

CHARLOTTE MARKET OUTLOOK

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JOB SITUATION

Job growth in Charlotte cooled in the latter months of 2016 but the region's economy is still in great shape (Chart 1). The market area now has almost 11 percent more jobs than at the previous cycle's peak. By comparison, employment is up a little more than 5 percent nationwide from its pre-recession high. The Queen City's position as a corporate hub enables it to benefit from the U.S. economy's continued expansion as profits flow back to locally-based corporations. Local transportation and wholesale trade have proven to be potent economic drivers, thanks to Charlotte's status as a regional hub. Business formation is strong, as evidenced by a rapid increase in the number of private business establishments. Rising employment and income is boosting consumer spending while strong population growth is boosting residential, commercial and infrastructure investment. The unemployment rate fluctuated between 4.4 and 4.8 percent throughout the second half of 2016. Though the jobless rate is close to the U.S.'s, labor force growth is much stronger. This is a good indication of a high degree of confidence in local economic conditions.

INCOME

Income growth is set to pick up, thanks to a favorable mix of jobs being created and a tighter labor market. Average wages are rising at a rapid clip because of growth in high-wage professional services. Also, rising business costs and consolidations in the well-paying financial services industry are not denting employment and income growth as much as had been feared. The Federal Reserve is set to pick up the pace of its rate hikes and this will support profitability for the local banking industry. On the downside, the steady increase in gasoline prices since March 2016 will pinch disposable income for households. North Carolinians, on average, drive 8 percent more miles per year than the average American. Longer term, the area will likely enjoy above-average income growth, thanks to a large presence of corporate headquarters and of dynamic and well-paying finance and

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

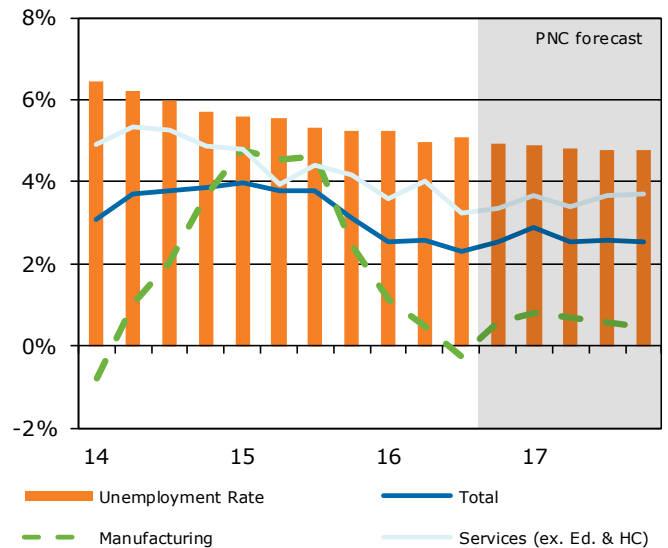


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

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

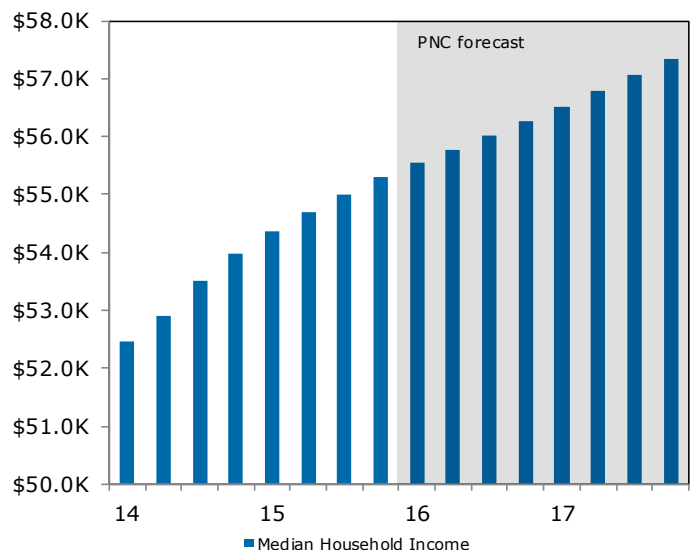


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group



professional services jobs. Low business costs and a persistent inflow of educated workers, in turn, attract additional expansion in high-value added industries. The median income will remain slightly higher than the national average over the forecast horizon (Chart 2).

HOUSING

Charlotte's residential real estate market is on track for another dynamic year with home prices set to increase over 4 percent in 2017 (Chart 3). Continued jobs and income growth, low (albeit rising) mortgage rates and easier access to credit are supporting demand for single-family housing. A strong rate of in-migration and household formations will boost multi-family construction. Moreover, the Charlotte market is popular among institutional investors and this supports the market by reducing the share of properties that are real estate owned (these are often foreclosed properties owned by banks). The shrinking inventory of foreclosed properties then leads to smaller discounts on foreclosure sales and hence higher overall prices. The downside in the regional real estate market is that the price increases of recent years have eroded affordability. Nevertheless, there is some upside potential to the outlook. The vacancy rate in Charlotte is relatively low and this could strengthen homebuilder confidence and fuel stronger increases in housing construction.

DEMOGRAPHICS

Strong demographic trends underpin Charlotte's positive long-term forecast (Chart 4). A diverse array of employment opportunities and strong job growth during normal times attracts work-seekers to Charlotte, typically from other Southern metro areas. Also, the area's population is younger than the national average. Those aged 18 to 64 comprise 67 percent of the local population. Nationally, that cohort accounts for 62 percent of the total. This accounts for the area's higher than average labor force participation rate and is a positive for its long-term growth potential. The workforce is educated as well—about 33 percent of the population over age 25 has at least a bachelor's degree. Nationally, that figure is about 31 percent. Household formations, a key driver of housing demand, are rising at a solid rate. Above-average population growth will be a significant driver of construction, retail and healthcare.

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

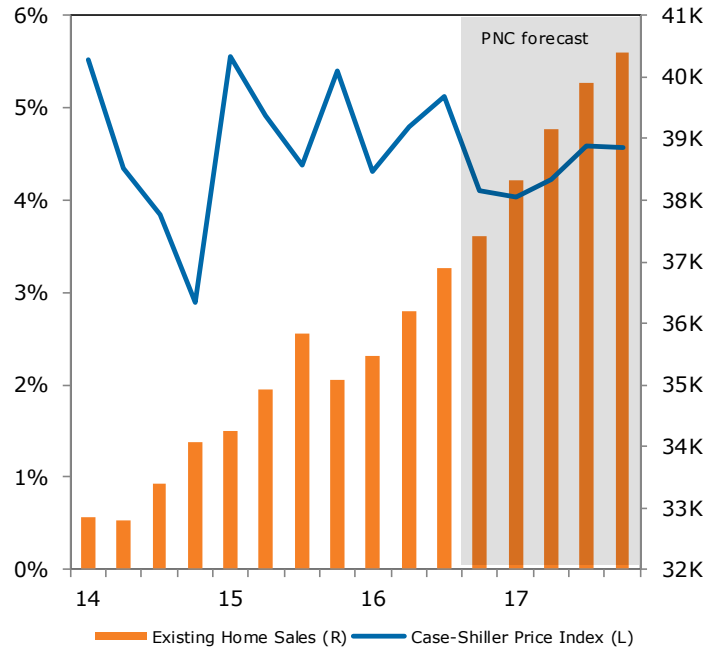


Chart sources: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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

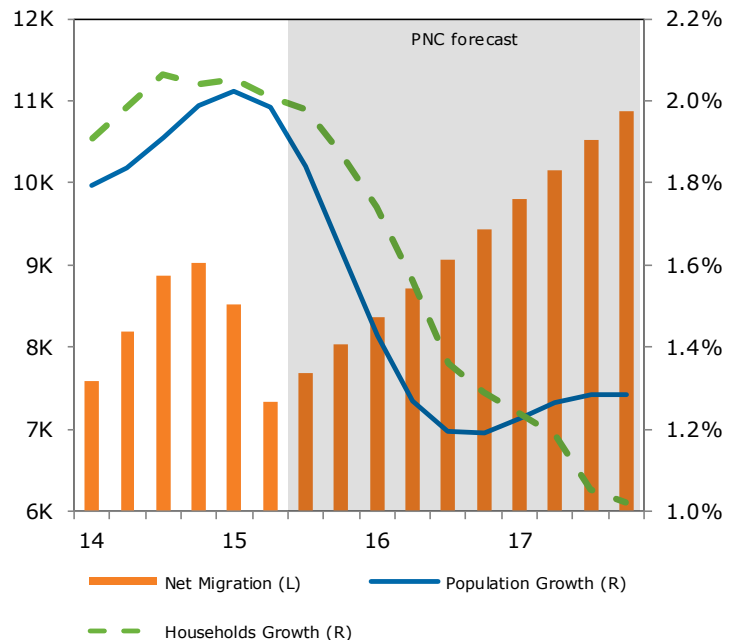


Chart sources: Bureau of Census; Bureau of Economic Analysis; Moody's Analytics; The PNC Financial Services Group

OUTLOOK SUMMARY

Charlotte's economy will outrun the U.S.'s in 2017 and the market area will remain among the growth leaders in the PNC footprint. The region's core industries—financial services, transportation, wholesale trade, corporate management, and professional services—are very sensitive to macroeconomic trends. That will work in Charlotte's favor as the U.S. economy gains speed over the next couple of years. Construction will likely have a great year, thanks to rising investment in infrastructure and commercial and residential real estate. Manufacturing will likely grow more slowly than in the past couple of years, but the industry will provide an important support to regional jobs and income. This broad base for growth, as well as stronger income growth will bolster retail and leisure spending. There is considerable upside potential for the regional economy to grow more quickly than forecast. Fiscal stimulus in the form of tax cuts and infrastructure spending is in the works. As a corporate hub and a transportation hub, Charlotte would be a major beneficiary. Also, as a finance hub, Charlotte would benefit from rising interest rates and possible changes to financial regulations that could boost bank profitability.

The residential real estate market will remain dynamic in 2017 as home sales pick up and foreclosures decline. Home price appreciation will slow but will remain above its long-term rate. Fast population growth, low (albeit rising) mortgage rates and easier access to credit will support housing demand. Also, the smaller-than-average decline in house prices during the recession means that local household wealth is on better footing than the national average. Strong job creation and increasing business and investor confidence will also support the nonresidential real estate market. Over the long term, low business costs and a young, growing, educated population will enable Charlotte to outperform the U.S.

FORECAST TABLE

	U.S.			Charlotte		
	2015	2016E	2017F	2015	2016E	2017F
Employment Growth, (% change)	2.1	1.7	1.5	3.7	2.5	2.6
Unemployment Rate, (%)	5.3	4.9	4.5	5.4	5.1	4.8
Median Household Income, (Ths. \$)	55.8	57.1	58.2	54.8	55.9	56.9
House Prices, (% change)	4.6	5.0	3.7	5.1	4.6	4.4
Single-Family Permits* (% change)	10.2	8.5	4.4	9.6	9.6	6.3
Multifamily Permits* (% change)	11.5	-2.5	2.1	-1.1	-3.6	18.9

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

	U.S.		Charlotte	
	2007-2012†	2012-2017†	2007-2012†	2012-2017†
Employment Growth, (% change)	-0.6	1.8	-0.4	3.0
Unemployment Rate, (%)	7.7	6.0	9.2	6.4
Median Household Income, (Ths. \$)	50.8	54.7	51.0	54.0
House Prices, (% change)	-4.8	5.9	-2.8	5.1
Single-Family Permits* (% change)	-12.3	8.5	-18.0	13.7
Multifamily Permits* (% change)	-4.2	9.8	-0.5	7.7

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

LONG-RUN EMPLOYMENT TRENDS

Chart 5
Total Employment, (% change year ago)

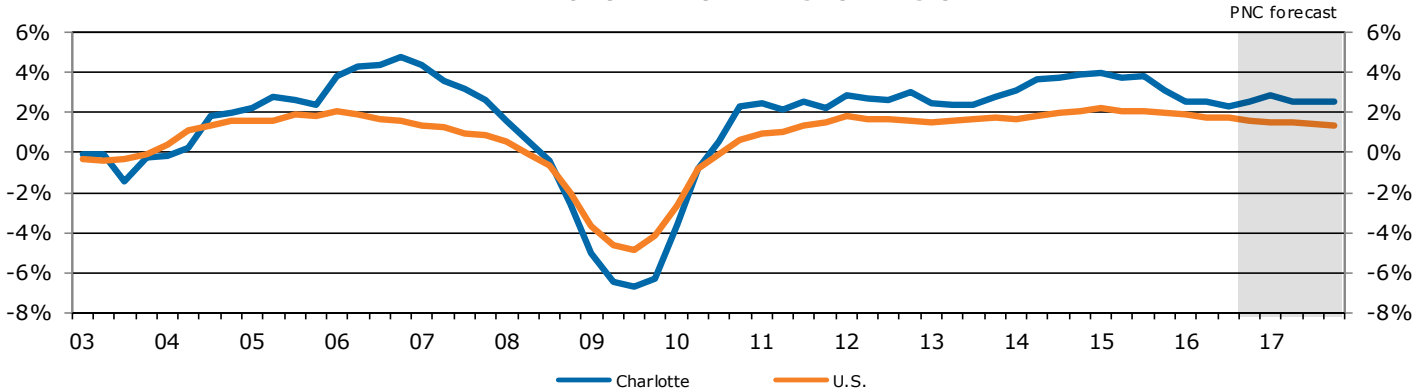


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

LONG-RUN DEMOGRAPHIC TRENDS

Chart 6
Population, (% change year ago)

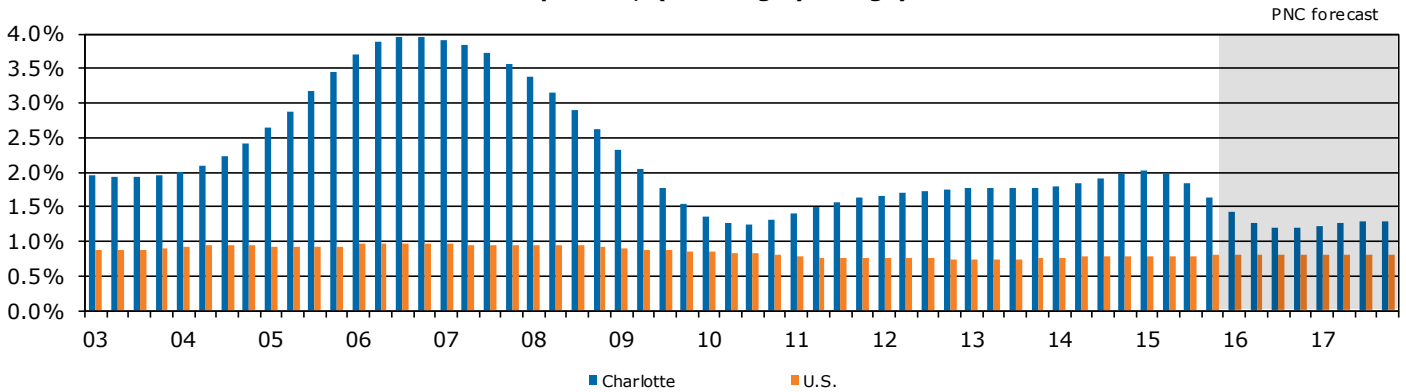


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

LONG-RUN HOUSE-PRICE TRENDS

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

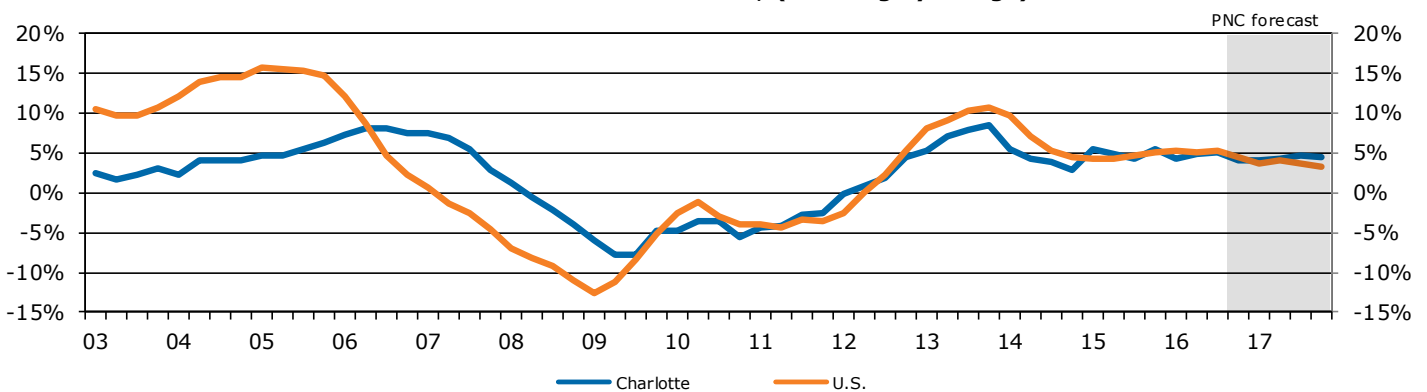


Chart source: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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