td> <td>210</td> <td></td> <td></td> </tr> <tr> <td>228</td> <td>219</td> <td>213</td> <td></td> <td></td> </tr> <tr> <td>232</td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>		Income	Spending	May	0.3%	0.5%	June	0.4	0.4	July	0.3	0.4		June	July	Aug	Sept	222	215	214			221	208	212			218	217	210			228	219	213			232										
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		<p>CURRENT ACCOUNT</p> <table border="1"> <tbody> <tr> <td>Q2'2017</td> <td>-\$121.8</td> </tr> <tr> <td>Q3' 2017</td> <td>-\$103.4</td> </tr> <tr> <td>Q4'2017</td> <td>-\$116.1</td> </tr> <tr> <td>Q1'2018</td> <td>-\$124.1</td> </tr> <tr> <td>Q2'2018</td> <td></td> </tr> </tbody> </table> <p>HOUSING(000)</p> <table border="1"> <thead> <tr> <th></th> <th>Starts</th> <th>Permits</th> </tr> </thead> <tbody> <tr> <td>June</td> <td>1,158</td> <td>1,272</td> </tr> <tr> <td>July</td> <td>1,168</td> <td>1,311</td> </tr> <tr> <td>Aug</td> <td></td> <td></td> </tr> </tbody> </table>	Q2'2017	-\$121.8	Q3' 2017	-\$103.4	Q4'2017	-\$116.1	Q1'2018	-\$124.1	Q2'2018			Starts	Permits	June	1,158	1,272	July	1,168	1,311	Aug			<p>EXISTING HOME SALES(000)</p> <table border="1"> <tbody> <tr> <td>June</td> <td>5,380</td> </tr> <tr> <td>July</td> <td>5,340</td> </tr> <tr> <td>Aug</td> <td></td> </tr> </tbody> </table> <p>LEADING INDICATORS</p> <table border="1"> <tbody> <tr> <td>June</td> <td>0.5%</td> </tr> <tr> <td>July</td> <td>0.6</td> </tr> <tr> <td>Aug</td> <td></td> </tr> </tbody> </table> <p>Phil. Fed Survey (Sept)</p>	June	5,380	July	5,340	Aug		June	0.5%	July	0.6	Aug																																																																
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