

# NATIONAL ECONOMIC OUTLOOK

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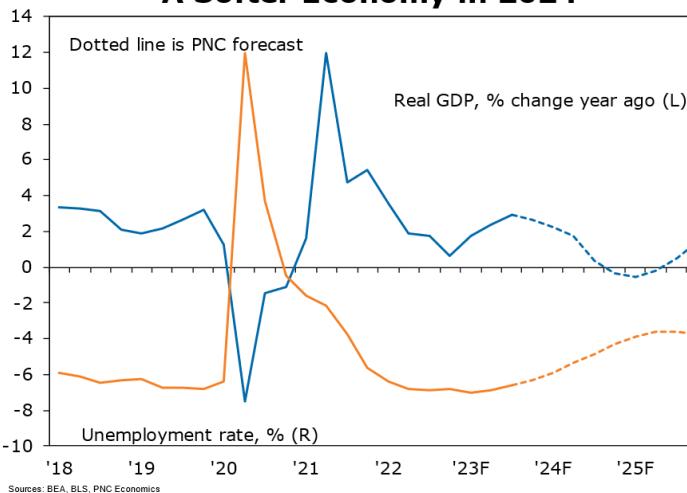
## GDP Growth Remains Strong in the Fourth Quarter as Labor Market Continues to Hold Up

- Real GDP increased a strong 3.3% at an annualized rate in the fourth quarter of 2023, according to the advance estimate from the Bureau of Economic Analysis. (The release came after the January forecast was prepared.) Growth was 4.9% in the third quarter. Growth for all of 2023 on a Q4-to-Q4 basis was 3.1%, much better than the 0.7% in 2022, and about double the economy's long-run potential. Growth was broad-based in the fourth quarter, with all major components adding to growth. Real consumer spending increased 2.8% in the quarter, adding 1.9 percentage points to annualized growth. Business fixed investment rose 1.9%, adding 0.3 percentage point to growth. Housing investment increased 1.1%, although its contribution to growth was minimal. With mortgage rates falling at the end of 2023 housing investment has now increased in two consecutive quarters, after nine straight quarters of decline. A shrinking trade deficit added 0.4 percentage point to growth in the fourth quarter, as exports rose more than imports (up 6% and 2%, respectively). Increased government spending added 0.6 percentage point to fourth quarter growth. Inventories were a modest positive for fourth quarter growth.
- The jobs report for December 2023 came in stronger than expected. Employment as measured in a survey of firms rose by 216,000 over the month, above the consensus expectation of around 170,000. However, there were large downward revisions to job growth in October and November of a combined 71,000. The private sector added 164,000 jobs in December, with government employment up by 52,000. For all of 2023 the U.S. economy added an average of 225,000 jobs per month, down from an average of 399,000 in 2022.
- The unemployment rate held steady at 3.7% in December, with both employment and the labor force contracting. The unemployment rate has been below 4% for almost two years, the longest such stretch since the late 1960s. Employment in a survey of households (different from the survey of employers) fell by 683,000 in December, after an increase of 586,000 in November; employment is much more volatile in the household survey. There were average job losses of 122,000 in the household survey in the three months through December. The number of people in the labor force—either working or looking for work in the household survey—fell by 676,000 in December. The labor force participation rate—the share of adults in the labor force—fell to 62.5% in December from 62.8% in November. This is the lowest the labor force participation rate has been since February. If sustained, the drop in the labor force participation rate could lead to a further tightening in the job market.

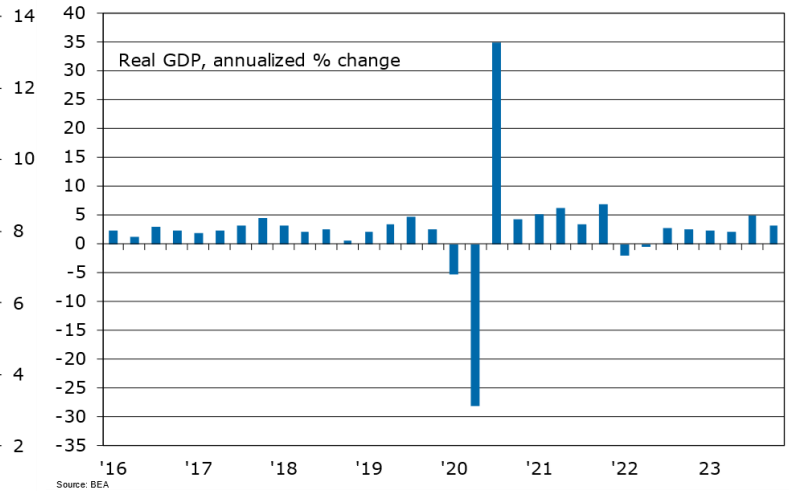
### **Baseline U.S. Economic Outlook, Summary Table\***

	3Q'23a	4Q'23f	1Q'24f	2Q'24f	3Q'24f	4Q'24f	2022a	2023f	2024f	2025f
<b>Output</b>										
Real GDP (Chained 2017 Billions \$)	22491	22572	22612	22614	22568	22498	21822	22350	22573	22635
Percent Change Annualized	4.9	1.5	0.7	0.0	-0.8	-1.2	1.9	2.4	1.0	0.3
CPI (1982-84 = 100)	306.0	308.0	309.6	310.7	311.9	313.3	292.6	304.7	311.4	317.1
Percent Change Annualized	3.6	2.6	2.1	1.5	1.6	1.8	8.0	4.1	2.2	1.8
<b>Labor Markets</b>										
Payroll Jobs (Millions)	156.5	157.0	157.2	157.1	156.9	156.6	152.6	156.2	156.9	156.4
Percent Change Annualized	1.5	1.3	0.4	-0.2	-0.6	-0.7	4.3	2.3	0.5	-0.3
Unemployment Rate (Percent)	3.7	3.7	3.9	4.1	4.3	4.6	3.6	3.6	4.3	4.8
<b>Interest Rates (Percent)</b>										
Federal Funds	5.26	5.33	5.33	5.33	5.19	4.94	1.68	5.02	5.20	4.20
10-Year Treasury Note	4.14	4.43	4.00	4.02	4.04	4.05	2.94	3.95	4.03	4.08
a = actual    f = forecast    p = preliminary										
*Please see the Expanded Table for more forecast series.										

## With Fed Tightening of the Past Few Years, A Softer Economy in 2024



## Very Strong GDP Growth in Second Half of 2023



## Inflation Is Quickly Moving to Fed's 2% Objective, Which Will Allow for Rate Cuts Later This Year

After the highest inflation in more than four decades in 2021 and 2022, inflation slowed over 2023. Inflation is still running above the Federal Reserve's 2% objective, but should return to that level by the end of 2024. With inflation set to slow further, the Federal Open Market Committee will start to cut its policy interest rate this year, providing support to the economy.

Inflation picked up dramatically in the second half of 2020 with the recovery from the pandemic. Initially the higher inflation came on the goods side of consumer spending. Household goods purchases soared starting in the second half of 2020 as households cut back on their services spending with the pandemic, and had additional cash thanks to federal government stimulus aid. Consumer spending on goods, adjusted for inflation, jumped 17% between the end of 2019 just before the pandemic, and the second quarter of 2021. Input costs rose for manufacturers, supply-chain problems restricted supplies of some goods, and businesses raised their prices for goods both to cover their higher costs and to take advantage of short supplies. In addition, higher energy prices in the wake of the Russian invasion of Ukraine contributed to inflation: the average price of a gallon of unleaded gasoline fell below \$2 in the spring of 2020 with reduced demand during the worst of the pandemic, and then soared to peak of almost \$5 in mid-2022, shortly after the Russian invasion.

As a result inflation soared in 2021 and 2022. The personal consumption expenditures price increased just 1.4% in 2020, but by more than 6% in 2021 and by more than 5% in 2022. The core PCE price index, which excludes volatile food and energy prices and is the Federal Reserve's preferred inflation measure, rose by around 5% in both 2021 and 2022. By either measure, this was the highest inflation since the early 1980s, and far above the Federal Reserve's long-run inflation objective of 2%.

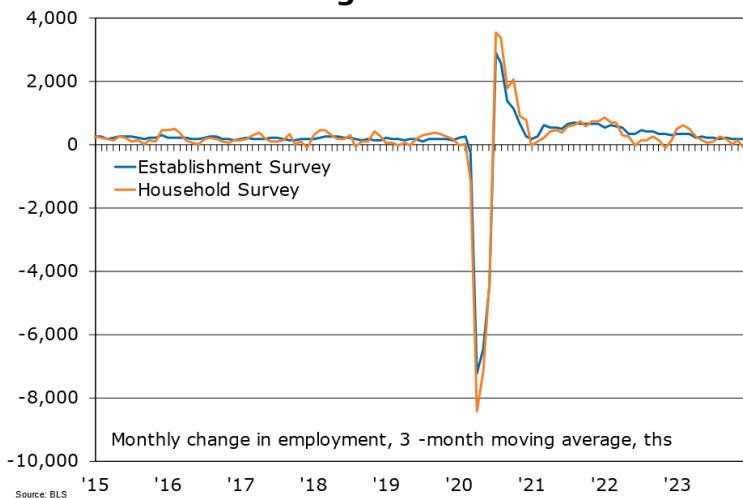
But inflation slowed in 2023, particularly for goods. Goods demand has been flat over the past couple of years, and supply chain disruptions have dissipated. Energy prices have declined as production has increased, with the price of a gallon of gas down to around \$3. Goods prices, in aggregate, were flat in 2023. But services inflation remains elevated, at almost 4% according to the PCE price index. This is down from 5% to 2021 and almost 6% in 2022, but is well above the 2.4% average pace in the five years prior to the pandemic. Much of the elevated services inflation of the past couple of years has come from housing inflation, which has been running well above its pre-pandemic pace.

With goods prices flat in 2023 and services inflation slowing, overall PCE inflation was 2.6% at the end of 2023, with core inflation at 2.9%. In fact, in the six months through December core PCE inflation was slightly below the Fed's 2% objective at an annual rate, an impressive slowing given the very high inflation in 2022 and 2023. Much of the credit for slowing inflation is due to the FOMC. The committee has raised interest rates aggressively over the past couple of years to slow economic growth and cool inflationary pressures. The FOMC's key short-term policy rate, the federal funds rate, went from just above 0% in early 2022 to a range of 5.25% to 5.50% by mid-2023. Higher interest rates have made it more expensive for businesses and consumers to borrow, slowing growth in interest-rate sensitive industries like housing, business investment, and consumer durable goods.

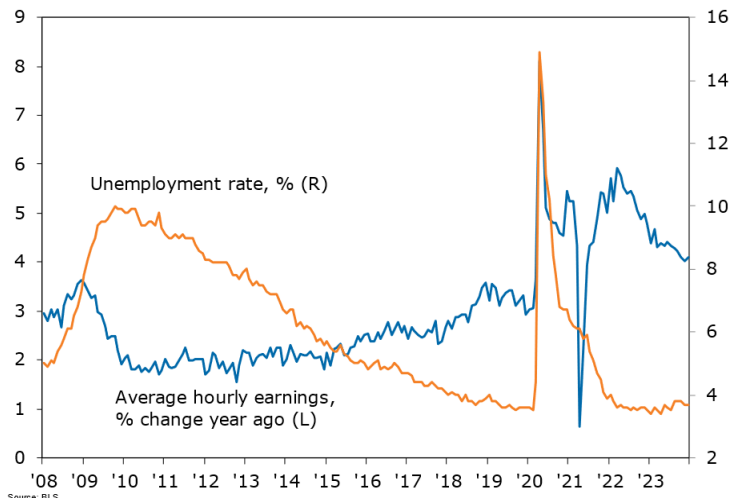
Inflation should continue to slow in 2024. Higher interest rates work on the economy with a significant lag, and rate hikes in 2023 will continue to weigh on economic growth through the first half of this year, further reducing inflationary pressures. The contribution of housing to inflation will also decline in 2024. Rents work their way into overall inflation with a lag; some rent measures declined in 2023, which will contribute to a significant slowing in housing inflation this year. Core PCE inflation is set to be at the Fed's 2% objective by the end of 2024.

With inflation slowing the FOMC will feel comfortable cutting the fed funds rate starting in mid-2024, ending the year at around 4.5%. Monetary policy will still be a drag on growth, but much less so than in 2023. Economic growth will soften in the near-term as high interest rates remain a drag. Job growth will weaken this year and the unemployment rate will gradually increase, but remain historically low.

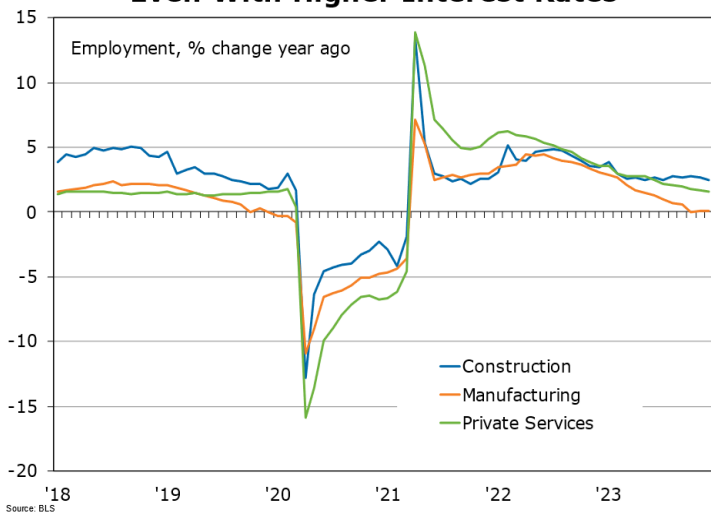
## Job Growth Slowed Gradually Throughout 2023



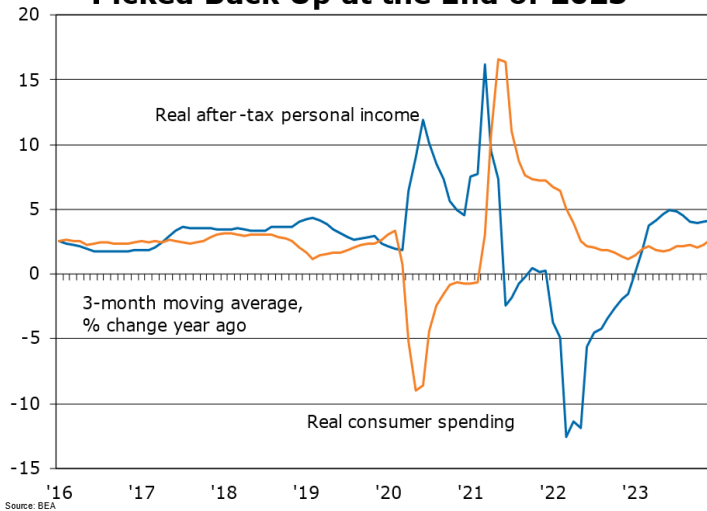
## Wage Growth Slowly Returning to Its Pre-Pandemic Pace



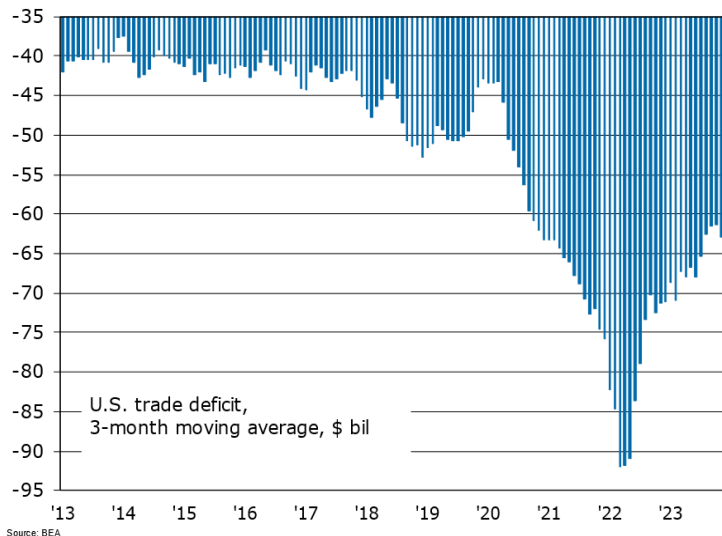
## Construction Job Growth Is Holding Up, Even With Higher Interest Rates



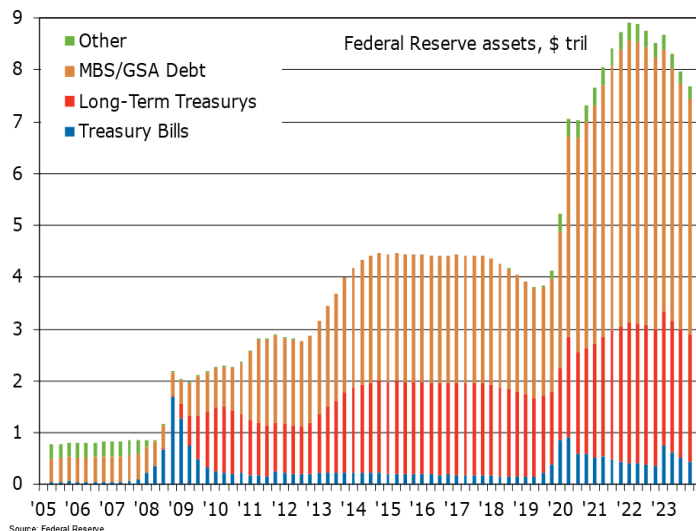
## Consumer Spending Growth Picked Back Up at the End of 2023



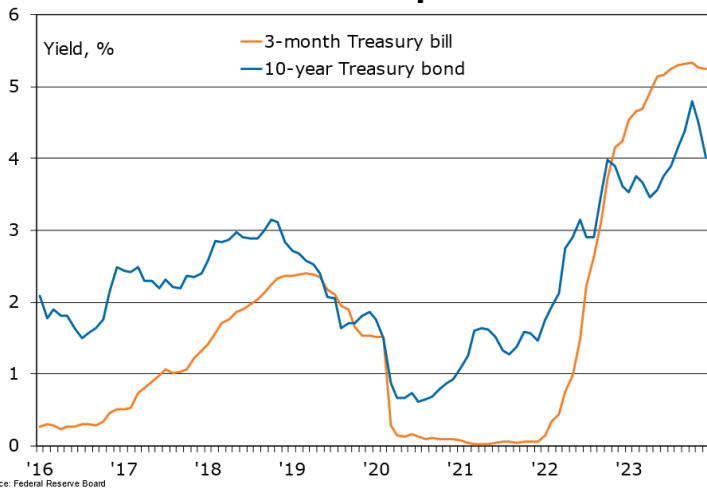
## A Smaller Trade Deficit in 2023 Added to Economic Growth



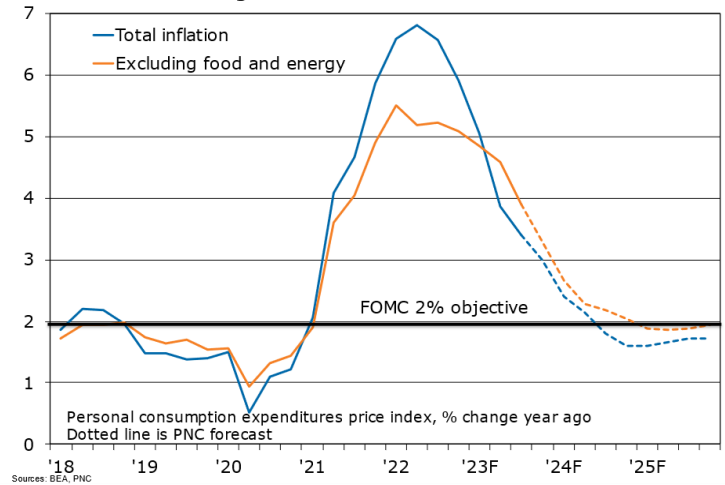
## The Fed Will Announce Plans Soon to Stop Reducing the Size of Its Balance Sheet



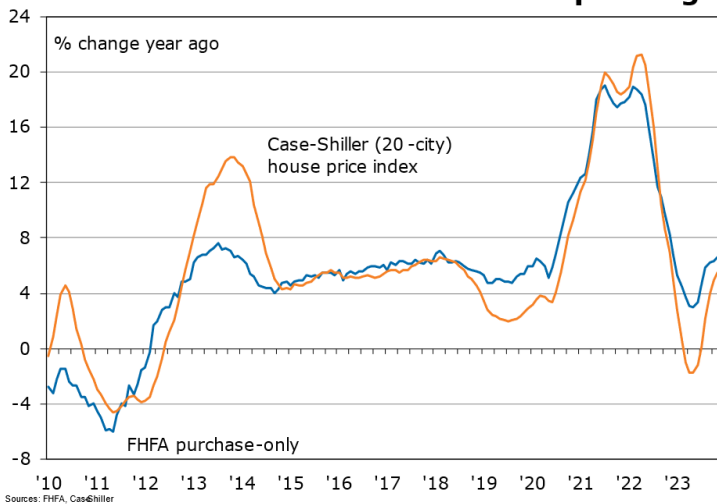
## Long-Term Rates Are Falling With Fed Funds Rate Cuts Expected in 2024



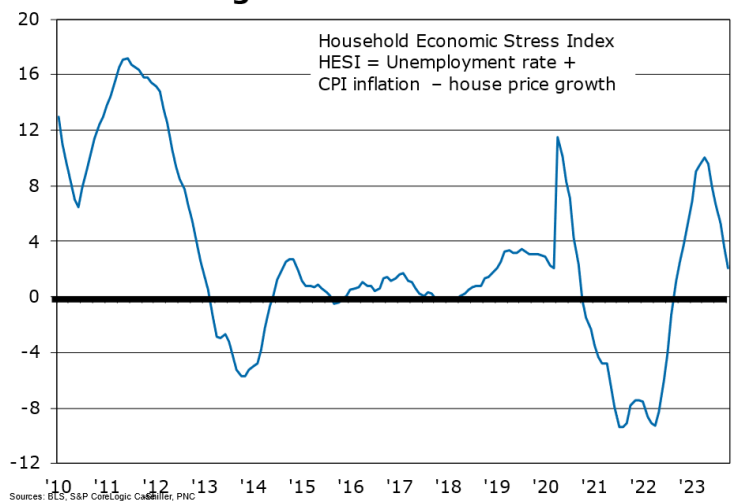
## PNC Expects Inflation to Hit Fed's 2% Objective Later This Year



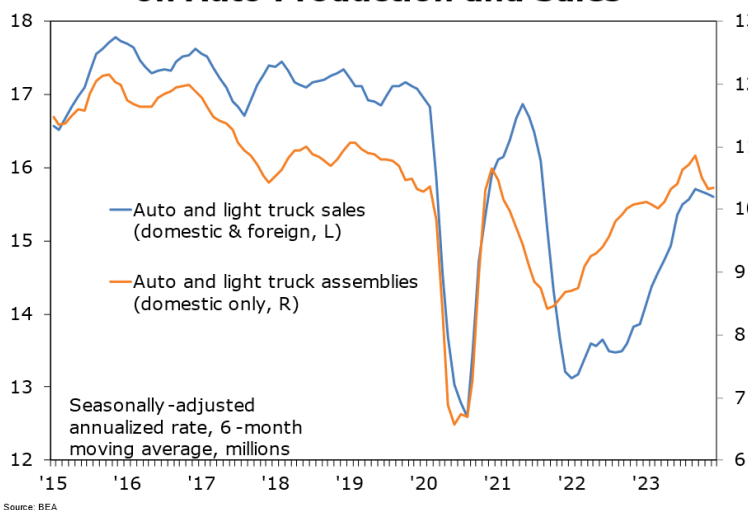
## Higher Home Values Are a Positive for Household Wealth and Consumer Spending



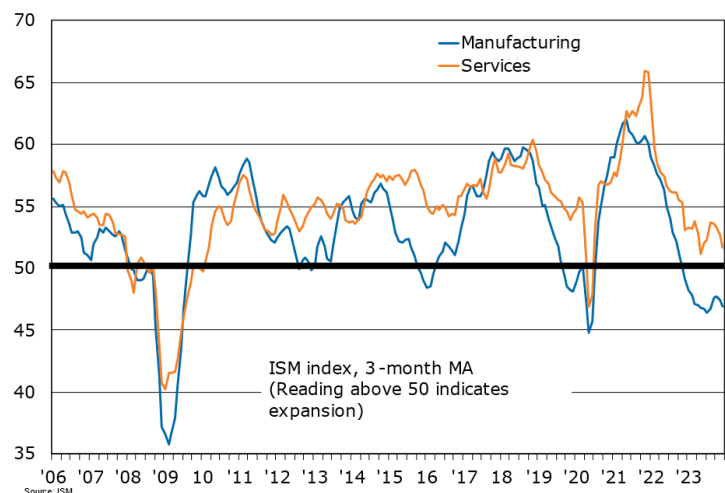
## Household Economic Stress Is Falling With Slower Inflation



## Limited Impact of the UAW Strike on Auto Production and Sales



## Higher Rates Are Weighing on Manufacturing, But Services Remain Solid



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PNC Economics Group

January 2024

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

	3Q'23a	4Q'23f	1Q'24f	2Q'24f	3Q'24f	4Q'24f	2022a	2023f	2024f	2025f
<b>Output</b>										
Nominal GDP (Billions \$)	27644	27931	28138	28266	28328	28368	25744	27363	28275	28894
Percent Change Annualized	8.9	4.2	3.0	1.8	0.9	0.6	9.1	6.3	3.3	2.2
Real GDP (Chained 2017 Billions \$)	22491	22572	22612	22614	22568	22498	21822	22350	22573	22635
Percent Change Annualized	4.9	1.5	0.7	0.0	-0.8	-1.2	1.9	2.4	1.0	0.3
Pers. Consumption Expenditures	15461	15533	15581	15600	15596	15579	15091	15413	15589	15634
Percent Change Annualized	3.1	1.9	1.2	0.5	-0.1	-0.4	2.5	2.1	1.1	0.3
Nonresidential Fixed Investment	3285	3295	3286	3260	3228	3199	3132	3267	3243	3218
Percent Change Annualized	1.4	1.3	-1.1	-3.1	-4.0	-3.5	5.2	4.3	-0.7	-0.8
Residential Investment	739	743	740	737	735	740	823	735	738	767
Percent Change Annualized	6.7	2.0	-1.5	-1.5	-1.0	3.0	-9.0	-10.7	0.4	3.9
Change in Private Inventories	78	65	58	50	22	-18	128	46	28	-3
Net Exports	-931	-931	-923	-901	-875	-861	-1051	-931	-890	-857
Government Expenditures	3843	3852	3855	3852	3847	3844	3670	3811	3850	3860
Percent Change Annualized	5.8	1.0	0.3	-0.3	-0.5	-0.4	-0.9	3.8	1.0	0.3
Industrial Prod. Index (2012 = 100)	103.3	102.7	102.2	101.3	100.3	99.2	102.6	102.8	100.8	100.4
Percent Change Annualized	2.0	-2.5	-1.9	-3.2	-4.0	-4.2	3.4	0.2	-2.0	-0.3
Capacity Utilization (Percent)	79.5	78.9	78.3	77.6	77.0	76.5	80.3	79.3	77.3	76.4
<b>Prices</b>										
CPI (1982-84 = 100)	306.0	308.0	309.6	310.7	311.9	313.3	292.6	304.7	311.4	317.1
Percent Change Annualized	3.6	2.6	2.1	1.5	1.6	1.8	8.0	4.1	2.2	1.8
Core CPI Index (1982-84 = 100)	309.7	311.9	313.8	315.4	317.0	318.4	294.3	308.3	316.2	322.6
Percent Change Annualized	2.8	2.9	2.4	2.1	2.0	1.8	6.1	4.8	2.5	2.0
PCE Price Index (2017 = 100)	120.9	121.6	122.2	122.6	123.1	123.6	116.0	120.5	122.9	124.9
Percent Change Annualized	2.8	2.5	1.8	1.4	1.5	1.7	6.5	3.8	2.0	1.7
Core PCE Price Index (2017 = 100)	119.6	120.3	121.0	121.6	122.2	122.7	114.4	119.2	121.9	124.2
Percent Change Annualized	2.3	2.3	2.4	2.1	1.9	1.7	5.2	4.1	2.3	1.9
GDP Price Index (2017 = 100)	122.8	123.7	124.4	125.0	125.5	126.1	118.0	122.4	125.3	127.6
Percent Change Annualized	3.5	3.0	2.3	1.8	1.7	1.8	7.1	3.8	2.3	1.9
Crude Oil, WTI (\$/Barrel)	82.2	79.2	77.0	73.5	70.0	72.0	94.4	77.7	73.1	78.1
<b>Labor Markets</b>										
Payroll Jobs (Millions)	156.5	157.0	157.2	157.1	156.9	156.6	152.6	156.2	156.9	156.4
Percent Change Annualized	1.5	1.3	0.4	-0.2	-0.6	-0.7	4.3	2.3	0.5	-0.3
Unemployment Rate (Percent)	3.7	3.7	3.9	4.1	4.3	4.6	3.6	3.6	4.3	4.8
Average Weekly Hours, Prod. Works.	33.8	33.8	33.7	33.7	33.6	33.6	34.0	33.8	33.7	33.5
<b>Personal Income</b>										
Average Hourly Earnings (\$)	29.0	29.3	29.6	29.8	30.0	30.2	27.6	28.9	29.9	30.6
Percent Change Annualized	4.1	4.2	3.6	3.3	2.9	2.5	6.4	4.7	3.6	2.3
Real Disp. Income (2017 Billions \$)	16800	16883	16943	16962	16967	16972	16117	16786	16961	17167
Percent Change Annualized	0.1	2.0	1.4	0.5	0.1	0.1	-6.0	4.2	1.0	1.2
<b>Housing</b>										
Housing Starts (Ths., Ann. Rate)	1367	1382	1337	1329	1292	1264	1551	1396	1306	1313
Ext. Home Sales (Ths., Ann. Rate)	4020	3891	3811	3844	4007	4278	5081	4122	3985	4809
New SF Home Sales (Ths., Ann. Rate)	703	705	706	706	704	698	637	684	703	718
Case/Shiller HPI (Jan. 2000 = 100)	309.0	311.2	305.4	296.6	287.1	282.9	298.2	311.2	282.9	287.3
Percent Change Year Ago	2.5	4.4	2.6	-1.9	-7.1	-9.1	7.5	4.4	-9.1	1.6
<b>Consumer</b>										
Auto Sales (Millions)	15.6	15.6	15.0	14.7	14.5	14.4	13.8	15.5	14.6	14.2
Consumer Credit (Billions \$)	4985	5033	5090	5144	5186	5222	4894	5033	5222	5431
Percent Change Year Ago	3.7	2.8	2.9	3.5	4.0	3.8	7.6	2.8	3.8	4.0
<b>Interest Rates (Percent)</b>										
Prime Rate	8.43	8.50	8.50	8.50	8.33	8.07	4.85	8.19	8.35	7.33
Federal Funds	5.26	5.33	5.33	5.33	5.19	4.94	1.68	5.02	5.20	4.20
3-Month Treasury Bill	5.42	5.42	5.33	5.20	4.97	4.53	2.00	5.16	5.01	3.99
10-Year Treasury Note	4.14	4.43	4.00	4.02	4.04	4.05	2.94	3.95	4.03	4.08
30-Year Fixed Mortgage	7.07	7.20	6.65	6.65	6.61	6.53	5.32	6.78	6.61	6.25
<i>a = actual    f = forecast    p = preliminary</i>										

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