

# NATIONAL ECONOMIC OUTLOOK

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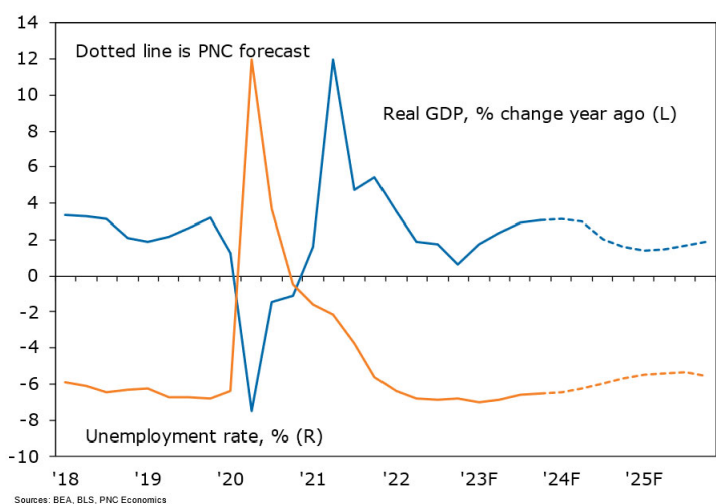
## FOMC Sets Stage for Rate Cuts Later This Year as Labor Market Remains Very Strong in Early 2024

- The U.S. economy added a strong 275,000 jobs in February, according to a survey of employers from the Bureau of Labor Statistics. However, there were big downward revisions to job growth in January and February of a combined 167,000. Over the past three months job growth has averaged 265,000, well above the pre-pandemic pace. The private sector added 223,000 jobs in February, up from 177,000 in January. The unemployment rate rose to 3.9% in February from 3.7% in the previous three months. The unemployment rate has been below 4% for more than two straight years, the longest-such stretch since the late 1960s. Average hourly earnings rose just 0.1% in February from January, and wage growth in January was revised lower, to 0.5% from 0.6%; there was also a downward revision to wage growth in December. On a year-over-year basis average hourly earnings were up 4.3% in February, down from 4.4% in January (after revisions). Softening wage growth is contributing to a slowing in inflation.
- The personal consumption expenditures price index increased 0.3% in February after rising 0.4% in January. The core PCE price index, excluding food and energy prices and the Federal Reserve's preferred inflation measure, rose 0.3% in February (0.26% before rounding), down from 0.5% monthly core inflation in January. On a year-over-year basis overall PCE inflation was 2.5% in February, up from 2.4% in January, but down from above 3% as recently as September 2023, and a cyclical peak of above 7% in mid-2022. Core PCE inflation was 2.8% year-over-year in February, down from 2.9% in December, and above 3% as recently as November 2023. Core PCE inflation peaked at above 5% in mid-2022. Inflation remains above the Federal Reserve's 2% objective, but is slowing.
- With a softening in inflation the Federal Open Market Committee is signaling that it expects to cut the federal funds rate, the committee's key short-term policy rate, at some point this year. The FOMC announced no change to the fed funds rate following its policy meeting on March 20. But the Summary of Economic Projections, or dot plot, released following the meeting points to a few rate cuts in 2024. The median projection of the fed funds rate at the end of 2024 is 4.6%, suggesting three 25 basis point cuts in the fed funds rate this year. But ten participants showed three or more rate cuts this year, while nine showed two or fewer, indicating that participants are about evenly split between 2 and 3 rate cuts in 2024. The median projected fed funds rate at the end of 2025 was 3.9% in the March 20 dot plot, compared to 3.6% in the previous one, in mid-December.

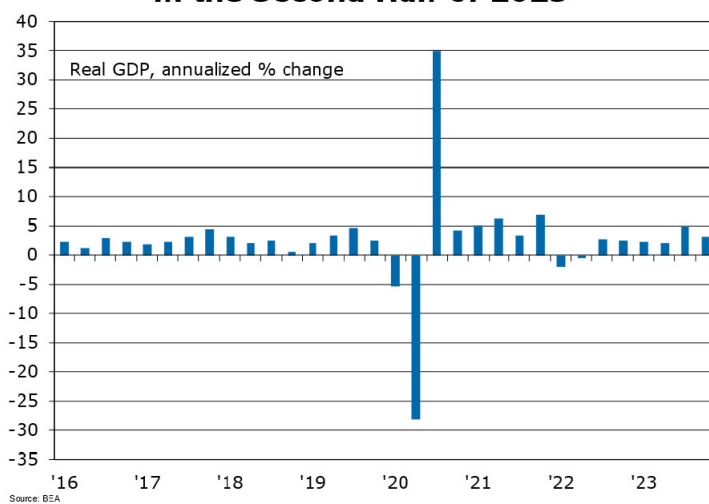
**Baseline U.S. Economic Outlook, Summary Table\***

	3Q'23a	4Q'23p	1Q'24f	2Q'24f	3Q'24f	4Q'24f	2022a	2023f	2024f	2025f
<b>Output</b>										
Real GDP (Chained 2017 Billions \$)	22491	22669	22800	22888	22952	23028	21822	22374	22917	23289
Percent Change Annualized	4.9	3.2	2.3	1.6	1.1		1.9	2.5	2.4	1.6
CPI (1982-84 = 100)	306.0	308.1	310.6	312.7	314.7	316.4	292.6	304.7	313.6	320.8
Percent Change Annualized		2.8	3.2	2.8	2.5	2.3	8.0	4.1	2.9	2.3
<b>Labor Markets</b>										
Payroll Jobs (Millions)	156.4	157.1	157.8	158.2	158.4	158.6	152.5	156.1	158.2	159.0
Percent Change Annualized		1.6	1.9	0.9	0.6		4.3	2.3	1.4	0.5
Unemployment Rate (Percent)	3.7	3.7	3.8	3.9	4.0	4.1	3.6	3.6	3.9	4.3
<b>Interest Rates (Percent)</b>										
Federal Funds	5.26	5.33	5.33	5.15	4.71	4.63	1.68	5.02	4.95	4.26
10-Year Treasury Note	4.14	4.43	4.17	4.22	4.17	4.11	2.94	3.95	4.17	4.08
<i>a = actual    f = forecast    p = preliminary</i>										
<i>*Please see the Expanded Table for more forecast series.</i>										

## Slower Growth in 2024 But No Recession



## Economic Growth Picked Up in the Second Half of 2023



## PNC Small Business Survey Supports Forecast for Continued Growth in 2024

In late 2022 PNC incorporated a near-term recession into its baseline US economic forecast. This recession call was based on an aggressive tightening in monetary policy in 2022 and into 2023 as the Federal Reserve raised the fed funds rate in an effort to slow economic growth and push back against the highest inflation in 40 years. But instead of recession the economy strengthened in the second half of 2023, and real GDP ended last year up 3.1% from the end of 2022. The labor market was also very strong, with average monthly job growth of 250,000 in 2023, well above the pre-pandemic pace, and an unemployment rate of below 4%. And inflation slowed throughout 2023 even as economic growth accelerated, although it remains somewhat above the Federal Reserve's 2% objective.

With continued strength in the economy in early 2024, particularly in the labor market and consumer spending, PNC has withdrawn its recession call and now expects the current expansion to continue throughout 2024 and into 2025. One reason for optimism about the US economy in 2024 is the latest results from PNC's semiannual survey of small and mid-sized businesses. The results in the Fall 2023 survey were the best in the more than 20-year history of the survey, and the Spring 2024 results are even stronger. In particular almost four-fifths of small business owners surveyed earlier this year were optimistic about their company's near-term prospects, with another one-fifth moderately optimistic; only 2% were pessimistic. The share that was optimistic was below 50% as recently as Fall 2022.

Another strong positive is that 55% of small business owners surveyed in the Spring of 2024 were optimistic about the national economy, also the strongest results in the survey's history; this is up from 15% just two years ago. Another 43% of respondents were moderately optimistic about the US economy in the most recent survey, with just 2% pessimistic. There were similarly record-strong results for small business owners' optimism about their local economies and the global economy.

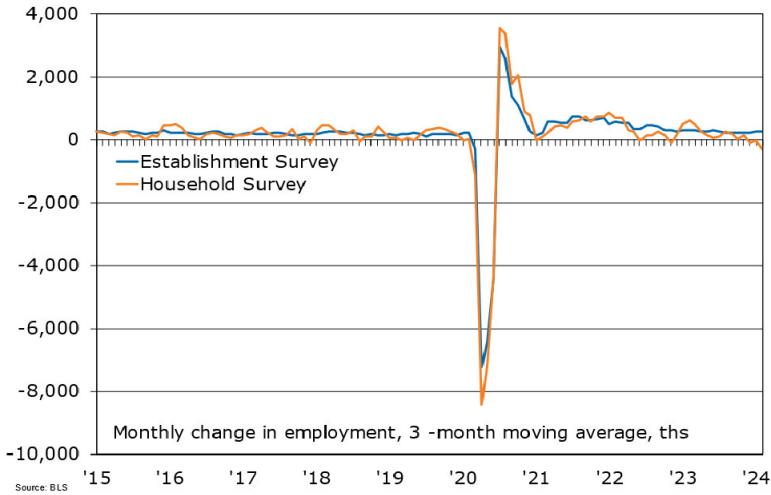
The Spring 2024 results also hold good news on inflation. Slightly less than one-half of the respondents (47%) expect to increase prices to their customers in the near term, down from 55% in both the Spring and Fall of 2023, although above the long-run average of 38%. And for those businesses that do expect to increase prices, only 12% expect an increase of 5% or more, the lowest share in the history of the survey; about two-fifth of respondents who do expect to raise prices are planning on an increase of 2% or less. In addition, only 40% of respondents expect to face higher prices from their suppliers, well below the long-run average of 52%.

Business hiring plans remain solid, with about one-fifth of the respondents expecting to increase the number of full-time employees over the next six months. This is close to the long-run average, but much higher than the 9% in the Fall 2023 survey. Only 4% expect to cut employment in the near term, close to a record low.

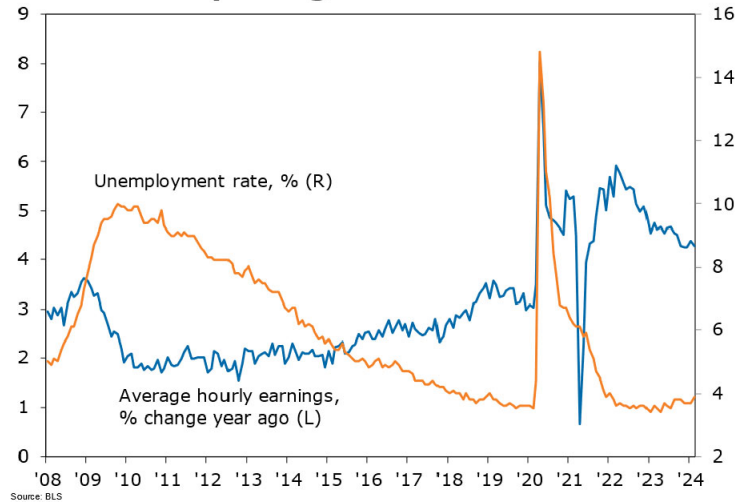
The Spring 2024 results from PNC's survey of small and mid-sized businesses are consistent with the near-term economic outlook for real GDP growth this year of 1.6%. Consumer spending should continue to increase into 2025 due to solid job and wage gains and slowing inflation; rising household wealth thanks to house price gains and record-high stock prices will also support consumer spending growth. However, a need for households to boost their saving means that consumer spending growth will increase more slowly in 2024 compared to last year. A growing economy and recent federal government initiatives to build infrastructure and increase US semiconductor chip production will boost business investment. And with mortgage rates down somewhat since the fall, the housing market is no longer a drag on growth. Cuts to the federal funds rate will provide an additional boost to growth toward the end of 2024 and into 2025.

Job growth will slow somewhat this year as economic growth softens, and the unemployment rate will gradually increase to above 4% by the end of this year. But this is still historically low, and the US economy should avoid recession. With softer wage growth as the unemployment rate rises and weaker growth in rents, inflation should slow to the Federal Reserve's 2% objective by early 2025.

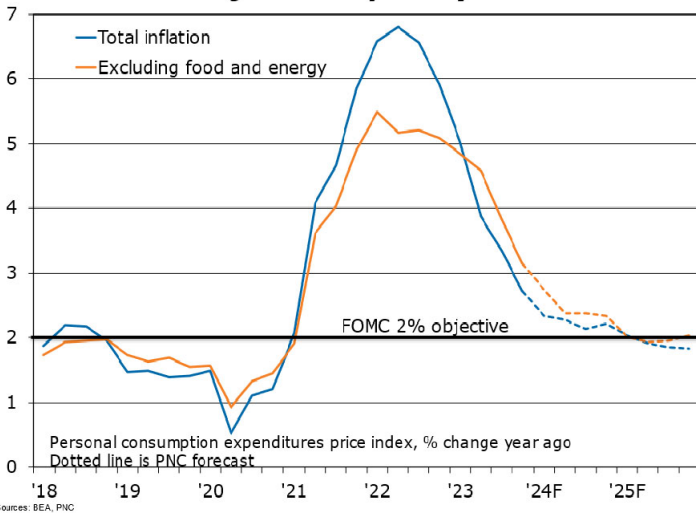
## Job Growth Continues to Run at Above the Pre-Pandemic Pace



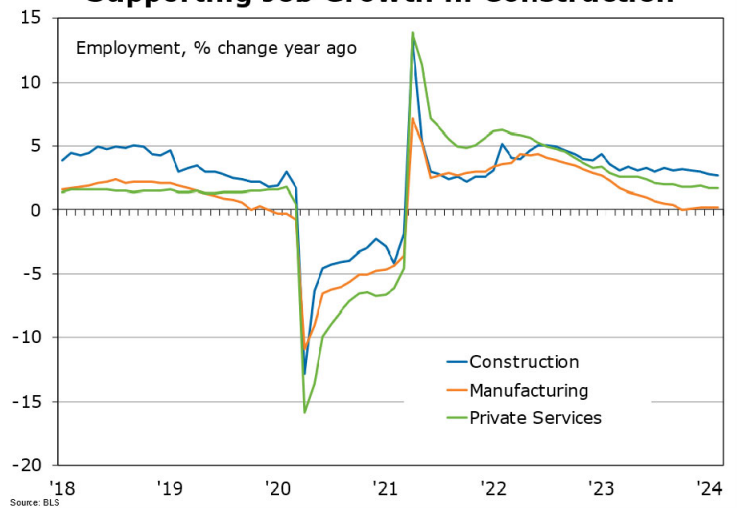
## Easing Wage Growth Should Help Bring Down Inflation



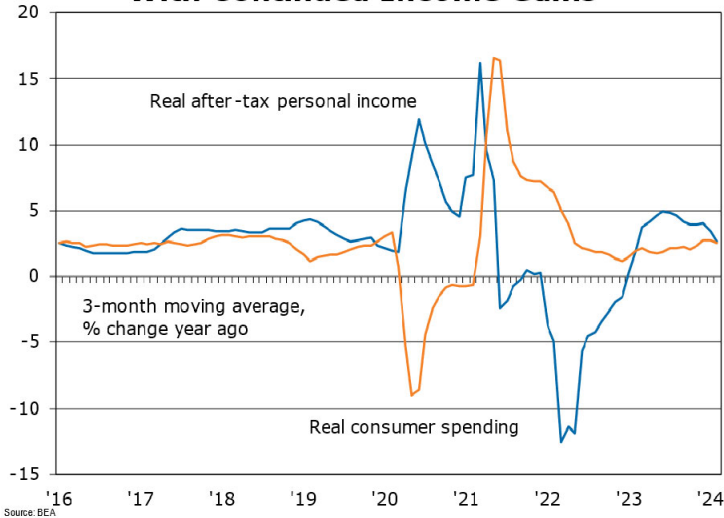
## Inflation Should Be Back to Fed's 2% Objective by Early 2025



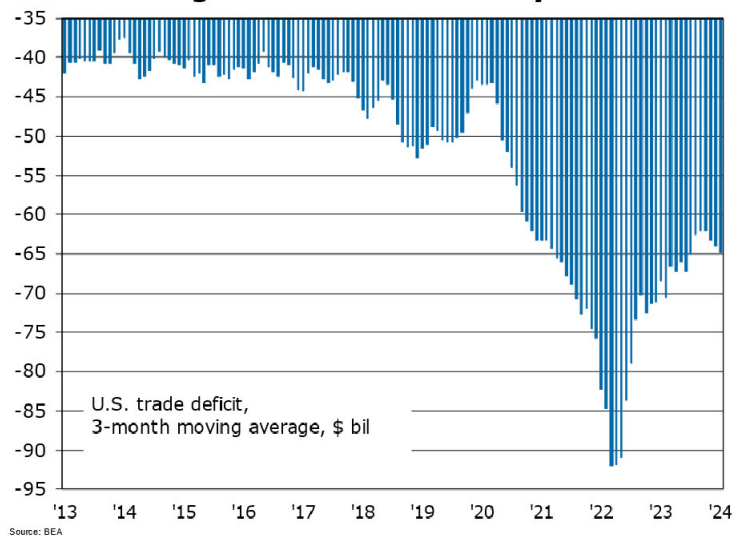
## Federal Government Spending Is Supporting Job Growth in Construction



## Consumer Spending Is Rising With Continued Income Gains

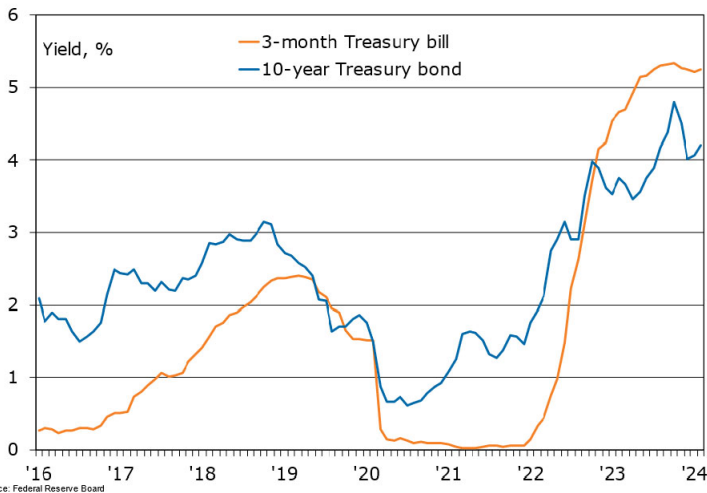


## A Larger Trade Deficit Will Weigh on Growth in Early 2024

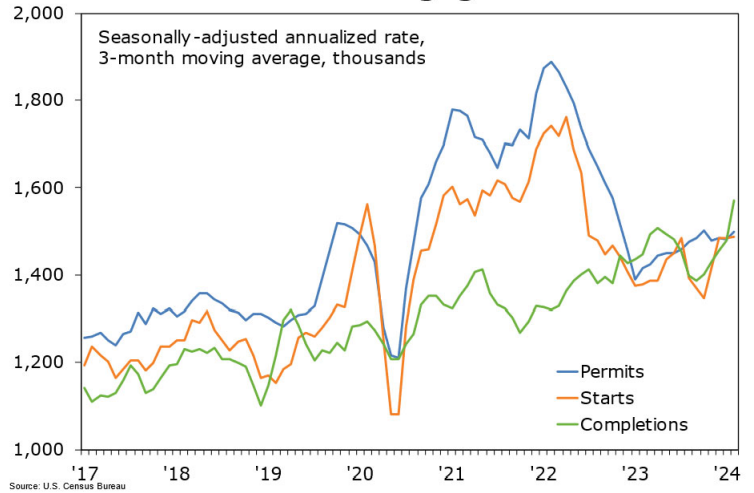




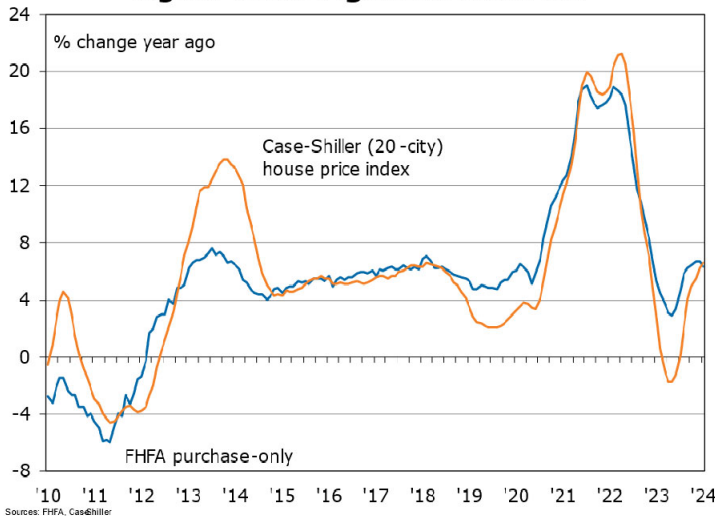
## Expect Lower Short-Term Interest Rates Later This Year



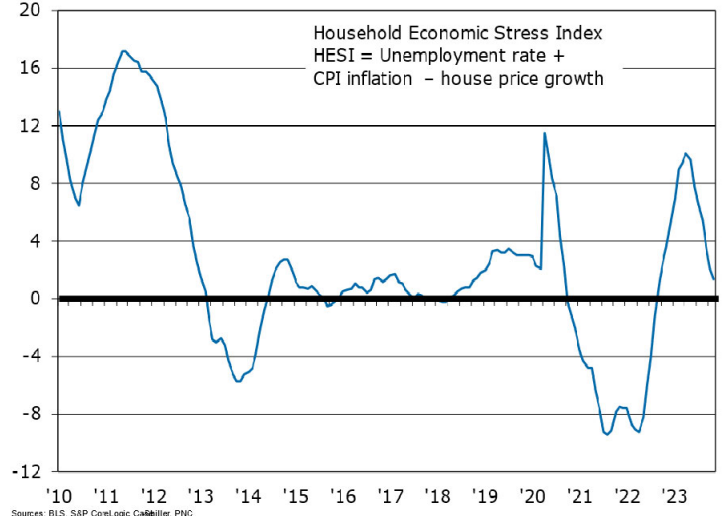
## Homebuilding Is Picking Up With Lower Mortgage Rates



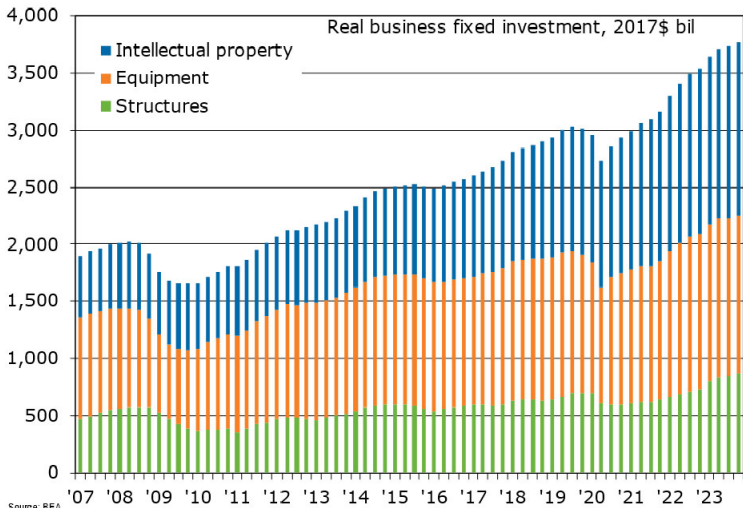
## House Prices Are Rising Again With Tight Inventories



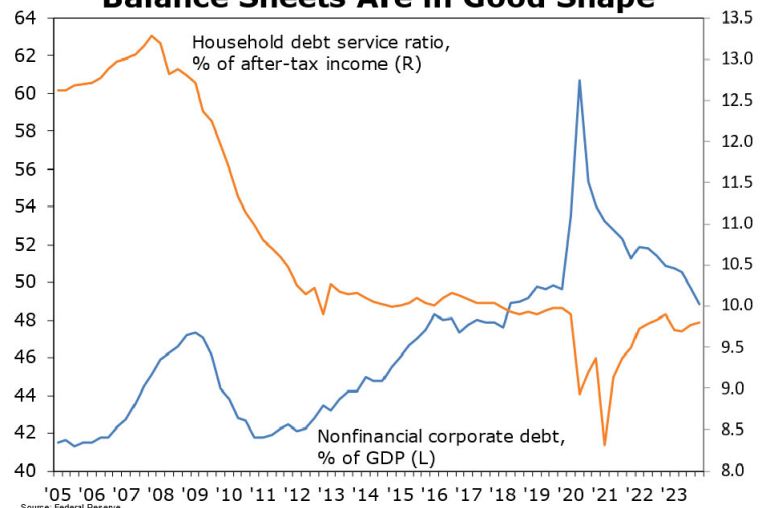
## Household Economic Stress Continues to Ease



## Business Investment Was a Big Positive for Growth in 2023



## Both Household and Business Balance Sheets Are in Good Shape



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PNC Economics Group

March 2024

## Baseline U.S. Economic Outlook, Expanded Table

	3Q'23a	4Q'23p	1Q'24f	2Q'24f	3Q'24f	4Q'24f	2022a	2023f	2024f	2025f
<b>Output</b>										
Nominal GDP (Billions \$)	27610	27939	28299	28591	28837	29096	25744	27356	28706	29829
Percent Change Annualized	8.3	4.8	5.3	4.2	3.5	3.6	9.1	6.3	4.9	3.9
Real GDP (Chained 2017 Billions \$)	22491	22669	22800	22888	22952	23028	21822	22374	22917	23289
Percent Change Annualized	4.9	3.2	2.3	1.6	1.1	1.3	1.9	2.5	2.4	1.6
Pers. Consumption Expenditures	15461	15575	15665	15739	15793	15849	15091	15423	15761	16017
Percent Change Annualized	3.1	3.0	2.3	1.9	1.4	1.4	2.5	2.2	2.2	1.6
Nonresidential Fixed Investment	3285	3304	3317	3331	3339	3354	3132	3269	3335	3408
Percent Change Annualized	1.4	2.4	1.7	1.6	1.1	1.7	5.2	4.4	2.0	2.2
Residential Investment	739	744	746	748	752	757	823	735	751	785
Percent Change Annualized	6.7	2.9	1.0	1.0	2.0	3.0	-9.0	-10.6	2.1	4.6
Change in Private Inventories	78	66	70	70	70	70	128	47	70	74
Net Exports	-931	-915	-918	-928	-940	-950	-1051	-927	-934	-968
Government Expenditures	3843	3883	3908	3917	3927	3937	3670	3819	3922	3961
Percent Change Annualized	5.8	4.2	2.5	1.0	1.0	1.0	-0.9	4.0	2.7	1.0
Industrial Prod. Index (2012 = 100)	103.3	102.5	102.8	103.2	103.6	104.0	102.6	102.8	103.4	105.4
Percent Change Annualized	1.8	-3.1	1.4	1.7	1.5	1.5	3.4	0.2	0.6	1.9
Capacity Utilization (Percent)	79.5	78.6	79.3	79.5	79.7	79.8	80.3	79.3	79.5	79.9
<b>Prices</b>										
CPI (1982-84 = 100)	306.0	308.1	310.6	312.7	314.7	316.4	292.6	304.7	313.6	320.8
Percent Change Annualized	3.6	2.8	3.2	2.8	2.5	2.3	8.0	4.1	2.9	2.3
Core CPI Index (1982-84 = 100)	309.7	312.3	315.2	317.3	319.1	320.8	294.3	308.4	318.1	325.2
Percent Change Annualized	2.8	3.4	3.8	2.7	2.4	2.1	6.1	4.8	3.1	2.2
PCE Price Index (2017 = 100)	120.8	121.3	122.1	122.8	123.4	124.0	116.0	120.4	123.1	125.4
Percent Change Annualized	2.6	1.7	2.6	2.2	2.0	2.0	6.5	3.7	2.2	1.9
Core PCE Price Index (2017 = 100)	119.5	120.1	121.1	121.8	122.4	122.9	114.4	119.1	122.0	124.5
Percent Change Annualized	2.0	2.0	3.2	2.3	2.0	1.8	5.2	4.1	2.5	2.0
GDP Price Index (2017 = 100)	122.8	123.2	124.1	124.9	125.6	126.4	118.0	122.3	125.3	128.1
Percent Change Annualized	3.3	1.5	2.9	2.6	2.3	2.3	7.1	3.6	2.5	2.3
Crude Oil, WTI (\$/Barrel)	82.2	78.5	77.0	80.0	83.0	86.0	94.4	77.6	81.5	89.3
<b>Labor Markets</b>										
Payroll Jobs (Millions)	156.4	157.1	157.8	158.2	158.4	158.6	152.5	156.1	158.2	159.0
Percent Change Annualized	1.7	1.6	1.9	0.9	0.6	0.4	4.3	2.3	1.4	0.5
Unemployment Rate (Percent)	3.7	3.7	3.8	3.9	4.0	4.1	3.6	3.6	3.9	4.3
Average Weekly Hours, Prod. Works.	33.8	33.8	33.7	33.7	33.7	33.6	34.0	33.8	33.7	33.6
<b>Personal Income</b>										
Average Hourly Earnings (\$)	29.1	29.4	29.7	30.0	30.3	30.5	27.6	28.9	30.1	31.1
Percent Change Annualized	4.4	4.3	4.3	3.9	3.6	3.5	6.4	5.0	4.1	3.4
Real Disp. Income (2017 Billions \$)	16809	16915	17003	17096	17175	17261	16117	16796	17134	17502
Percent Change Annualized	0.3	2.5	2.1	2.2	1.9	2.0	-6.0	4.2	2.0	2.1
<b>Housing</b>										
Housing Starts (Ths., Ann. Rate)	1371	1454	1438	1472	1486	1522	1551	1415	1479	1615
Ext. Home Sales (Ths., Ann Rate)	4020	3797	3882	3995	4219	4499	5081	4098	4149	5286
New SF Home Sales (Ths., Ann Rate)	693	652	670	690	709	733	637	668	700	768
Case/Shiller HPI (Jan. 2000 = 100)	309.1	311.2	312.0	312.0	312.0	312.0	298.2	311.2	312.0	315.1
Percent Change Year Ago	2.5	4.3	4.8	3.2	0.9	0.2	7.5	4.3	0.2	1.0
<b>Consumer</b>										
Auto Sales (Millions)	15.7	15.7	15.6	15.4	15.3	15.2	13.8	15.5	15.4	15.0
Consumer Credit (Billions \$)	4980	5044	5108	5175	5235	5291	4894	5044	5291	5603
Percent Change Year Ago	3.6	3.1	3.3	4.1	5.1	4.9	7.6	3.1	4.9	5.9
<b>Interest Rates (Percent)</b>										
Prime Rate	8.43	8.50	8.50	8.29	7.83	7.75	4.85	8.19	8.09	7.39
Federal Funds	5.26	5.33	5.33	5.15	4.71	4.63	1.68	5.02	4.95	4.26
3-Month Treasury Bill	5.42	5.42	5.37	4.97	4.53	4.46	2.00	5.16	4.83	4.02
10-Year Treasury Note	4.14	4.43	4.17	4.22	4.17	4.11	2.94	3.95	4.17	4.08
30-Year Fixed Mortgage	7.07	7.20	6.79	6.84	6.68	6.53	5.32	6.78	6.71	6.16

a = actual f = forecast p = preliminary

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