June 2020

NATIONAL ECONOMIC OUTLOOK

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Executive Summary

It's Official: Viral Recession Started in February, But May Data Are Showing Improvement, With Big Job Gains

- According to the National Bureau of Economic Research, the U.S. economy reached a peak in economic activity in February and then fell into recession, defined as "a significant decline in economic activity spread across the economy, normally visible in production, employment, and other indicators." The previous expansion started in June 2009 and lasted 128 months, the longest expansion in U.S. history. The NBER Business Cycle Dating Committee noted that "the pandemic and the public health response have resulted in a downturn with different characteristics and dynamics than prior recessions. Nonetheless, it concluded that the unprecedented magnitude of the decline in employment and production, and its broad reach across the entire economy, warrants the designation of this episode as a recession, even if it turns out to be briefer than earlier contractions."

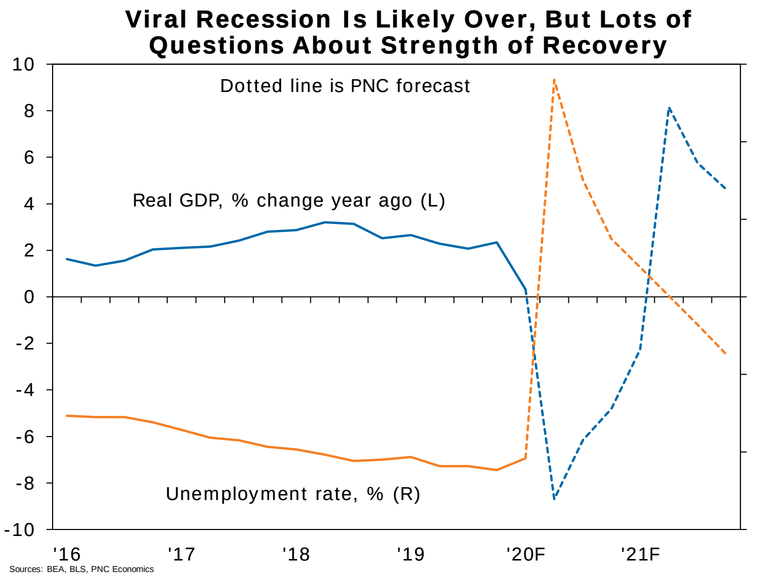
- Against expectations for another huge drop in employment in May, net jobs (as measured in a survey of employers) rose by 2.509 million over the month. This came about as businesses reopened as states gradually lifted restrictions on movement. Private-sector employment rose by 3.1 million, while government employment fell by 585,000. The 2.5 million net jobs added in May was the largest increase in the history of the survey, going back to 1939. But the gains made up only 11 percent of the jobs lost in March and April. The decline in employment in April of 20.687 million was by far the greatest number for job losses in a single month in the history of the series.

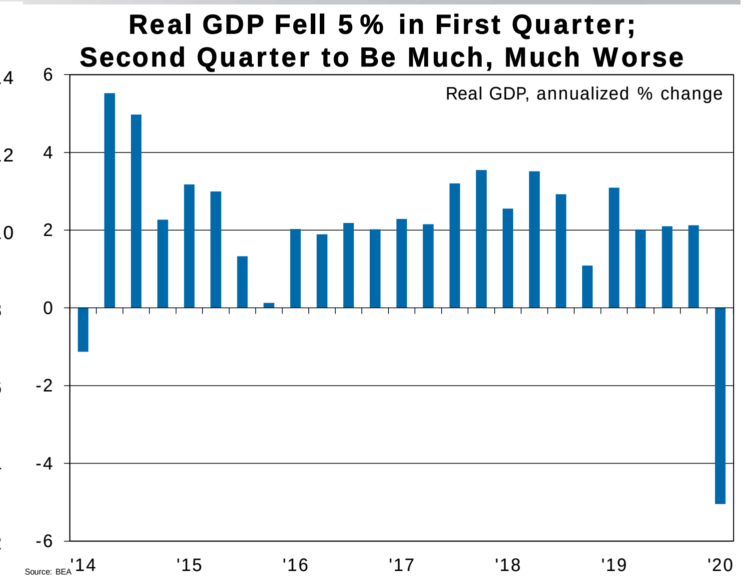
- The unemployment rate fell to 13.3 percent in May from 14.7 percent in April as the number of unemployed (from a survey of households, different from the survey of employers) fell by 2.093 million. The number of employed in the household survey rose by 3.839 million, while the labor force increased by 1.746 million. Although the May drop in the unemployment rate was encouraging, it was still up from 3.5 percent in February. It also appears that some workers have misclassified themselves as employed but absent from work in the household survey, when they really should be classified as unemployed on temporary layoff. Thus, it is likely that the true unemployment rate in May was closer to 16 percent than the measured rate of 13.3 percent. But that same problem was also an issue in April, and thus the decline in the unemployment rate in May was bona fide.

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

	1Q'20a	2Q'20f	3Q'20f	4Q'20f	1Q'21f	2Q'21f	2019a	2020f	2021f	2022f
Output & Prices										
Real GDP (*Chained 2012 Billions $*)	18988	17368	17943	18298	18560	18783	19073	18149	18866	19484
Percent Change Annualized	**-5.0**	**-30.0**	**13.9**	**8.1**	**5.8**	**4.9**	**2.3**	**-4.8**	**3.9**	**3.3**
CPI (*1982-84 = 100*)	258.6	256.8	257.3	258.0	259.1	260.5	255.7	257.7	261.5	269.3
Percent Change Annualized	**1.2**	**-2.7**	**0.7**	**1.1**	**1.8**	**2.1**	**1.8**	**0.8**	**1.5**	**3.0**
Labor Markets										
Payroll Jobs (*Millions*)	152.1	132.4	137.1	140.5	142.4	143.8	150.9	140.5	144.1	147.9
Percent Change Annualized	**0.8**	**-42.5**	**14.9**	**10.2**	**5.6**	**4.1**	**1.4**	**-6.9**	**2.6**	**2.6**
Unemployment Rate (*Percent*)	3.8	13.6	11.0	9.5	8.8	8.0	3.7	9.5	7.6	5.7
Interest Rates (Percent)										
Federal Funds	1.25	0.05	0.05	0.05	0.05	0.05	2.16	0.35	0.05	0.08
10-Year Treasury Note	1.38	0.68	0.75	0.80	0.86	0.92	2.14	0.90	0.95	1.28

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





Recovery from Viral Recession Has Already Started, But It Will Be a Long Road Back

Even as the National Bureau of Economic Research announced in early June that a U.S. recession started in February, data indicate that an economic recovery likely began in May. But given the unprecedented depth of the Viral Recession it will take at least a couple of years for the economy to fully recover. And there is still a huge amount of uncertainty about the strength of the recovery, with most of the risks to the outlook to the downside.

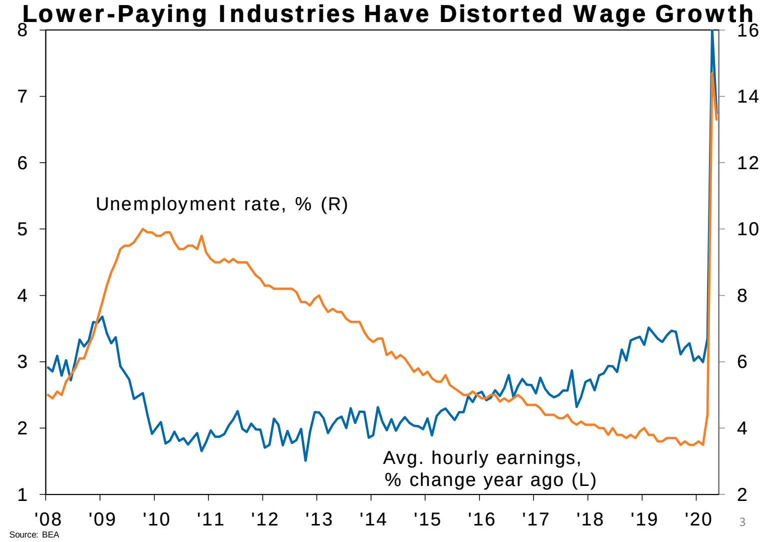
There was a historical deterioration in almost all economic data from February to April, as restrictions on movement prevented consumers from spending and workers from going to their jobs, leading to huge drops in household outlays and business production and unprecedented job losses. But data have improved in May from April, in some cases dramatically. In addition to the unexpected rebound in the job market, retail sales jumped 18 percent in May as consumers started to venture out, the biggest one-month increase in history. Other measures have also improved, including credit card spending, manufacturing output, housing starts, and auto sales.

A number of factors are supporting the nascent recovery. First, of course, is the gradual lifting of restrictions on economic activity, allowing consumers to increase their spending and workers to return to their job sites. But policy support has also been vital. Despite mammoth job losses of 22 million in March and April, after-tax household income actually rose almost 11 percent between February and April, thanks to an expansion of unemployment insurance benefits and one-time stimulus payments to most households. This has allowed households to spend, where they are able; given that consumer spending makes up two-thirds of the U.S. economy, this income support has been key. The Paycheck Protection Program, which provides low-interest loans to small and medium-sized firms, and which turn into grants if these firms then meet certain requirements about maintaining their workforces, has prevented millions of additional job losses. The Federal Reserve has also provided vital support to the economy. In addition to quickly cutting its key policy rate, the federal funds rate, to close to zero in March, the central bank has put downward pressure on long-term rates by expanding its balance sheet and purchasing long-term Treasurys and mortgage-backed securities ("quantitative easing"). The Fed has also implemented multiple programs to support the flow of credit to businesses, consumers, and state and local governments, including, for the first time, direct purchases of corporate bonds and of bank loans to small and medium-sized businesses. These programs appear to have worked, with few indications that businesses and consumers are having trouble in getting credit.

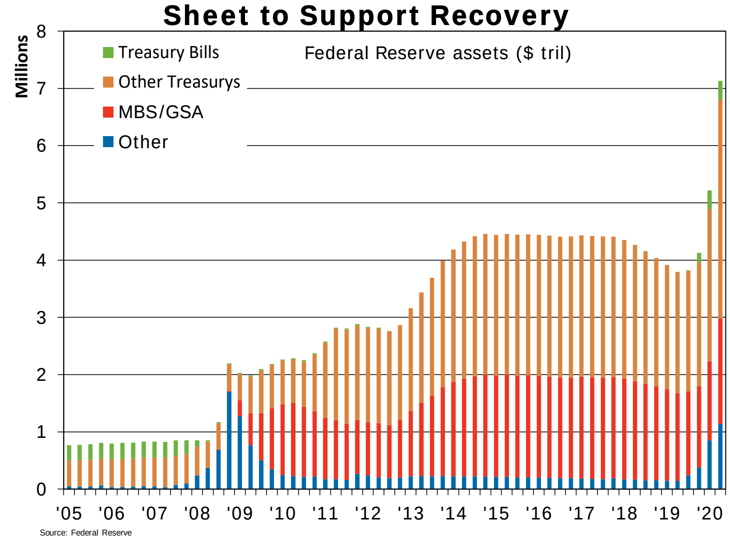
Thus a recovery is likely underway. But just because the economy is expanding does not mean that it is in good shape. Although the unemployment rate fell in May, it is still higher than at any point since the Great Depression, and employment in May was down by 19.6 million from February. A number of factors will determine the strength of the recovery. Foremost is the progression of the pandemic and the public response. PNC's baseline outlook assumes that cases of the coronavirus fade and consumers are willing to go out and spend. But if the pandemic persists, or even worse intensifies again, and shoppers are unwilling to venture out the recovery would be soft, or could even be delayed. Another important driver will be the policy response. So far Congress and the Trump administration have authorized about $2.4 trillion in fiscal stimulus. But that may not be enough to ensure a strong economic recovery. In particular, the public sector is vulnerable. State and local government will be under tremendous pressure in the upcoming fiscal year (starting July 1 for most states) given balanced budget requirements and huge drops in revenues from income and sales taxes. Without additional federal assistance, state and local budget and job cuts and tax increases could be a huge drag on the recovery. Other downside risks to the outlook include the ongoing global recession and further widespread job losses that would cause permanent economic damage.

After a historic contraction in real (inflation-adjusted) GDP of 30 percent in the second quarter at an annualized rate, PNC's baseline forecast calls for economic growth well above its recent average in the second half of 2020 and throughout 2021. Even so, real GDP is not expected to return to its pre-recession level until the first half of 2022. Unemployment will be persistent, even with very large job gains; the unemployment rate will fall below 10 percent later this year, and end 2021 at above 6 percent and 2022 at above 5 percent. Inflation will remain consistently below the Federal Reserve's 2 percent objective in the near term as businesses will have minimal pricing power due to excess capacity throughout the economy, allowing the fed funds rate to remain near zero into 2023.

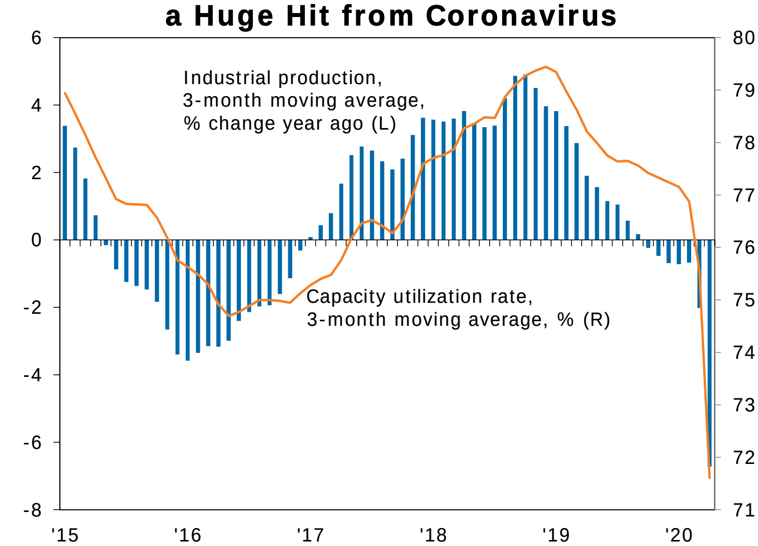
May Unemployment Rate Slightly Lower; Job Losses in Lower-Paying Industries Have Distorted Wage Growth



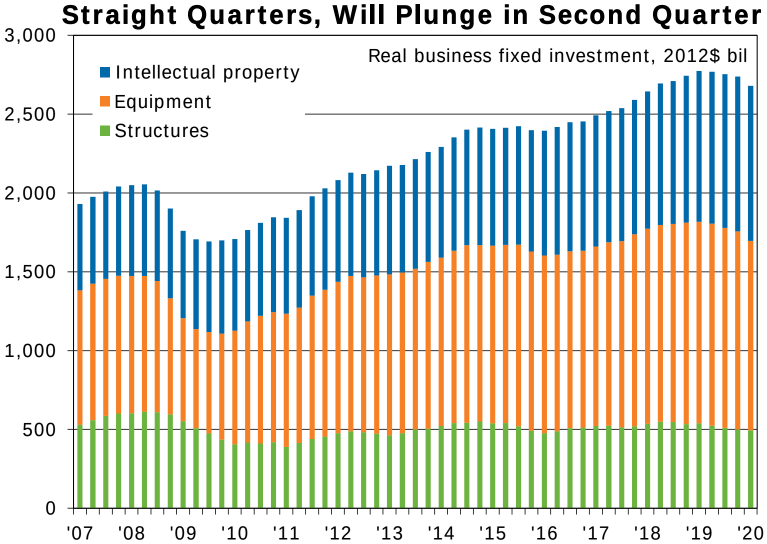
Massive Expansion of Fed Balance Sheet to Support Recovery



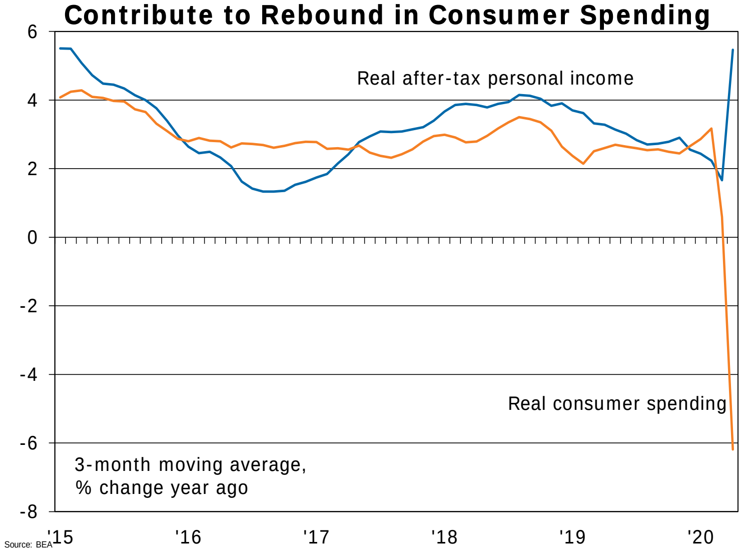
U.S. Industrial Sector Has Taken a Huge Hit from Coronavirus



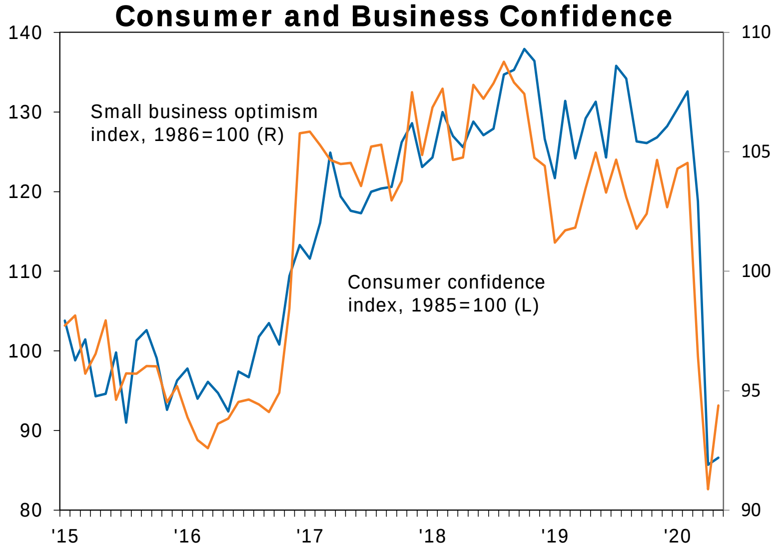
Business Fixed Investment Has Fallen for Four Straight Quarters, Will Plunge in Second Quarter



Stimulus Efforts Have Supported Income, Should Contribute to Rebound in Consumer Spending



Modest May Rebounds in Both Consumer and Business Confidence



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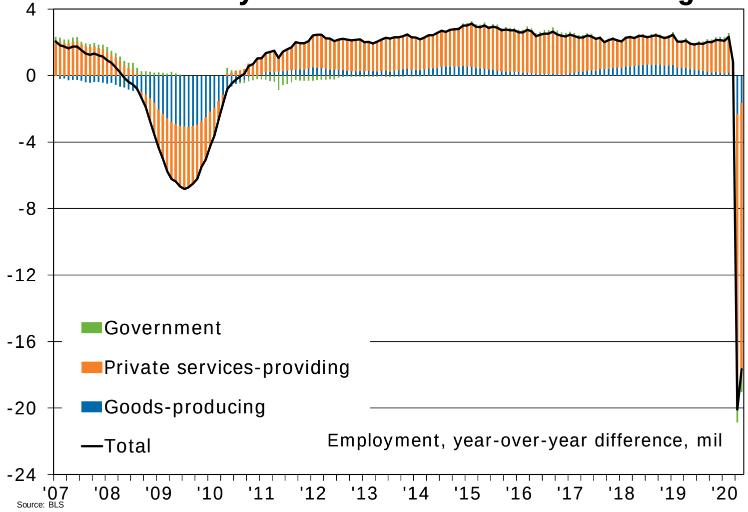
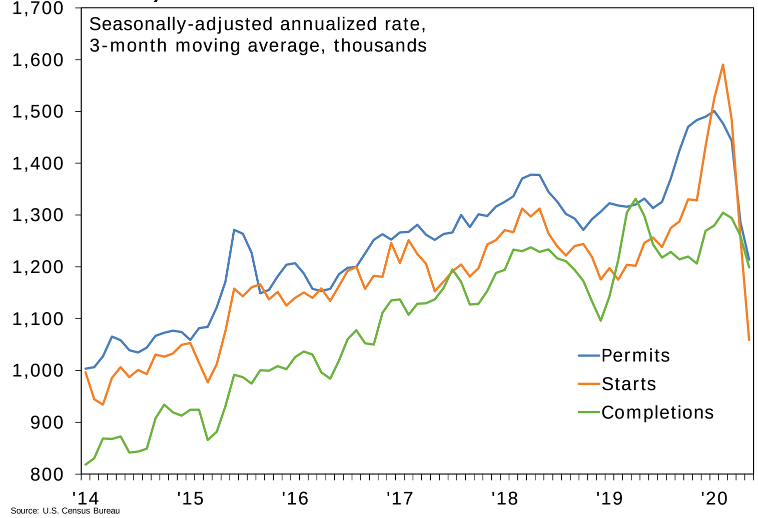
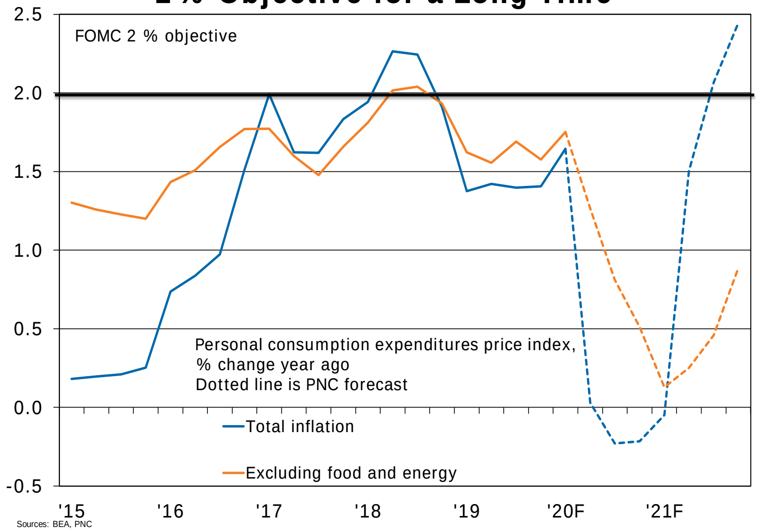
Even with 2.5 Million Jobs Added in May, Still Down by 18 Million from One Year Ago



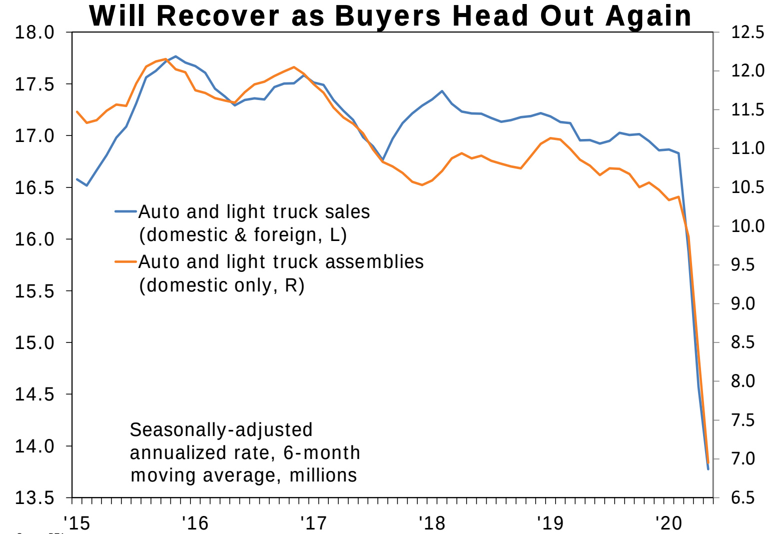
Homebuilding a Big Negative for Second Quarter Growth, But Will Contribute in Second Half of Year



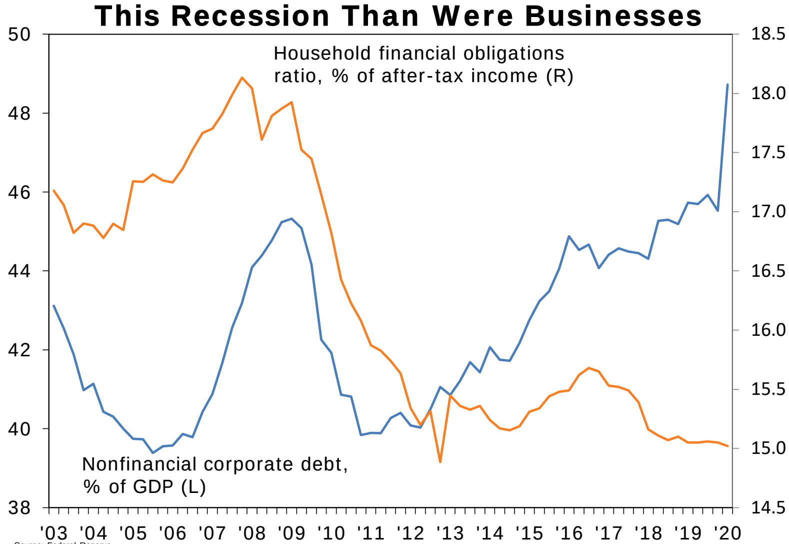
Core Inflation Will Be Below Fed's 2% Objective for a Long Time



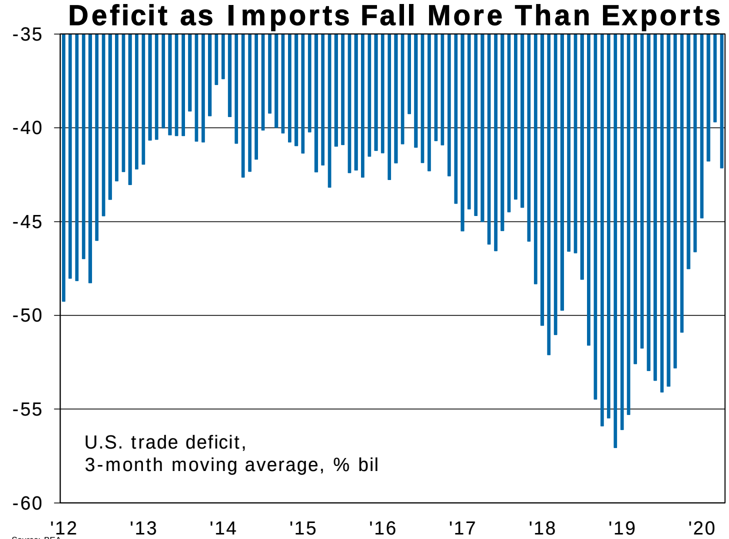
Auto Sales Took a Huge Hit in April, But Will Recover as Buyers Head Out Again



Consumers Were Better Prepared for This Recession Than Were Businesses



Viral Recession Has Reduced Trade Deficit as Imports Fall More Than Exports



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Baseline U.S. Economic Outlook, Expanded Table

	1Q'20a	2Q'20f	3Q'20f	4Q'20f	1Q'21f	2Q'21f	2019a	2020f	2021f	2022f
Output										
Nominal GDP (Billions $)	21538	19711	20348	20788	21150	21493	21428	20596	21666	22981
Percent Change Annualized	**-3.5**	**-29.9**	**13.6**	**8.9**	**7.1**	**6.7**	**4.1**	**-3.9**	**5.2**	**6.1**
Real GDP (Chained 2012 Billions $)	18988	17368	17943	18298	18560	18783	19073	18149	18866	19484
Percent Change Annualized	**-5.0**	**-30.0**	**13.9**	**8.1**	**5.8**	**4.9**	**2.3**	**-4.8**	**3.9**	**3.3**
Pers. Consumption Expenditures	13153	11670	12069	12365	12590	12780	13280	12314	12845	13258
Percent Change Annualized	**-7.6**	**-38.0**	**14.4**	**10.1**	**7.5**	**6.2**	**2.6**	**-7.3**	**4.3**	**3.2**
Nonresidential Fixed Investment	2665	2475	2484	2519	2548	2579	2748	2536	2601	2789
Percent Change Annualized	**-8.6**	**-25.6**	**1.4**	**5.7**	**4.7**	**5.0**	**2.1**	**-7.7**	**2.6**	**7.2**
Residential Investment	633	577	614	635	643	652	594	614	652	671
Percent Change Annualized	**21.0**	**-31.0**	**28.7**	**14.0**	**5.8**	**5.7**	**-1.5**	**3.5**	**6.1**	**2.9**
Change in Private Inventories	-16	-200	-132	-86	-50	-32	67	-109	-19	47
Net Exports	-817	-581	-552	-619	-666	-689	-954	-643	-709	-786
Government Expenditures	3337	3393	3426	3452	3461	3459	3299	3402	3462	3472
Percent Change Annualized	**0.7**	**6.9**	**3.9**	**3.1**	**1.0**	**-0.2**	**2.3**	**3.1**	**1.8**	**0.3**
Industrial Prod. Index (2012 = 100)	107.4	93.5	94.7	97.1	98.2	99.1	109.5	98.2	99.4	102.1
Percent Change Annualized	**-7.5**	**-42.6**	**5.3**	**10.1**	**5.0**	**3.6**	**0.9**	**-10.3**	**1.3**	**2.6**
Capacity Utilization (Percent)	75.5	67.6	68.6	70.4	71.5	72.3	77.8	70.5	72.7	75.3
Prices										
CPI (1982-84 = 100)	258.6	256.8	257.3	258.0	259.1	260.5	255.7	257.7	261.5	269.3
Percent Change Annualized	**1.2**	**-2.7**	**0.7**	**1.1**	**1.8**	**2.1**	**1.8**	**0.8**	**1.5**	**3.0**
Core CPI Index (1982-84 = 100)	266.8	266.5	266.5	266.5	266.7	267.0	263.2	266.6	267.7	272.9
Percent Change Annualized	**2.0**	**-0.4**	**0.0**	**0.1**	**0.2**	**0.5**	**2.2**	**1.3**	**0.4**	**2.0**
PCE Price Index (2012 = 100)	110.7	109.6	109.7	110.1	110.6	111.2	109.7	110.0	111.6	114.8
Percent Change Annualized	**1.3**	**-4.0**	**0.4**	**1.4**	**2.0**	**2.1**	**1.4**	**0.3**	**1.5**	**2.8**
Core PCE Price Index (2012 = 100)	112.8	112.8	112.9	112.9	113.0	113.1	111.7	112.9	113.4	115.4
Percent Change Annualized	**1.8**	**-0.1**	**0.3**	**0.1**	**0.2**	**0.4**	**1.6**	**1.1**	**0.4**	**1.8**
GDP Price Index (2012 = 100)	113.4	113.5	113.4	113.6	114.0	114.4	112.3	113.5	114.8	117.9
Percent Change Annualized	**1.4**	**0.2**	**-0.3**	**0.7**	**1.2**	**1.7**	**1.7**	**1.0**	**1.2**	**2.7**
S&P Stock Price Index	3069.3	2842.3	2975.0	2925.0	3024.9	3074.8	2912.5	2952.9	3100.0	3301.4
Crude Oil, WTI ($/Barrel)	46.3	23.2	24.4	26.7	30.6	34.5	57.0	30.2	36.3	50.6
Labor Markets										
Payroll Jobs (Millions)	152.1	132.4	137.1	140.5	142.4	143.8	150.9	140.5	144.1	147.9
Percent Change Annualized	**0.8**	**-42.5**	**14.9**	**10.2**	**5.6**	**4.1**	**1.4**	**-6.9**	**2.6**	**2.6**
Unemployment Rate (Percent)	3.8	13.6	11.0	9.5	8.8	8.0	3.7	9.5	7.6	5.7
Average Weekly Hours, Prod. Works.	33.6	32.9	33.1	33.1	33.2	33.3	33.6	33.2	33.3	33.4
Personal Income										
Average Hourly Earnings ($)	24.0	23.8	23.8	23.8	24.0	24.2	23.5	23.8	24.3	24.9
Percent Change Annualized	**2.9**	**-3.0**	**-0.1**	**1.0**	**2.6**	**2.9**	**3.5**	**1.5**	**1.7**	**2.8**
Real Disp. Income (2012 Billions $)	15092	15514	15189	15039	14880	14466	14974	15208	14616	14779
Percent Change Annualized	**0.5**	**11.7**	**-8.1**	**-3.9**	**-4.2**	**-10.7**	**2.9**	**1.6**	**-3.9**	**1.1**
Housing										
Housing Starts (*Ths., Ann. Rate*)	1466	1125	1178	1416	1513	1442	1298	1296	1453	1508
Ext. Home Sales (*Ths., Ann Rate*)	5483	4293	5977	6246	6312	6192	5330	5500	6116	5403
New SF Home Sales (*Ths., Ann Rate*)	715.0	438.1	664.7	790.0	841.7	798.7	684.3	651.9	814.8	834.1
Case/Shiller HPI (*Jan. 2000 = 100*)	213.9	211.5	208.7	207.4	206.2	207.4	212.7	207.4	213.8	222.4
Percent Change Year Ago	**3.3**	**1.4**	**-0.7**	**-2.5**	**-3.6**	**-2.0**	**3.4**	**-2.5**	**3.1**	**4.1**
Consumer										
Auto Sales (Millions)	15.0	11.5	14.8	15.5	16.1	16.7	16.9	14.2	16.5	16.2
Consumer Credit (Billions $)	4209	4006	3942	3931	3993	4045	4191	3931	4152	4396
Percent Change Year Ago	**3.8**	**-2.3**	**-5.0**	**-6.2**	**-5.1**	**1.0**	**4.5**	**-6.2**	**5.6**	**5.9**
Interest Rates (Percent)										
Prime Rate	4.42	3.25	3.25	3.25	3.25	3.25	**5.28**	**3.54**	**3.25**	**3.25**
Federal Funds	1.25	0.05	0.05	0.05	0.05	0.05	**2.16**	**0.35**	**0.05**	**0.08**
3-Month Treasury Bill	1.11	0.13	0.15	0.12	0.10	0.10	**2.09**	**0.37**	**0.10**	**0.11**
10-Year Treasury Note	1.38	0.68	0.75	0.80	0.86	0.92	**2.14**	**0.90**	**0.95**	**1.28**
30-Year Fixed Mortgage	3.51	3.22	3.09	3.03	2.97	2.92	**3.93**	**3.22**	**2.91**	**3.03**

a = actual   f = forecast   p = preliminary

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