

With the Labor Market Softening and Inflation Slowing, The FOMC Has Started to Ease Monetary Policy

- The U.S. economy added 142,000 jobs in August, according to a survey of employers from the Bureau of Labor Statistics. Job growth in July was 89,000 after revisions; Hurricane Beryl likely weighed on employment in July. While the headline number was decent, there were large downward revisions to job growth in June and July of a combined 86,000. Over the past three months the U.S. has added 116,000 jobs on average, below the pace of 174,000 per month from March 2023 to March 2024 (taking into account recently announced revisions). The unemployment rate fell to 4.2% in August from 4.3% in July, but the difference was less impressive before rounding. After soaring to almost 15% in April 2020 with the pandemic, the unemployment rate dropped to a five-decades low of 3.4% in early 2023. But it has risen gradually since then, and the 4.3% rate in July was the highest since late 2021. Still, the unemployment rate remains low on an historical basis. The drop in the unemployment rate was even more positive given that the labor force—the number of adults working or looking for work—increased by 120,000 in August. Employment as measured in a survey of households (different from the survey of employers) increased by 168,000 in August. Average hourly earnings in August were up 3.8% from a year earlier; this was a slight acceleration from 3.6% growth in July, but was down from a peak of almost 6% in early 2023.
- Inflation was very slow in August. Both the personal consumption expenditures price index and the core PCE price index, excluding volatile food and energy prices, increased 0.1% in August from July. On a year-ago basis the overall PCE inflation rate was 2.2% in August, down from 2.5% in July and a peak of above 7% in mid-2022. Inflation measured using the core PCE price index—the Federal Reserve’s preferred inflation measure—was 2.7% in August. While this was up slightly from 2.6% in June and July, and above the Fed’s 2% objective, it is down from a peak of 5.6% two years ago. Inflation should continue to ease in the near term given slower growth in wages and housing costs.
- The Federal Reserve has a dual mandate of maximum employment and price stability. With inflation easing toward the Fed’s 2% objective and job growth slowing in recent months, the Federal Open Market Committee cut the federal funds rate by 50 basis points on September 18, to a range of 4.75% to 5.00%. The fed funds rate is the rate on overnight loans between banks and is the Federal Reserve’s key monetary policy rate. When the FOMC wants to promote economic growth it cuts the rate, and when it wants to slow economic growth and reduce inflation it raises the rate. The FOMC slashed the rate to a range between 0.00% and 0.25% early in the pandemic and kept it there until March 2022, when it started to raise the rate aggressively through July 2023 in an effort to cool off economic growth and bring down inflation. As inflation slowed it kept the rate in a range between 5.25% and 5.50% until the cut on September 18. PNC’s September forecast, prepared before the FOMC meeting, expected a 25-basis point rate cut. The FOMC’s Summary of Economic Projections, or “dot plot,” also released on September 18, points to additional cuts to the fed funds rate later this year and in 2025.

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Baseline U.S. Economic Outlook, Summary Table*

	1Q'24a	2Q'24a	3Q'24p	4Q'24f	1Q'25f	2Q'25f	2023a	2024f	2025f	2026f
Output										
Real GDP (Chained 2017 Billions \$)	22759	22925	23040	23122	23209	23309	22377	22961	23372	23861
Percent Change Annualized	1.4	3.0	2.0	1.4	1.5	1.7	2.5	2.6	1.8	2.1
CPI (1982-84 = 100)	311.0	313.2	314.4	316.3	318.2	320	304.7	313.7	321.2	329.0
Percent Change Annualized	3.8	2.8	1.6	2.4	2.5	2.5	4.1	3.0	2.4	2.4
Labor Markets										
Payroll Jobs (Millions)	157.8	158.4	158.8	159.1	159.3	159.6	156.1	158.5	159.8	161.1
Percent Change Annualized	2.0	1.5	0.9	0.7	0.7	0.7	2.3	1.6	0.8	0.8
Unemployment Rate (Percent)	3.8	4.0	4.2	4.3	4.4	4.4	3.6	4.1	4.4	4.2
Interest Rates (Percent)										
Federal Funds	5.33	5.33	5.30	4.94	4.42	3.91	5.02	5.23	3.90	3.63
10-Year Treasury Note	4.15	4.44	3.96	3.78	3.83	3.91	3.95	4.08	3.94	4.09

a = actual f = forecast p = preliminary

*Please see the Expanded Table for more forecast series.

Historically Strong Results from PNC's Small Business Survey Support Forecast for Continued Expansion in 2025

PNC's latest semi-annual survey of small and mid-sized businesses, which concluded Aug. 6, indicates that business owner optimism remains high, lending support to PNC's forecast for continued solid U.S. economic growth through the rest of this year and in 2025.

A majority (56%) of business owners are highly optimistic about the national economy in the fall 2024 survey, inching above the 55% of last spring and up significantly from 34% a year ago. Six in 10 (62%) are optimistic about their local economy. Global economic optimism (39%) is little changed from four in ten in the spring of 2024.

Even more impressive, more than three-quarters of business owners are optimistic about their own company's prospects over the six months. Although this is down slightly from 79% in the spring, the remaining 24% of owners are moderately optimistic about their company's prospects, meaning less than 1% are pessimistic. These are the strongest results in the 22-year history of the survey. The business optimism results picked up noticeably in the fall of 2023 as economic growth reaccelerated, and the historically strong results from the most recent survey point to continued solid economic growth in the near term.

Despite recession concerns expressed in the media and the presidential campaign, only one-third (33%) of business owners think the impact of the U.S. economy on their own business is major, with the majority feeling the impact is either minor (43%) or of little or no impact (24%). There are no significant differences in the level of recession concern by region or across revenue or industry categories.

Businesses are planning to act on their optimism, with a growing appetite for financing and new loans. A survey high 29% of business owners anticipate requesting a new loan or line of credit in the next six months. Three in ten expect capital spending to increase in the next six months, a significant jump from last spring (21%). Top areas for planned investments or improvements are human resource practices, products/services, and technology.

The survey also points to continued hiring in late 2024 and early 2025. Nearly two in 10 (18%) business owners expect to increase the number of full-time employees in the next six months. But more than a one-

third (35%) of businesses that regularly hire employees are finding it is harder to hire qualified candidates, a return to 2023 levels following a respite in the spring of 2024.

Although the survey results are generally very strong, one concern is rebounding inflation fears, even as measured inflation is at its lowest levels since early 2021, when the economy was coming out of the pandemic-caused recession. Over four in 10 (42%) owners in the fall 2024 survey expect U.S. consumer prices to increase by 5% or more in the next year, a record high. Inflationary factors also dominate concerns when it comes to risks to the business for the next six months. A majority of businesses are feeling the impact of inflation in supplier prices, while nearly one-half are experiencing inflationary pressures from employee compensation. PNC's baseline forecast assumes that inflation will continue to slow, allowing the Federal Open Market Committee room to cut the federal funds rate further. But if the survey results are correct, a reacceleration in inflation could put that expected monetary policy easing on hold.

Another concern comes from political uncertainty as the election looms. As the 2024 U.S. presidential election draws closer, concern about the impact on business is building. More than two-thirds (68%) of owners are at least moderately concerned about the risk U.S. political uncertainty poses to their business, up significantly from six months ago (45%).

Given the very strong results from the fall 2024 PNC survey of small and mid-sized businesses and the solid labor market, with a low unemployment rate and continued job growth and wage gains, PNC's baseline forecast is for continued economic expansion in 2024 and 2025. PNC expects real (inflation-adjusted) 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. Job growth will continue to ease in the near term as the lagged impact of high interest rates weigh on labor demand. Average monthly job growth will slow to below 100,000 in 2025, with the unemployment rate increasing to around 4.5%. But the economy will still grow at around a 1.8% pace in 2025, close to its long-run average.

Inflation will continue to slow as a softer labor market reduces wage pressures, consumers turn more price conscious, and housing inflation eases. Inflation should slow to the Federal Reserve's 2% objective in the first half of 2025. With job growth easing, the unemployment rate rising, and inflation slowing, the Federal Open Market Committee will continue to cut the fed funds rate. PNC expects 25-basis point rate cuts at the FOMC's two remaining meetings this year, with additional rate cuts in the first half of 2025, bringing the fed funds rate to about 3.5% by mid-2025. With these rate cuts lowering borrowing costs for businesses and households, economic growth should pick back up in the second half of next year and the ongoing expansion should continue into 2026.

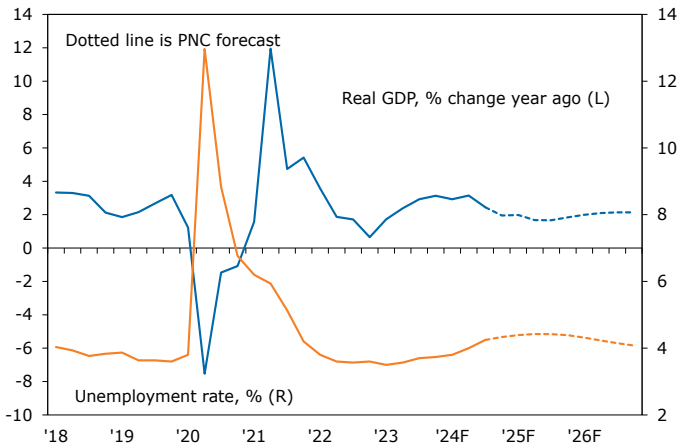
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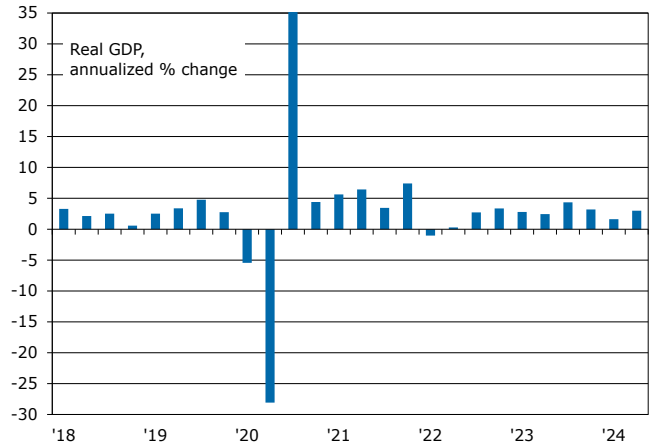
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Expansion Set to Continue In 2025



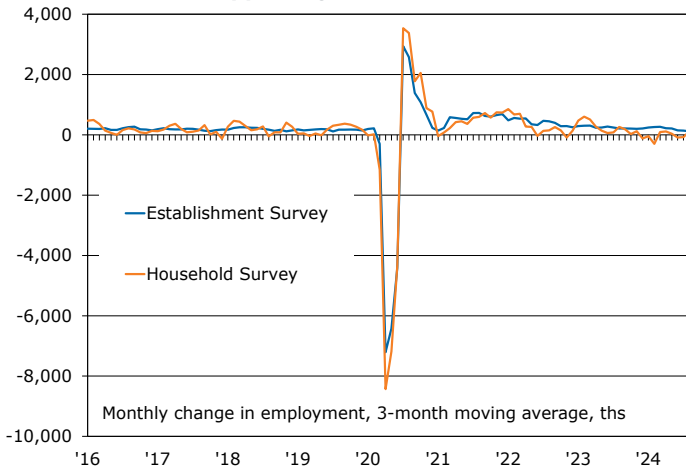
Source: BEA, BLS, PNC

GDP Growth Remains Solid in the First Half of 2024



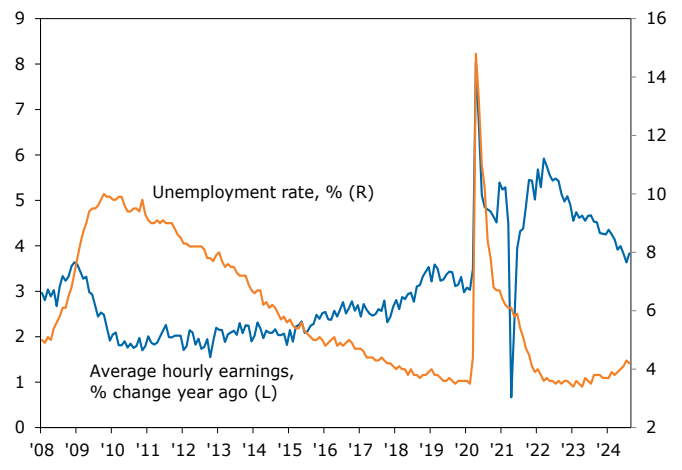
Source: BEA

Job Growth Is Easing, Supporting Fed Rate Cuts



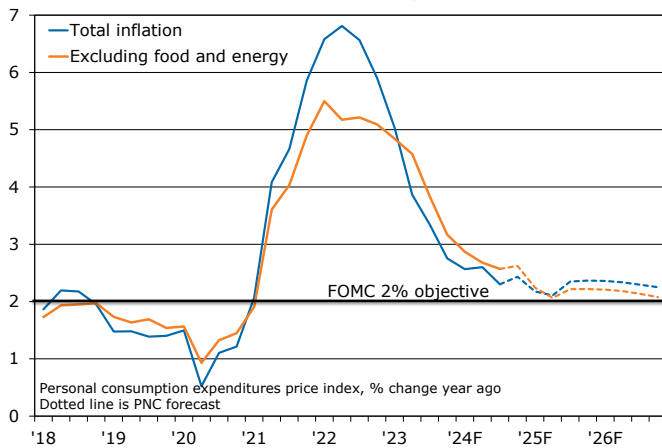
Source: BLS

Wage Growth Is Slowing to Its Pre-Pandemic Level as the Unemployment Rate Moves Higher



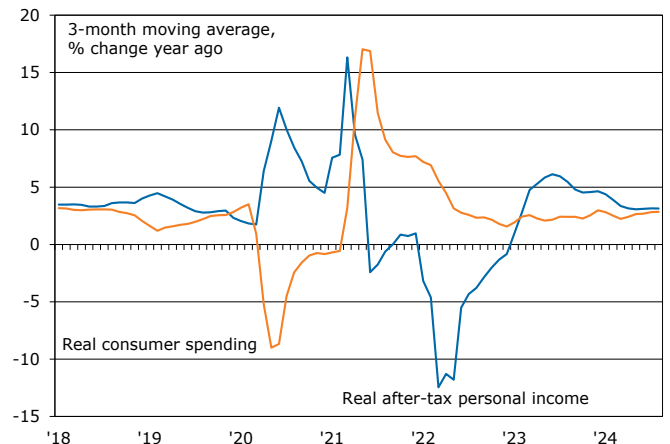
Source: BLS

Inflation Continues to Ease Toward Fed's 2% Objective



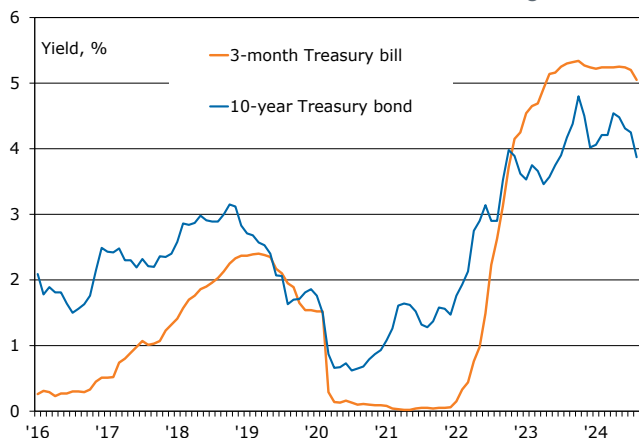
Source: BEA, PNC

Household Incomes and Consumer Spending Continue to Rise With Solid Labor Market



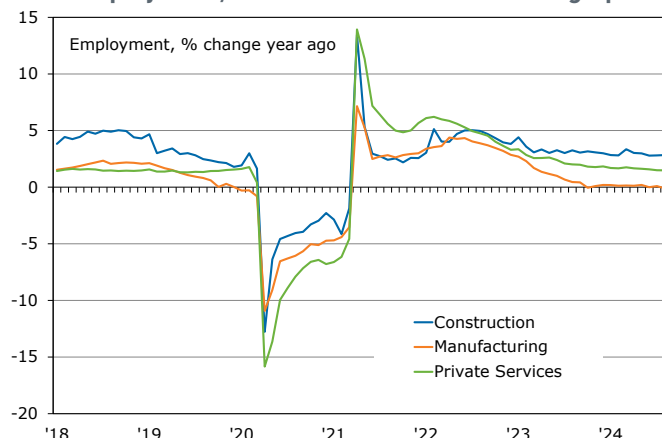
Source: BEA

Short-Term Interest Rates Will Move Lower With More Fed Funds Rate Cuts Coming



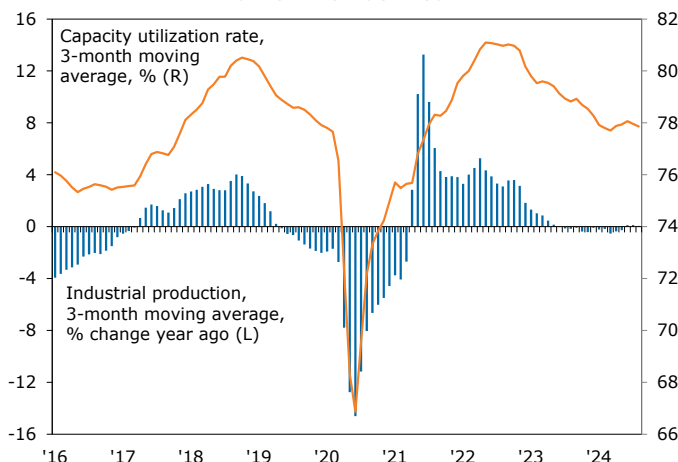
Source: Federal Reserve Board

High Interest Rates Are a Drag on Manufacturing Employment, But Other Sectors Are Holding Up



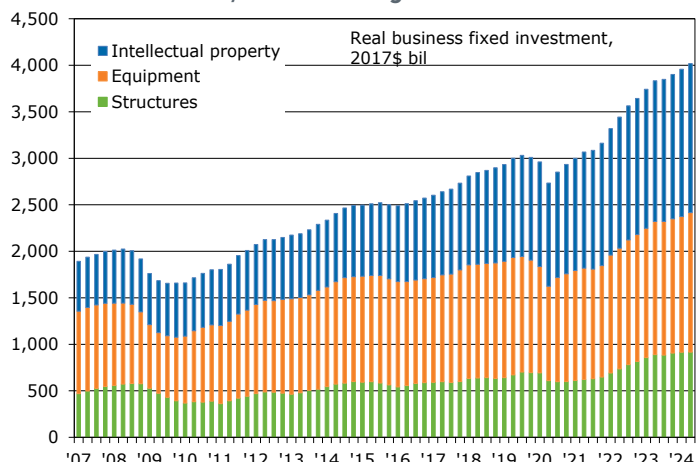
Source: BLS

Industrial Output Has Been Flat for the Past Year



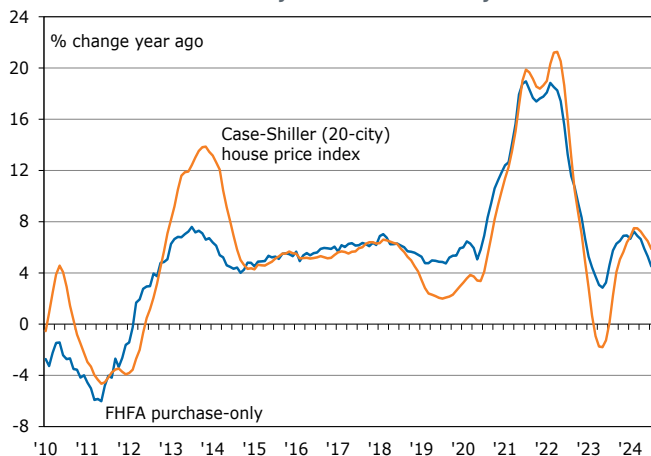
Source: Federal Reserve

Business Fixed Investment Continues to Increase, Even With High Interest Rates



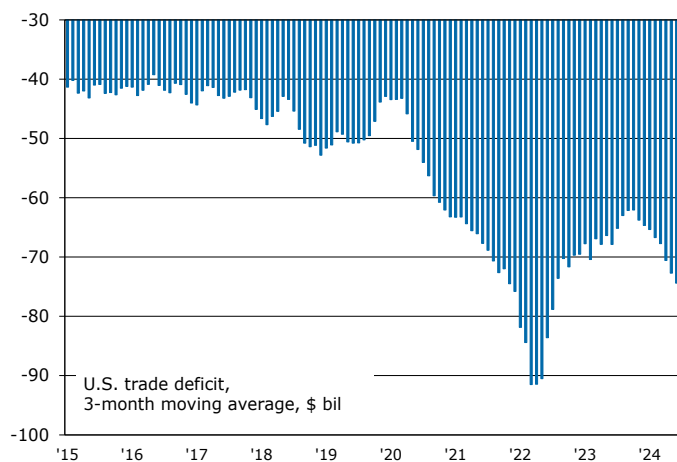
Source: BEA

House Price Growth Is Slowing With Very Low Affordability



Sources: FHFA, Case-Shiller

Trade Deficit Is Rising This Year, But Is Still Smaller Than in 2022



Source: BEA

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

	1Q'24a	2Q'24a	3Q'24p	4Q'24f	1Q'25f	2Q'25f	2023a	2024f	2025f	2026f
Output										
Nominal GDP (Billions \$)	28269	28629	28873	29122	29369	29635	27361	28723	29792	31014
Percent Change Annualized	4.5	5.2	3.5	3.5	3.4	3.7	6.3	5.0	3.7	4.1
Real GDP (Chained 2017 Billions \$)	22759	22925	23040	23122	23209	23309	22377	22961	23372	23861
Percent Change Annualized	1.4	3.0	2.0	1.4	1.5	1.7	2.5	2.6	1.8	2.1
Pers. Consumption Expenditures	15643	15755	15839	15905	15968	16031	15426	15786	16071	16377
Percent Change Annualized	1.5	2.9	2.2	1.7	1.6	1.6	2.2	2.3	1.8	1.9
Nonresidential Fixed Investment	3351	3389	3415	3431	3446	3467	3272	3396	3483	3610
Percent Change Annualized	4.4	4.6	3.2	1.8	1.8	2.5	4.5	3.8	2.6	3.6
Residential Investment	772	768	768	772	780	791	735	770	798	844
Percent Change Annualized	16.0	-2.0	0.0	2.1	4.0	5.9	-10.6	4.8	3.7	5.7
Change in Private Inventories	29	69	72	73	73	75	44	61	74	66
Net Exports	-960	-1010	-1028	-1043	-1050	-1058	-928	-1010	-1062	-1084
Government Expenditures	3904	3930	3950	3959	3969	3979	3820	3936	3984	4024
Percent Change Annualized	1.8	2.7	2.0	1.0	1.0	1.0	4.1	3.0	1.2	1.0
Industrial Prod. Index (2012 = 100)	102.2	103.3	103.6	104.0	104.5	105.1	102.9	103.3	105.4	107.9
Percent Change Annualized	-2.1	4.3	1.4	1.6	1.8	2.2	0.2	0.4	2.0	2.4
Capacity Utilization (Percent)	77.6	78.3	78.6	79.0	79.3	79.5	79.0	78.4	79.6	80.2
Prices										
CPI (1982-84 = 100)	311.0	313.2	314.4	316.3	318.2	320	304.7	313.7	321.2	329.0
Percent Change Annualized	3.8	2.8	1.6	2.4	2.5	2.5	4.1	3.0	2.4	2.4
Core CPI Index (1982-84 = 100)	315.6	318.0	319.5	321.5	323.5	325	308.4	318.7	326.4	334.0
Percent Change Annualized	4.2	3.2	1.9	2.5	2.4	2.4	4.8	3.3	2.4	2.4
PCE Price Index (2017 = 100)	122.4	123.2	123.6	124.3	125.0	125.8	120.4	123.4	126.1	129.0
Percent Change Annualized	3.4	2.6	1.4	2.3	2.4	2.3	3.7	2.5	2.2	2.3
Core PCE Price Index (2017 = 100)	121.3	122.1	122.6	123.3	124.0	124.6	119.1	122.3	125.0	127.7
Percent Change Annualized	3.7	2.9	1.6	2.3	2.2	2.2	4.1	2.7	2.2	2.2
GDP Price Index (2017 = 100)	124.2	124.9	125.3	125.9	126.5	127.1	122.3	125.1	127.5	130.0
Percent Change Annualized	3.1	2.3	1.3	2.0	1.9	1.9	3.6	2.3	1.9	2.0
Crude Oil, WTI (\$/Barrel)	77.5	81.8	78.7	79.0	79.5	80.0	77.6	79.2	80.3	83.5
Labor Markets										
Payroll Jobs (Millions)	157.8	158.4	158.8	159.1	159.3	159.6	156.1	158.5	159.8	161.1
Percent Change Annualized	2.0	1.5	0.9	0.7	0.7	0.7	2.3	1.6	0.8	0.8
Unemployment Rate (Percent)	3.8	4.0	4.2	4.3	4.4	4.4	3.6	4.1	4.4	4.2
Average Weekly Hours, Prod. Works.	33.7	33.7	33.7	33.7	33.7	33.6	33.8	33.7	33.6	33.6
Personal Income										
Average Hourly Earnings (\$)	29.7	29.9	30.2	30.5	30.7	31.0	28.9	30.1	31.1	32.0
Percent Change Annualized	4.2	3.2	3.6	3.5	3.3	3.2	5.0	4.0	3.3	3.1
Real Disp. Income (2017 Billions \$)	16912	16954	17044	17135	17241	17336	16784	17011	17378	17740
Percent Change Annualized	1.3	1.0	2.1	2.2	2.5	2.2	4.1	1.4	2.2	2.1
Housing										
Housing Starts (Ths., Ann. Rate)	1407	1348	1350	1391	1460	1523	1421	1374	1542	1659
Ext. Home Sales (Ths., Ann Rate)	4200	4047	4165	4437	4771	5107	4101	4212	5222	5764
New SF Home Sales (Ths., Ann Rate)	663	656	652	674	698	720	666	661	725	766
Case/Shiller HPI (Jan. 2000 = 100)	317.3	320.2	320.2	320.2	320.2	320.2	313.9	320.2	321.8	325.0
Percent Change Year Ago	6.4	5.9	3.6	2.0	0.9	0.0	5.3	2.0	0.5	1.0
Consumer										
Auto Sales (Millions)	15.3	15.7	15.5	15.3	15.2	15.1	15.5	15.5	15.1	15.0
Consumer Credit (Billions \$)	5047	5062	5080	5103	5163	5223	5024	5103	5350	5653
Percent Change Year Ago	2.1	1.5	1.8	1.6	2.3	3.2	2.6	1.6	4.8	5.7
Interest Rates (Percent)										
Prime Rate	8.50	8.50	8.47	8.07	7.55	7.04	8.19	8.38	7.02	6.75
Federal Funds	5.33	5.33	5.30	4.94	4.42	3.91	5.02	5.23	3.90	3.63
3-Month Treasury Bill	5.37	5.38	5.19	4.56	4.01	3.54	5.16	5.13	3.61	3.45
10-Year Treasury Note	4.15	4.44	3.96	3.78	3.83	3.91	3.95	4.08	3.94	4.09
30-Year Fixed Mortgage	6.75	6.99	6.52	6.16	6.08	6.03	6.78	6.61	5.99	5.87

a = actual f = forecast p = preliminary