1st Quarter 2017

BALTIMORE MARKET OUTLOOK

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JOB SITUATION

Employment in Baltimore is growing a little faster than the national average, thanks to its diversified and well-paying service sector (Chart 1). Federal government employment is rising quickly and increased government spending is fueling strong increases in professional services. Healthy rates of job growth overall are supporting consumer spending and employment in retail, leisure and hospitality. The U.S. economy's continued moderate growth is lifting the region's logistics industry. Preliminary estimates indicate the Port of Baltimore moved a record amount of cargo in 2016. The completion of the Panama Canal expansion project in June 2016 is benefitting the region as Baltimore is one of the few ports on the Eastern Seaboard that can accommodate the larger ships. Also, healthcare and education, which claim nearly one in five jobs in the area, are reliable growth drivers. The jobless rate fell to 4.3 percent in December 2016 from 5.2 percent in December 2015 even as the labor force grew. This is a positive sign that confidence in the local economic expansion is improving.

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

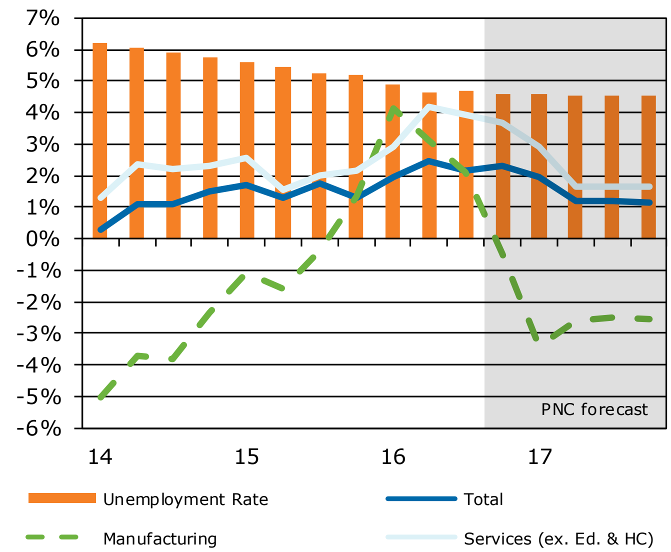

Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

INCOME

A tight labor market and a favorable mix of jobs being created will lift wage growth in 2017. Baltimore's labor market is tight by regional standards when comparing the number of unemployed persons to the number of job advertisements. This will support wage growth. Also, the minimum wage in Maryland will slowly rise to $10.10 per hour by mid-2018, which will give low-income workers in Baltimore a much needed boost. The government sector, which has average annual earnings of over $93,000, will be a major job generator over the next several quarters. Other key industries—professional services, universities and healthcare—will create at least mid-wage jobs, if not high-wage ones. The median income in Baltimore is more than 30 percent higher than the U.S.'s median income, thanks to the area's educated, skilled workforce and its concentration in well-paying industries including

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

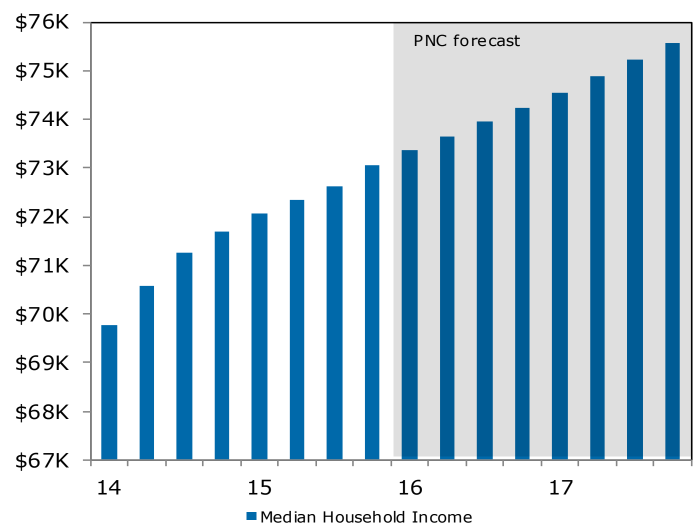

Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

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government; professional/business services, government contractors; and education (Chart 2). Living costs are only 10 percent higher than the national average, which implies that purchasing power in the region is stronger than for the average U.S. household. Longer-term, local income growth will likely keep pace with national income growth, implying that the gap between the two incomes will remain wide.

HOUSING

Home prices are set to rise by a moderate 2 to 3 percent in 2017 and 2018 (Chart 3). This will be a slower rate of appreciation than the national average because a stubbornly high rate of foreclosures is weighing on regional prices. High affordability, easier access to credit and continued jobs and income growth will support home sales. Mortgage rates will increase very slowly henceforth but will remain very low by historic comparisons. Increased migration into the area and stronger household formations will be additional supports to residential construction, both for single-family and multifamily units. The Baltimore housing market also benefits from spillover from the more expensive Washington, DC market. Over the longer run, construction will rise at a moderate pace, close to the national average, given Baltimore's steady population growth and slow income growth.

DEMOGRAPHICS

As a mature economy, Baltimore's rate of population growth is expected to remain close to the national average in the medium- to long-term (Chart 4). Baltimore's lower cost of living compared with Washington, DC makes it an attractive location for residents commuting into the DC. Also, office rents are much lower than in DC and 39 percent of Baltimore adults over age 25 have at least a bachelor's degree. This can make it a modestly attractive location for employers. High-wage tech employment in particular holds promise in the region. Fort Meade, home to the National Security Agency, is located in the market and this will make Baltimore a beneficiary of the defense establishment's increasing attention to cybersecurity. Compared with the South and West regions of the U.S. however, the market area is less competitive because of its high business costs, concentration of slow-growing industries, and older workforce and these will limit its rate of population growth over the long-run.

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

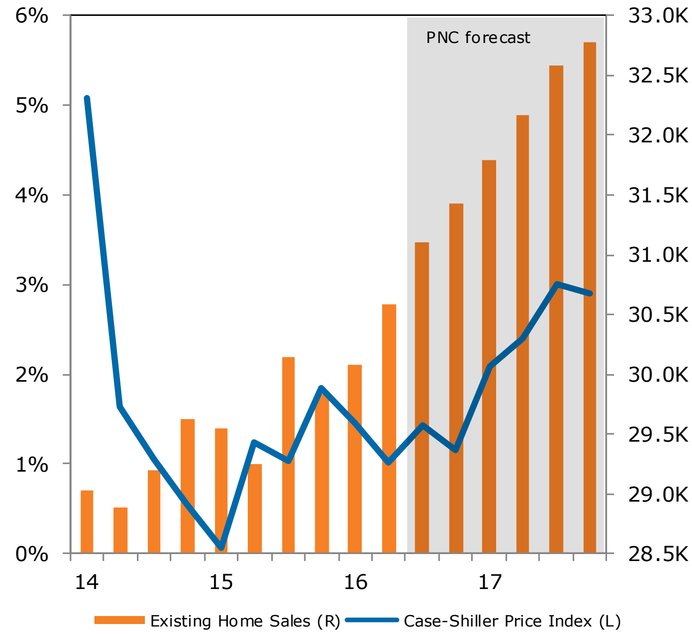

Chart sources: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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

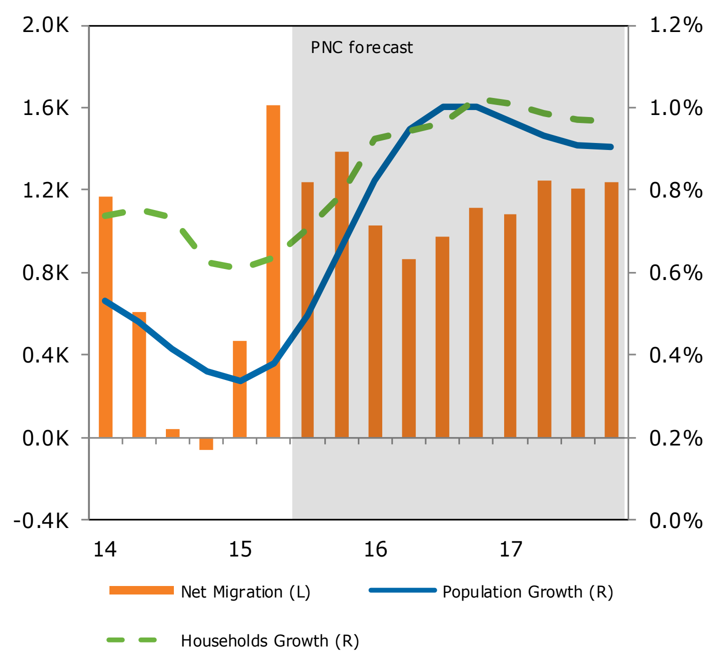

Chart sources: Bureau of Census; Bureau of Economic Analysis Moody's Analytics; The PNC Financial Services Group

OUTLOOK SUMMARY

The Baltimore economy is on track for moderate economic growth in 2017 and 2018. Federal government spending will be the prime mover of the region's economy and this will support professional services such as defense contractors. The increasing emphasis on cybersecurity especially will benefit the region's large technology cluster. Education, healthcare and consumer spending will also be key supports to the regional economy.

The economic outlook is clouded by both downside risks and upside potential. On the upside, the Trump administration and Congress are working on tax cuts, higher infrastructure spending and increased defense spending, all of which could boost Baltimore's rate of economic growth. On the downside, a strong dollar, sluggish economic growth overseas and trade protectionism could be headwinds for exporters and logistics firms. In the medium-term, the possibility of a renewed emphasis on deficit reduction cannot be ruled out as fiscal stimulus in 2017 and 2018 is financed with debt. Besides the direct federal government job losses in such a scenario, fiscal austerity down the road could hit local incomes and would weigh on consumer industries and the regional housing market.

Over the longer term, growth in Baltimore will lag behind the rest of the U.S. because of its high business costs, dependence on the federal government and average population growth. However, Baltimore will continue to benefit from spillover from Greater Washington. Despite below-average job growth, Baltimore incomes will remain well above the national average, supporting gains in consumer industries. The area's well-educated and highly-skilled workforce and proximity to Washington, with lower business and living costs, will remain a draw for some firms.

FORECAST TABLE

	U.S.			Baltimore		
	2015	2016E	2017F	2015	2016E	2017F
Employment Growth, (% change)	2.1	1.8	1.5	1.5	2.2	1.4
Unemployment Rate, (%)	5.3	4.9	4.5	5.4	4.7	4.5
Median Household Income, (Ths. $)	55.8	57.1	58.2	72.5	73.8	75.1
House Prices**, (% change)	4.6	5.2	4.6	1.0	1.3	2.6
Single-Family Permits* (% change)	10.2	10.0	8.2	-1.6	3.9	11.4
Multifamily Permits* (% change)	11.5	-0.9	6.6	50.8	-25.2	9.7

*E = Full year estimate, F = PNC forecast, *U.S. starts*

	U.S.		Baltimore	
	2007-2012†	2012-2017†	2007-2012†	2012-2017†
Employment Growth, (% change)	-0.6	1.8	0.0	1.5
Unemployment Rate, (%)	7.7	6.0	6.4	5.7
Median Household Income, (Ths. $)	50.8	54.7	65.3	71.4
House Prices**, (% change)	-4.8	6.1	-4.5	2.5
Single-Family Permits* (% change)	-12.3	9.6	-4.0	6.4
Multifamily Permits* (% change)	-4.2	11.1	7.6	7.9

*E = Full year estimate, F = PNC forecast, *U.S. starts, †per annum*

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

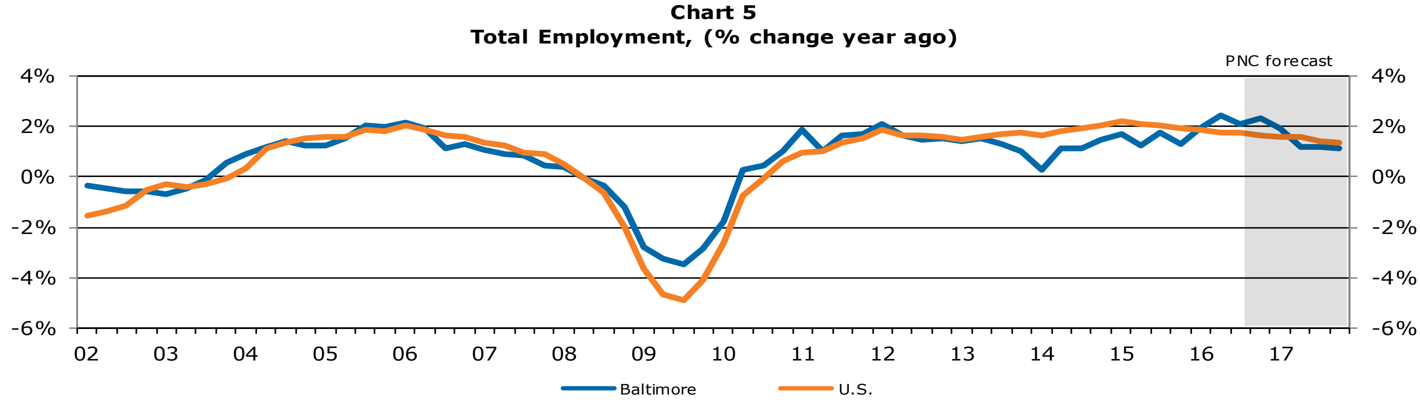

Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

LONG-RUN DEMOGRAPHIC TRENDS

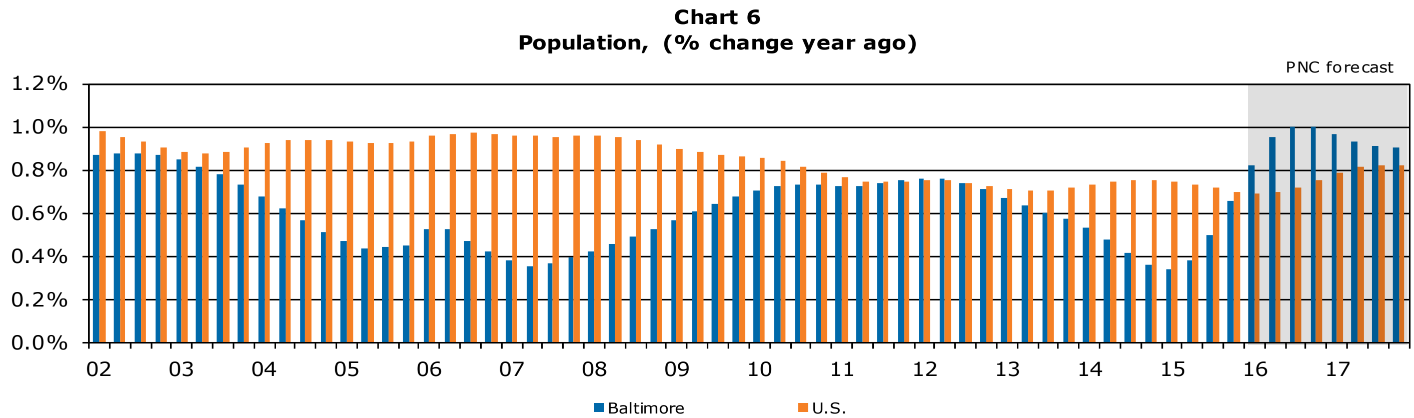

Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

LONG-RUN HOUSE-PRICE TRENDS

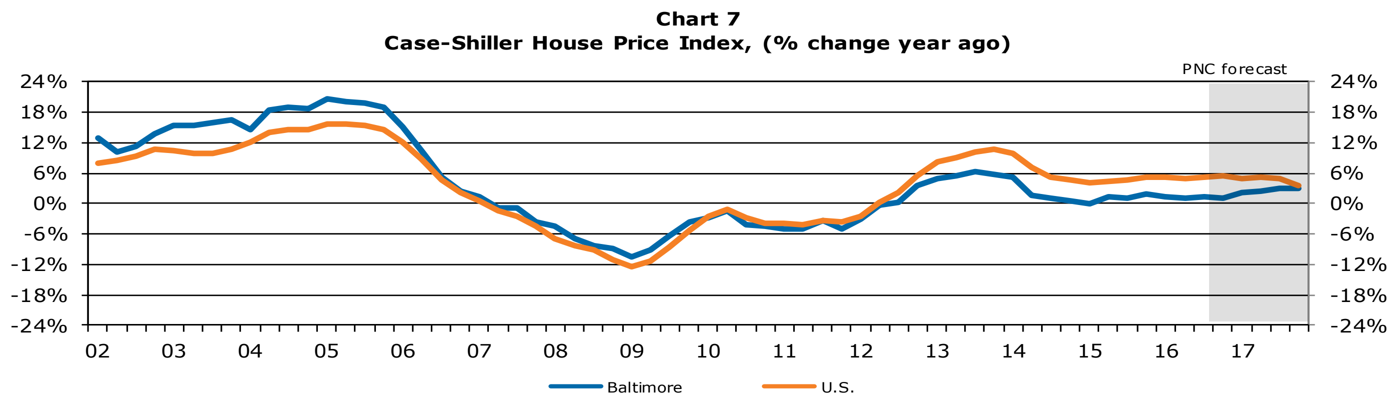

Chart source: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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