

GREATER WASHINGTON 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

The Greater Washington economy charged in to 2017 with considerable strength (Chart 1). The jobless rate declined to 3.8 percent in December 2016 from 4.2 percent in December 2015. The labor force is growing at healthy rates, signifying that confidence in the region's economy is strong. Federal government spending and employment are boosting the region's economy. This, in turn, is driving growth in professional and business services, an industry that accounts for more than 1 in 5 jobs locally and includes many government contractors. The region's universities and hospitals are significant growth drivers as well. Continued jobs and income growth nationwide are supporting tourism and buoying retail, leisure and hospitality employment. Construction employment is also growing, as commercial and residential building improve. Regionally, employment is nearly 8 percent higher than its pre-recession peak. In the U.S., employment is up 5 percent from its pre-recession peak.

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

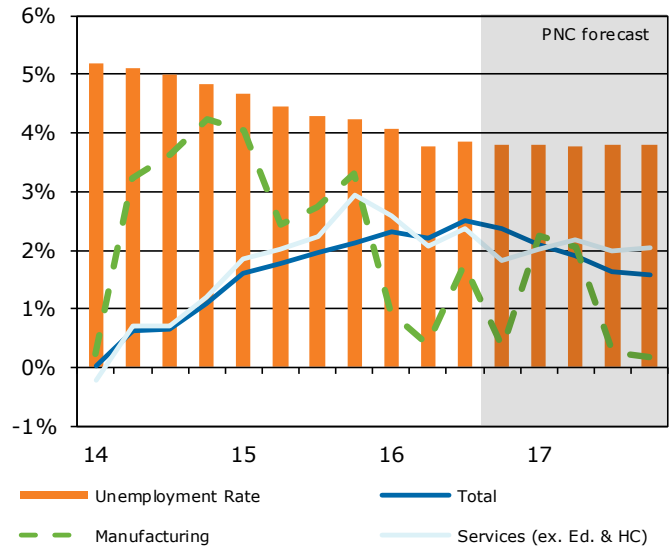


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

INCOME

Income growth will improve in 2017, thanks to pay increases for Federal employees and a tight job market. Federal employees received their first across-the-board pay raise in years on January 1. Greater Washington's labor market is very tight by Southern or national comparisons because there are few unemployed people relative to the number of advertised positions. The median household income in Greater Washington is 70 percent higher than the national figure and is among the highest in the country (Chart 2). The local workforce is well-educated, with 57 percent of adults over age 25 in the District of Columbia possessing at least a bachelor's degree, in contrast with a national rate of 31 percent. This attracts large and well-paying firms and explains why high-tech jobs are significantly more prevalent in the region than they are nationwide. In addition, salaries are high in the Federal government and associated industries. A big risk in the next couple of years is that budget deficits could force wage and employment

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

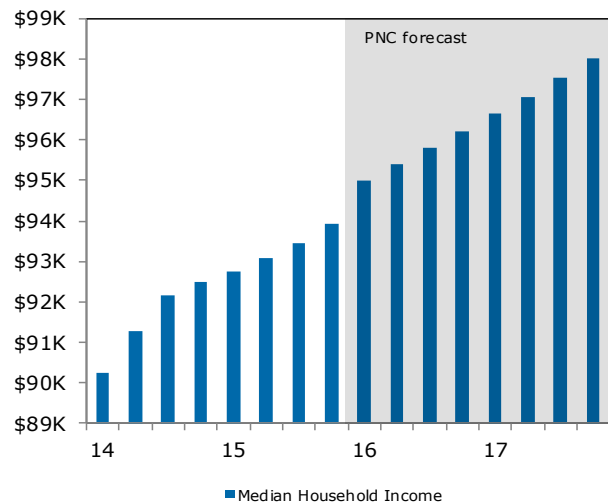


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group



restraint in this critical sector. Over the longer term, Greater Washington incomes will remain well above the national average, and will continue to support consumer demand.

HOUSING

Greater Washington's housing market will strengthen over the next couple of years (Chart 3). Home sales are set to rise, thanks to improving income growth and easier access to credit. The single family segment will face stronger demand thanks to a healthy rate of population growth and household formations as well as easier access to credit. Single-family homes are expensive for the region's youthful population but that will support demand for multifamily units. Home prices will rise between 2 and 3 percent in 2017 and 2018 as housing supply keeps up with demand. Longer term, although affordability has improved from the middle of the 2000s, house prices in Greater Washington are still very high relative to the region. This will push people out to neighboring, less expensive areas and limit population growth.

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

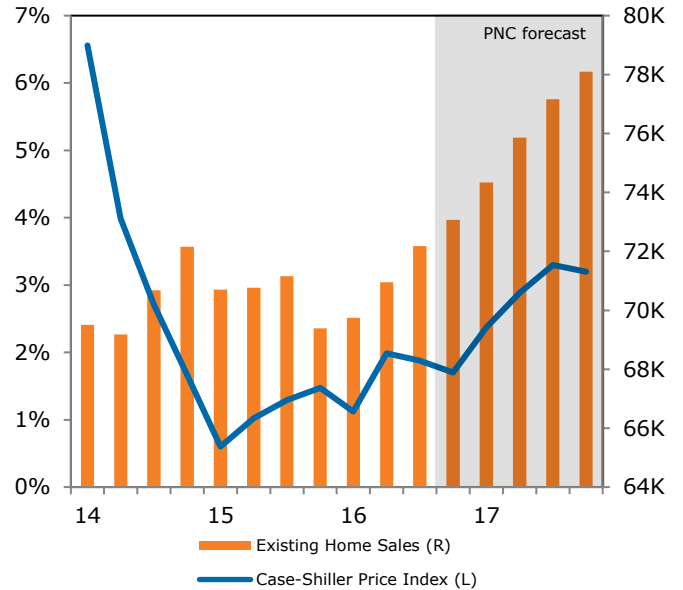


Chart sources: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

DEMOGRAPHICS

Favorable demographics underpin Greater Washington's positive economic outlook over the long-run. Strong rates of in-migration will drive above-average population growth (Chart 4). Foreign-born migrants are an especially important part of the local growth story. One in five residents in Greater Washington is foreign-born and in 2015, 55 percent of net migrants into the District were foreign migrants. This is an advantage during times when domestic labor mobility is hampered. The region's population is youthful as well. Forty percent of the population is between the ages of 25 and 44, compared with 33 percent in the U.S. Greater Washington attracts well-educated people, contributing to incomes that are far above the national average. Above-average population growth over the next few years will support homebuilding and consumer spending, and the area's economic base will continue to broaden beyond government-related employment. However, the area is highly congested, taxing physical infrastructure and reducing quality of life. High housing costs and taxes will also limit the area's potential population gains over the longer run.

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

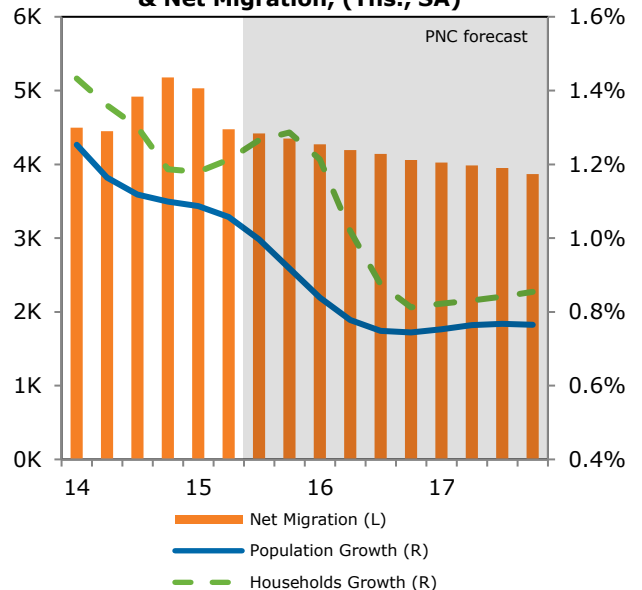


Chart sources: Bureau of Census; Bureau of Economic Analysis; Moody's Analytics; The PNC Financial Services Group

OUTLOOK SUMMARY

The Greater Washington economy will outrun the U.S. economy in terms of job growth in 2017 and 2018. The worst of Federal fiscal restraint is over, and this will support the region's contractors and professional services, many of which are high-tech and well-paying firms. A recovering housing market and improved tourism from the stronger national economy will add support. The region's educational and healthcare institutions will also be important and reliable growth drivers. The area's very well-educated workforce will attract employers seeking skilled labor, and incomes will remain far above the national average. Continued in-migration, especially foreign, will lead to population gains and growth in consumer spending. However, low housing affordability, traffic congestion, strained infrastructure, and other quality of life concerns will be negatives for the area.

Greater Washington's economy faces both upside potential and downside risks to its outlook. On the upside, Congress and the Trump administration want to cut business taxes, boost infrastructure spending and increase defense spending, all of which would be boons for the regional economy. On the downside, the fiscal stimulus would be deficit financed and this could push the Trump administration to curtail hiring or pay increases for Federal employees. Also, immigration policies that restrict the supply of labor in an already tight labor market could curb the region's economic prospects.

Over the longer run the Greater Washington area will adjust to a structurally smaller Federal government. The area's highly skilled workforce will continue to support economic growth and some of the highest incomes in the nation, although low housing affordability and other quality-of-life concerns will remain structural impediments.

FORECAST TABLE

	U.S.			Greater Washington		
	2015	2016E	2017F	2015	2016E	2017F
Employment Growth, (% change)	2.1	1.8	1.5	1.9	2.3	1.8
Unemployment Rate, (%)	5.3	4.9	4.5	4.4	3.9	3.8
Median Household Income, (Ths. \$)	55.8	57.1	58.2	93.3	95.6	97.3
House Prices, (% change)	4.6	5.2	4.6	1.1	1.7	2.9
Single-Family Permits* (% change)	10.2	10.0	8.2	1.8	3.5	2.1
Multifamily Permits* (% change)	11.5	-0.9	6.6	-16.3	16.0	4.7

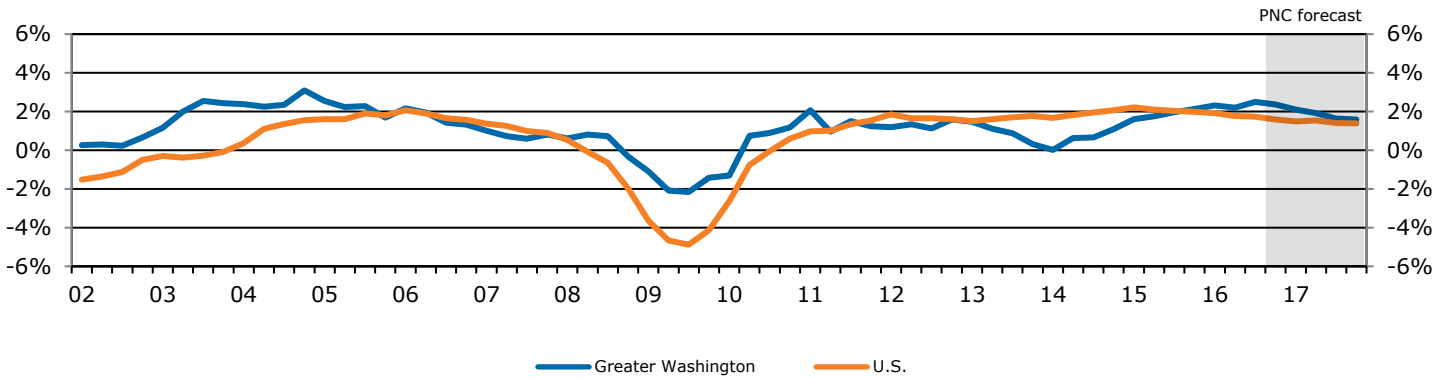
E = Full year estimate, F = PNC forecast, *U.S. starts

	U.S.		Greater Washington	
	2007-2012†	2012-2017†	2007-2012†	2012-2017†
Employment Growth, (% change)	-0.6	1.8	0.4	1.5
Unemployment Rate, (%)	7.7	6.0	5.1	4.7
Median Household Income, (Ths. \$)	50.8	54.7	86.8	92.7
House Prices**, (% change)	-4.8	6.1	-3.4	3.3
Single-Family Permits* (% change)	-12.3	9.6	-6.2	3.7
Multifamily Permits* (% change)	-4.2	11.1	7.6	2.0

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

LONG-RUN EMPLOYMENT TRENDS

Chart 5
Total Employment, (% change, year ago)



LONG-RUN DEMOGRAPHIC TRENDS

Chart 6
Population, (% change, year ago)

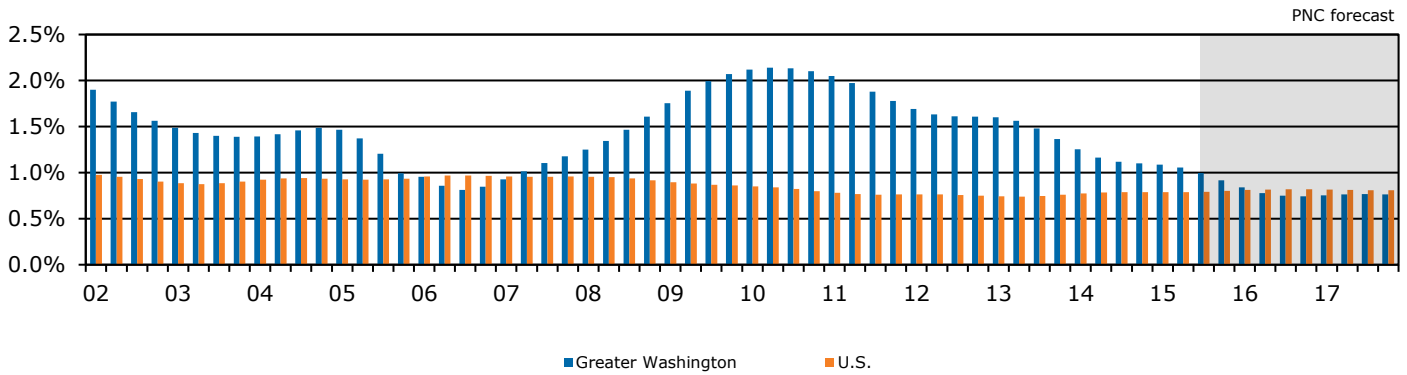


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

LONG-RUN HOUSE-PRICE TRENDS

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

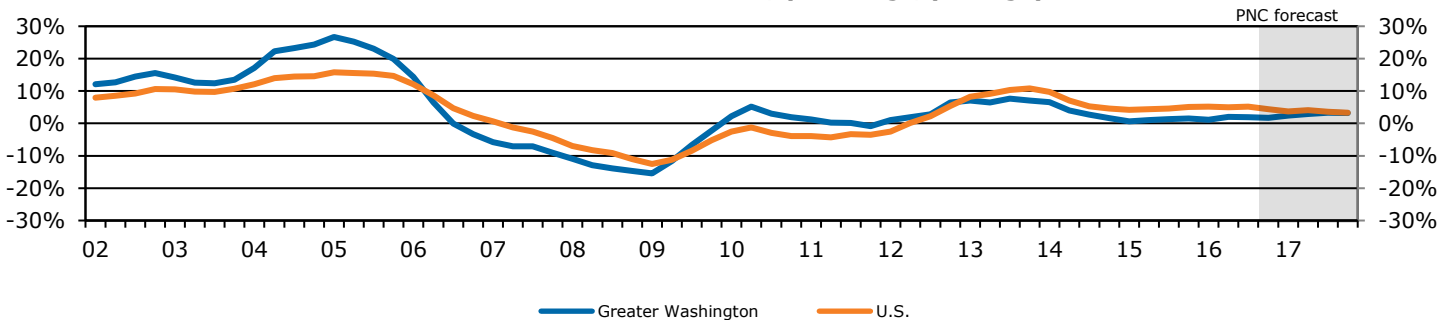


Chart source: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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