

Towards a Self-Sustaining Expansion

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PNC

2011: A Year of Repair and Recovery

- Developing economies continue to lead global growth
- No V-shaped recovery in the U.S or Europe, no U.S. double dip
- Late 2010 U.S. momentum carries over into 2011
- Monetary policy highly accommodative, QE2 full speed ahead
- House prices still under pressure from “shadow inventory”
- Unemployment rate comes down SLOWLY
- Limited sector-specific inflation, no broad-based deflation
- Interest rates remain low but longer rates rising after QE

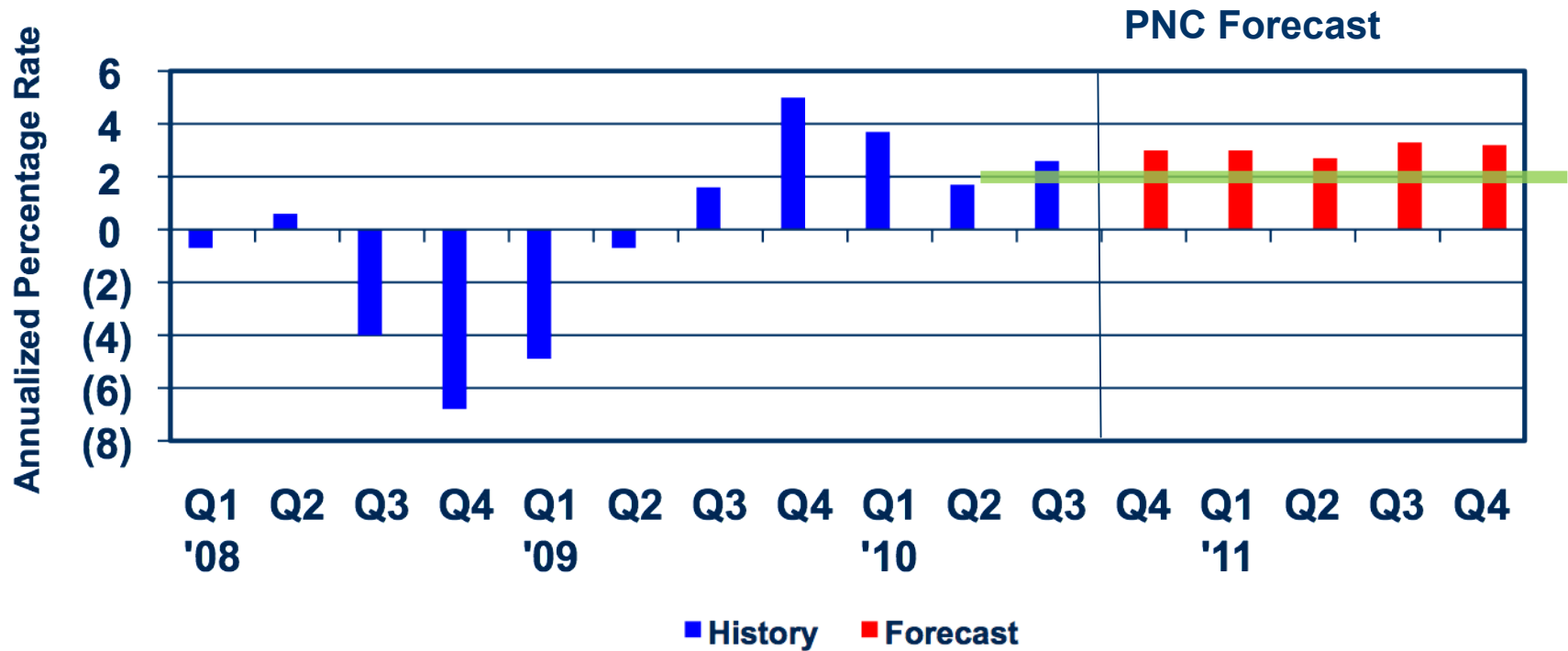
Shifting Winds Coming Out of Washington

- Tailwinds 2010-11 QE2, ZIRP, Tax deal
- Headwinds 2011-12 Unwind of ARRA (fiscal stimulus)
State and local government spending
Federal government deficit reduction
- Headwinds 2012 +
and cuts Federal spending caps
Tax overhaul

Unemployment Insurance
Federal Reserve Unwind

GDP Forecast: Ongoing Recovery

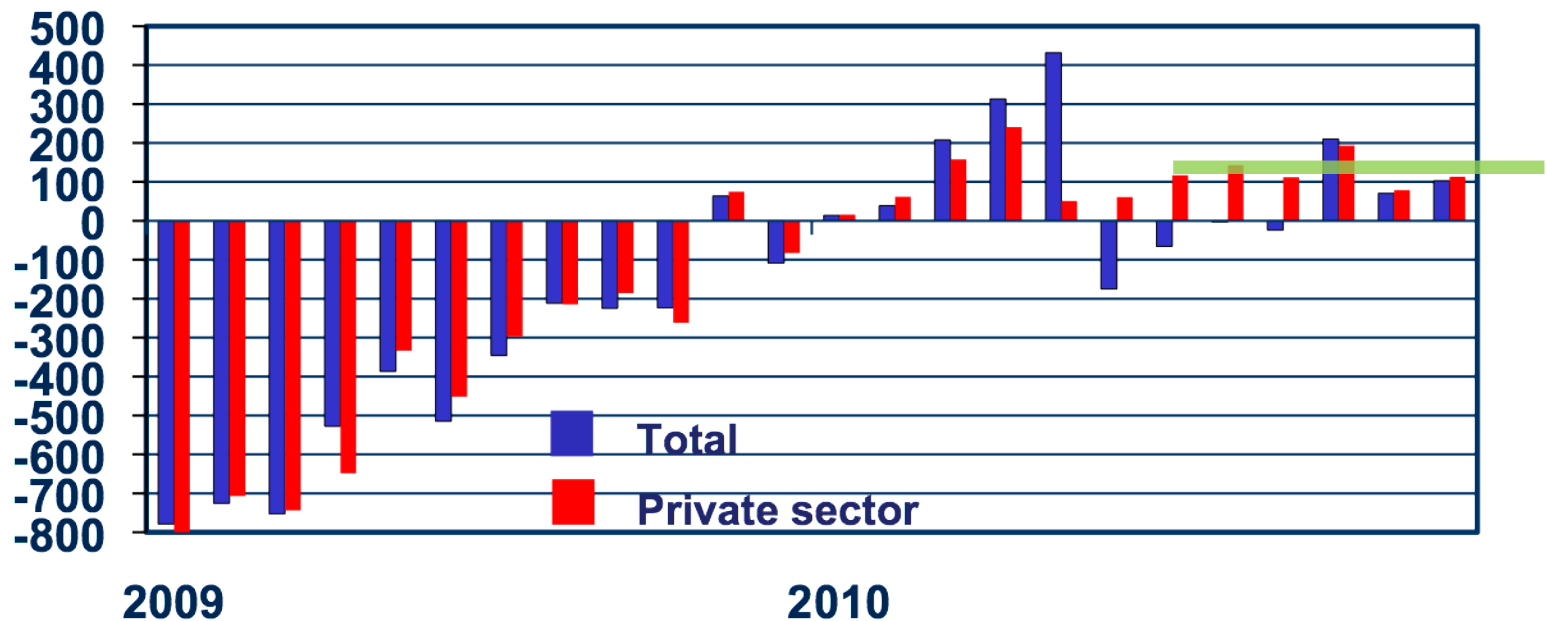
U.S. Real GDP Growth



Sources: BEA, PNC forecast

Weak but Steady Private Sector Job Growth in 2010, Improving in 2011

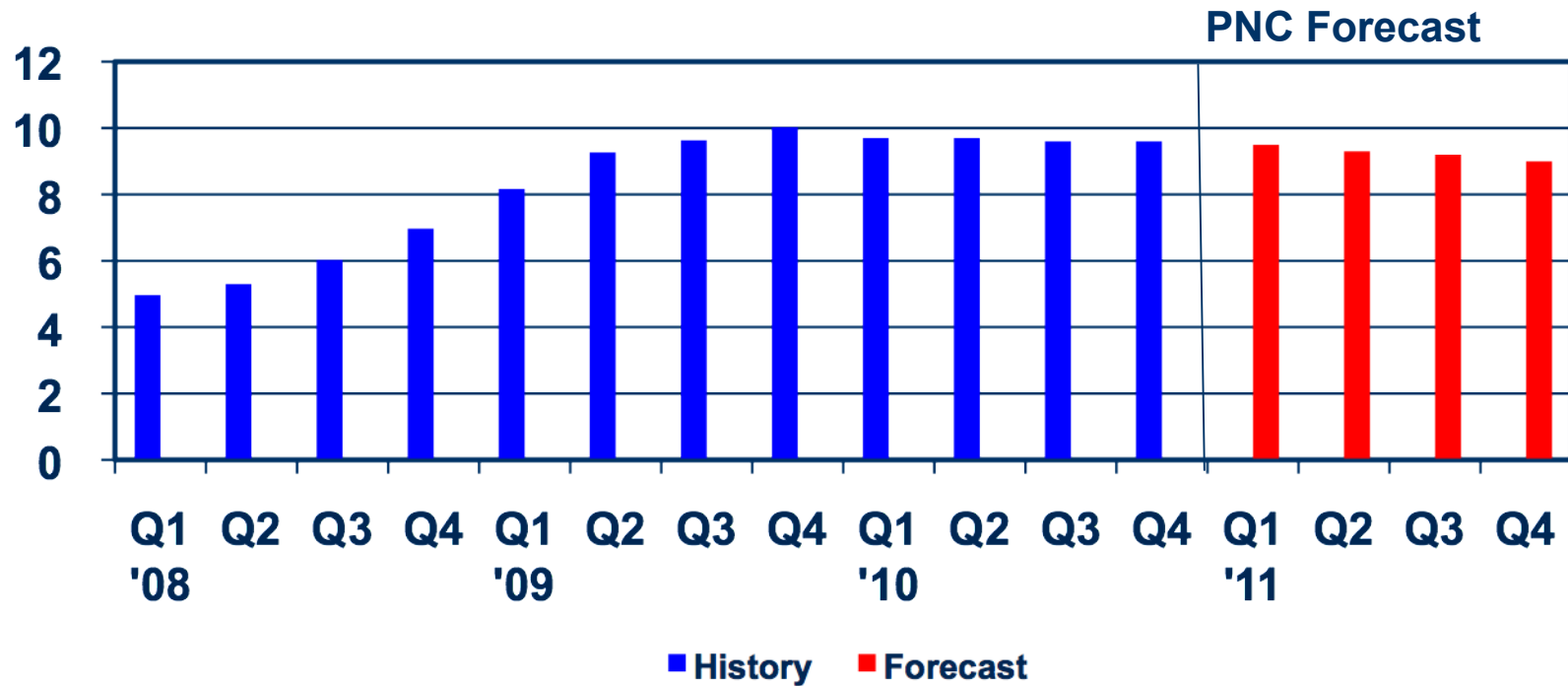
Payroll Employment, Monthly Change, ths



Source: BLS

A Lingering High Unemployment Rate

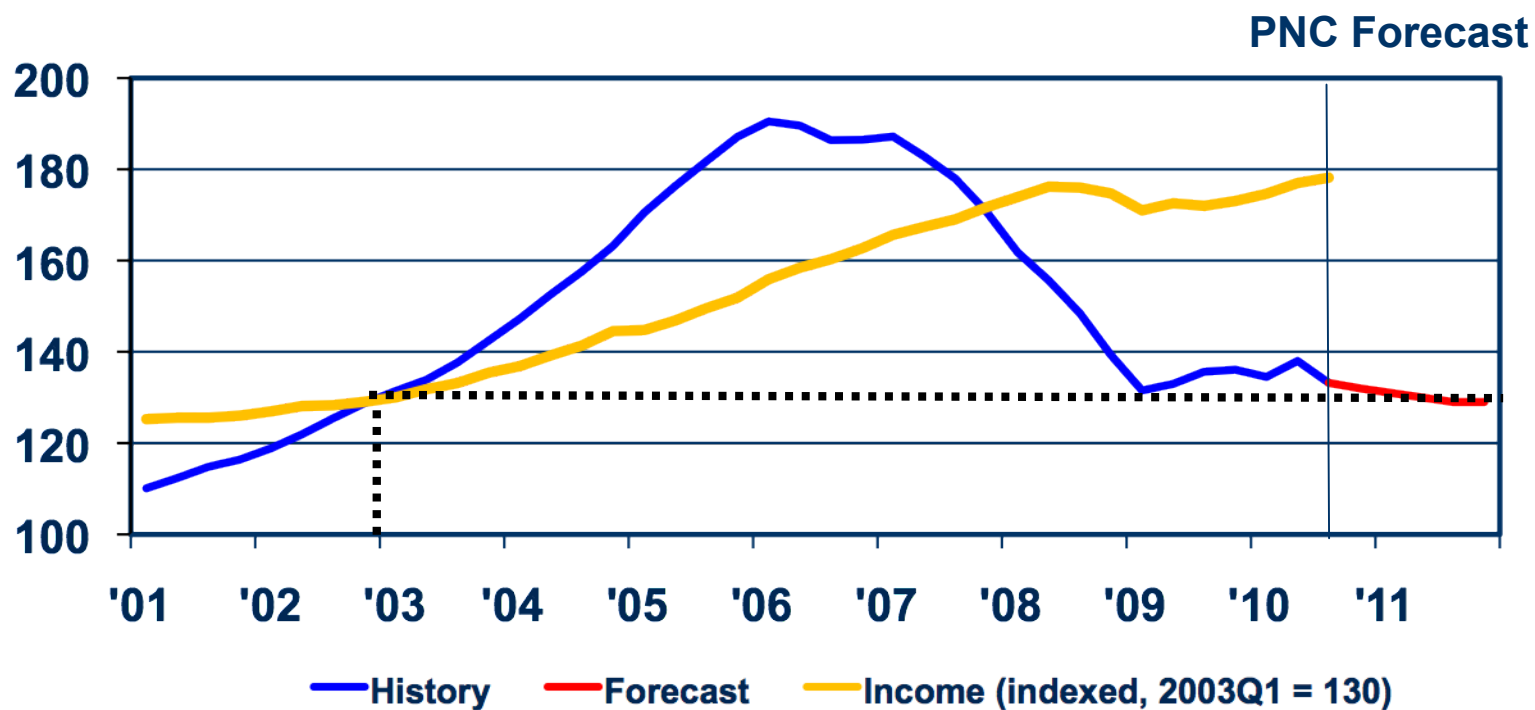
Unemployment Rate, percent



Sources: BLS, PNC forecast

House Prices Will Be Soft, But Not Disastrous

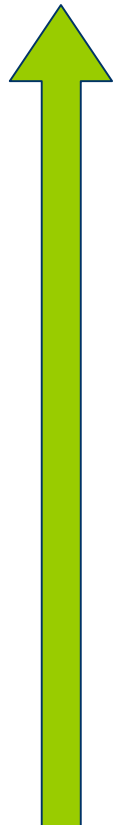
Case-Shiller U.S. House Price Index



Source: Standard & Poor's, PNC forecast

Positives For the U.S. Economy

- ▶ U.S. economy is repairing from financial crisis.
- ▶ Credit markets are unfreezing.
- ▶ Federal Reserve – QE2 and rates on hold through 2011.
- ▶ Fiscal stimulus is engaged.
- ▶ Asia still strong.
- ▶ Housing markets are stabilizing.
- ▶ Manufacturing is still strengthening.
- ▶ Private sector job growth has been consistent.
- ▶ Corporate profits are solid.
- ▶ Investment in equipment and software is strong.
- ▶ Consumers are coming back.



Forecast Risks

Downside Risks

- Jobless recovery
- Saving rate spikes
- Deflation, near term
- Inflation, longer term
- Housing market relapses
- Commercial real estate meltdown
- State and local government crisis
- Government cannot disengage
- Non-credible fiscal policy
- Eurofunk, China “frothy”
- Long rates back up

Upside Surprises

- No onerous tax hikes
- U.S. interest rates stay low
- Fiscal stimulus gains traction
- Manufacturing sector surges
- Corporate profits soar
- Global rebound boosts trade
- Consumers spend
- Housing/autos bounce
- Biz, inv, cons confidence returns
- Investment boom
- Jobs!



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