

DELAWARE MARKET OUTLOOK

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JOB SITUATION

The Delaware market area, which is comprised of the Wilmington and Dover metropolitan statistical areas, is enjoying broad-based job growth that should carry the local economy to another strong year in 2017. Service industry growth took the lead in hiring last year, overtaking manufacturing and picking up the slack left by the market area's relatively weak construction and transportation industries. Service industries have been able to accelerate (Chart 1) thanks to healthy consumer sentiment, and thereby consumer spending, supported by several years of job growth above the national average (Chart 5).

Stable job growth will continue to draw new labor resources into the market area's economy. Labor force growth fell back below the national average to end 2016, however, which will help keep labor supply and demand in relative balance, with the unemployment rate ticking down slightly over the coming year.

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

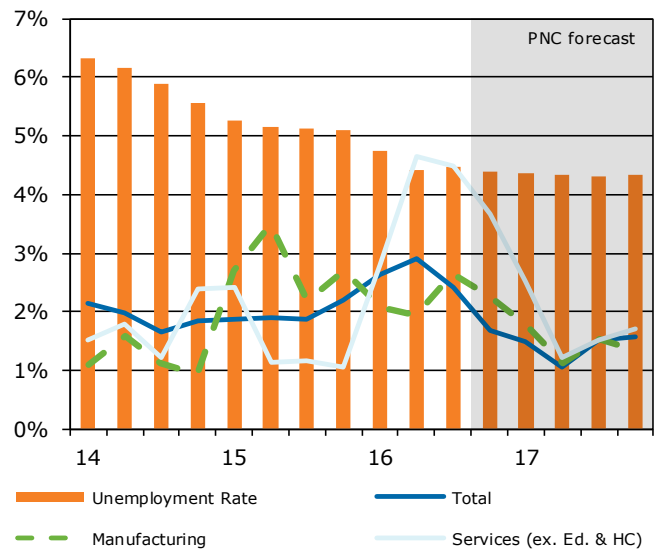


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

INCOME

Incomes in the Delaware market area are benefiting from sustained strong job growth across a wide variety of sectors of the local economy. Average hourly earnings in both the Wilmington and Dover metropolitan statistical areas outpaced national gains over both of the past two years. With another strong year for job growth on tap for 2017, job seekers and existing employees should continue to gain leverage as businesses look to bring in, and retain, the highest-skilled workers available with attractive compensation.

Median household income is also on the uptick in the Delaware market area (Chart 2). The Wilmington metropolitan statistical area boasts a median income that is well above the national average, and is also growing at a pace slightly faster than that seen nationally. Sustained hiring in manufacturing throughout the coming year, and a potential return of construction hiring thanks to Federal government infrastructure proposals, should keep these trends intact.

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

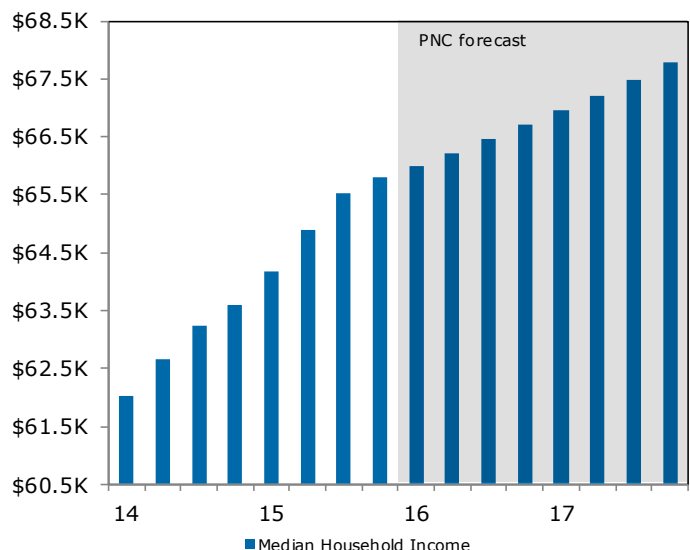


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group



HOUSING

Slow, but steady, housing market improvement remains the standard in the Delaware market area. House price growth is proceeding at a pace below the national average (Chart 3), but has ample demand-side support to keep from slumping significantly over the near term. Job creation and wage growth will allow existing home price growth to its sustainable pace over the next few years. Existing home prices are still 13 percent below the market area's pre-recession peak, as compared to the national average which regained its pre-recession value at the end of 2016. But although it will take time for the hardest-hit of Delaware's homeowners to recoup the value of their property investments, stable growth still offers a benefit to the broader economy. New housing market entrants can be enticed by sustainable trends, meaning more local spending and job creation potential in the long run.

Residential permitting activity continues to make steady progress in the Delaware market area. Permit issuance has fallen behind national trends in terms of the equilibrium pace of new building experienced prior to the housing bubble years. But so long as a sustainable pace of growth prevails, the local economy's overall health will certainly not suffer.

DEMOGRAPHICS

Population growth in the Delaware market area will run at a pace near the national average in the coming years. The financial services industry consistently attracts workers, and retirees move to the state to take advantage of low taxes. With the steep hit to the Delaware economy during the recession, particularly in financial services and auto manufacturing, population growth slowed to below the national average, but has since returned to form (Chart 6). As the market area's labor market improvement continues, net migration will further strengthen as well (Chart 4). Affordable housing, lower taxes, and Delaware's location in the middle of the populous Northeast Corridor will attract workers and retirees from Pennsylvania, New Jersey and Maryland. In turn, population gains will support homebuilding and employment in consumer-oriented industries, including healthcare.

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

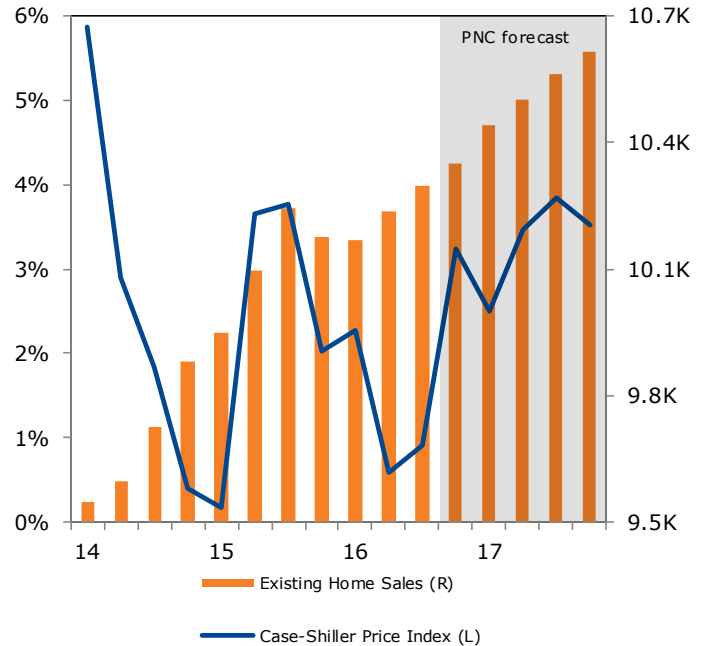


Chart sources: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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

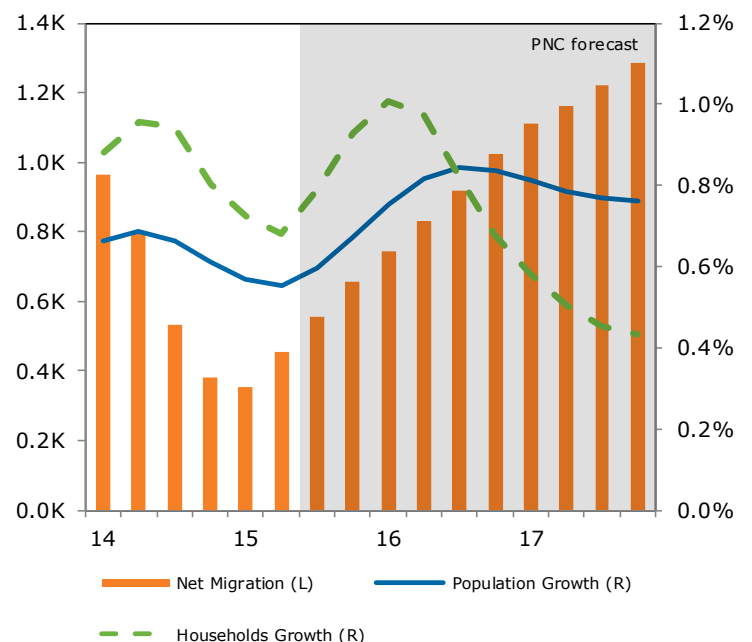


Chart sources: Bureau of Census; Bureau of Economic Analysis; Moody's Analytics; The PNC Financial Services Group

OUTLOOK SUMMARY

The Delaware market area will continue to experience above-average hiring trends, and all of the commensurate economic gains that come along with them. Incomes are growing and housing markets are well balanced. Disposable income in Delaware, and indeed across the U.S., could find a further boost from income tax reform if campaign promises on personal income tax reductions by the Trump administration are implemented. But even without major policy moves, solid consumer sentiment—and thus spending—will support the market area throughout this year and into next.

Over the longer run Delaware's concentrations in finance and professional and business services, the state's strategic location along the I-95 corridor between Philadelphia and Baltimore, a low cost of doing business for the Northeast, and favorable business environment, including low taxes, bode well for the market area's economic growth. An expanding population, thanks to positive net migration, low taxes, and affordable housing, will bolster demand for healthcare and consumer industries. Homebuilding activity continues to increase steadily, and these same supports will keep that upward trend in place.

Upside potential to Delaware's long-run forecast comes from construction of improved rail links with Philadelphia, which could lead to more commuters moving to Delaware to take advantage of the state's less expensive housing and low tax environment. Financial deregulation also offers potential supplements to growth, given the rhetoric through the early months of the Trump administration. Overall, there is little concern that Delaware will be able to maintain its economic momentum through the foreseeable future.

FORECAST TABLE

	U.S.			Delaware		
	2015	2016E	2017F	2015	2016E	2017F
Employment Growth, (% change)	2.1	1.7	1.5	2.0	2.4	1.4
Unemployment Rate, (%)	5.3	4.9	4.5	5.2	4.5	4.3
Median Household Income, (Ths. \$)	55.8	57.1	58.2	65.1	63.1	64.2
House Prices, (% change)	4.6	5.0	3.7	2.4	1.7	3.3
Single-Family Permits* (% change)	10.2	8.5	4.4	-7.3	9.6	-4.7
Multifamily Permits* (% change)	11.5	-2.5	2.1	-16.0	-11.0	2.1

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

	U.S.		Delaware	
	2007-2012†	2012-2017†	2007-2012†	2012-2017†
Employment Growth, (% change)	-0.6	1.8	-1.0	2.0
Unemployment Rate, (%)	7.7	6.0	6.9	5.8
Median Household Income, (Ths. \$)	50.8	54.7	59.9	62.9
House Prices, (% change)	-4.8	5.9	-4.6	2.7
Single-Family Permits* (% change)	-12.3	8.5	-10.6	6.4
Multifamily Permits* (% change)	-4.2	9.8	16.2	-10.9

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

LONG-RUN EMPLOYMENT TRENDS

Chart 5
Total Employment, (% change year ago)

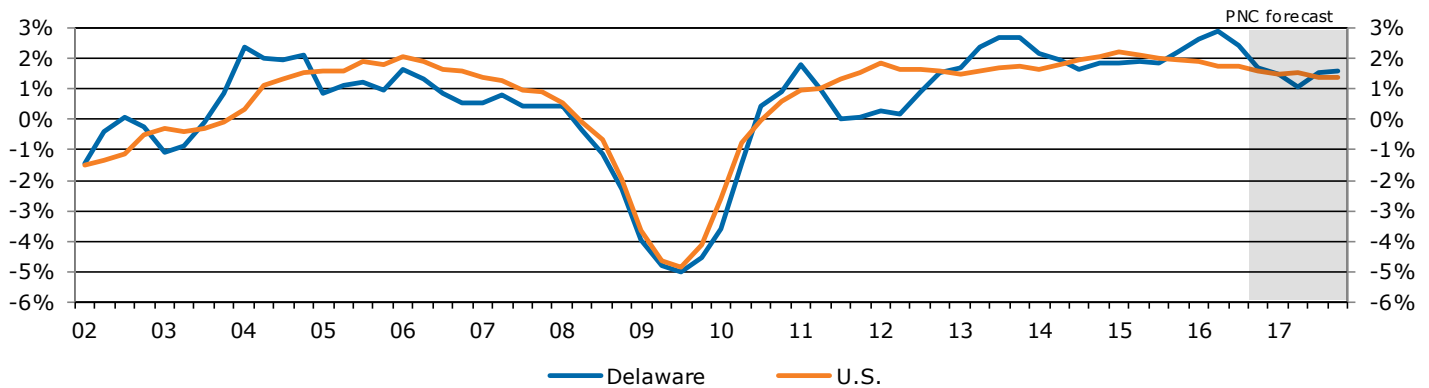


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

LONG-RUN DEMOGRAPHIC TRENDS

Chart 6
Population, (% change year ago)

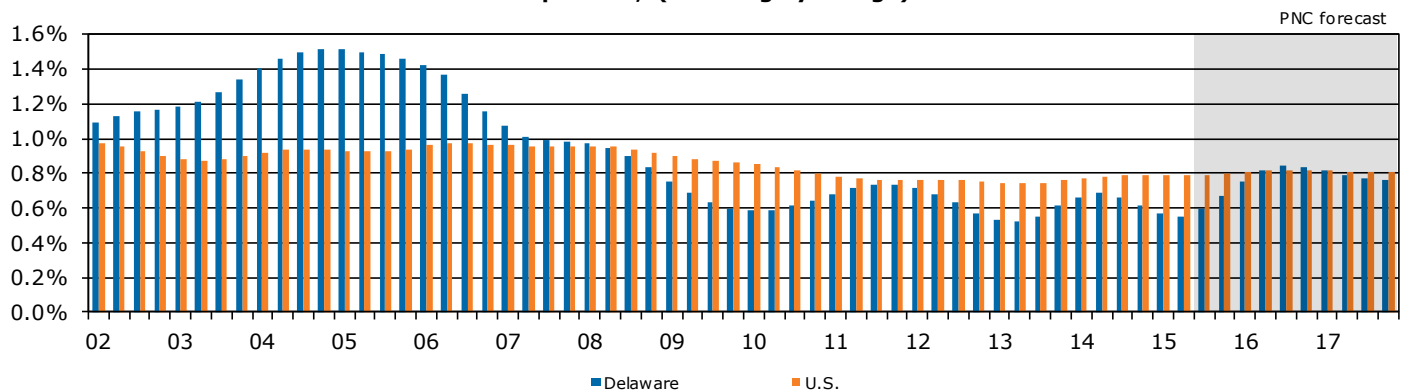


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

LONG-RUN HOUSE-PRICE TRENDS

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

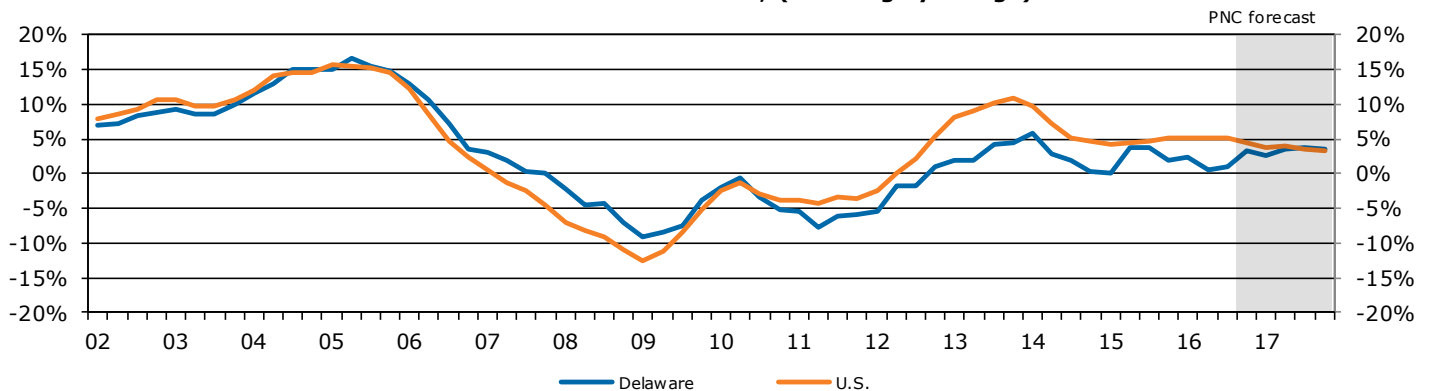


Chart source: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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