

EAST CENTRAL FLORIDA MARKET OUTLOOK

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JOB SITUATION

East Central Florida, which includes Orlando, Deltona, Palm Bay and Vero Beach metro areas, is expanding at a rapid pace (Chart 1). Orlando, which accounts for nearly three quarters of the region's employment, experienced the fastest rate of job growth in Florida in 2016. The national economic expansion is boosting travel and tourism in the region, leading to increased traffic through the international airport, higher consumer spending and tax revenue. Disney's planned expansion, Universal's massive land purchase, and Orlando International's expansion attest to the bright outlook for tourism's long-term potential. Professional services and healthcare continue to grow strongly, as they have for several years. Construction is bolstered by both residential and non-residential building. Private investment is launching Palm Bay's economy into a bright post-NASA future. The region is successfully transitioning from aerospace services such as rocket launching, to aerospace manufacturing. The market area's jobless rate fell to 4.8 percent in November 2016 from 5.1 percent in the prior year. By late-2016, payroll jobs were up by 9.5 percent from their pre-recession peak.

INCOME

A tighter labor market and a better mix of jobs being created, including better-paying professional services, will lead to slightly faster wage growth in 2017. However, average earnings will still grow at a slower rate than the U.S. because retail, leisure and hospitality account for a relatively larger share of the region's job growth. Thirty-six percent of net job gains in 2016 in the region were related to these industries, compared with 28 percent nationwide. These tourism-related jobs are, on average, low-wage jobs. Longer term, the region will struggle to narrow the income gap between itself and the nation. The median income has been stuck at about 12 percent below the U.S. median household income for the past five years (Chart 2). Prior to the recession, the region's median income was only about 5 percent lower. Over the years, the

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

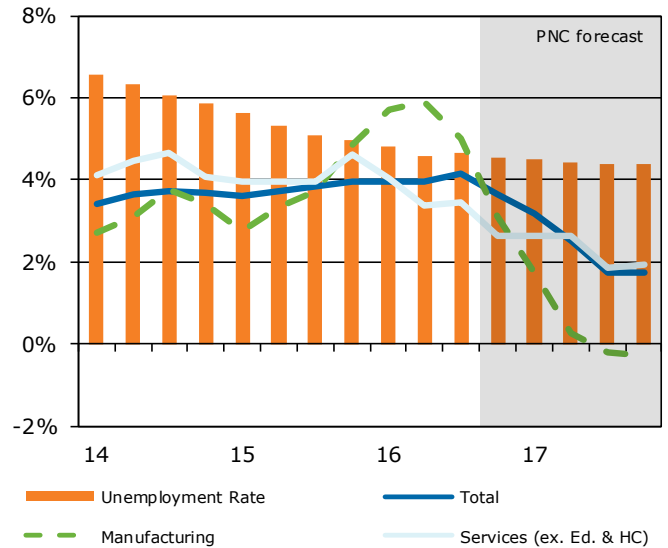


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

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

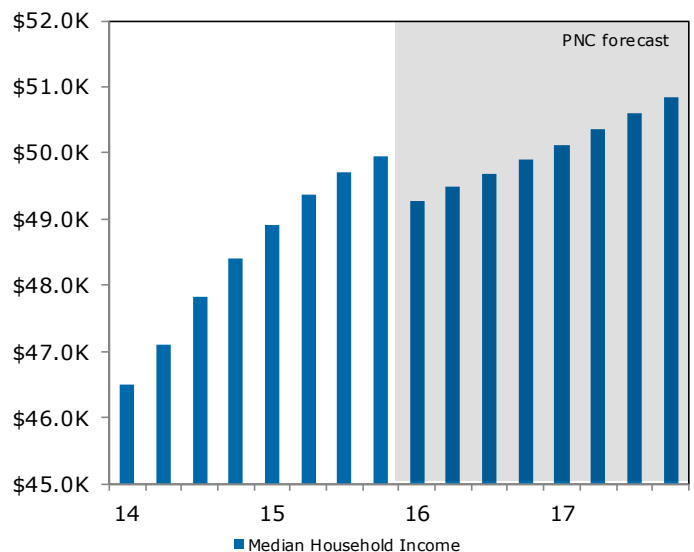


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group



share of well-paying manufacturing jobs shrunk and the recession cut construction's share of jobs in half. Looking ahead, this pattern is unlikely to change materially. Even as economic recovery spreads across industries, low-wage jobs in consumer industries are likely to dominate job creation.

HOUSING

House price appreciation will cool over the next couple of years but will remain above the national growth rate (Chart 3). Home sales will continue their ascent, thanks to easier access to credit and strong household formations. One positive development is that the large inventory of foreclosed properties is diminishing. According to CoreLogic, sales of distress properties in the Orlando metro area fell to 17 percent of total sales in mid-2016 from 24 percent in mid-2015. The metro area has gone from having the highest proportion of distress sales in the country to having the fourth highest. Though the foreclosure inventory is still large, this is a positive development in that it supports prices and reduces downside risks to the economic outlook. Construction of both single-family and multi-family units will rise strongly in the coming couple of years, but sales will be strong enough to ensure the supply of homes is consistent with demand.

DEMOGRAPHICS

East Central Florida's demographic trends are favorable to its long-term growth potential (Chart 4). The area is one of those rare markets that typically attracts both international and domestic in-migration. Also, above-average population growth sustains demand for services and housing. In-migration is improving as the economy leaves the Great Recession further behind. The area is likely to maintain strong, positive net migration over the coming decade, but at a level below the peak years of the mid-2000s. Similarly, population growth will also trend at a slower rate than in years past but will remain above the national average. On the downside, the preponderance of jobs in tourism in the region, means that the population between ages 25 and 44 is well above the Florida average and in the Orlando metro area, that demographic is well above the national average. This can make the workforce and regional economy more volatile than average over the course of a business cycle because younger in-migrants tend to be less attached to the region.

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

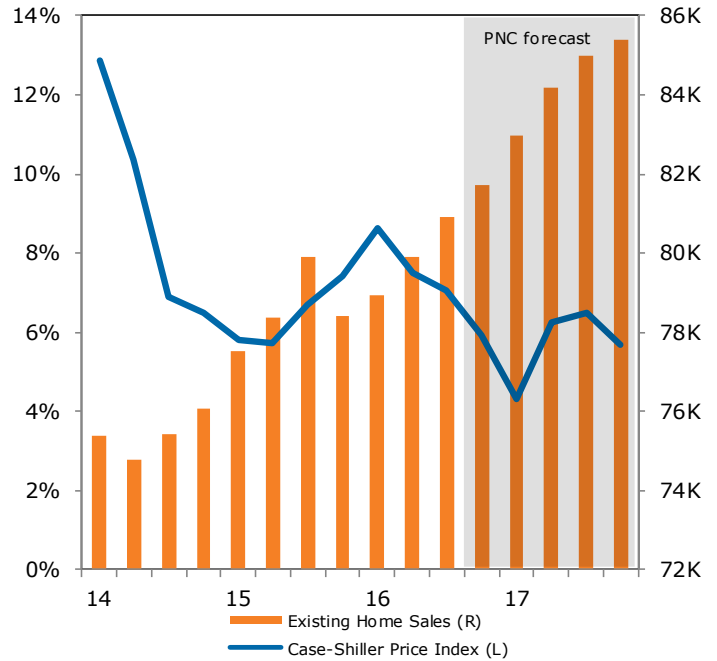


Chart sources: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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

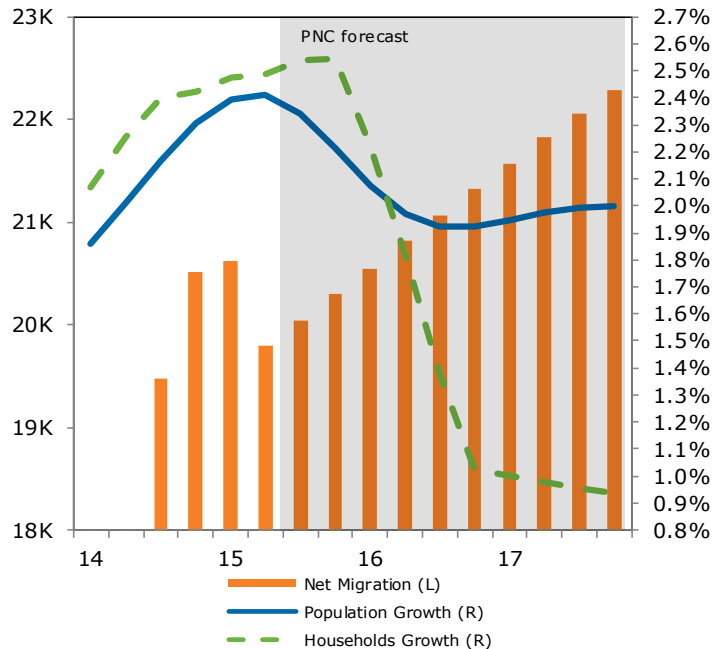


Chart sources: Bureau of Census; Bureau of Economic Analysis; Moody's Analytics; The PNC Financial Services Group

OUTLOOK SUMMARY

Employment growth in East Central Florida will moderate from its breakneck pace of the past three years as the unemployment rate falls to a cycle low of 4.4 percent in the second half of 2017. Still, the region will be one of the fastest growing areas in PNC's footprint. Tourism and consumer spending are likely to have another good year as more and more people gain employment and income growth picks up nationwide. Disney's planned expansion, Universal's massive land purchase, and Orlando International's expansion attest to the bright outlook for tourism's long-term potential. After a rough few years following NASA's final shuttle launch in the area, the Space Coast is bouncing back as private-sector aerospace firms fill the gap. Healing housing markets in the North and Northeast will improve mobility and boost retiree in-migration into the area. Regional home sales will continue to improve, thanks to a strong pace of household formations and easier access to credit. Home price appreciation will downshift to a more sustainable pace in the coming two years. Strong population growth will support both single-family and multi-family construction. There is upside potential to the economic outlook. Congress and the new President will likely boost infrastructure spending and cut business taxes, both of which could lift East Central Florida's economy. On the downside, an even stronger dollar could weigh on trade and international tourism. Immigration reforms that shrink the labor supply or adversarial trade relationships could also weaken the region's economy.

Longer term, reasonable business costs, strong demographic trends and a well-educated workforce are advantages the area can leverage to boost its long-term growth potential. The anchor provided by the University of Central Florida, one of the largest universities in the country, is an important asset that will add jobs, income and skilled talent to the region.

FORECAST TABLE

	U.S.			East Central Florida		
	2015	2016E	2017F	2015	2016E	2017F
Employment Growth, (% change)	2.1	1.8	1.5	3.8	3.9	2.3
Unemployment Rate, (%)	5.3	4.9	4.5	5.2	4.6	4.4
Median Household Income, (Ths. \$)	55.8	57.1	58.2	49.5	49.6	50.5
House Prices**, (% change)	4.6	5.2	4.6	6.4	7.2	5.7
Single-Family Permits* (% change)	10.2	10.0	8.2	21.4	21.6	13.3
Multifamily Permits* (% change)	11.5	-0.9	6.6	36.6	-5.4	9.2

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

	U.S.		East Central Florida	
	2007-2012†	2012-2017†	2007-2012†	2012-2017†
Employment Growth, (% change)	-0.6	1.8	-1.2	3.2
Unemployment Rate, (%)	7.7	6.0	8.7	6.1
Median Household Income, (Ths. \$)	50.8	54.7	46.7	48.1
House Prices**, (% change)	-4.8	6.1	-10.7	8.5
Single-Family Permits* (% change)	-12.3	9.6	-10.4	18.1
Multifamily Permits* (% change)	-4.2	11.1	-11.3	14.4

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

EAST CENTRAL FLORIDA

LONG-RUN EMPLOYMENT TRENDS

Chart 5
Total Employment, (% change year ago)

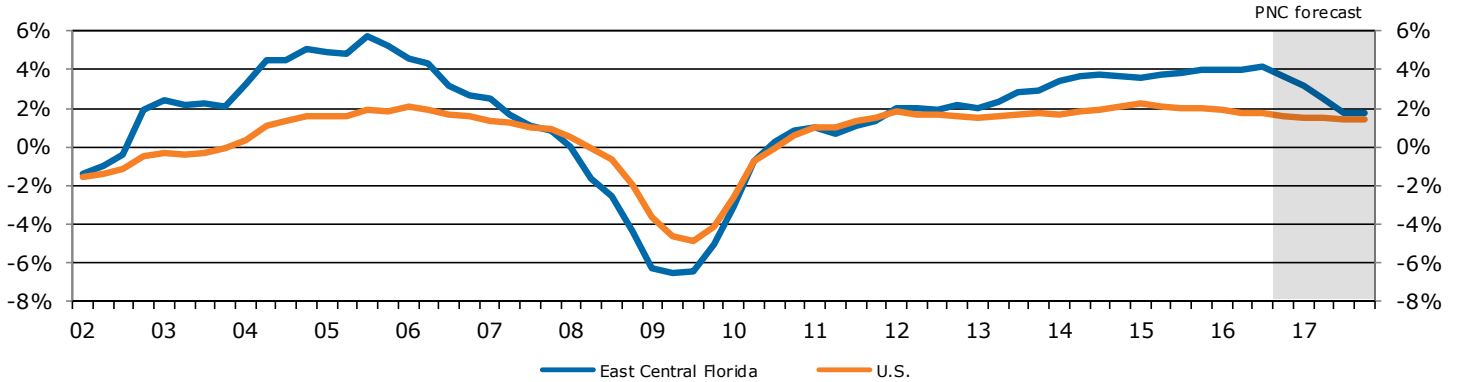


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

LONG-RUN DEMOGRAPHIC TRENDS

Chart 6
Population, (% change year ago)

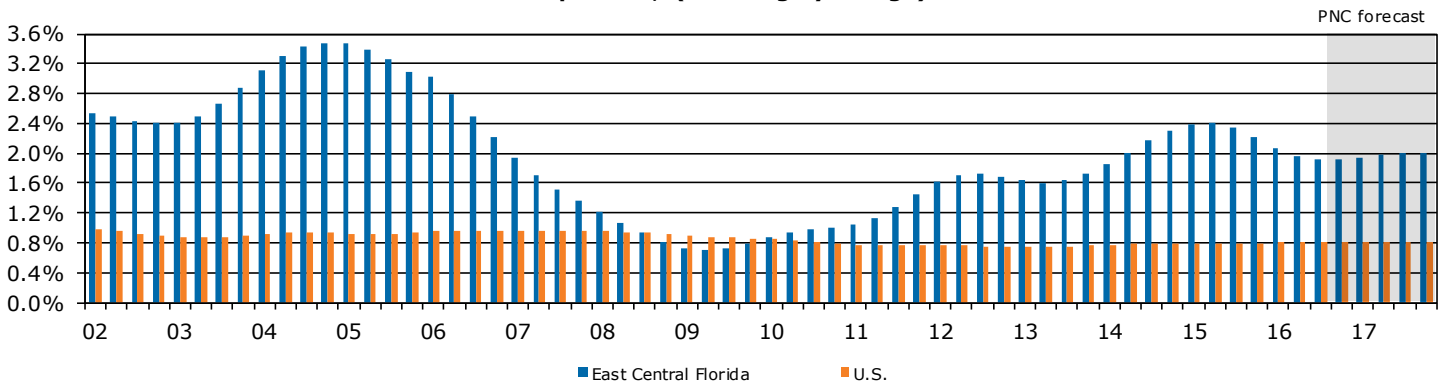


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

LONG-RUN HOUSE-PRICE TRENDS

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

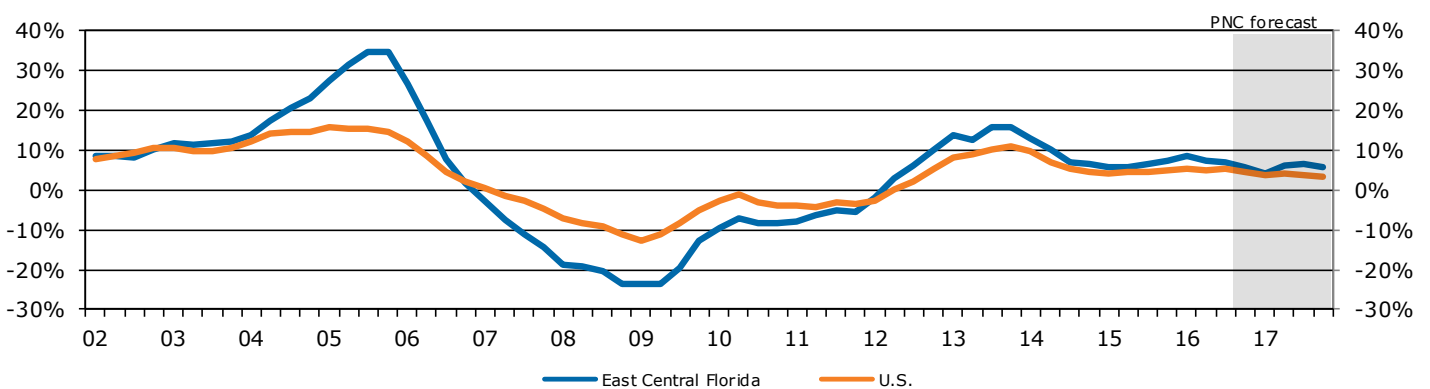


Chart source: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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