

FORT WAYNE MARKET OUTLOOK

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JOB SITUATION

The Fort Wayne market area will enjoy a second straight year of strong job growth in 2017, comparing favorably to both the national and Midwest regional averages. Manufacturing industries are providing the strongest support entering the new year (Chart 1). But even with a slowdown in service industry hiring, total employment finished 2016 up by just over 1 percent (as compared to +1.6 percent nationally). With higher-paying manufacturing, construction, and transportation & utilities industry jobs all faring well, consumer spending will not allow service industry hiring to lag for long. Fort Wayne's labor force gains have been stronger than the growth rate of hiring, pushing up the unemployment rate slightly through the end of last year. But the market area should see the unemployment rate steady at just over 4 percent in the coming year as a healthy mix of labor market supply and demand keep new job creation matched by job seekers and career advancement opportunities.

INCOME

Income growth in Fort Wayne will strengthen on the back of improving labor market conditions through the year ahead (Chart 2). Job growth has been strong since the recovery began, and outside of a slowdown among service industry employers in the latter half of 2016, has been spread across a broad base of industries, and thus income levels. Fort Wayne's labor force is waffling just above and below all time highs, meaning that there is ample labor supply to meet the market area's hiring needs. But this also means that wage inflation is unlikely to be strong in the coming year. Until the labor market tightens up further, employers will not be faced with the need to offer significantly stronger incentives in order to attract or retain their skilled workers. The prospect of stronger wage inflation does loom for employers further into the forecast horizon, however, considering the current length and likely continuation of Fort Wayne's strong labor market push.

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

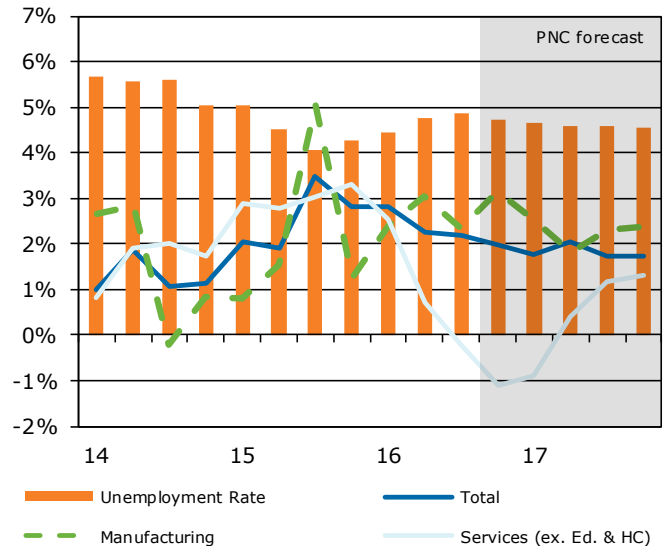


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

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

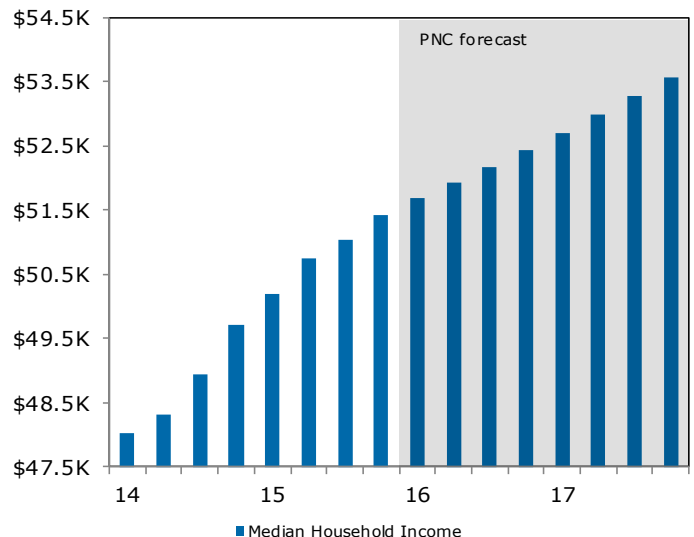


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group



HOUSING

Fort Wayne's housing market is following labor market strength and enjoying steady house price growth above its long-run historical averages (Chart 7). With job creation spanning the market area's entire industrial base, prominently including manufacturing, healthcare, professional and business services, as well as consumer-oriented industries, housing demand should enjoy another strong year in 2017 (Chart 3). There are no imminent threats to Fort Wayne's economic performance in sight, and home values should continue to appreciate for the foreseeable future.

New residential construction activity is tracking the Indiana state average as well as the national average nicely in terms of recovering to a pre-bubble equilibrium. Residential building permit issuance is around 70 percent of "normal" conditions, which were last experienced in the market area in the early 2000s. The need for expanded housing supply is not urgent, though, so an extended recovery on this front can proceed without threat to the market area's housing supply and demand dynamics.

DEMOGRAPHICS

Fort Wayne supports population growth that is below the national pace (Chart 6). Its trends reflect a modest inflow of international migrants, and fickle movement of domestic migrants, depending on job market fluctuations. Therefore, Fort Wayne's demographic trends are likely to remain stable in the near term (Chart 4) as its labor market remains strong.

Among its smaller-market Midwest region peers, Fort Wayne is noteworthy. The market area's population gains have consistently outpaced growth in the Midwest region as a whole since the mid-1990s. Housing is affordable, and the market area's industrial diversity is able to support the demands of a more dynamic labor pool than some of its regional neighbors can muster.

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

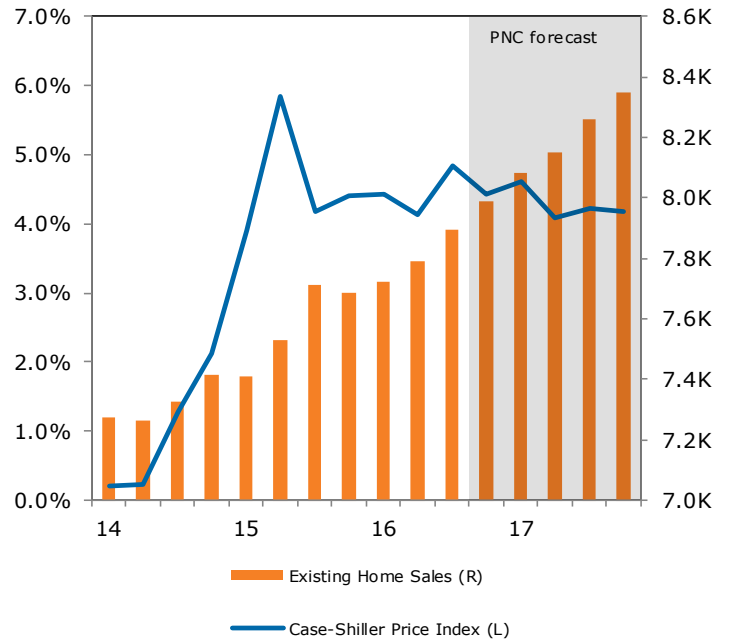


Chart sources: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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

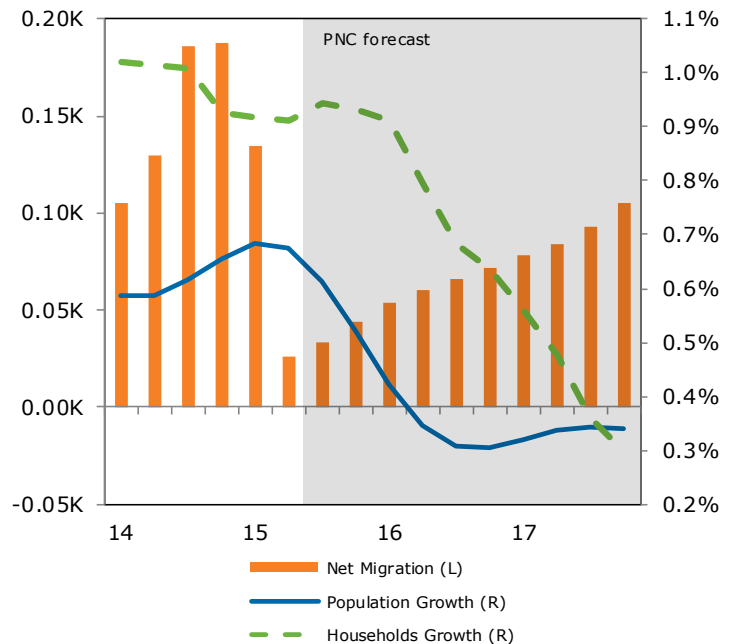


Chart sources: Bureau of Census; Bureau of Economic Analysis; Moody's Analytics; The PNC Financial Services Group

OUTLOOK SUMMARY

Fort Wayne's economic recovery will remain intact through the coming year. Labor market conditions carry sustainable momentum, thanks to the broad mix of industries contributing to hiring. And while service industries collectively slowed down in the second half of 2016, this should prove temporary considering higher-paying positions are being added and supply plenty of consumer spending potential to the local economy. The unemployment rate in Fort Wayne is near historic lows, and is seeing movements up and down (both marginal in nature) based more on the pace of new labor market entrants than volatility in actual job creation. Indiana's state-level economy has been one of the stronger performers over the past two years, and Fort Wayne's manufacturers and service providers will also have external demand from the surrounding region supporting continued growth prospects over the near-term horizon.

Household finances in Fort Wayne are on stable footing now that home prices are growing steadily. Income growth has a great deal of upside potential over the next few years now that the market area's labor force is pushing into new all-time highs. A new balance of labor supply and demand will eventually lead to stronger wage growth as employers seek out—and pay for—the most-skilled workers available. And the prospect of corporate and personal income tax rate reductions as a result of the Trump administration's fiscal policy agenda could add to already-healthy consumer-driven trends in the market area.

Fort Wayne's manufacturing base is quite varied, and is not dominated by any one particular firm or niche, such as is the case with auto manufacturing in other parts of the upper Midwest region. The market area also has a notable employment presence in healthcare, aerospace, insurance, telecom, transportation and education. This industrial diversity will support the market area's continued improvement on pretty much all economic fronts over the long term.

FORECAST TABLE

	U.S.			Fort Wayne		
	2015	2016E	2017F	2015	2016E	2017F
Employment Growth, (% change)	2.1	1.7	1.5	2.6	2.3	1.8
Unemployment Rate, (%)	5.3	4.9	4.5	4.5	4.7	4.6
Median Household Income, (Ths. \$)	55.8	57.1	58.2	50.9	52.1	53.1
House Prices, (% change)	4.6	5.0	3.7	4.6	4.5	4.3
Single-Family Permits* (% change)	10.2	8.5	4.4	12.1	10.4	-8.0
Multifamily Permits* (% change)	11.5	-2.5	2.1	0.8	10.7	-59.0

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

	U.S.		Fort Wayne	
	2007-2012†	2012-2017†	2007-2012†	2012-2017†
Employment Growth, (% change)	-0.6	1.8	-1.0	1.8
Unemployment Rate, (%)	7.7	6.0	8.3	5.8
Median Household Income, (Ths. \$)	50.8	54.7	47.7	50.1
House Prices, (% change)	-4.8	5.9	-0.9	3.2
Single-Family Permits* (% change)	-12.3	8.5	-8.3	7.7
Multifamily Permits* (% change)	-4.2	9.8	64.1	-20.9

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

LONG-RUN EMPLOYMENT TRENDS

Chart 5
Total Employment, (% change year ago)

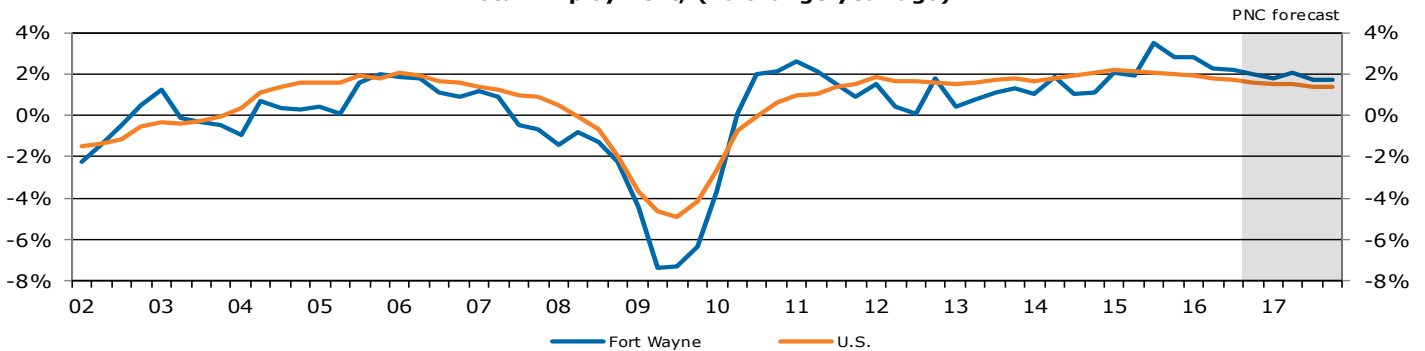


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

LONG-RUN DEMOGRAPHIC TRENDS

Chart 6
Population, (% change year ago)

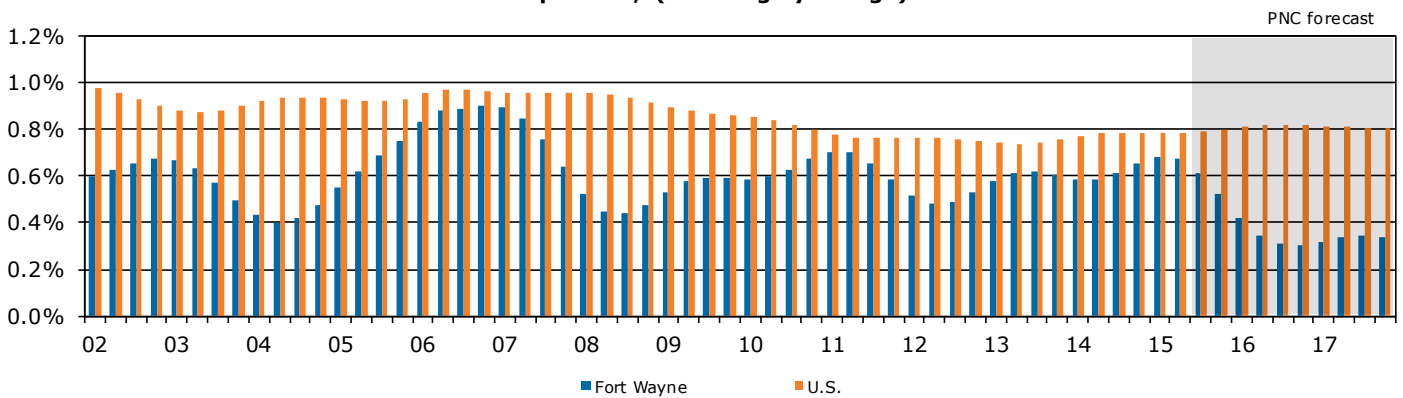


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

LONG-RUN HOUSE-PRICE TRENDS

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

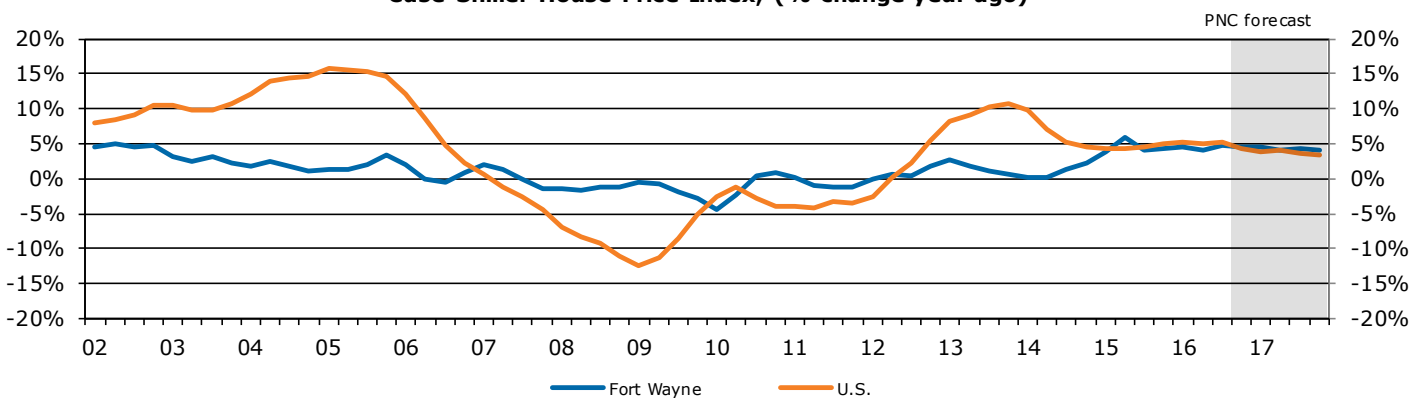


Chart source: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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