

ATLANTA MARKET OUTLOOK

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JOB SITUATION

Atlanta's labor market is on a tear. Employment growth in the fourth quarter of 2016 topped the U.S.'s by 2 percentage points. The mix of industries in the metro area makes its economy sensitive to macroeconomic trends. As a result, the U.S.'s continued economic expansion can translate into strong job growth locally. In annual terms, the market area's rate of job growth has exceeded the U.S.'s by at least a full percentage point since 2014. Management of companies and high-tech professional services have been important pillars of Atlanta's economic expansion. A stream of expansions and relocations to Atlanta by a wide array of firms attest to the strength of Atlanta's tech and corporate cluster. Education, healthcare and information have also been adding to the region's growth, while persistent job growth is helping consumer-related industries such as retail, leisure and hospitality gain ground. A strong housing recovery has led to improvement in construction while financial services continue their recovery from the Great Recession.

The jobless rate was 5.2 percent in December 2016 (Chart 1). Though this is above the U.S. rate and unchanged from a year earlier, the workforce is also expanding rapidly. This is a sign of confidence in Atlanta's economic dynamism.

INCOME

Incomes will likely grow slightly faster than the rate of inflation but there is not much scope for an acceleration. Jobs all across the pay scale will be created. However, the jobless rate is unlikely to dip much below 5 percent because of strong labor force growth and this will restrain wage gains. Moreover, households' purchasing power will be dampened by rising gasoline prices (Georgians spend more of their incomes on gasoline than the average American household). Atlanta's industrial structure results in a median household income that is 4 percent higher than the national average; a highly educated workforce is a key reason for this (Chart 2). Over 37

Chart 1
Job Growth, (% change year ago)
& Unemployment Rate, (% SA)

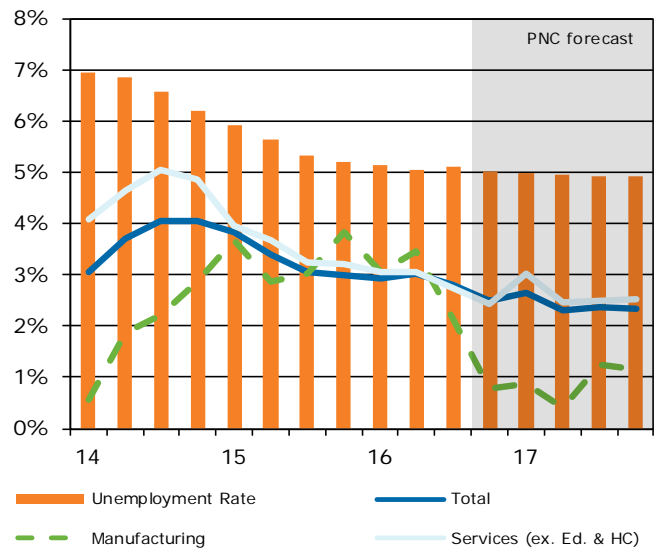


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

Chart 2
Median Household Income (Ths. \$, SA)

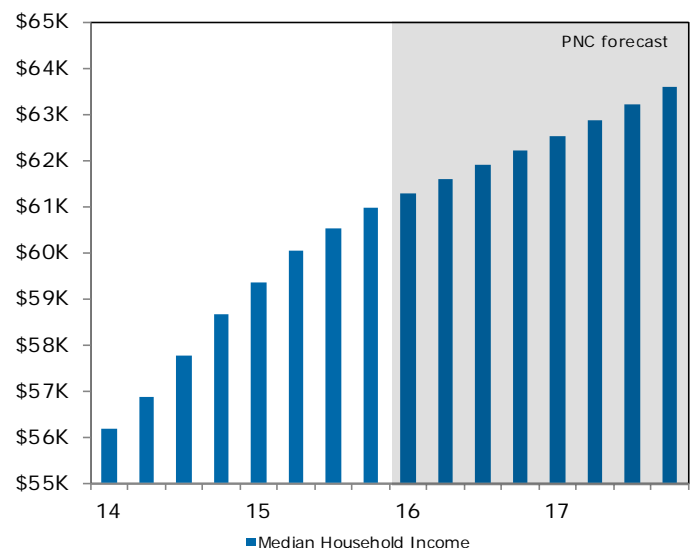


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group



percent of adults over age 25 hold at least a bachelor's degree in Atlanta, compared with 31 percent in the U.S. Well-paying professional services have an outsize presence because of the agglomeration of corporate offices and tech firms. As a result, high-tech employment accounts for almost 6 percent of total employment in Atlanta compared with under 5 percent nationally. Also, the information industry is a bigger player than average and is dominated by international broadcast networks that boast some of the highest wages in the region. Besides the presence of high-wage industries, over the long term, strong population growth will enable total personal income in the area to grow faster than the national average.

HOUSING

Atlanta's housing market will remain buoyant over the next couple of years as prices, sales and construction all advance at strong rates (Chart 3). Housing supply is tight because construction has not kept pace with the region's rapid population growth. Apartments in particular are undersupplied with the rental vacancy rate near its lowest level in two decades. This points to sustained increases in both single-family and multi-family units. The big risk is that affordability is quickly eroding, especially for young adults who would be first-time buyers. Mortgage rates are likely to rise very slowly but even small increases could dampen demand. The longer-term outlook is favorable. Strong population and income growth will support demand for housing and drive above-average home price appreciation.

DEMOGRAPHICS

Atlanta's growth potential is bolstered by strong demographic trends (Chart 4). In-migration is typically high and in recent years has been heating up. This drives fast growth of aggregate demand. Foreign-born migrants play a significant role in local population growth. International migrants accounted for 37 percent of all in-migrants in 2015 and ranged from 19 to 65 percent since 2001. This is an advantage during times when reduced labor mobility hampers domestic in-migration. The region's population is youthful as well. A third of the population is between the ages of 18 and 34, this compares with less than a fourth in the U.S. Population and household growth will surpass the U.S. over the forecast horizon, supporting demand for retail, construction, education and healthcare.

Chart 3
Home Sales (Ths., SAAR)
& Price Growth, (% change year ago)

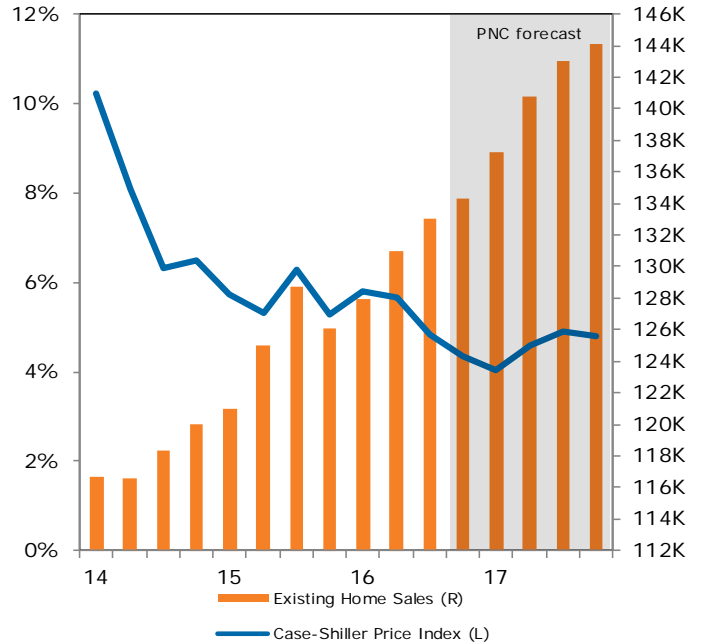


Chart sources: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

Chart 4
Demographic Growth, (% change year ago)
& Net Migration, (Ths., SA)

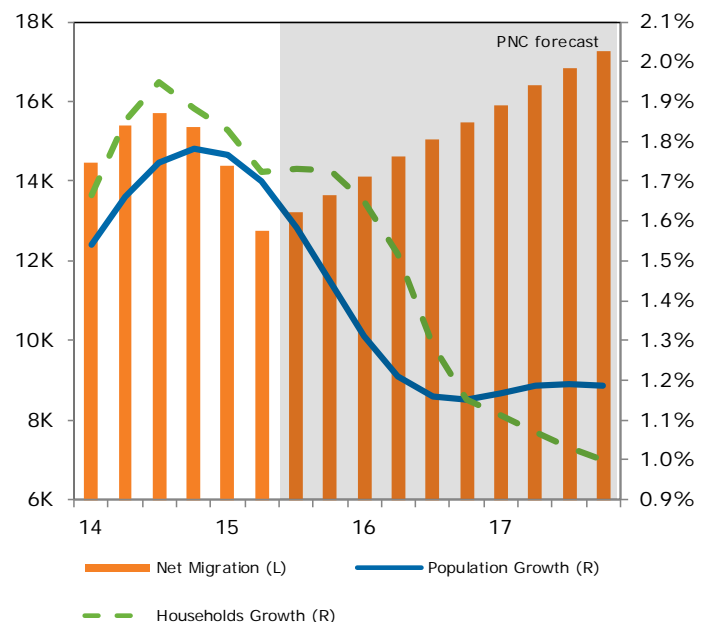


Chart sources: Bureau of Census; Bureau of Economic Analysis; Moody's Analytics; The PNC Financial Services Group

OUTLOOK SUMMARY

Atlanta's economy will cool somewhat in 2017 from its red-hot pace of recent years. Nevertheless, by national comparisons, it will be a strong economy thanks to its broad array of dynamic growth drivers and favorable demographics. The U.S. economy is forecast to gain momentum in 2017 and 2018 which will be a boon for locally based corporations. High value-added industries such as technical and professional services will be major employment generators which, in turn, will drive above-average income growth. Economic growth nationwide and a steady shift away from physical retail stores toward e-commerce bodes well for the area's transportation and logistics industries. The U.S. economy's continued expansion also increases demand for convention space and will sustain leisure and hospitality as tourism spending rises. A buoyant housing market and strong nonresidential construction will be additional supports enabling Atlanta to outpace the U.S. in terms of job growth. There is upside potential for stronger than expected growth. Fiscal stimulus in the form of tax cuts and infrastructure spending is in the works. As a corporate hub and a transportation hub, Atlanta would be a major beneficiary. Interest rates are likely to rise in the next couple of years and with possible changes to financial regulations the regional finance industry could see stronger profits.

Longer term, Atlanta will be an above-average performer. The Atlanta metropolitan area is the 10th largest metro economy in the United States by real GDP and the largest in the South, yet living and business costs compare with metros of smaller size. A diverse industrial structure, strong population growth, reasonable business costs, and high educational attainment lift Atlanta's growth potential above the nation's. Also, its status as a major transportation and logistics hub makes the metro economy a vital player in the South.

FORECAST TABLE

	U.S.			Atlanta		
	2015	2016E	2017F	2015	2016E	2017F
Employment Growth, (% change)	2.1	1.7	1.5	3.3	2.8	2.4
Unemployment Rate, (%)	5.3	4.9	4.5	5.5	5.1	4.9
Median Household Income, (Ths. \$)	55.8	57.1	58.2	60.2	61.7	63.0
House Prices**, (% change)	4.6	5.0	3.7	5.6	5.1	4.6
Single-Family Permits* (% change)	10.2	8.5	4.4	17.7	12.5	-3.5
Multifamily Permits* (% change)	11.5	-2.5	2.1	6.7	20.5	-6.8
<i>E = Full year estimate, F = PNC forecast, *U.S. starts</i>						
	U.S.		Atlanta			
	2007-2012†	2012-2017†	2007-2012†	2012-2017†		
Employment Growth, (% change)	-0.6	1.5	-0.9	3.0		
Unemployment Rate, (%)	7.7	33.7	8.3	6.4		
Median Household Income, (Ths. \$)	50.8	54.7	56.6	58.8		
House Prices**, (% change)	-4.8	5.9	-5.2	7.0		
Single-Family Permits* (% change)	-12.3	8.5	-21.7	18.8		
Multifamily Permits* (% change)	-4.2	9.8	-17.5	17.4		
<i>E = Full year estimate, F = PNC forecast, *U.S. starts, †per annum</i>						

Table sources: Bureau of Census; Bureau of Labor Statistics; Bureau of Economic Analysis; National Association of Realtors; National Association of Home Builders; FHFA; Moody's Analytics; The PNC Financial Services Group

LONG-RUN EMPLOYMENT TRENDS

Chart 5
Total Employment, (% change year ago)

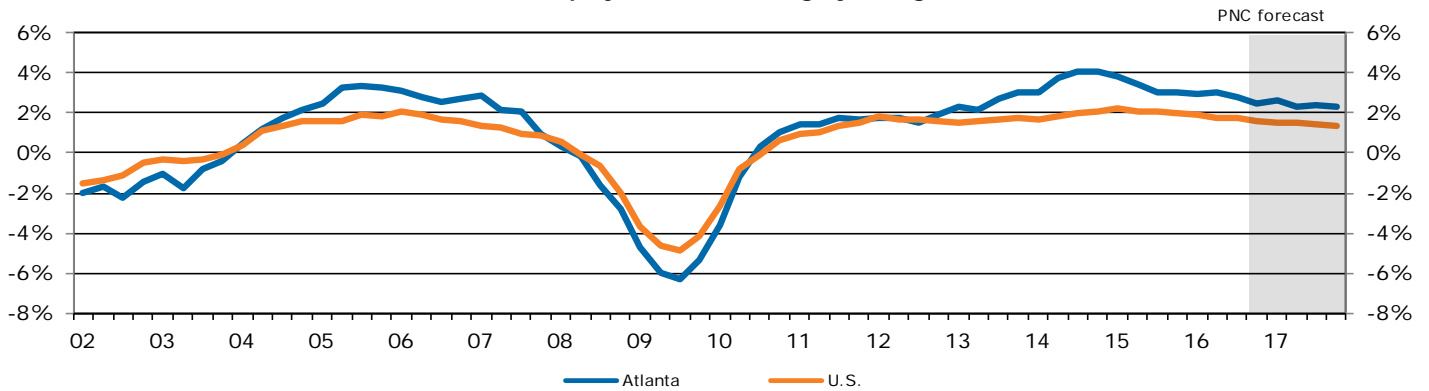


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

LONG-RUN DEMOGRAPHIC TRENDS

Chart 6
Population, (% change year ago)

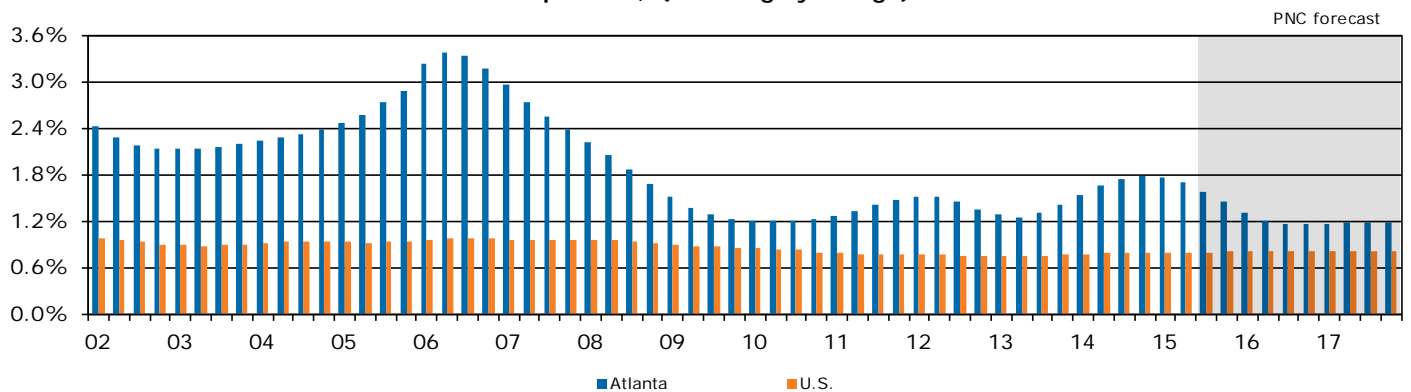


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

LONG-RUN HOUSE-PRICE TRENDS

Chart 7
Case-Shiller House Price Index, (% change year ago)

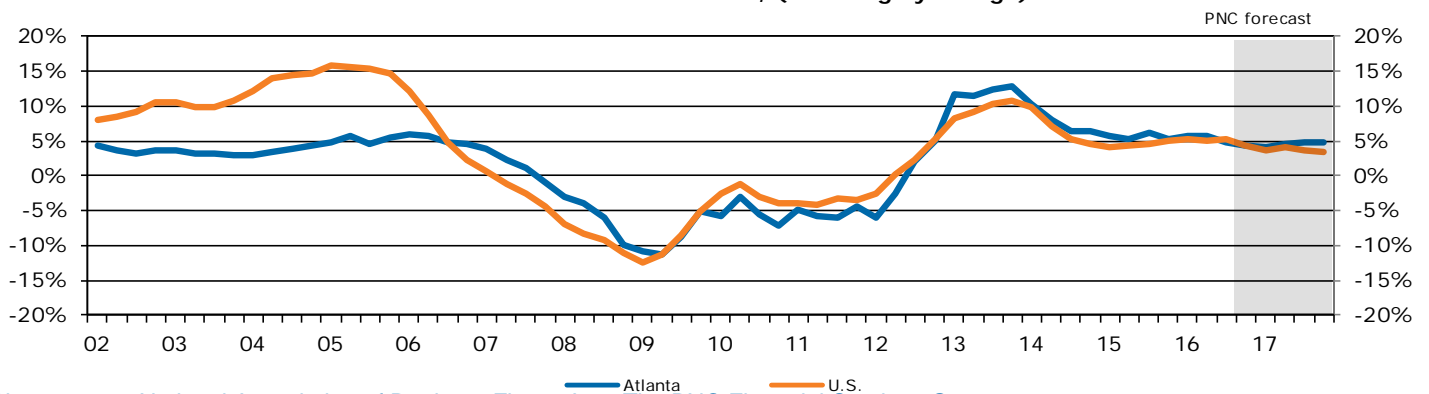


Chart source: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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