

INDIANAPOLIS MARKET OUTLOOK

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JOB SITUATION

The Indianapolis market area should continue its run of stable labor market gains over the coming year. Hiring is on track in both service-oriented and manufacturing industries (Chart 1), but construction industry job gains were the real standout through the end of last year. Indianapolis saw construction jobs end the year up by 5.7 percent, well above the Indiana state (0.61 percent) and national (2.2 percent) averages. Construction jobs join manufacturing and transportation & utilities as some of the highest-paying position available for the local work force en masse, and these gains suggest that consumer-fueled growth should be able to ride plenty of momentum through the new year.

Indianapolis' labor force continues to grow at a pace well above average. The influx of job seekers both from the local economy's sidelines as well as other markets will allow employers to continue to expand operations with little concern over the available of skilled labor resources in the market area.

INCOME

Income conditions in Indianapolis' are in a very strong position entering 2017. Average wages in the market area are already above the national average. But growth in wages also outpaced national trends by a factor of four to end 2016—up 10.3 percent versus growth of 2.7 percent for the U.S. as a whole. Job creation is spanning a wide berth of industries, but particular strength in the local economy's high-paying manufacturing and construction industries has average wage growth posting exceptional results.

Median household income in Indianapolis (Chart 2) is marginally below the national average. But a lower cost of living in the market area balances this deficiency, allowing Indianapolis to continue to draw in job seekers from other, possibly higher-cost economies across the Midwest region and, indeed, the nation at large.

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

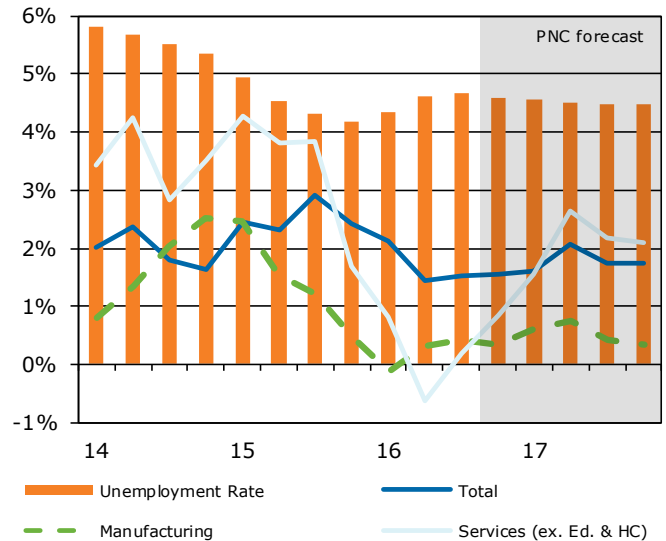


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

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

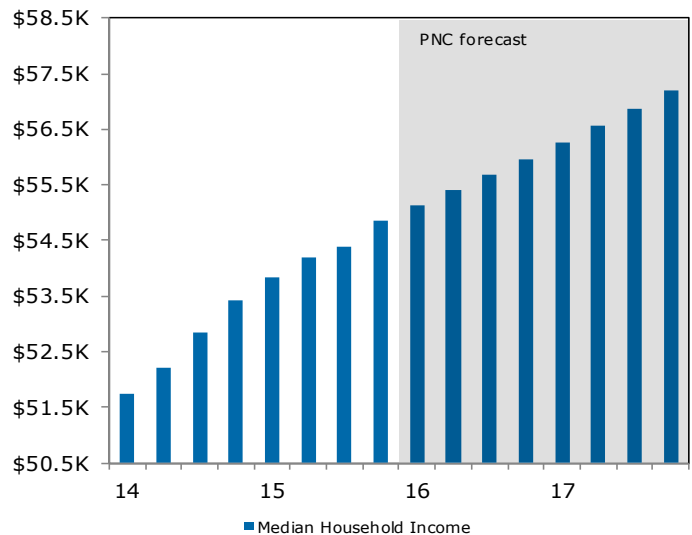


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group



HOUSING

Indianapolis' housing market is healthy and will continue to strengthen over the coming year. Average home values in Indianapolis are nearly 20 percent *above* their pre-recession peak, as compared to the national average which is just managed to regain pre-recession conditions in the fourth quarter of 2016. This trend is well-fueled by solid job growth across a variety of industries, which will allow for steady consumer sentiment and further homegrown job creation as local incomes are spent back into the local economy. While not aiming to dampen the market area's economic spirits, a slowdown in price appreciation wouldn't be entirely unwelcome, as such sustained gains have the potential to eat into housing affordability in Indianapolis.

Once contributing factor to Indianapolis' rampant house price appreciation trend is a relative disconnect when it comes to new building activity. Single-family residential building permits are still around 60 percent of their pre-bubble equilibrium levels, meaning that job market strength and rising existing home prices have not generated supply growth. A turn on this front, though, would go a long way toward easing price spiral concerns, but would also supplement job creation even further.

DEMOGRAPHICS

Indianapolis regularly attracts new residents from around the country. In-migration patterns are strong (Chart 4), and the market area is able to attract highly qualified labor resources through cost of living advantages. The labor force quality supported by its affordability and diverse industrial structure remains an attractive consideration when businesses are shopping expansion options. The recession dampened household mobility broadly, and population growth in Indianapolis slowed from its normal, above-average pace as a result (Chart 6). However, this damper will have only a short term impact. The market area's ongoing return to stable economic growth should set Indianapolis' demographic trends back on track within the decade.

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

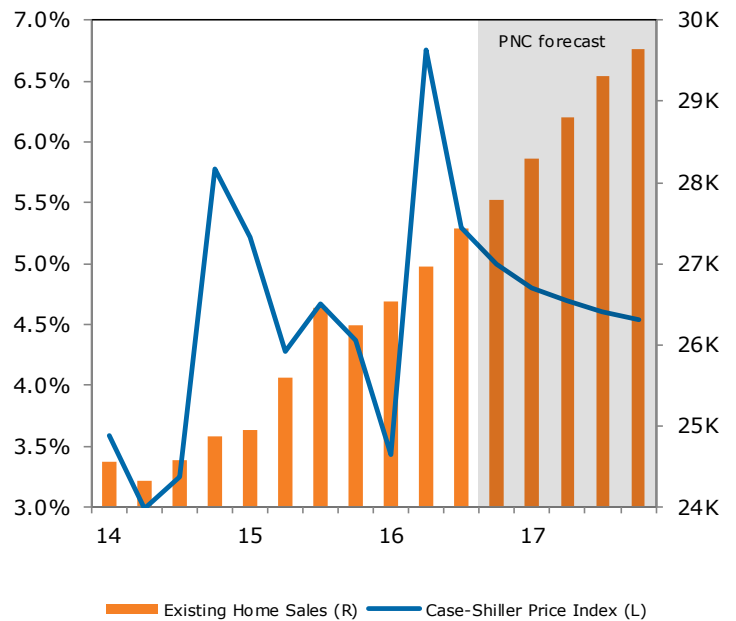


Chart sources: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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

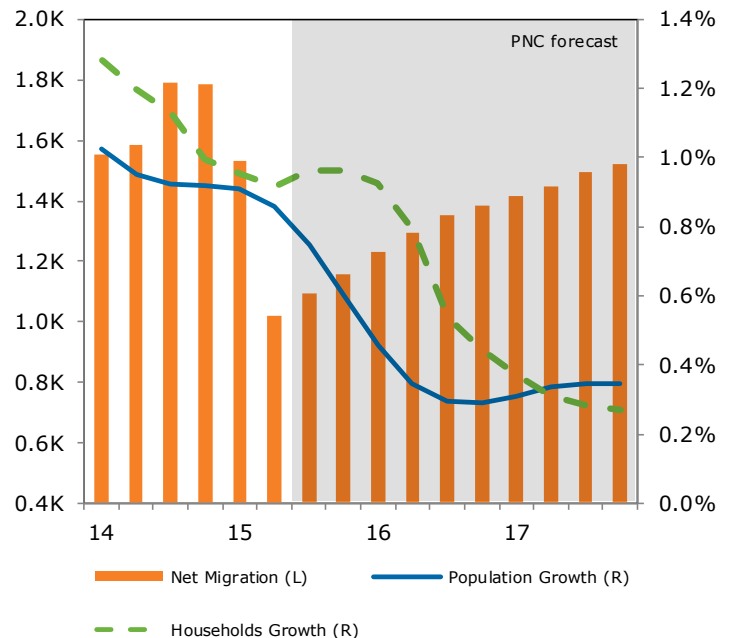


Chart sources: Bureau of Census; Bureau of Economic Analysis; Moody's Analytics; The PNC Financial Services Group

OUTLOOK SUMMARY

The Indianapolis market area's economy is in prime shape entering 2017. Job growth is coming from all quarters of the industrial base. Incomes are flowing back into the local economy through consumer spending and housing demand. And the outlook for most of the state of Indiana is also quite positive, indicating that Indianapolis, which serves as the state's economic center, will not be in short supply of external demand for its goods and services any time soon. Labor force growth and demographic trends in general are also aligned with the market area's economic strength, which will prevent labor resource shortages from stalling the local economy's upward trend.

Though not along in benefitting from potential Federal government policy reforms, Indianapolis does have the characteristics of an economy that will more quickly realize those benefits. Business investment has been sluggish across most of the nation over the past several years. A boost resulting from corporate tax reform, as well as enhanced consumer demand resulting from personal income tax reductions, would reinforce the expansionary decisions made by businesses in growing economies like Indianapolis'. It remains to be seen if the reforms proposed are converted into action, but Indianapolis' already-strong economic trends would likely accelerate even further over the next two years if so.

While Indianapolis may have taken longer to hit its stride in recovery after the recession, the market area is diverse enough in its current strengths that its newfound momentum will not likely falter at any point over the near-term horizon. The market area traditionally boasts healthy demographic trends, and is one of few Midwest economies able to compete with the likes of Chicago in terms of diversity. Indianapolis is set up to be a standout economic performer regardless of the time frame under consideration.

FORECAST TABLE

	U.S.			Indianapolis		
	2015	2016E	2017F	2015	2016E	2017F
Employment Growth, (% change)	2.1	1.7	1.5	2.5	1.7	1.8
Unemployment Rate, (%)	5.3	4.9	4.5	4.5	4.6	4.5
Median Household Income, (Ths. \$)	55.8	57.1	58.2	54.3	55.5	56.7
House Prices, (% change)	4.6	5.0	3.7	4.6	5.1	4.7
Single-Family Permits* (% change)	10.2	8.5	4.4	4.2	12.5	-7.5
Multifamily Permits* (% change)	11.5	-2.5	2.1	17.2	-48.7	0.9

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

	U.S.		Indianapolis	
	2007-2012†	2012-2017†	2007-2012†	2012-2017†
Employment Growth, (% change)	-0.6	1.8	0.0	2.0
Unemployment Rate, (%)	7.7	6.0	7.3	5.7
Median Household Income, (Ths. \$)	50.8	54.7	51.9	53.6
House Prices, (% change)	-4.8	5.9	-0.8	4.9
Single-Family Permits* (% change)	-12.3	8.5	-11.1	5.7
Multifamily Permits* (% change)	-4.2	9.8	-3.9	13.2

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

LONG-RUN EMPLOYMENT TRENDS

Chart 5
Total Employment, (% change year ago)

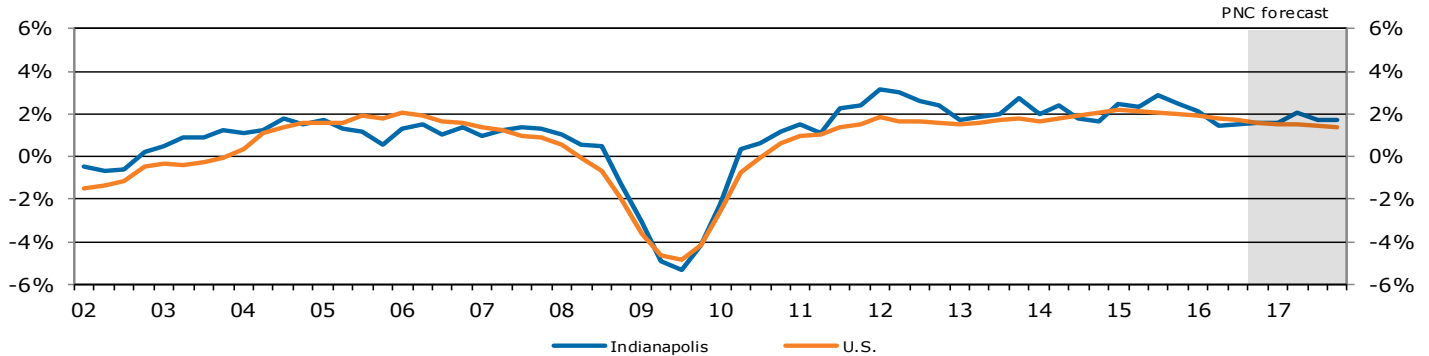


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

LONG-RUN DEMOGRAPHIC TRENDS

Chart 6
Population, (% change year ago)

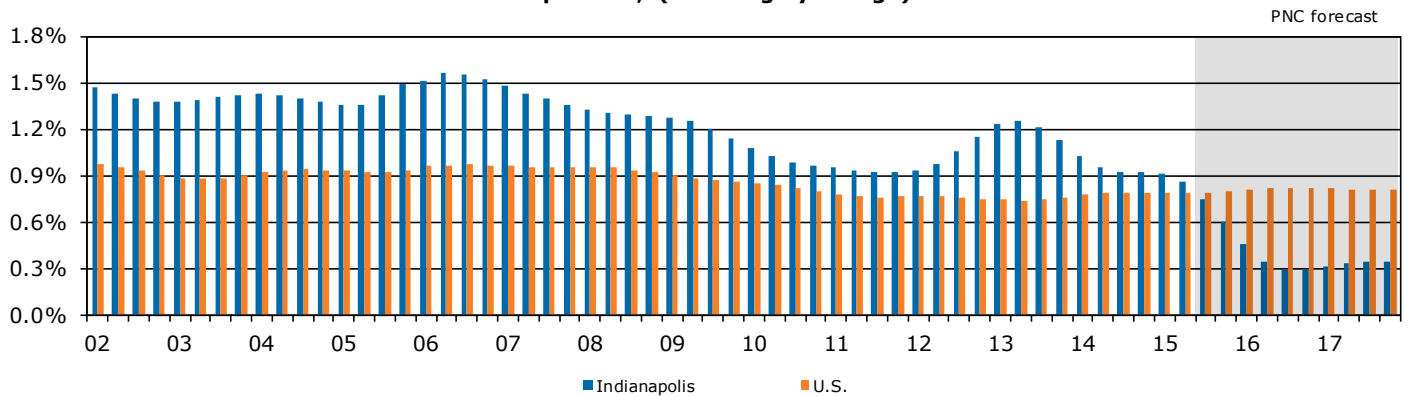


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

LONG-RUN HOUSE-PRICE TRENDS

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

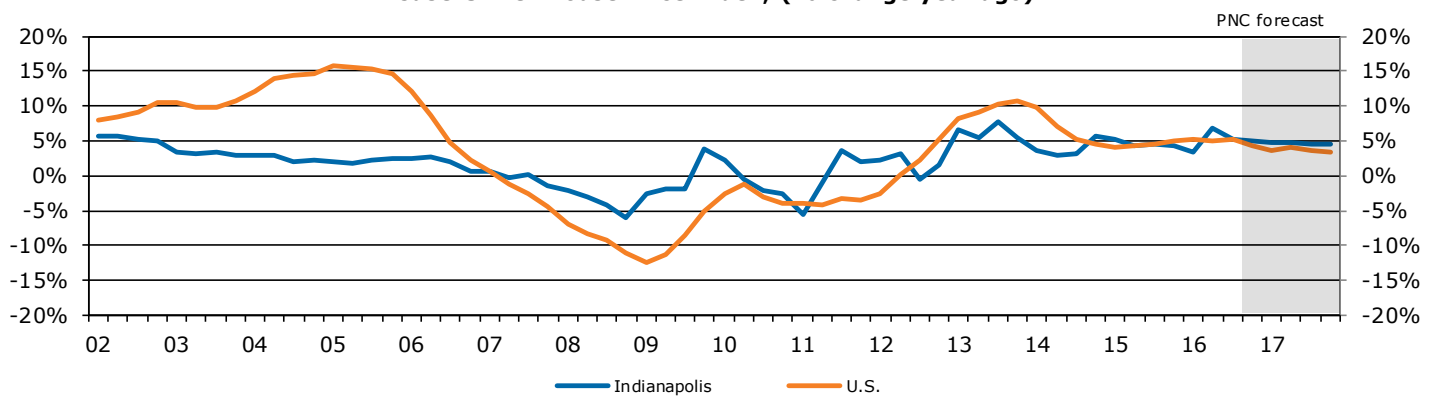


Chart source: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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