

GREATER MICHIGAN MARKET OUTLOOK

Stuart Hoffman
Chief Economist

Gus Faucher
Deputy Chief Economist

William Adams
Senior Economist

Kurt Rankin
Economist

Mekael Teshome
Economist

THE PNC FINANCIAL SERVICES GROUP | The Tower at PNC Plaza | 300 Fifth Avenue | Pittsburgh, PA 15222-2401

JOB SITUATION

Greater Michigan’s economy is primed to continue its exceptional economic growth through the year in 2017. The market area, which includes Grand Rapids, Lansing, Kalamazoo and Battle Creek, has enjoyed manufacturing industry job growth well above the national average since the region’s recession ended in 2010. The relatively high-paying positions generated across the local economy’s manufacturing base translated into accelerated service industry hiring last year (Chart 1). Service industry employers, collectively, saw growth accelerate to match that of the market area’s manufacturing base as consumer spending and business activity fueled demand from all angles.

Greater Michigan’s unemployment rate has likely hit bottom at just over 3 percent. 2017 will not see a slowdown in hiring, but above-average labor force growth—with the region able to attract job seekers from other markets—will keep the ratio of unemployed to total job seekers stable.

INCOME

Wage growth in the Greater Michigan market area slowed in 2016. This slowdown resulted from a revised mix of higher- and lower-paying job creation, rather than any inherent weakness in Greater Michigan’s economy. Service industry positions are likely to pay less than the manufacturing and transportation industry positions that dominated the market area’s hiring trends for the 5 years leading up to 2016. But less rapid wage growth is only a function of these relatively lower-paying positions balancing against higher-paying jobs, not replacing them altogether. Local consumer spending should be well supported over the near-term horizon thanks to healthy pay increases and the fact that hiring is now broad based and, therefore, self-sustaining locally. Median household income (Chart 2) is still below the national and Midwest regional averages. But low living costs help to keep this condition from undermining labor market attractiveness.

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

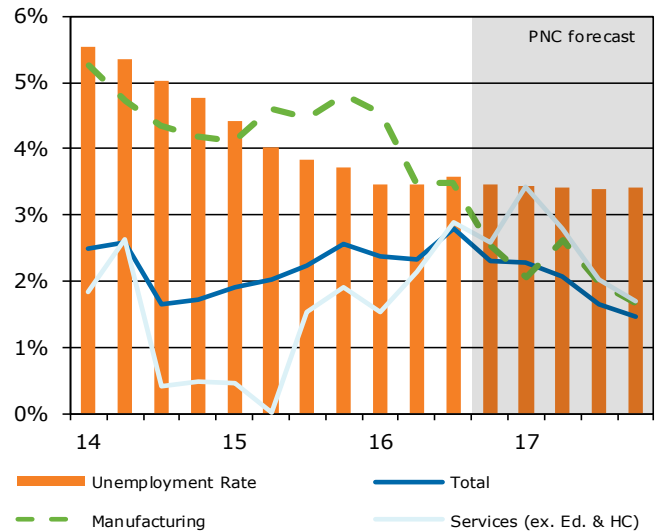


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

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

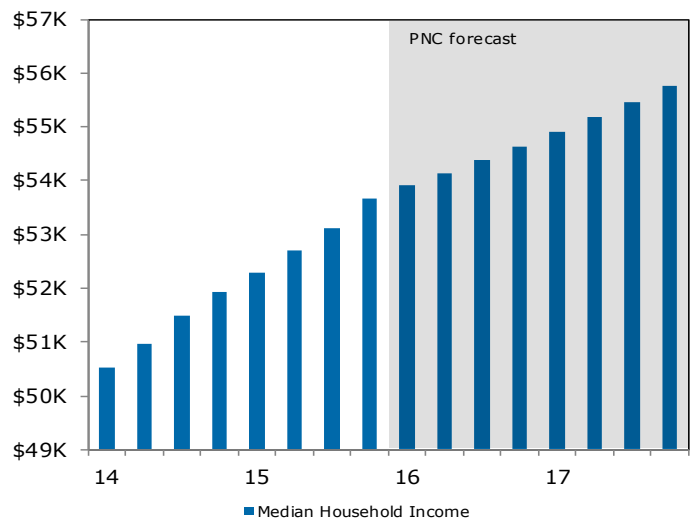


Chart sources: Bureau of Census; Moody’s Analytics; The PNC Financial Services Group

HOUSING

Greater Michigan’s housing market is reaping the benefits of above-average employment growth across a broad base of industries. Existing home prices in the market area continue to grow at a pace above the national average (Chart 5). New homebuilding in Greater Michigan also picked up in 2016 after a lackluster recovery up until last year. Labor market strength will keep housing demand on the rise over the next several years as first-time homebuyers feel confident enough to take the plunge, and existing homeowners are afforded the ability to trade up.

The potential for personal income tax reform and infrastructure spending that has been proposed by the Trump administration suggest a potential next leg of Greater Michigan’s housing market advance. If converted to action, these proposals would add even more jobs to the local economy, and support saving toward what is still a high down payment threshold for first time buyers.

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

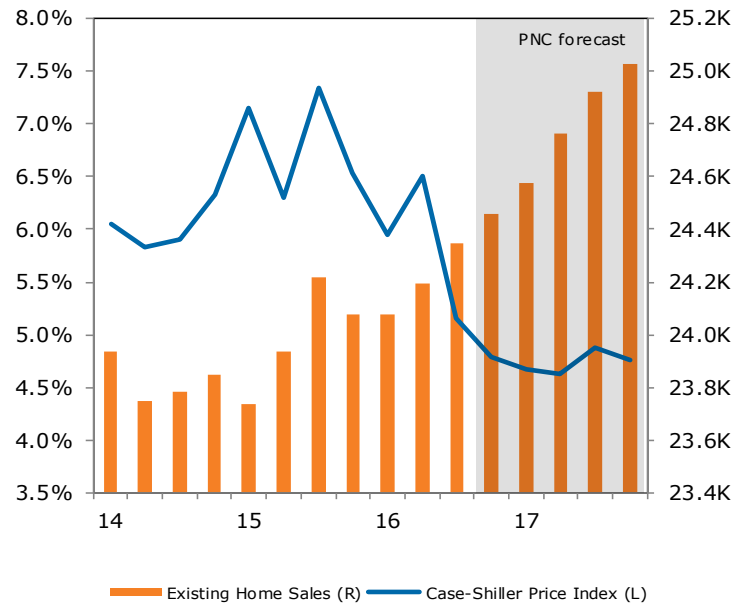


Chart sources: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

DEMOGRAPHICS

Demographic trends in Greater Michigan are moderating after their post-recession rebound. Population gains are typically quite slow in the market area even during periods of economic strength (Chart 6). Looking ahead, the good news for Greater Michigan’s demographic trends is that domestic auto brands appears to be in significantly better condition to compete on the basis of technology and fuel efficiency over the coming decade. This revitalized standing in the industry should help population maintain a steady growth pace over the next few years. Stable migration trends, even if unspectacular, will also support continued household formation (Chart 4) given the market area’s high affordability. Current labor market attractiveness versus many neighboring Midwest region economies will allow Greater Michigan to maintain its advantage in attracting new residents over the near-term horizon.

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

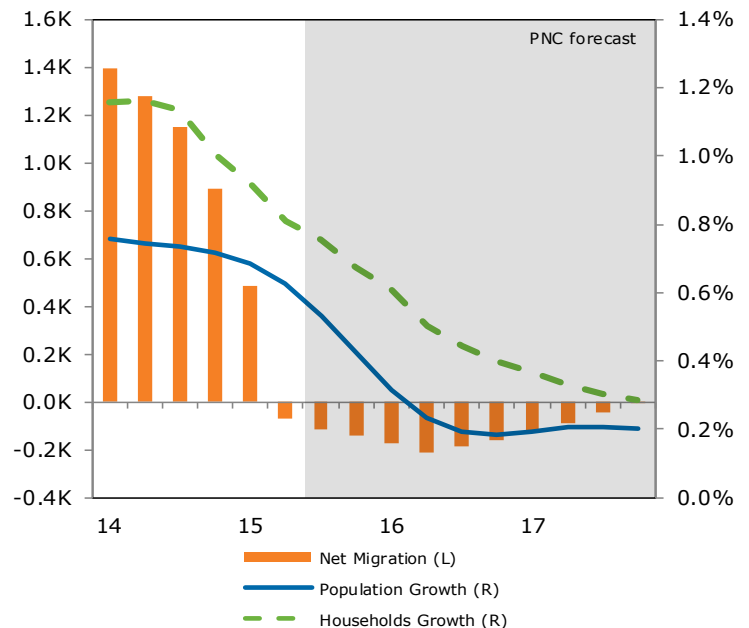


Chart sources: Bureau of Census; Bureau of Economic Analysis; Moody’s Analytics; The PNC Financial Services Group

OUTLOOK SUMMARY

Greater Michigan's recovery is one of the most impressive across the Midwest region's market areas. Job growth is strong across a range of industries, and the unemployment rate has declined dramatically—from above 14 percent to nearly 3 percent to close out 2016. Greater Michigan's labor market has tightened enough that local employers should find 2017 a year of higher labor costs as stronger offers to potential hires are required to either lure them from their existing positions, or even to keep them from seeking other opportunities in the market area's exceptionally healthy economy.

Housing markets in Greater Michigan are capitalizing on the steady above-average job market trends. Across the market area on the aggregate, price growth continues to surprise to the upside on the back of healthy, stable demand. Improving home values should continue to instill confidence that rising incomes can be spent back into the local economy without significantly jeopardizing overall wealth.

The broader picture of Greater Michigan's economic outlook includes the stabilizing, long-term benefits provided by the presence of Michigan State University and several large healthcare providers. And while manufacturing will remain an integral part of Greater Michigan's economic landscape, there are industries with bright futures associated with university research and the Department of Energy's support of alternative energy research. Growth in these areas will go far in helping to establish a more balanced economy in the years to come. Greater Michigan has several advantages that provide it with upside potential concerning these growth prospects, including availability of skilled labor, competitive wages, and low industrial and office rents. Businesses looking to expand into a region of highly networked supply lines will find the market area an attractive option for these reasons over the long term.

FORECAST TABLE

	U.S.			Greater MI		
	2015	2016E	2017F	2015	2016E	2017F
Employment Growth, (% change)	2.1	1.7	1.5	2.2	2.5	1.9
Unemployment Rate, (%)	5.3	4.9	4.5	4.0	3.5	3.4
Median Household Income, (Ths. \$)	55.8	57.1	58.2	52.9	51.7	52.7
House Prices, (% change)	4.6	5.0	3.7	6.8	5.6	4.7
Single-Family Permits* (% change)	10.2	8.5	4.4	8.5	9.5	-1.2
Multifamily Permits* (% change)	11.5	-2.5	2.1	46.4	18.0	-17.9

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

	U.S.		Greater MI	
	2007-2012†	2012-2017†	2007-2012†	2012-2017†
Employment Growth, (% change)	-0.6	1.8	-0.6	2.2
Unemployment Rate, (%)	7.7	6.0	8.7	4.9
Median Household Income, (Ths. \$)	50.8	54.7	48.4	51.3
House Prices, (% change)	-4.8	5.9	-3.2	6.0
Single-Family Permits* (% change)	-12.3	8.5	-6.7	8.3
Multifamily Permits* (% change)	-4.2	9.8	-9.5	22.0

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

LONG-RUN EMPLOYMENT TRENDS

Chart 5
Total Employment, (% change year ago)

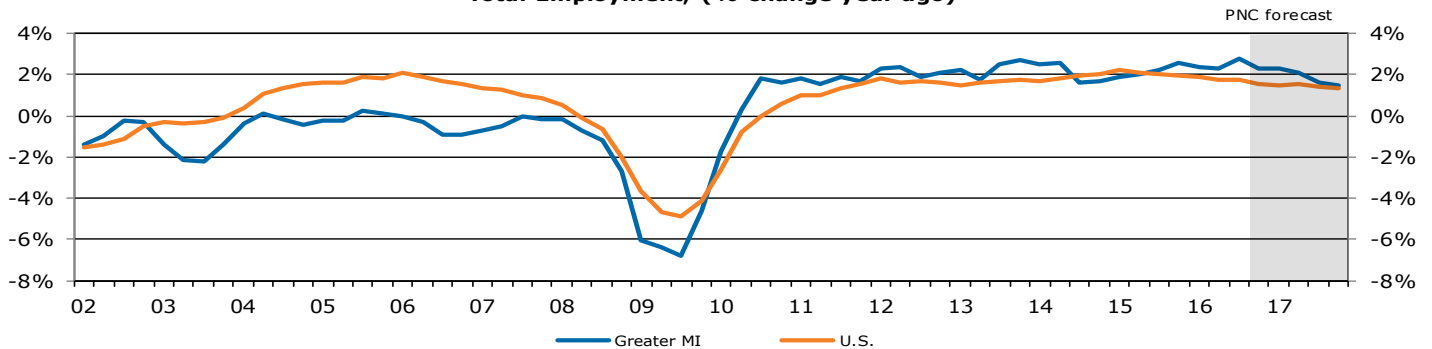


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

LONG-RUN DEMOGRAPHIC TRENDS

Chart 6
Population, (% change year ago)

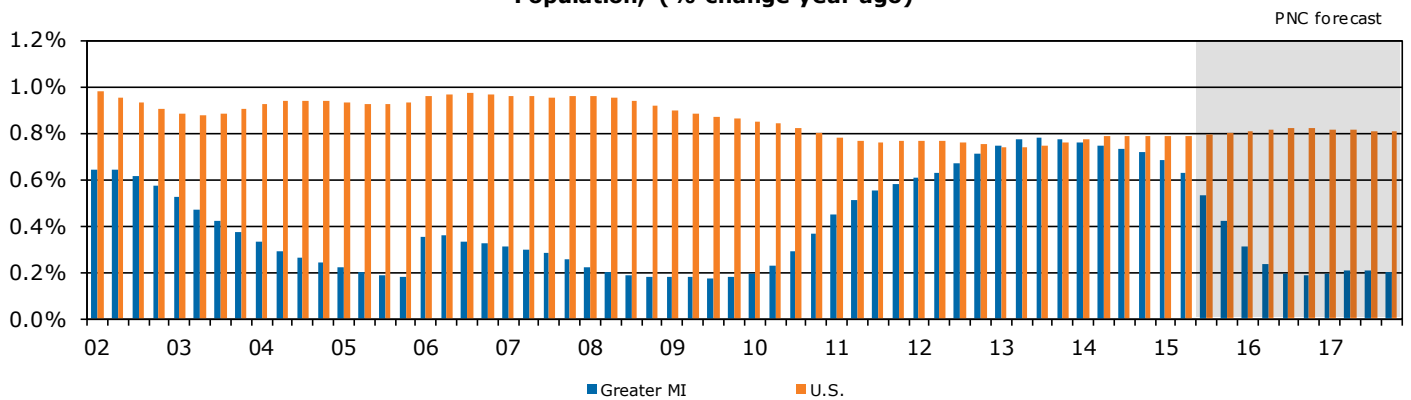


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

LONG-RUN HOUSE-PRICE TRENDS

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

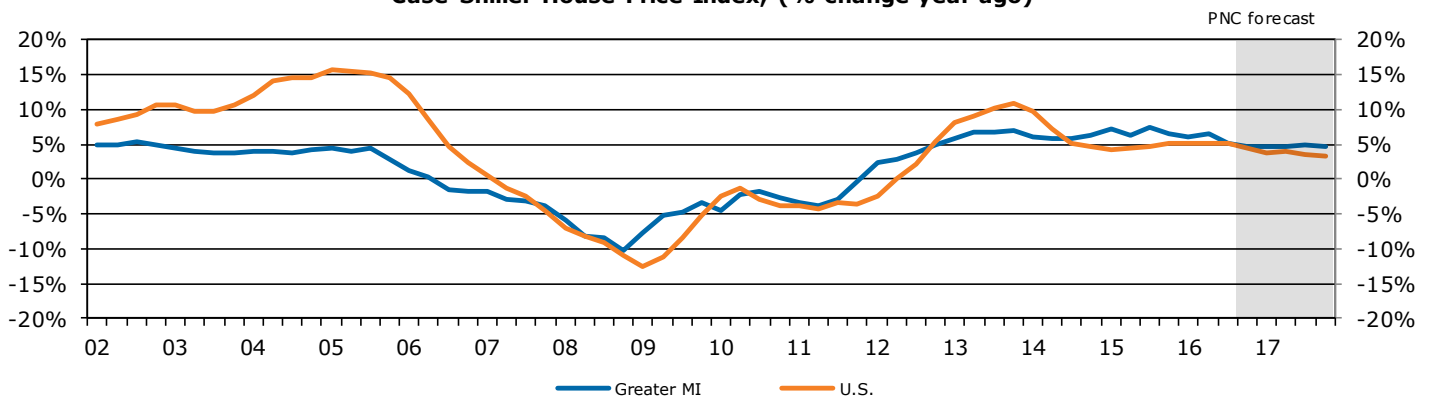


Chart source: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

Visit <http://www.pnc.com/economicreports> to view the full listing of economic reports published by PNC's economists.

Disclaimer: The material presented is of a general nature and does not constitute the provision of investment or economic advice to any person, or a recommendation to buy or sell any security or adopt any investment strategy. Opinions and forecasts expressed herein are subject to change without notice. Relevant information was obtained from sources deemed reliable. Such information is not guaranteed as to its accuracy. You should seek the advice of an investment professional to tailor a financial plan to your particular needs.