

CENTRAL PENNSYLVANIA MARKET OUTLOOK

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JOB SITUATION

Economic growth in the Central Pennsylvania market area, which includes Harrisburg, York and Lancaster, will be somewhat slower in 2017 than the pace experienced over the previous two years. Job creation manufacturing ground to a halt over the year, which will likely flow through to local consumer-oriented businesses over the coming year, keeping their hiring trends down. The slowdown in manufacturing, as well as higher-paying transportation & utilities, and construction industry job creation, pushed the unemployment rate back above 4 percent. Labor force gains slowed down only marginally versus the year prior, however, implying that new labor market entrants will be facing a longer job hunt in Central Pennsylvania in the coming year compared to the prevailing environment in 2015. Overall, though labor market conditions will be softer in the coming year versus the past two years, forward momentum should be maintained in the local job market.

INCOME

Income growth in Central Pennsylvania has the support of positive job creation trends, but will likely slow over the coming year as that same hiring pace cools. Median household income (Chart 2) will rise more slowly as higher-paying manufacturing and construction industry job creation slows, leaving new incomes being added at the lower end of the payscale. Consumer price inflation will likely see some acceleration this year, exacerbating the detrimental impact of slowing income gains. But all three of Central Pennsylvania's component metropolitan areas boast median household incomes higher than the national average. So while not exactly promoting local consumer spending, at least the market area's household balance sheets should not suffer too much damage from higher consumer prices thanks to already-higher income levels.

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

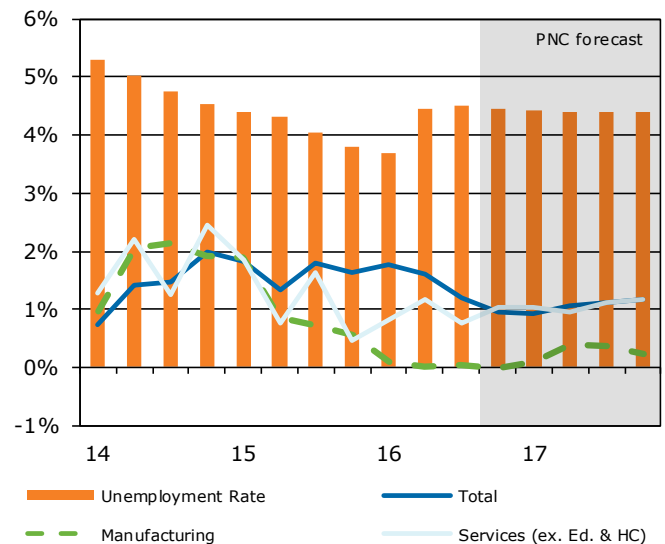


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

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

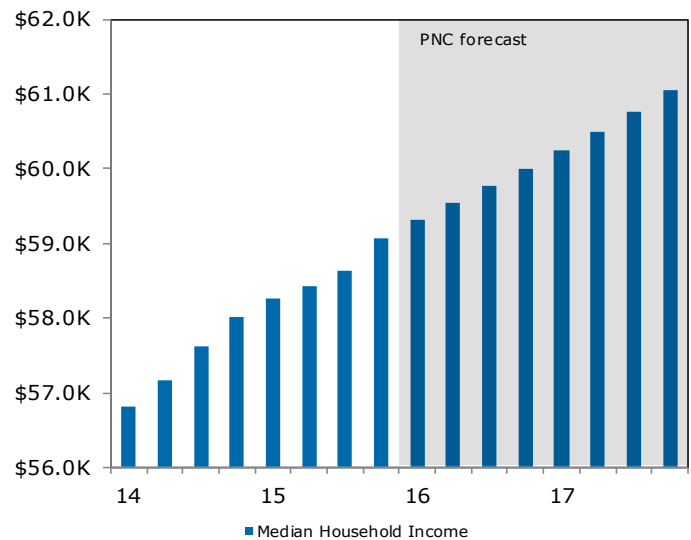


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group



HOUSING

Central Pennsylvania's housing market is saddled with tame growth, which is not unexpected in context. Home price appreciation has been slow since the recession ended. First, this was a result of a lagging labor market recovery out of the post-recession gate. Labor force losses were also an issue for the region, as job seekers looked to better-performing economies in order to find work. Looking ahead to the near-term horizon, job growth will be slowed again as a result of the local economy having extracted all the growth it can out of local consumer demand. Central Pennsylvania will endure subpar job creation and income gains, and thus will see housing demand and home values (Chart 3) progress only marginally.

Across Central Pennsylvania's component metropolitan areas, Harrisburg had a strong year in residential permit issuance, matching the level of activity seen prior to the housing bubble. But York and Lancaster are still seeing permitting activity at a mere fraction of pre-bubble equilibrium conditions. Slower new building activity, though, will at least have the longer-term benefit of preventing oversupply from taking hold in the market area.

DEMOGRAPHICS

Demographic trends in Central Pennsylvania are not poor, but they are set to remain below the market area's normal performance through the next several years. Central Pennsylvania has been able to match—and even exceed—national population growth average through the past decade (Chart 6), keeping Central Pennsylvania's workforce younger than it otherwise would be and restocking the local economy with new skills. But a slow recovery from recession and a dysfunctional state government environment have tempered the market area's near-term attractiveness. With housing markets making very slow progress and income growth underperforming historical standards, the market area's ability to attract in-migration will remain below its potential and population growth will remain only slightly positive over the near-term horizon (Chart 4), lagging well behind the nation.

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

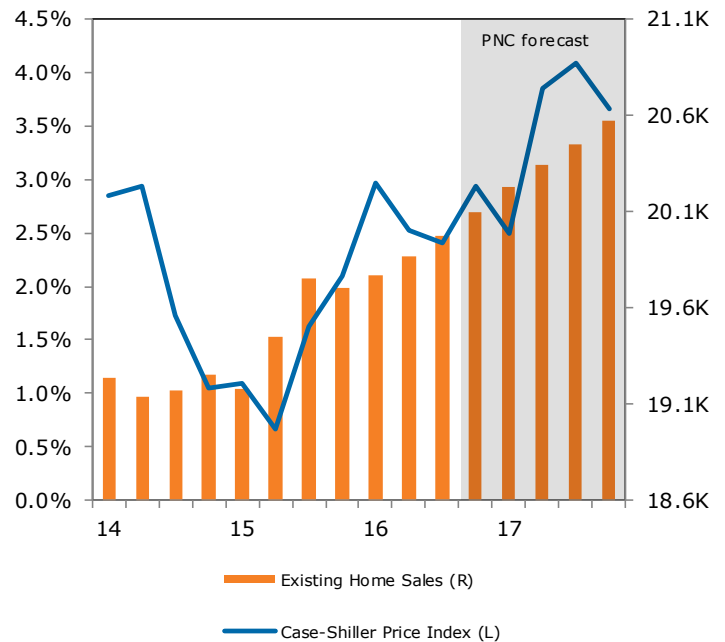


Chart sources: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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

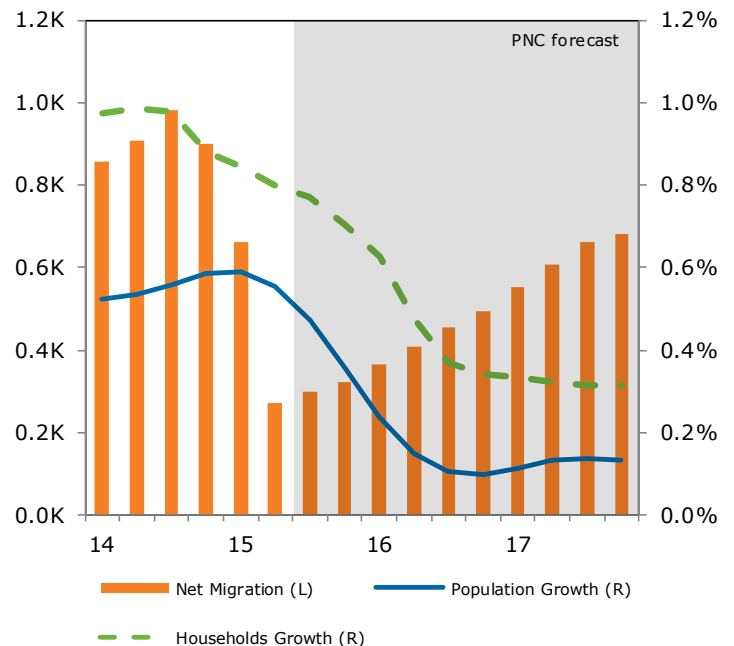


Chart sources: Bureau of Census; Bureau of Economic Analysis; Moody's Analytics; The PNC Financial Services Group

OUTLOOK SUMMARY

Central Pennsylvania will struggle through a diminished pace of economic growth versus the conditions seen over the last couple of years. No sector of the market area's economy has stepped in to pick up the slack for stagnating manufacturing and transportation & utilities hiring—two key job creation and income generation drivers in the local economy. The follow-on impact of this will likely be dampened consumer sentiment, leading local service industry and retail employers to hold off on hiring of their own. Employers' wage pressures will be eased somewhat in 2017, preventing the cost of attracting and retaining the market area's most skilled workers from rising much.

An important part of the market area's economy that will ultimately stabilize the job market is its large healthcare agglomeration. In particular, teaching hospitals and medical research facilities in Hershey are a valuable asset supporting good incomes, new jobs, in-migration, and new business investment. Penn State University is an overarching support in the region as well. Pillars of stability today, these industrial features will also contribute to new growth going forward once the last of the recession's lingering imbalances are righted.

Longer term, Central Pennsylvania's ever-closer proximity to the northward expansion of the greater Washington DC and Baltimore economies, as well as location near large urban populations in Philadelphia, New Jersey and New York City, will present opportunities for the local industrial base to latch onto those larger economies' trends. Proximity to Marcellus Shale drilling activity also presents the market area with upside potential for its services and retail industries. The economy's locational blessings will combine with competitive costs to provide plenty of room for development in the years to come.

FORECAST TABLE

	U.S.			Central PA		
	2015	2016E	2017F	2015	2016E	2017F
Employment Growth, (% change)	2.1	1.7	1.5	1.6	1.4	1.1
Unemployment Rate, (%)	5.3	4.9	4.5	4.1	4.3	4.4
Median Household Income, (Ths. \$)	55.8	57.1	58.2	58.6	59.7	60.6
House Prices, (% change)	4.6	5.0	3.7	1.4	2.7	3.5
Single-Family Permits* (% change)	10.2	8.5	4.4	-0.7	-3.4	-4.8
Multifamily Permits* (% change)	11.5	-2.5	2.1	6.4	-6.0	-24.4

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

	U.S.		Central PA	
	2007-2012†	2012-2017†	2007-2012†	2012-2017†
Employment Growth, (% change)	-0.6	1.8	-0.6	1.2
Unemployment Rate, (%)	7.7	6.0	6.1	5.1
Median Household Income, (Ths. \$)	50.8	54.7	54.2	58.1
House Prices, (% change)	-4.8	5.9	-2.2	2.3
Single-Family Permits* (% change)	-12.3	8.5	-12.9	-0.4
Multifamily Permits* (% change)	-4.2	9.8	14.3	-16.6

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

LONG-RUN EMPLOYMENT TRENDS

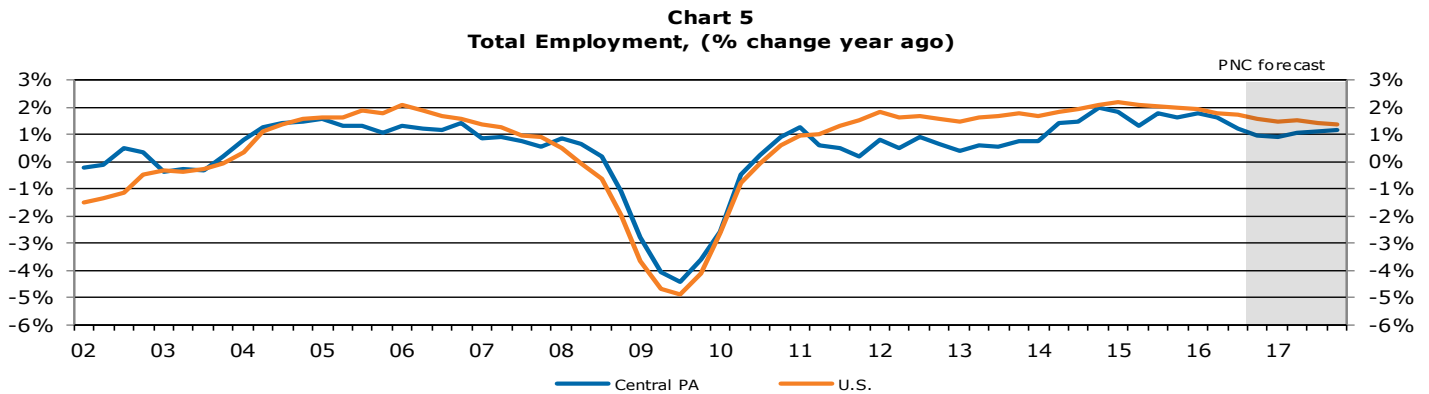


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

LONG-RUN DEMOGRAPHIC TRENDS

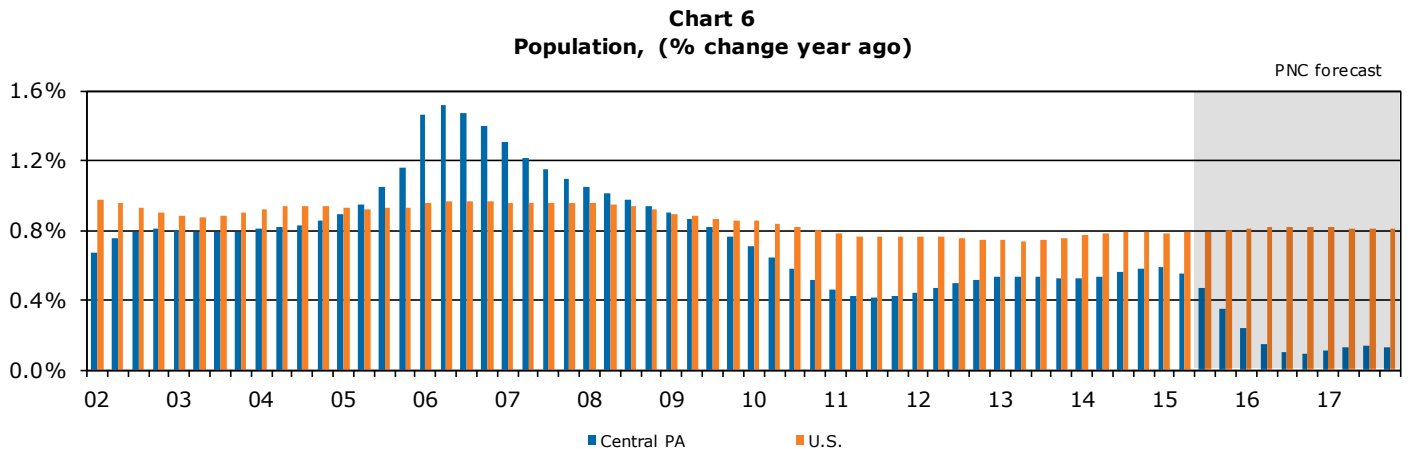


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

LONG-RUN HOUSE-PRICE TRENDS

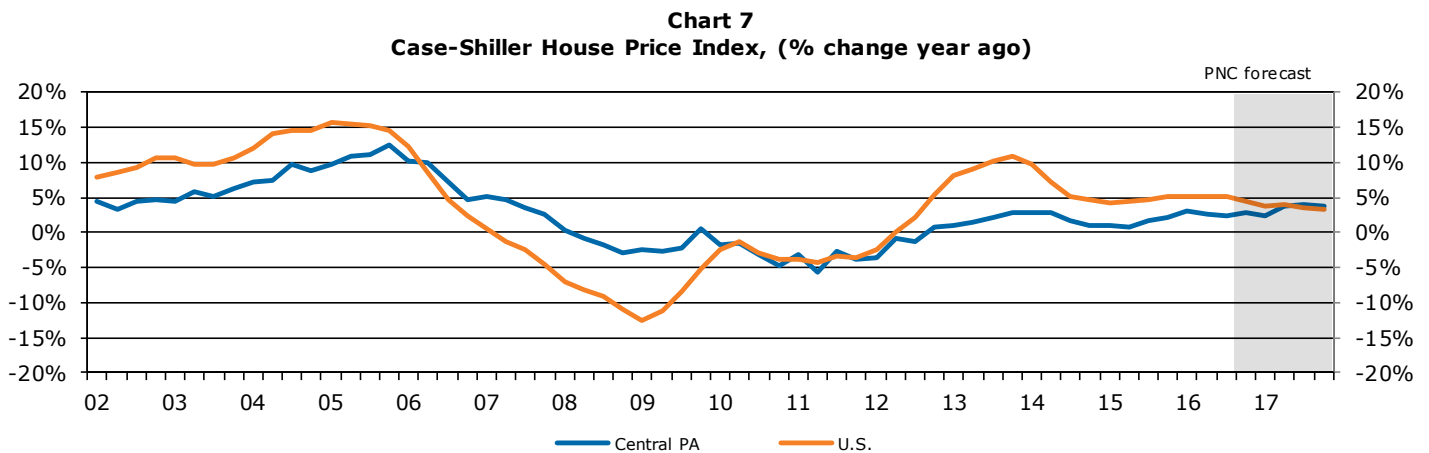


Chart source: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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