

MILWAUKEE MARKET OUTLOOK

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JOB SITUATION

The Milwaukee market area, which includes the Milwaukee and Racine metropolitan areas, should manage to again keep its head above water in 2017 when it comes to labor market conditions. Job growth slowed over both of the past two years, but has kept from falling into outright declines. In the coming year, service industries—which detracted from the overall pace of hiring in the market area in 2016—should bounce back while manufacturing employment continues to squeak out gains. Overall, this will help Milwaukee’s unemployment rate continue to trend downward, even if only slightly (Chart 1).

Alongside slower job growth, Milwaukee saw the size of its labor force shrink for the second consecutive year in 2017. Fewer residents actively searching for employment opportunities, or perhaps even exiting the region for job prospects elsewhere, is a concerning sign and will keep economic gains from accelerating as employers are faced with skills shortages and longer searches for qualified candidates.

INCOME

Wage growth will be somewhat slower in the Milwaukee market area through 2017, at least as compared to recent trends. Slight labor force declines have made it difficult for local employers to hire without offering better pay. And the mix of job creation in the market area. Higher-paying manufacturing positions rose slightly last year, while relatively lower-paying service industry jobs took a hit, allowing average wages across those industries combined to post healthy gains. The coming year, however, should see a return of service industry hiring. And while this isn’t a bad thing in its own right, it will dampen wage growth as those new jobs will not boost the overall pay scale across Milwaukee’s labor market. Median household income in the market area (Chart 2) is close to the U.S. average, and should help households absorb modest price inflation, including energy, in the coming year.

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

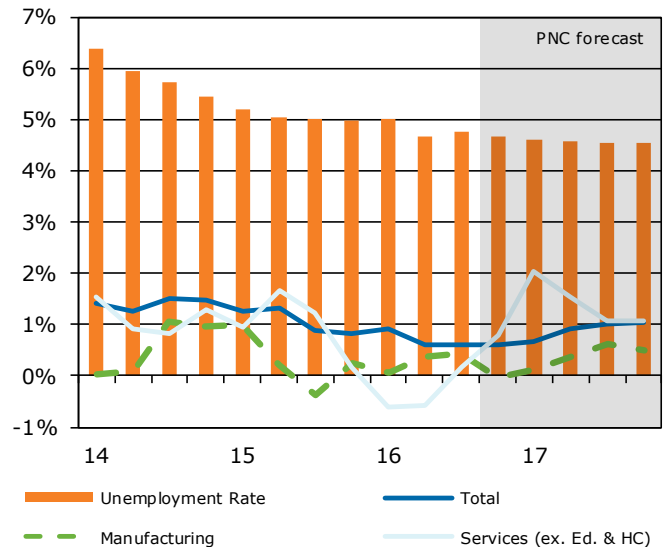


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

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

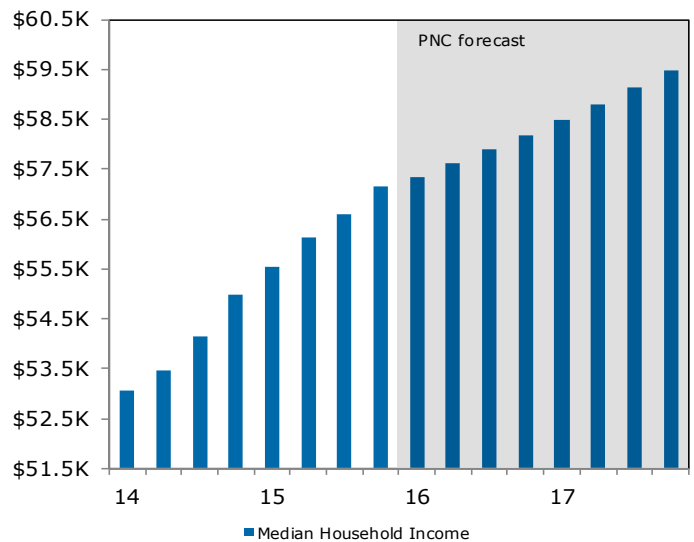


Chart sources: Bureau of Census; Moody’s Analytics; The PNC Financial Services Group



HOUSING

Milwaukee's housing market continues to advance at a sustainable pace, and should be able to maintain that trend in the coming year. Existing house prices are growing just below the national average (Chart 3). However, this is neither unexpected nor concerning for a healthy Milwaukee housing market, as the region is not nearly as volatile as other parts of the nation. Home price appreciation above 3 percent can be viewed as a positive for the local economy, allowing existing homeowners to be more confident in their spending habits. Although employment is not rising rapidly, there is little potential for Milwaukee's labor market to suffer setbacks either. So overall, home values continue to be supported by job market stability. There is also the upside potential of stronger demand-side housing market growth should the U.S. economy see its growth accelerate as a result of potential lower corporate and personal income tax rates within the next year or two. Such a development would boost demand for Milwaukee-made industrial goods, and thereby the homebuying sentiment within the Milwaukee market area.

DEMOGRAPHICS

The Milwaukee market area's demographic trends are on the mend. Net migration remained negative in 2016 (Chart 4), however, the pace of out-migration slowed and is likely to continue to do so. Economic conditions across the Midwest region have leveled out, allowing markets such as Milwaukee's, which traditionally sees relatively healthy population trends (Chart 6), to again attract new residents looking to take advantage of its manufacturing and healthcare industry opportunities. Unlike its more auto manufacturing-centric counterparts in the upper Midwest region, Milwaukee does not face the tide of competition from competing market areas in the Southeast. So while the market area will not overtake neighbors such as Chicago in terms of economic expansion potential, Milwaukee will have to compete with neighboring regional economies in order to retain existing workforce talent and maintain stable labor market health over the long term, but it is as well-positioned to do so as any of those competing markets.

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

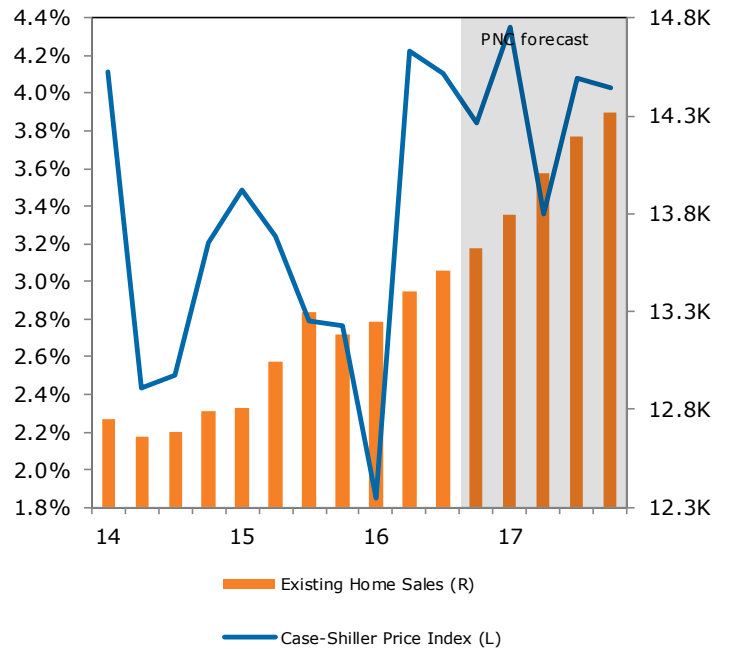


Chart sources: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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

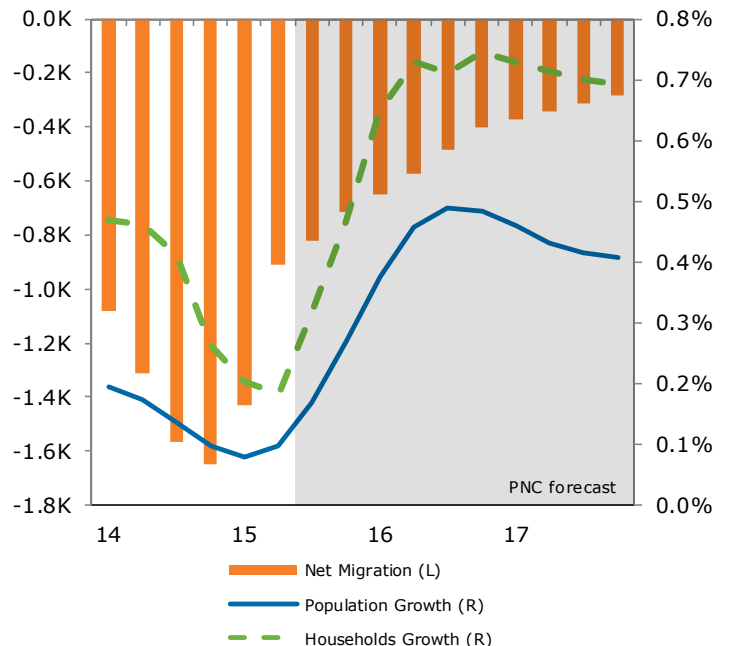


Chart sources: Bureau of Census; Bureau of Economic Analysis; Moody's Analytics; The PNC Financial Services Group

OUTLOOK SUMMARY

Milwaukee's economy should retain its positive economic momentum through the year in 2017. Job growth is not stellar, but neither does it face any imminent danger of falling into decline. What risks do exist in the economy's makeup threaten Milwaukee's mid- to longer-term potential, rather than raising concerns for the coming year. The market area's labor supply has come under pressure as a result of out-migration. A skills shortage as a result of workers leaving the slow-growing local economy for opportunities elsewhere would hamper this manufacturing-heavy economy's growth potential looking further ahead in the forecast horizon. Much in Milwaukee depends upon U.S. businesses deciding to spend and invest in themselves in the next few years, thus creating demand for goods and services 'exported' from Milwaukee to the nation's industrial base.

Consumer spending has not lived up to its potential through the recovery thus far, but household balance sheets certainly provide the fundamentals for local businesses to benefit when consumers feel comfortable enough to open their wallets in earnest. Inflation will heat up somewhat in 2017, but should not keep consumers from spending since wage growth in the local economy will stay ahead of price hikes. Milwaukee's cost of living strengths will help to keep the slow-but-steady pace of economic growth that the market area is saddled with from devolving further.

Milwaukee has been successful over the years in diversifying its economy. The market area boasts large concentrations in education, healthcare, business services and finance, not to mention several corporate headquarters. But despite having made progress toward a more balanced industrial base, Milwaukee's economy only truly thrives when the nation's economy is hitting on all cylinders and is providing ample demand for its goods and services. A more rapidly improving U.S. economy, though, would certainly provide Milwaukee with an outsized boost given its historic and still relevant status as Machine Shop to the World.

FORECAST TABLE

	U.S.			Milwaukee		
	2015	2016E	2017F	2015	2016E	2017F
Employment Growth, (% change)	2.1	1.7	1.5	1.1	0.7	0.9
Unemployment Rate, (%)	5.3	4.9	4.5	5.1	4.8	4.6
Median Household Income, (Ths. \$)	55.8	57.1	58.2	56.4	57.7	59.0
House Prices, (% change)	4.6	5.0	3.7	3.1	3.5	4.0
Single-Family Permits* (% change)	10.2	8.5	4.4	8.7	19.7	-1.7
Multifamily Permits* (% change)	11.5	-2.5	2.1	44.9	38.3	-10.3

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

	U.S.		Milwaukee	
	2007-2012†	2012-2017†	2007-2012†	2012-2017†
Employment Growth, (% change)	-0.6	1.8	-1.0	1.1
Unemployment Rate, (%)	7.7	6.0	7.4	5.8
Median Household Income, (Ths. \$)	50.8	54.7	51.9	55.3
House Prices, (% change)	-4.8	5.9	-3.2	3.6
Single-Family Permits* (% change)	-12.3	8.5	-14.2	9.4
Multifamily Permits* (% change)	-4.2	9.8	-10.6	22.4

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

LONG-RUN EMPLOYMENT TRENDS

Chart 5
Total Employment, (% change year ago)

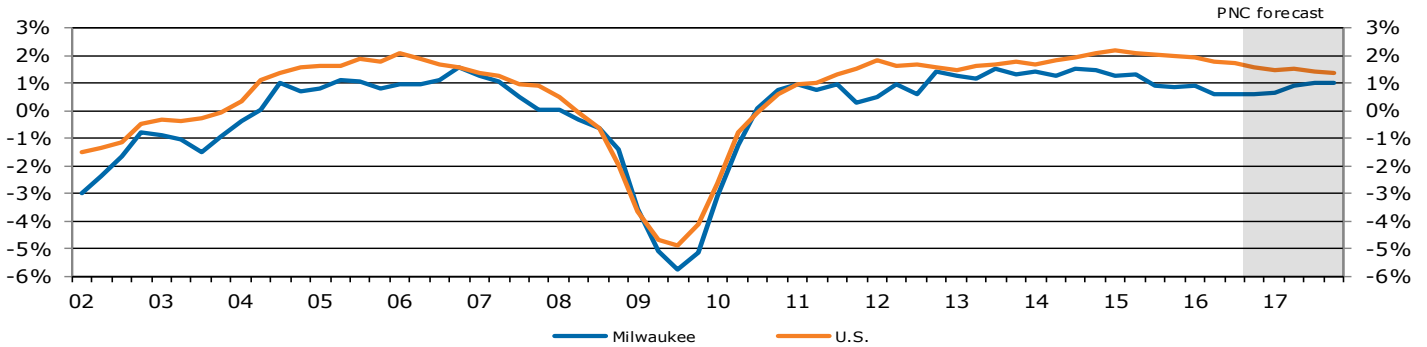


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

LONG-RUN DEMOGRAPHIC TRENDS

Chart 6
Population, (% change year ago)

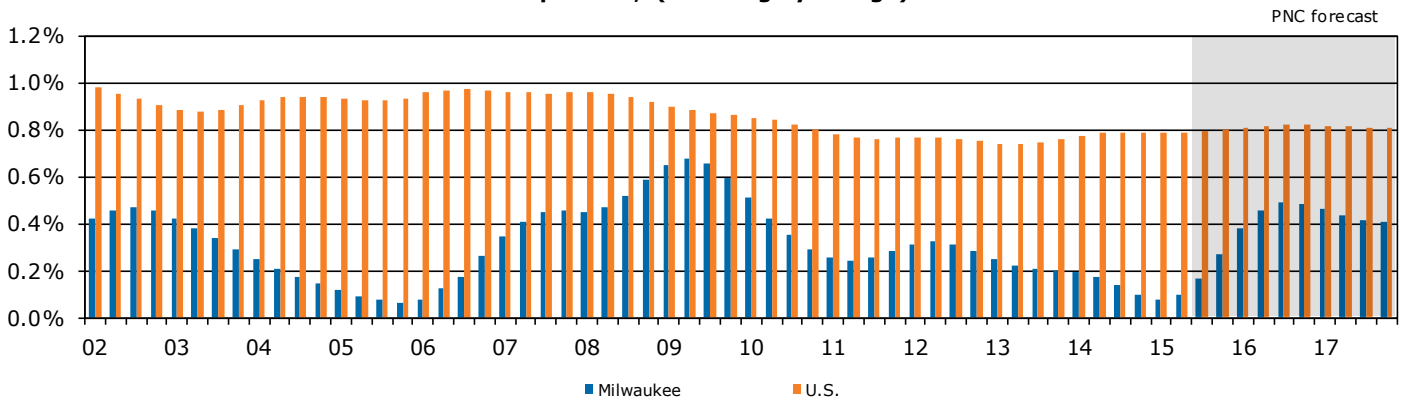


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

LONG-RUN HOUSE-PRICE TRENDS

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

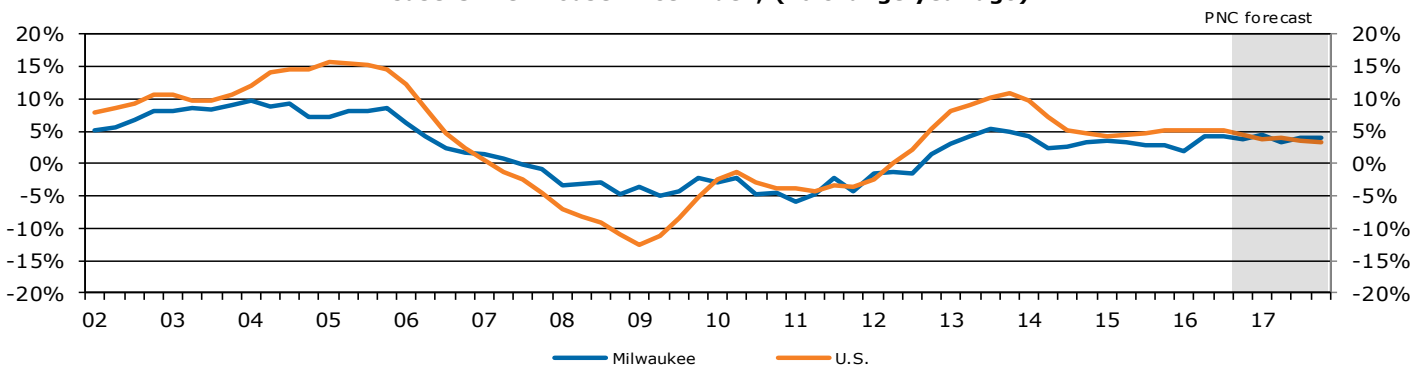


Chart source: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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