

COLUMBUS MARKET OUTLOOK

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JOB SITUATION

Columbus' economy cruised into 2017 on sound footing, thanks to its diversified service sector (Chart 1). The region's large corporate sector, which includes professional services and finance, is benefitting from the U.S. economy's expansion. Healthcare and education continue to be major job generators as Central Ohio's population grows. Business creation is picking up and announced expansions in a wide array of industries including biotech and IT demonstrate Columbus' role as a hub for knowledge-based industries. The pace of job growth moderated in 2016 versus 2015 but this came after 5 years of strong growth rates between 2 and 3 percent per year and the market area remains one of the strongest performers in Midwest. Attesting to the strength of Columbus' economy, private sector employment is now more than 12 percent higher than its pre-recession peak, compared with just 6 percent nationwide. The local unemployment rate ranged from 3.8 to 4.1 percent in the second half of 2016. All the while, the labor force grew at a moderate rate. This can be interpreted as a sign of confidence in the local labor market.

INCOME

A tight labor market will lift wages faster in 2017. Average wages rose a percentage and a half faster in Columbus in 2016 than the national rate as the regional unemployment rate fluctuated close to 4 percent and job gains in higher wage services outpaced gains in low-wage services. The median income in the area is relatively high for the Midwest (Chart 2). Finance, business services, education and healthcare dominate the economy and offer well-paying and stable jobs. Although manufacturing is a relatively small portion of the local economy, the jobs tend to be with better performing firms and have annual earnings that are higher than the state average. Although per capita income in the region is close to the U.S. average, living costs are below average, so purchasing power in the region is stronger than elsewhere in the U.S. Columbus is an excellent example of the benefits of industrial diversification with

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

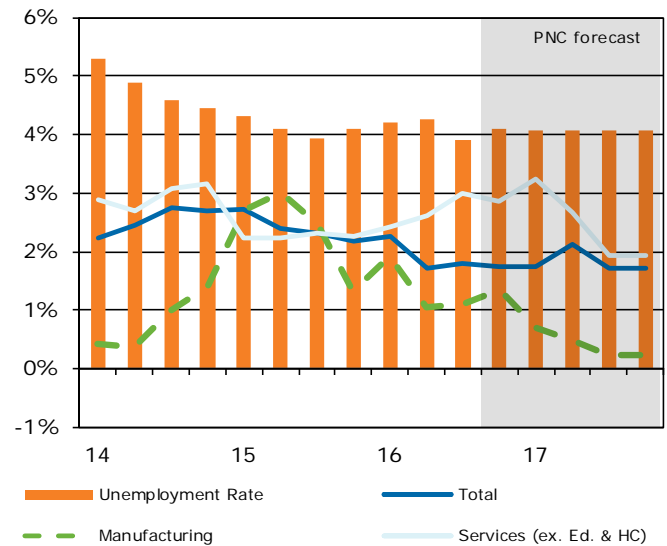


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

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

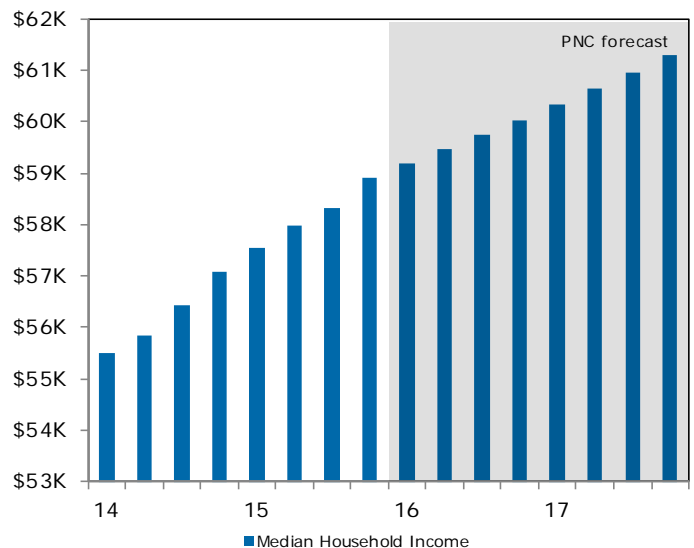


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group



an emphasis on higher learning—the end result is high and stable wages.

HOUSING

Columbus’ mature economic expansion and great demographics will prop up the housing market over the next couple of years. High affordability, increased access to credit and continued jobs and income growth will lift home sales (Chart 3). Even though mortgage rates will rise, they will remain low by historic comparisons. The area’s housing supply is relatively tight because of the low vacancy rate and strong household formations generating demand for homes. Though still at a low level, single-family starts are perking up. Multifamily construction will be an important driver of construction, in part, because of the above-average share of the population that is between ages 18 and 34. The large presence of colleges and universities attracts people in this cohort who are more likely to be renters. Finally, housing remains affordable, despite the price increases of recent years. House prices will continue to rise at a moderate pace over the next couple of years.

DEMOGRAPHICS

Columbus will soon hit a milestone in its economic development as it overtakes Cleveland as Ohio’s second most populous metro area. It has a good chance of overtaking Cincinnati within another decade. A strong job market attracts a large number of in-migrants and this enables population growth to routinely outperform the national pace (Chart 4). The presence of Ohio State University and national business powerhouses such as JP Morgan Chase, Nationwide Insurance and OhioHealth is also a draw for students and young professionals. As a result, the metro area’s median age is 35.9 years, versus 37.8 years in the U.S., and the share of the population between ages 18 and 34 is much higher than the national average. The relative youthfulness of the population helps Columbus maintain a higher-than-average labor force participation rate which is a plus for its long-term economic potential. The population is well-educated with 35 percent of adults over age 25 with at least a bachelor’s degree. That rate is 27 percent and 31 percent in Ohio and the U.S., respectively. A well-diversified economy and affordable living costs will maintain the market area’s favorable demographic trends for the foreseeable future.

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

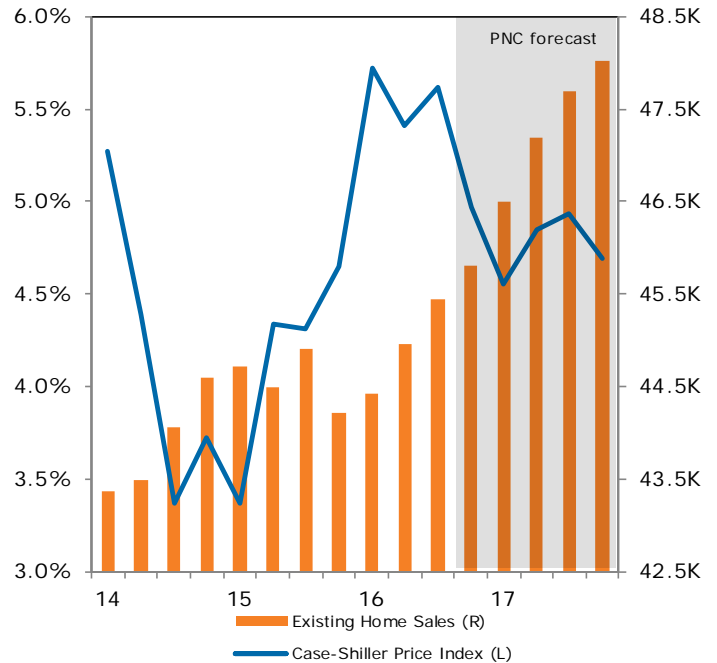


Chart sources: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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

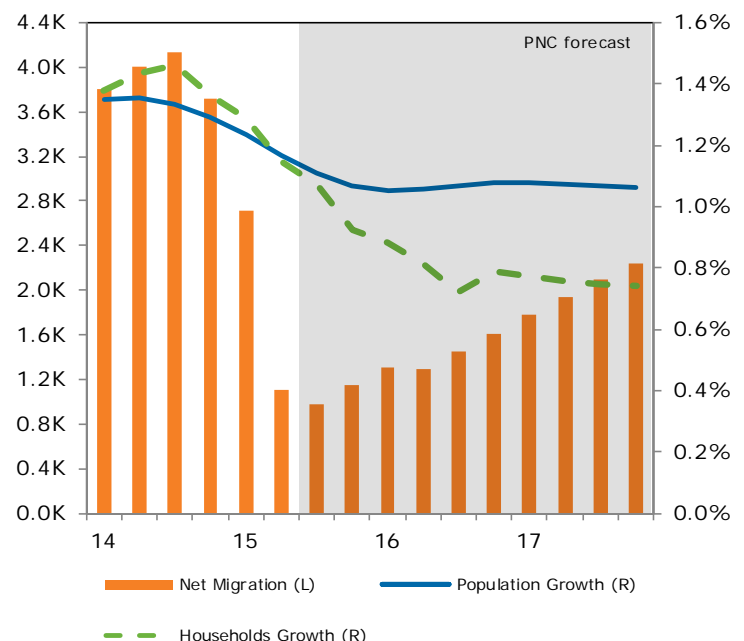


Chart sources: Bureau of Census; Bureau of Economic Analysis; Moody’s Analytics; The PNC Financial Services Group

OUTLOOK SUMMARY

Columbus' economic growth will ease a bit as the region settles into its long-term growth rate. Much of 2016's economic story will continue to play out in 2017. Finance, professional services, education and healthcare are likely to be the primary growth drivers in the near-term. 2017 will likely be the best year for auto sales on record and this will boost the region's auto-related producers. Increased consumer spending and economic growth nationwide will support transportation and logistics industries. The unemployment rate will likely average 4.2 percent for the rest of this year as labor force growth matches job creation. The tighter labor market will fuel wage growth at a faster rate than the national average. Even though gasoline prices are inching higher, the stronger wage growth will more than make up for the reduced purchasing power. There is potential for the region's economy to grow faster than PNC projects as Federal business tax cuts expected in 2017 boost profits for Columbus' large corporate sector. However, there are downside risks as well. Changes to the Affordable Care act that reduce the number of insured people would adversely affect the region's large healthcare sector. Also, changes to immigration policies that restrict the supply of labor would hurt as well, given that more than half of the region's net in-migration since 2011 was accounted for by in-migrants from overseas.

One of Columbus' advantages is that economic growth is generally stable—neither overheating so as to open the economy up to sharp economic collapse, nor sinking drastically during downturns. Universities, healthcare and insurance are all major industries in the area that are less sensitive to the U.S. business cycle and hence, are not that volatile. At the same time, strong population growth generates demand for housing and services while the agglomeration of corporations provides high wage employment. Longer term, a diverse industrial base, healthy population growth, a young and educated workforce, and low living and business costs will underpin the market area's bright economic prospects.

FORECAST TABLE

	U.S.			Columbus		
	2015	2016E	2017F	2015	2016E	2017F
Employment Growth, (% change)	2.1	1.8	1.5	2.4	1.9	1.8
Unemployment Rate, (%)	5.3	4.9	4.5	4.1	4.1	4.1
Median Household Income, (Ths. \$)	55.8	57.1	58.2	58.2	59.6	60.8
House Prices**, (% change)	4.6	5.2	4.6	4.2	5.4	4.8
Single-Family Permits* (% change)	10.2	10.0	8.2	0.5	17.0	5.6
Multifamily Permits* (% change)	11.5	-0.9	6.6	13.7	5.0	9.8

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

	U.S.		Columbus	
	2007-2012†	2012-2017†	2007-2012†	2012-2017†
Employment Growth, (% change)	-0.6	1.8	0.1	2.2
Unemployment Rate, (%)	7.7	6.0	7.1	5.0
Median Household Income, (Ths. \$)	50.8	54.7	52.2	57.2
House Prices**, (% change)	-4.8	6.1	-1.3	4.9
Single-Family Permits* (% change)	-12.3	9.6	-7.6	8.1
Multifamily Permits* (% change)	-4.2	11.1	13.4	3.6

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

LONG-RUN EMPLOYMENT TRENDS

Chart 5
Total Employment, (% change year ago)

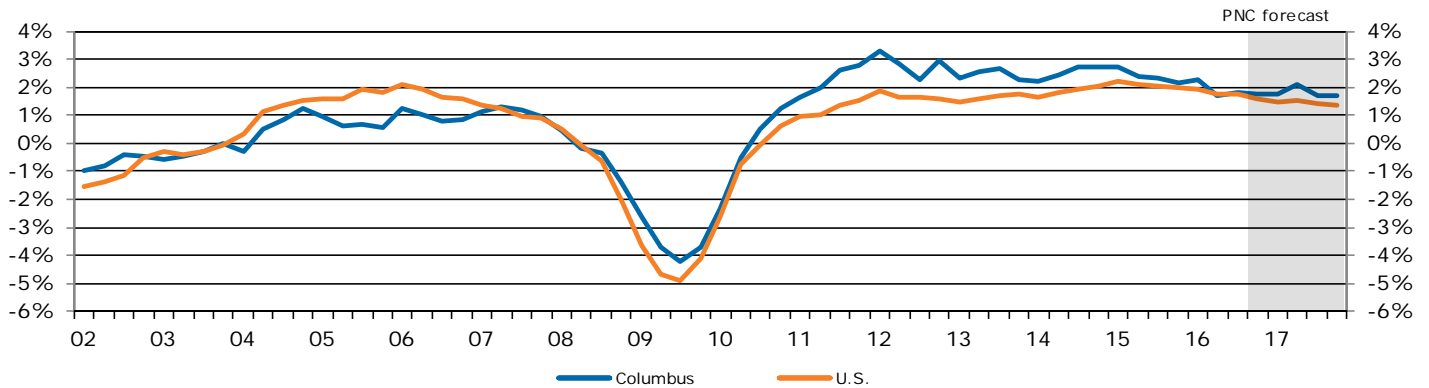


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

LONG-RUN DEMOGRAPHIC TRENDS

Chart 6
Population, (% change year ago)

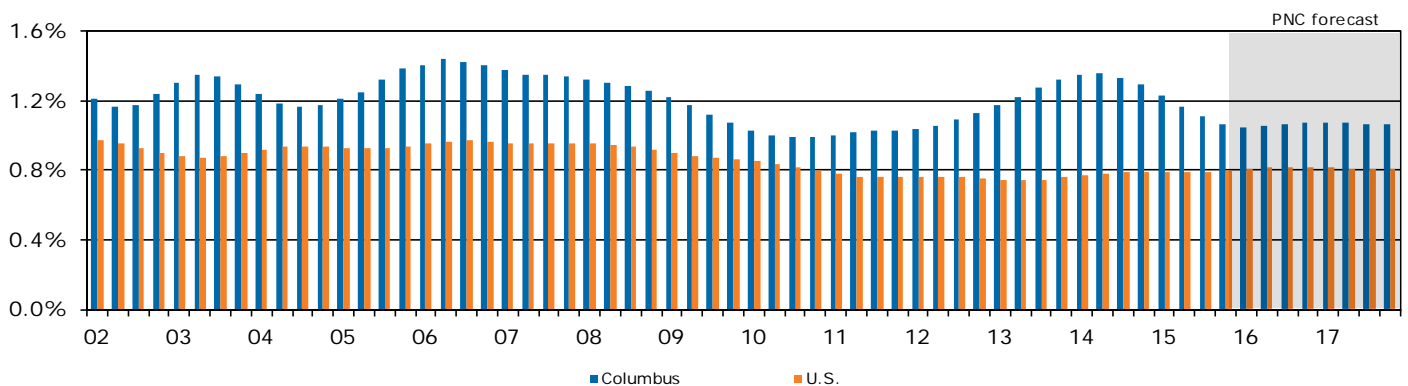


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

LONG-RUN HOUSE-PRICE TRENDS

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

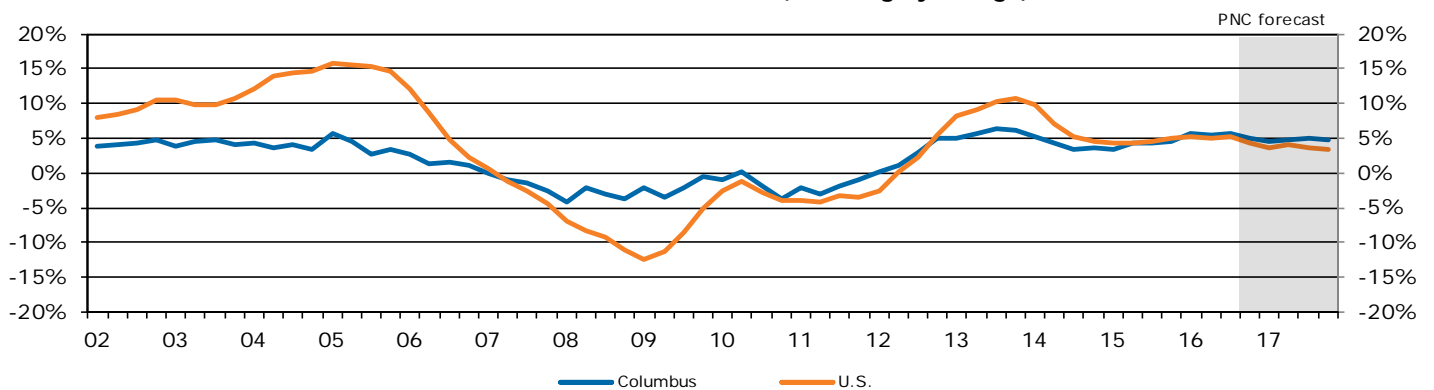


Chart source: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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