

CENTRAL ILLINOIS MARKET OUTLOOK

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JOB SITUATION

The Central Illinois market area—defined as including Bloomington, Champaign, Decatur, Peoria, and Springfield—will likely grow at only a marginally positive pace in 2017. Manufacturing industry declines are taking a heavy toll on the market area’s hiring potential (Chart 1). As a result, the region’s labor force has been shrinking consistently as job seekers find no local prospects, or are forced to relocate in order to find employment opportunities. The extent of this damage, therefore, could extend beyond the coming year for Central Illinois, as labor resources will have been thinned, and eventual re-expansion prospects will find it difficult to find the skilled workers necessary to fill new hiring needs.

The prospect of infrastructure spending coming from Federal Government policy represents a much-needed boost for Central Illinois’ economic condition. But until those plans become actions, the market area will struggle to maintain any positive labor market momentum.

INCOME

Income gains in Central Illinois will be weak over the near-term horizon as the market area’s labor market battles to keep its head above water. Median household income in Central Illinois (Chart 2) is generally near the national and Midwest regional averages. A gap below those averages may well develop in the near term, however, as the nation will see healthy consumer driven job creation while Central Illinois works through a severely hamstrung consumer confidence environment. The market area will still benefit from benign consumer price growth, and wage gains will manage to stay above the pace of inflation, but employers will not face the same degree of upward pressure on wages as will likely be seen nationally as long as the local job market struggles with continued excess labor supply relative to the pace of hiring.

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

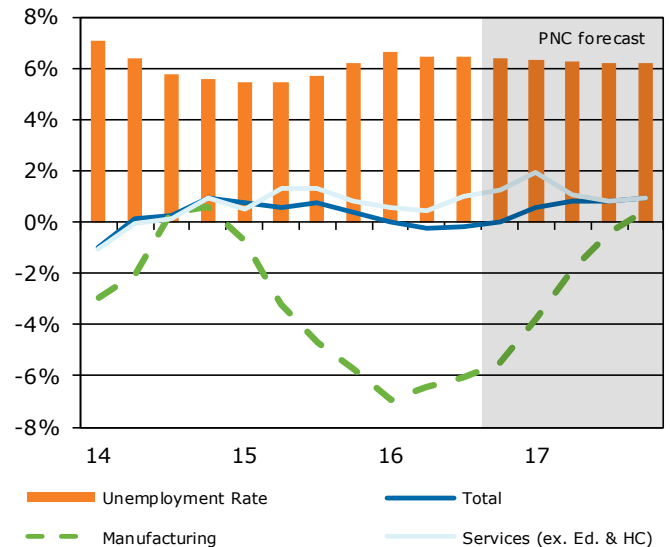


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

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

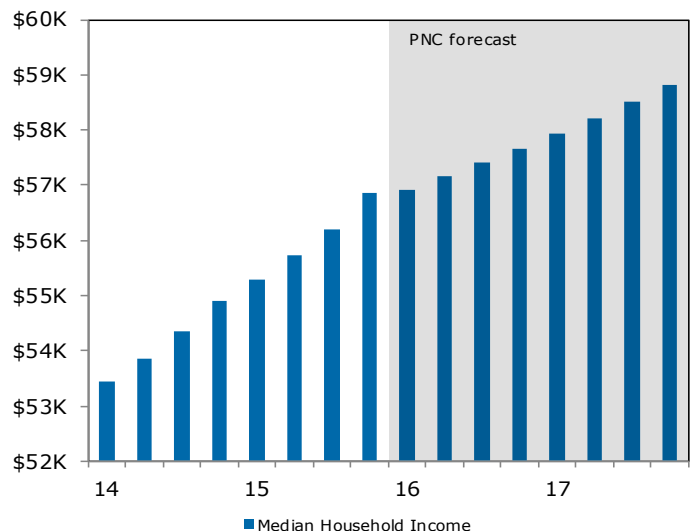


Chart sources: Bureau of Census; Moody’s Analytics; The PNC Financial Services Group



HOUSING

Central Illinois' housing market faces slack demand and will see only tepid growth over the coming year. Prices have been able to appreciate on the basis of normal, moderate sales and building activity (Chart 3). The current percent pace of house price appreciation, year-over-year, is below the national average and below historical expectations for the region, but this condition is to be expected considering the damage being inflicted upon housing demand by the local manufacturing sector's downturn. Slow growth will be the standard in the market area until labor markets move beyond their current malaise.

The mix of housing market activity in Central Illinois will favor existing sales over new construction for the foreseeable future, supporting the expectation of continued moderate price improvement. Residential permitting activity remains less than half of its pre-bubble period equilibrium. In the absence of new building activity, construction employment will find it difficult to make progress back toward normal levels this year.

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

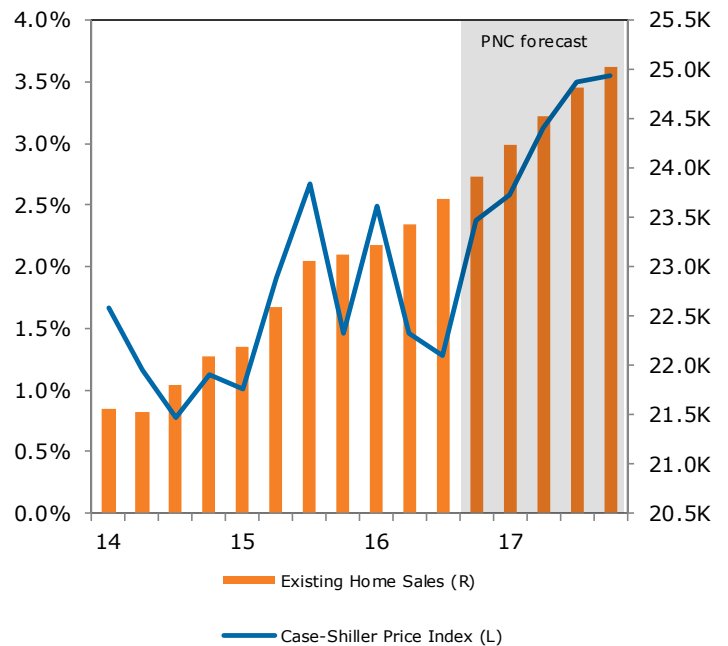


Chart sources: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

DEMOGRAPHICS

Central Illinois normally enjoys moderate demographic growth. Population gains modulate depending on the state of the economy. As such, population gains decelerated through the recession as job opportunities temporarily evaporated (Chart 6). With the market area's economy again fighting to maintain economic growth, Central Illinois should experience disappointing demographic trends in the near term (Chart 4) while local conditions struggle to regain their traction.

In its favor, Central Illinois boasts cost of living advantages versus neighboring locales such as Chicago and St. Louis. This allows the market area to compete for labor resources despite its size disadvantages. Over the long term, Central Illinois' demographic trends should regain the capacity as a reinforcing factor in support of the market area's economic success.

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

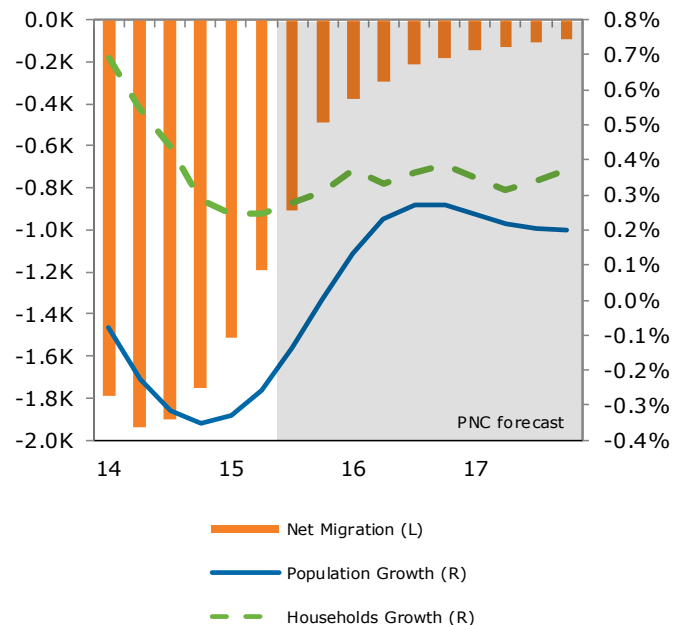


Chart sources: Bureau of Census; Bureau of Economic Analysis; Moody's Analytics; The PNC Financial Services Group

OUTLOOK SUMMARY

The Central Illinois market area will struggle to keep employment trends in positive territory over the next year. Manufacturing layoffs due to enduring low commodity prices and drastically reduced oil prices, and a stronger U.S. dollar have kept major construction and transportation equipment manufacturers (i.e., Caterpillar) from hiring, and thus keep the broader economy from experiencing a boost in spending potential. Potential exists for that trend to turn around if the Trump administration follows through on promises of infrastructure spending that will renew growth in those very same industries. But the wait for such developments will be filled with more sluggish economic activity for the overall economy in Central Illinois.

Housing and demographic trends remain neutral in terms of their contributions to Central Illinois' economic growth prospects. Labor market slack has been unambiguous over the past three years, leading to subdued income growth and housing demand. But neither facet of the local economy has collapsed entirely, leaving hope that an uptick in national demand for locally produced goods could quickly juice up household spending trends.

The establishment of a solid, uninterrupted recovery trend for the nation's base of manufacturing and natural resource development sectors is a necessary step if Central Illinois' economy is to see recharged growth. The market area is still a manufacturing-centric economy that responds to national consumer and business demand conditions. Stronger results in terms of U.S. business expansion and construction activity nationwide offer some upside potential for Central Illinois, as the market area will be a major supply line for the heavy industry tools necessary to enable growth if and when it does take hold. But there are simply no hard and fast promises toward re-establishing an accelerated growth trajectory in the current economic environment.

FORECAST TABLE

| | U.S. | | | Central IL | | |
|---|------|-------|-------|------------|-------|-------|
| | 2015 | 2016E | 2017F | 2015 | 2016E | 2017F |
| Employment Growth, (% change) | 2.1 | 1.7 | 1.5 | 0.6 | -0.1 | 0.8 |
| Unemployment Rate, (%) | 5.3 | 4.9 | 4.5 | 5.7 | 6.5 | 6.3 |
| Median Household Income, (Ths. \$) | 55.8 | 57.1 | 58.2 | 56.0 | 57.0 | 58.1 |
| House Prices, (% change) | 4.6 | 5.0 | 3.7 | 1.8 | 1.9 | 3.2 |
| Single-Family Permits* (% change) | 10.2 | 8.5 | 4.4 | -26.0 | 2.1 | -23.7 |
| Multifamily Permits* (% change) | 11.5 | -2.5 | 2.1 | -9.4 | -10.1 | -16.1 |

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

| | U.S. | | Central IL | |
|---|------------|------------|------------|------------|
| | 2007-2012† | 2012-2017† | 2007-2012† | 2012-2017† |
| Employment Growth, (% change) | -0.6 | 1.8 | -0.5 | 0.0 |
| Unemployment Rate, (%) | 7.7 | 6.0 | 7.2 | 6.7 |
| Median Household Income, (Ths. \$) | 50.8 | 54.7 | 49.0 | 54.9 |
| House Prices, (% change) | -4.8 | 5.9 | -0.4 | 2.0 |
| Single-Family Permits* (% change) | -12.3 | 8.5 | -11.3 | -7.6 |
| Multifamily Permits* (% change) | -4.2 | 9.8 | -11.7 | 1.4 |

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

LONG-RUN EMPLOYMENT TRENDS

Chart 5
Total Employment, (% change year ago)

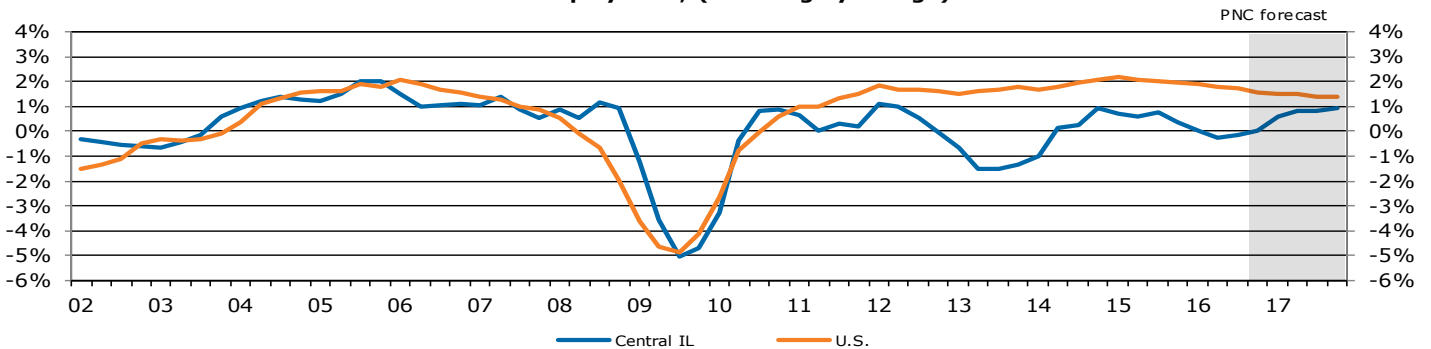


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

LONG-RUN DEMOGRAPHIC TRENDS

Chart 6
Population, (% change year ago)

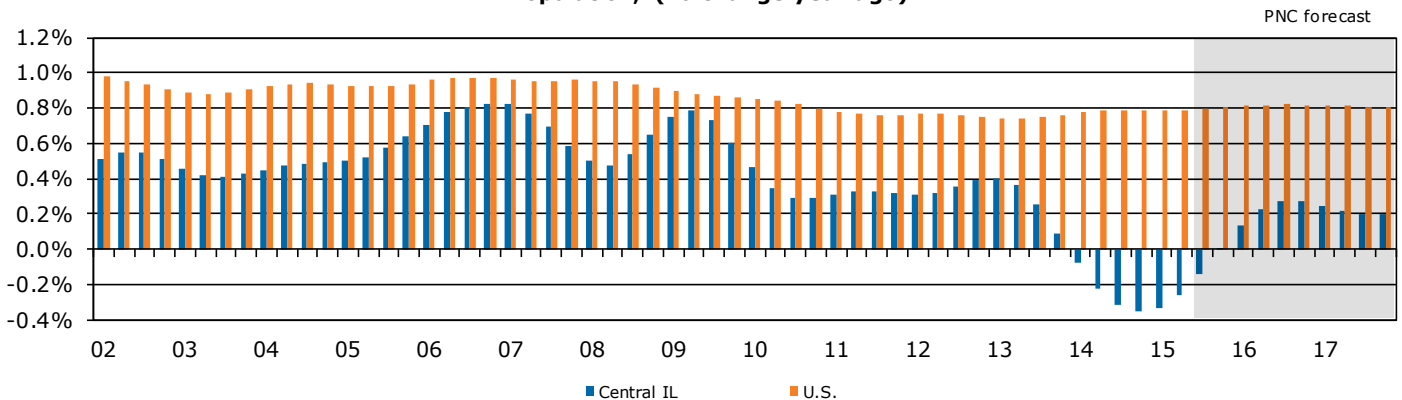


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

LONG-RUN HOUSE-PRICE TRENDS

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

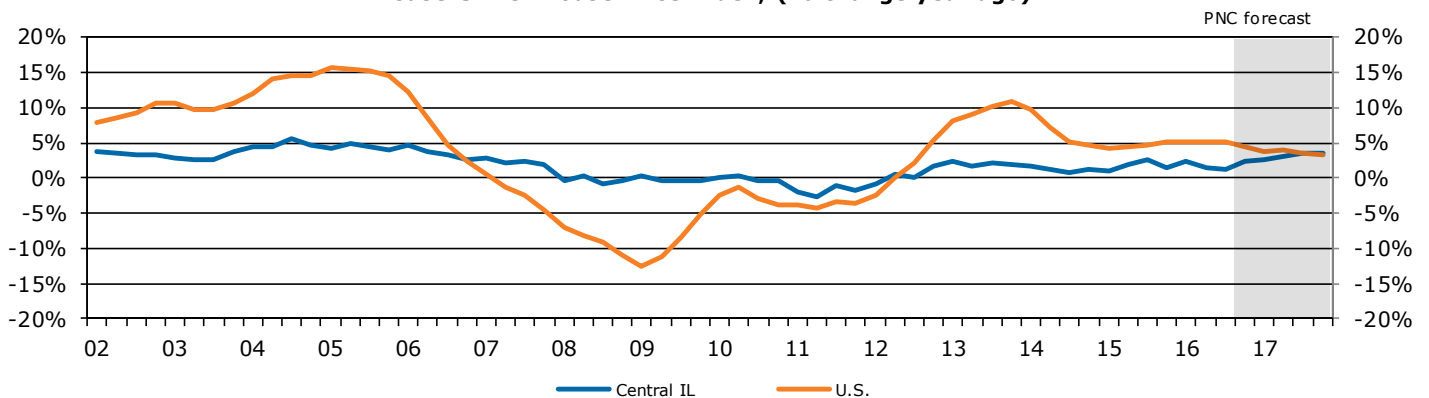


Chart source: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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