

DETROIT MARKET OUTLOOK

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JOB SITUATION

The Detroit market area's economy will likely grow at a somewhat slower pace than that seen since 2015. Manufacturing hiring (Chart 1) has slowed as auto sales across the U.S. have peaked at record levels. Job losses are not likely, but the need for new hiring among Detroit's largest manufacturers is waning. Service industry job creation has stepped up over the past year, however, which will allow the market area to maintain total job growth at a pace above both the national and Midwest regional averages over the coming year.

Another industry that will continue to support Detroit's economic strength over the near term is construction. The market area boasts ample opportunity for reshaping its residential and commercial real estate markets, as well as its infrastructure, as the City of Detroit progresses out of bankruptcy. Proposed infrastructure spending by the Trump administration offers further upside potential for this relatively high-paying, locally-gearred industry.

INCOME

Several years of solid, diverse job growth have led to a stable pace of wage growth in Detroit. Average wages have remained above the U.S. average thanks to the relatively heavy concentration of higher-paying manufacturing employment within the market area. Median household income (Chart 2), likewise, is roughly equal to the U.S. national average. Local consumer sentiment has benefited from a healthy income environment, and leisure and hospitality industry hiring managed to outpace the national growth rate in 2016 as a result. Considering Detroit's broad base of hiring and the momentum in place thanks to local consumer spending, job creation all along the income spectrum should remain intact in the coming year.

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

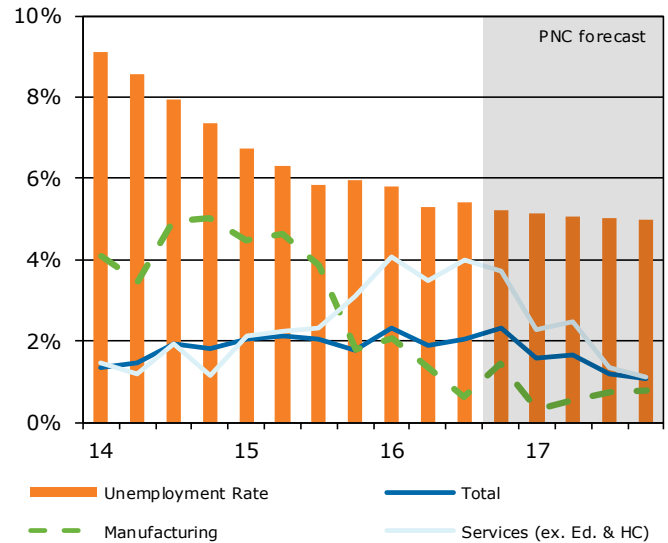


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

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

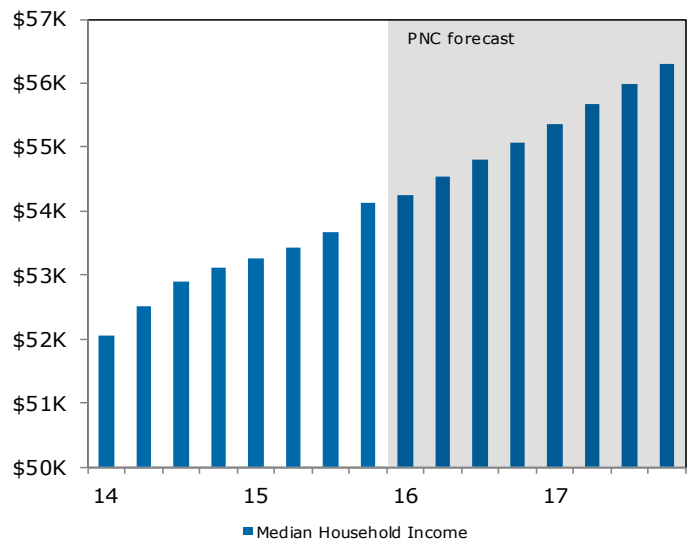


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group



HOUSING

Detroit's housing market looks to have stabilized after the dramatic collapse and equally stark rebound following the Great Recession. House price growth tracked the national average through 2016 at between 4 and 5 percent (Chart 3). This is a sustainable growth pace given the immense housing value lost, on aggregate, during the recession. Part of the reason for the rejuvenation in prices in Detroit is a lack of supply growth. Residential permitting activity in Detroit is still only about one-third of what the market area should expect in a period of economic equilibrium—this as compared to the national average of closer to 75 percent of expectations. But job growth is set to remain intact, and labor force growth climbed back into positive territory over the past year. These factors should help keep housing demand in the market area on the right track. Detroit faces a long road toward economic normality on many fronts, including housing market conditions. Sustainable growth will be the local economy's greatest ally over the next few years, and all indications suggest that Detroit has that advantage well in place.

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

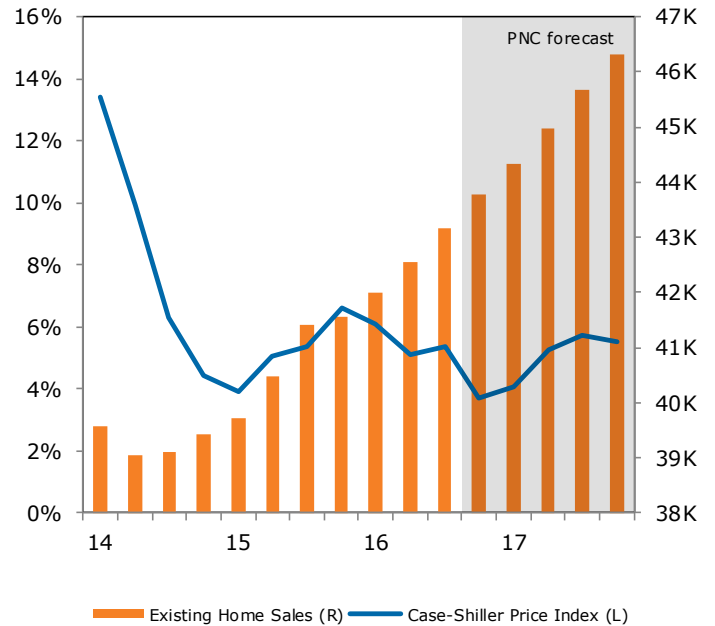


Chart sources: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

DEMOGRAPHICS

Demographic trends are not one of Detroit's strong suits at present. As passenger vehicle manufacturing has branched out across the Southern U.S. through the past several decades, Detroit has struggled to retain its workforce. The pace of out-migration was exacerbated as the recession shattered confidence in near-term employment prospects (Chart 4). Domestic auto manufacturers will be more competitive in the years to come as they shift their cultures to accommodate new technologies, but this longstanding economic core must still be supplemented with greater industrial diversity if migration trends are to be reversed.

Detroit suffers from a degree of social stigma due to high crime and government mismanagement. The process of sorting out and providing government services after the City of Detroit's emergence from bankruptcy could weaken demographics further for the time being. Improving attractiveness to potential new residents will be a long-term fight for the market area.

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

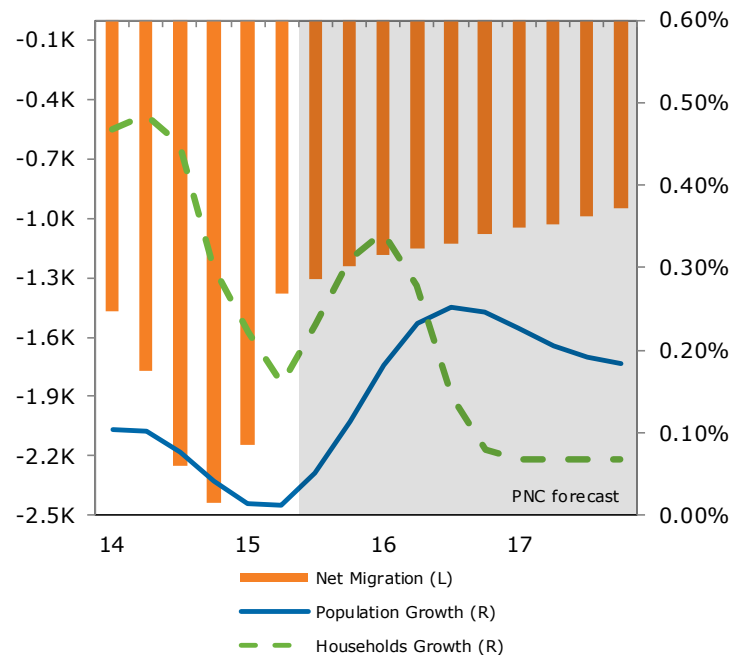


Chart sources: Bureau of Census; Bureau of Economic Analysis; Moody's Analytics; The PNC Financial Services Group

OUTLOOK SUMMARY

Detroit's economy is healthy, with a stable outlook over the near term. Job growth is spread across a broad base of industries, including local and national consumer-oriented employers. This will allow the market area to continue along its current trend, given the U.S. economy overall should maintain steady growth over the coming year. The prospect of corporate and personal income tax reductions could boost these prospects further, but Detroit will at least maintain its positive momentum even if such reforms are stalled.

Housing markets in Detroit are progressing toward being an economic contributor, as opposed to struggling to find their post-recession footing. House prices are growing at a sustainable pace, and new construction activity appears to be on the upswing as a result. Uncertainty regarding government operations certainly has a psychological effect on economic activity, but continuing real, tangible housing market improvement will be one of Detroit's primary tools in preventing any new bouts with economic uncertainty from overwhelming the market area over the next few years.

Detroit's economic future will always include auto design and manufacturing as a primary driver. However, the market area must work to grow a broader array of industries. The next several years will feature businesses looking for expansion opportunities, and new startups searching for cost-efficient locales. Detroit's capacity to take advantage of a post-recession, lower relative cost structure offers the means to start defining its longer-term development path.

FORECAST TABLE

| | U.S. | | | Detroit | | |
|---|------|-------|-------|---------|-------|-------|
| | 2015 | 2016E | 2017F | 2015F | 2016E | 2017F |
| Employment Growth, (% change) | 2.1 | 1.7 | 1.5 | 2.0 | 2.1 | 1.4 |
| Unemployment Rate, (%) | 5.3 | 4.9 | 4.5 | 6.2 | 5.4 | 5.1 |
| Median Household Income, (Ths. \$) | 55.8 | 57.1 | 58.2 | 53.6 | 53.3 | 54.4 |
| House Prices, (% change) | 4.6 | 5.0 | 3.7 | 5.3 | 5.1 | 5.2 |
| Single-Family Permits* (% change) | 10.2 | 8.5 | 4.4 | 7.5 | 12.1 | -4.4 |
| Multifamily Permits* (% change) | 11.5 | -2.5 | 2.1 | 44.2 | -7.3 | 23.9 |

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

| | U.S. | | Detroit | |
|---|------------|------------|------------|------------|
| | 2007-2012† | 2012-2017† | 2007-2012† | 2012-2017† |
| Employment Growth, (% change) | -0.6 | 1.8 | -1.4 | 1.8 |
| Unemployment Rate, (%) | 7.7 | 6.0 | 11.0 | 7.5 |
| Median Household Income, (Ths. \$) | 50.8 | 54.7 | 50.2 | 52.6 |
| House Prices, (% change) | -4.8 | 5.9 | -5.3 | 7.9 |
| Single-Family Permits* (% change) | -12.3 | 8.5 | 1.4 | 6.2 |
| Multifamily Permits* (% change) | -4.2 | 9.8 | -3.2 | 42.1 |

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

LONG-RUN EMPLOYMENT TRENDS

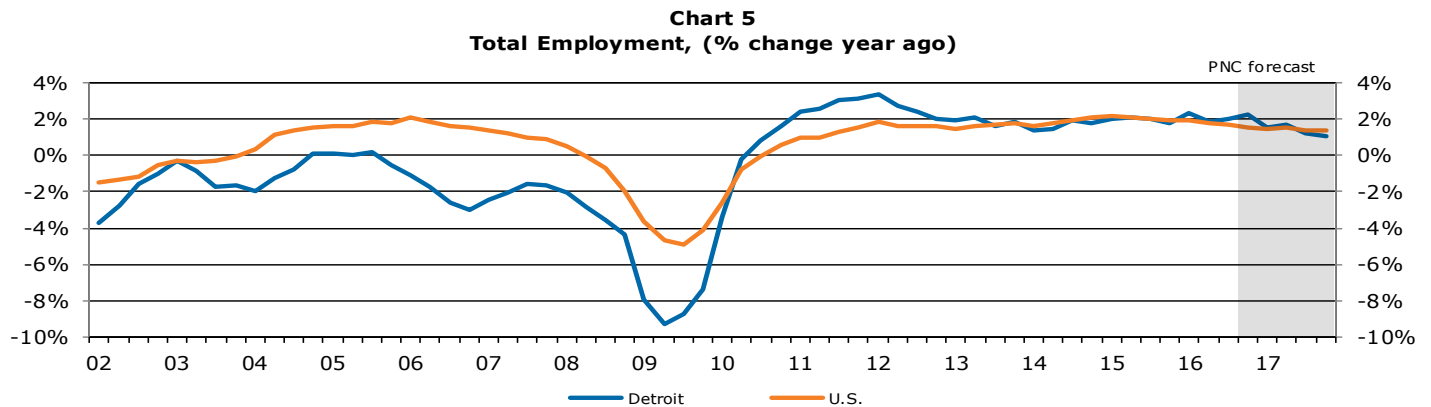


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

LONG-RUN DEMOGRAPHIC TRENDS

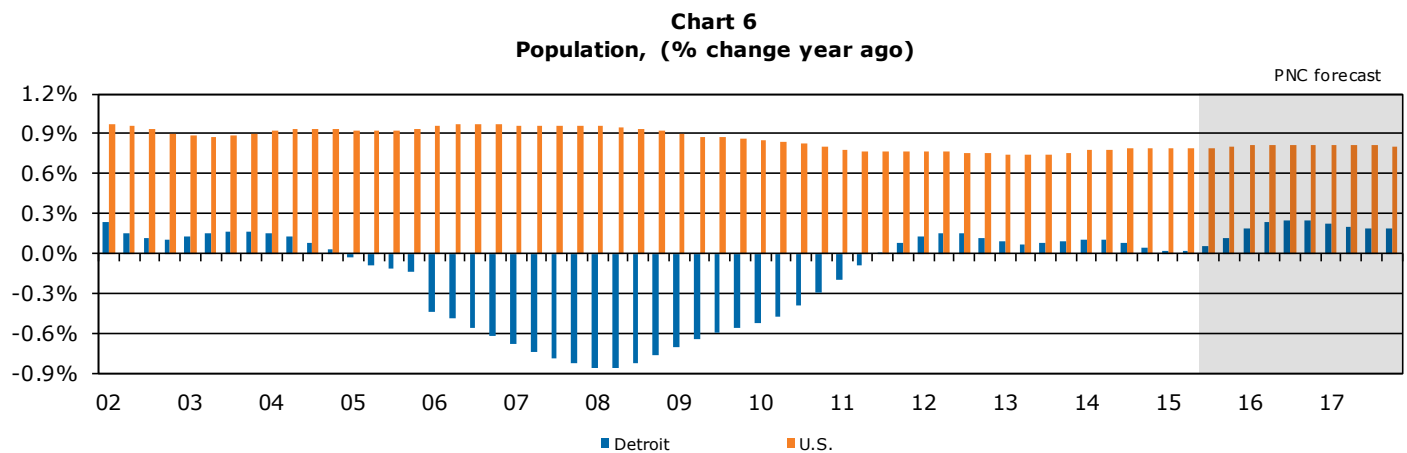


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

LONG-RUN HOUSE-PRICE TRENDS

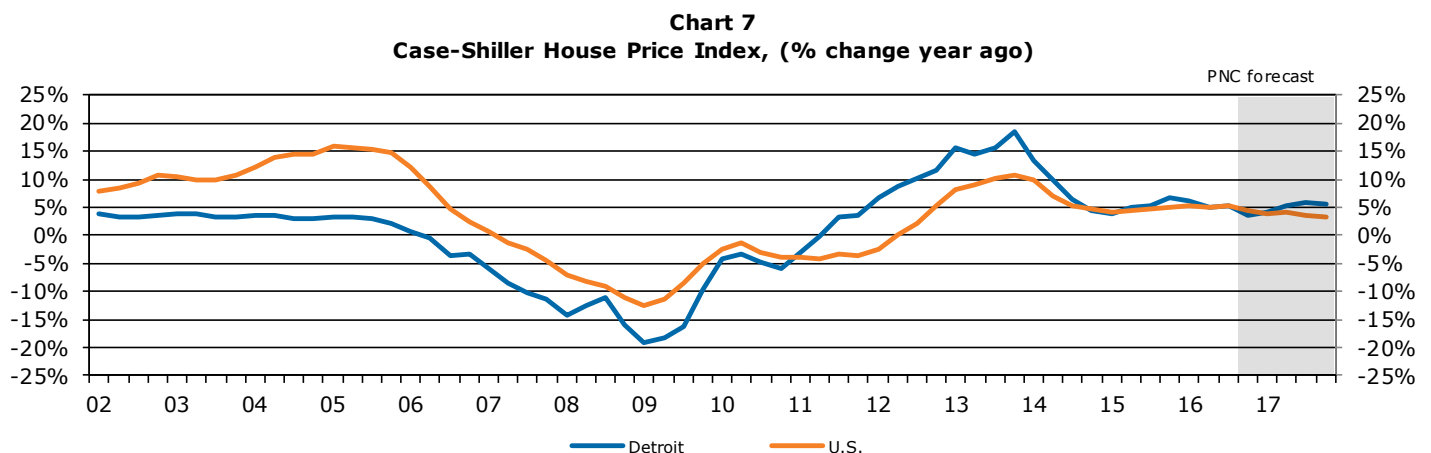


Chart source: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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