The PNC Economic Outlook

Shallow U.S. Recession in 2008
Muted Global Growth in 2009

ITA Conference
Stuart G. Hoffman
Chief Economist
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PNC’s U.S. Economic Outlook For 2008-09

- It may not look like a textbook recession, but it feels like one. Recession hiding in plain sight.

- Lower energy prices will help moderate headline CPI. Core (ex-food and energy) inflation will follow.

- Interest rates steady in the second half of 2008 and set to rise later in 2009.

- Additional job losses and rising unemployment through mid-2009.

- Weak economic conditions linger until the latter half of 2009.
Index of Coincident Economic Indicators Showing Recession in 2008, GDP Does Not

Source: The Conference Board, BEA
The Geography of the Recession

Source: Moody’s Economy.com
Payroll Job Losses Every Month of 2008

Payroll Employment

Average -76K
Jan.- Aug. 2008

Source: BLS
Only Services Sector Still Adding Jobs

More Industries Shrinking than Adding Jobs

Construction
Manufacturing
All Industries
Retail
Bus & Prof
Finance
Information
Wholesale
Trans & Utils
Federal Gov
Res & Mining
Leisure & Hosp
S&L Gov
Ed & Health

Change from August 2007 to August 2008, ths

Source: BLS
Industrial Production Is Stalling

Smaller Declines than Last Cycle

Capacity Utilization, % (R)

Industrial Production Index (L)

Source: Federal Reserve
More Manufacturing Industries Are Reducing Rather than Raising Production

Auto Output Falling Hard

Source: Federal Reserve
Drags Will Linger Into 2009

- Turmoil in Wall St. financial markets leading to tighter credit and Main St. problems.
- Housing market remains in disarray with delinquencies/foreclosures rising and house prices falling.
- Although down from their highs, energy prices remain a significant drag on global economic growth.
- S&L government spending will be squeezed by growing deficits.
Massive Overhang in Housing Supply

Home Inventory and Sales

Oversupply never worse

Sources: Census Bureau, NAR
Foreclosures Are on the Rise

All Mortgage Loans, Percent in Foreclosure

Source: Mortgage Bankers Association
Subprime Borrowing Drove Up Home Prices but the Bubble Has Burst

Case-Shiller Home Price Index, 20-City

Source: Standard and Poor’s
Despite Recent Declines, Energy Prices Remain a Primary Downside Risk to Growth and an Upside Risk to Inflation.

Crude Oil and Gasoline Prices

- **WTI Spot, $/BBL** (L)
- **Unleaded Gasoline, U.S. Average, $ per gallon** (R)

Source: U.S. Department of Energy
Factors Supporting Growth

- Weak dollar/improving balance of trade.
- Fed funds rate at 2 percent.
- Support from non-financial services (waning).
- Another fiscal stimulus package?
Declining Dollar and International Demand Support Trade Improvements

International Trade

Balance of Trade (L)  Value of $ (R)

Source: Census, Federal Reserve
Where Do We Go From Here?
Three Scenarios: Unequal Probabilities

U.S. Real GDP Growth

Sources: BEA, PNC forecast
Baseline Forecast: Steady Interest Rates Before Moving Higher in the Second Half of 2009

Selected Interest Rates

Sources: Federal Reserve, PNC forecast
Global Economic Growth Is Cooling After Recent Highs

IMF Forecast of Global Gross Domestic Product, constant prices

Source: International Monetary Fund
A Stronger Dollar Ahead Ending Its Long Slide

<table>
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<th>Time Period</th>
<th>USD/ EUR</th>
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A=Actual    F=Forecast
Forecast Risks

**Downside Risks**
- Financial market turmoil extends well into 2009
- Housing meltdown deepens
- Global GDP growth slows sharply
- Massive job cuts
- Consumer spending languishes
- Energy prices rebound to new highs
- Core inflation heats up

**Upside Surprises**
- Bulls roar back
- Energy prices keep dropping sharply
- BRICs maintain pace, Europe hangs on
- Fiscal stimulus jolts spending
- FOMC cuts funds rates again