

# CHICAGO MARKET OUTLOOK

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## JOB SITUATION

The Chicago market area will see more of the same in terms of economic growth in 2017. Job gains slowed for the second straight year in 2016 (Chart 1), primarily as a result of drag from manufacturing industries. But total job creation managed to post positive results to close out the year thanks to professional & business services employment, which rebounded late in the year to match the national average growth pace. So long as this industry in particular is hiring, it is difficult to assign a significant level of concern to Chicago's labor market given the market area's weight as the Midwest region's business powerhouse.

Chicago's labor force rebounded somewhat in 2016 after seeing declines in both of the two years prior. The result was an uptick in the market area's unemployment rate, as new job seekers found themselves counted as unemployed until they were able to find positions in Chicago's slow-growing environment. 2017 will see similar conditions, and the local unemployment rate should improve only slightly as a result.

## INCOME

Average hourly earnings growth in Chicago slipped to slightly below the national average to close out 2016. Relatively lower-paying service industry positions have carried job creation trends in the market area, as opposed to higher-paying manufacturing and transportation & utilities industries which are lagging. Slower income growth for Chicago's overall economy is an inevitable result. But average wages remain significantly higher than the national average despite this slowdown. An above-average cost of living negates some of the value of higher wages and incomes enjoyed in Chicago, but the market area is in no danger of losing its attractiveness as a high profile destination for those seeking career advancement and new opportunities.

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

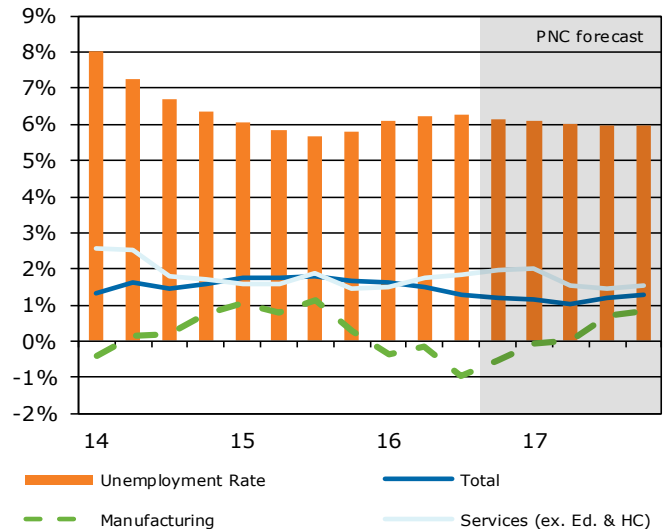


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

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

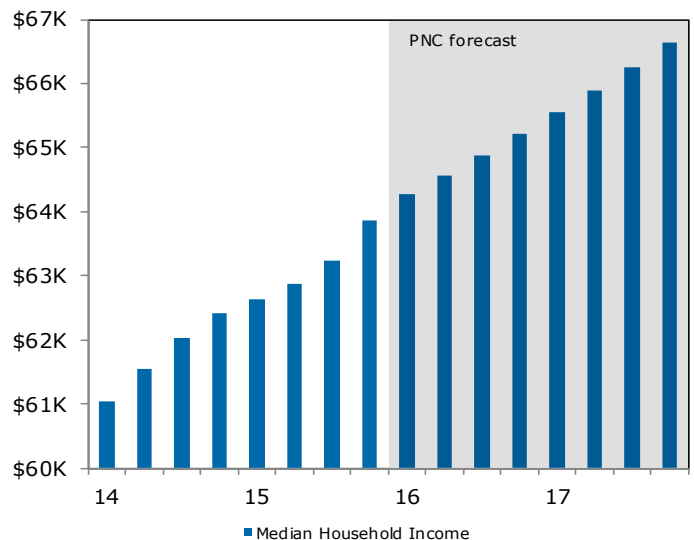


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group



## HOUSING

House price growth in Chicago has clawed its way back to a sustainable pace of 4-5 percent after a sharp slowdown in 2015. Slow job growth is the primary culprit behind the market area's weak housing trends. With new hiring sliding below the local economy's long-term potential over the past two years (Chart 5), demand from first-time homebuyers is sure to be dampened. Out-migration of working-age residents is another part of the problem, leaving fewer buyers for the market area's existing housing stock despite steady, though slow, job creation and rising wages.

For an economy like Chicago's, however, slowdowns and pockets of weakness are usually opportunities for investment with an eye toward inevitable long-term recovery. It is reasonable to expect Chicago's housing market to keep from tipping into outright declines, if for no other reason in the near term than the weight of this perspective.

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

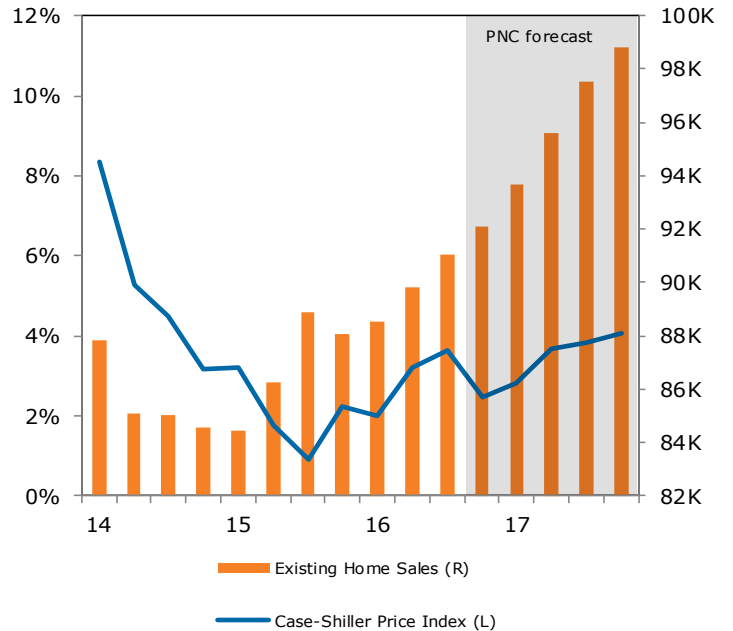


Chart sources: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

## DEMOGRAPHICS

A substandard labor market recovery through most of the recovery thus far has kept Chicago's demographic trends from significant post-recession improvement (Chart 4). The longer-term story of the market area's demographic trends has also been one of underperformance, though. Chicago has not been at the epicenter of any of the past several U.S. industrial breakthroughs—such as the dot-com boom, financial market evolution, or, looking ahead, new natural resources development. Chicago will always be able to incorporate new economic breakthroughs into its economic landscape thanks to its existing industrial diversity, size, and high quality labor resources. But its capacity to front-run such advancement in a way that sparks mass demographic growth is lacking.

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

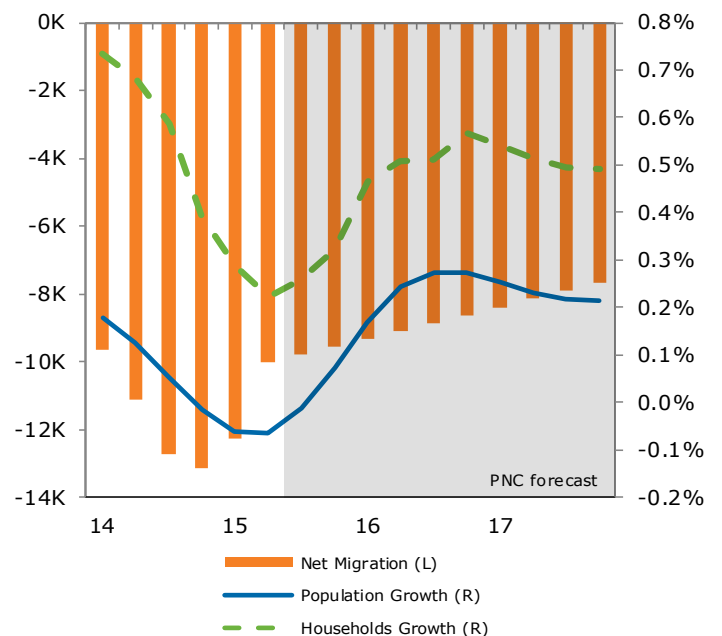


Chart sources: Bureau of Census; Bureau of Economic Analysis; Moody's Analytics; The PNC Financial Services Group

## OUTLOOK SUMMARY

The Chicago market area is in for another underwhelming year in 2017 in terms of economic growth. Job creation has been subpar, compared to the industrial giant's usual pace, and labor force trends have followed suit with less net in-migration reinforcing the market area's pool of labor resources. The market area's prominence as a hub of industrial activity for the Midwest region will keep it integrated with what could be stronger business investment in 2017, resulting from potential corporate and personal income tax reform measures proposed by the Trump administration. But until those proposals move into action, Chicago can only be expected to underperform its long-term growth trends in the near term.

Chicago's housing market will continue on its long road to recovery over the near term horizon. Home values continue to improve from damage inflicted by the recession, but at a pace hamstrung by demand weakness as a result of lackluster job growth over the past two years (Chart 5). New building activity also lags national trends in terms of permit issuance returning to a pre-bubble "normal." This is somewhat of a silver lining for Chicago, however, as it keeps housing supply from outgrowing demand during the current period of uneven housing market conditions.

In the long view, Chicago remains central North America's undisputed economic powerhouse. Its economy and population are diverse, productive and affluent. The market area is also host to high quality universities such as the University of Chicago, the University of Illinois and Northwestern University, as well as several nationally recognized healthcare institutions associated with them. Chicago's broad industrial base offers enough in the way of business and career opportunities to continue to attract investment and its share of the most highly-qualified workers from around the globe.

## FORECAST TABLE

	U.S.			Chicago		
	2015	2016E	2017F	2015	2016E	2017F
<b>Employment Growth, (% change)</b>	2.1	1.7	1.5	1.7	1.4	1.2
<b>Unemployment Rate, (%)</b>	5.3	4.9	4.5	5.8	6.2	6.0
<b>Median Household Income, (Ths. \$)</b>	55.8	57.1	58.2	63.2	65.9	67.3
<b>House Prices, (% change)</b>	4.6	5.0	3.7	2.0	2.8	3.6
<b>Single-Family Permits* (% change)</b>	10.2	8.5	4.4	-0.6	4.6	8.9
<b>Multifamily Permits* (% change)</b>	11.5	-2.5	2.1	2.3	35.7	-12.8

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

	U.S.		Chicago	
	2007-2012†	2012-2017†	2007-2012†	2012-2017†
<b>Employment Growth, (% change)</b>	-0.6	1.8	-0.8	1.5
<b>Unemployment Rate, (%)</b>	7.7	6.0	8.5	7.2
<b>Median Household Income, (Ths. \$)</b>	50.8	54.7	58.8	62.9
<b>House Prices, (% change)</b>	-4.8	5.9	-6.3	4.5
<b>Single-Family Permits* (% change)</b>	-12.3	8.5	-20.7	9.1
<b>Multifamily Permits* (% change)</b>	-4.2	9.8	-25.2	21.1

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

## LONG-RUN EMPLOYMENT TRENDS

**Chart 5**  
Total Employment, (% change year ago)

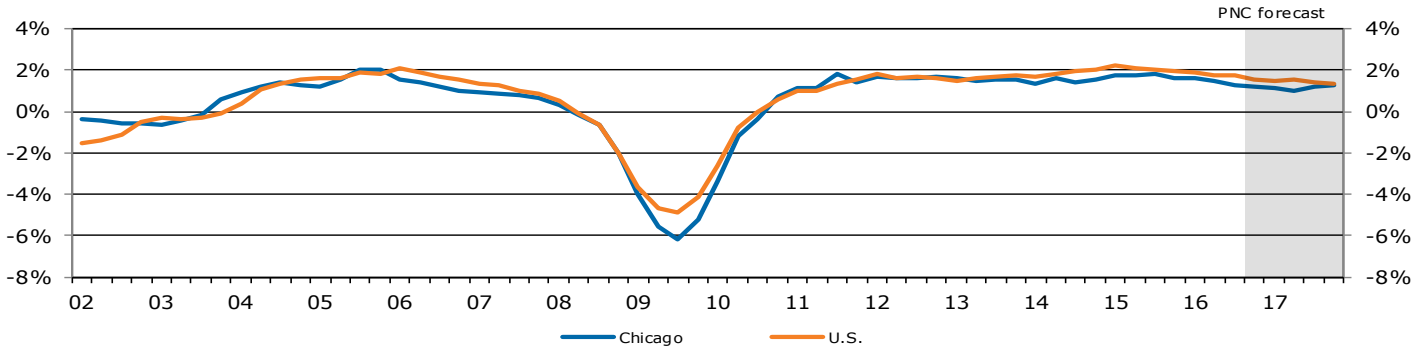


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

## LONG-RUN DEMOGRAPHIC TRENDS

**Chart 6**  
Population, (% change year ago)

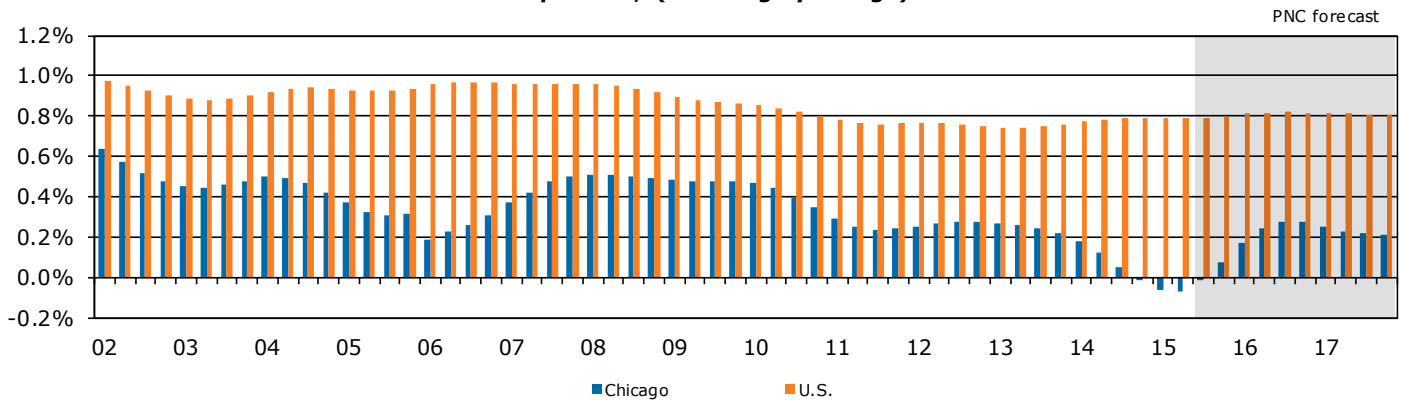


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

## LONG-RUN HOUSE-PRICE TRENDS

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

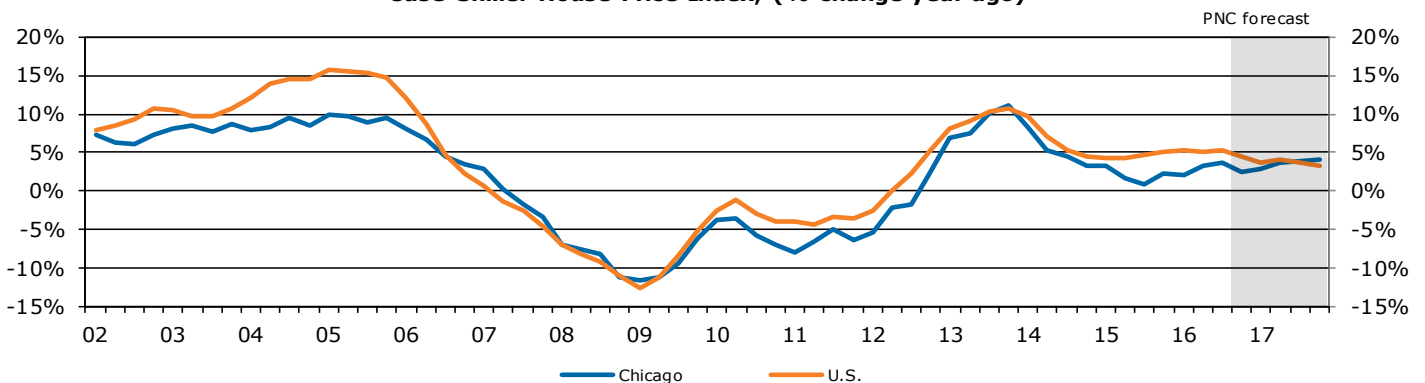


Chart source: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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