

MOBILE 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

Mobile's economy is inching forward slowly but surely (Chart 1). The local manufacturing sector is the primary impetus for growth, thanks to steady gains in shipbuilding and aerospace. Airbus is hitting its stride and the facility is on track to reach its increased production targets in 2017. Healthcare has proven to be a reliable job generator. Moreover, business and professional services are lending support and such jobs include well-paying technical jobs connected to healthcare, maritime and aerospace industries. The pace of business formation quickened in 2016 as confidence and risk-taking improved. Finally, Alabama's exports rose strongly in 2016, despite a strong dollar and weak global economy. Mobile, accounting for about 10 percent of the state's exports, likely enjoyed some of that growth.

Nevertheless, overall growth is subdued, compared with the national average. Sluggish population growth is a weight on aggregate demand and on economic growth overall. Rising steel prices and higher tariffs on foreign steel provide some relief for metals producers but the industry has not yet rebounded from the difficult conditions of the past couple of years. Other weak spots in the local economy include transportation and wholesale trade.

INCOME

The outlook for regional incomes is mixed. The median household income will rise moderately over the next couple of years. Even though employment growth has been weak, the gains have been in a spectrum of industries, including high-wage ones. For example, local manufacturing pays among the highest wages in the region and has average annual earnings that are nearly 8 percent more than the national average. On the downside, income growth would be stronger were it not for a high unemployment rate. The jobless rate was 7.4 percent in December 2016. With that much slack in the labor market, wages have limited scope to rise. The median household income is about 23 percent lower than the national average but

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

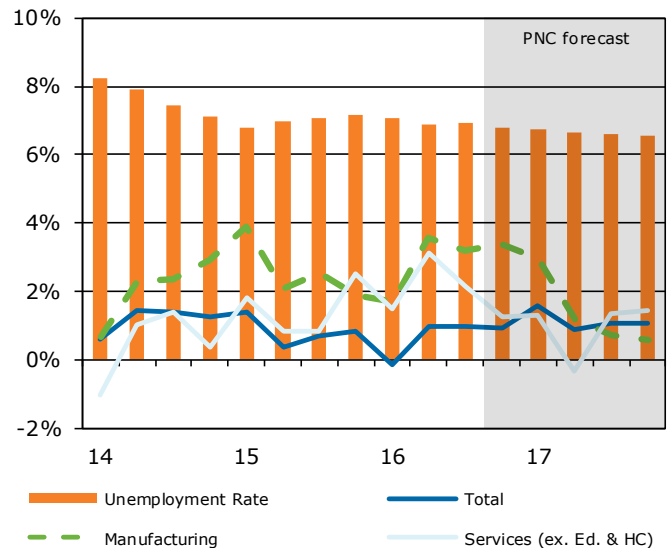


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

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

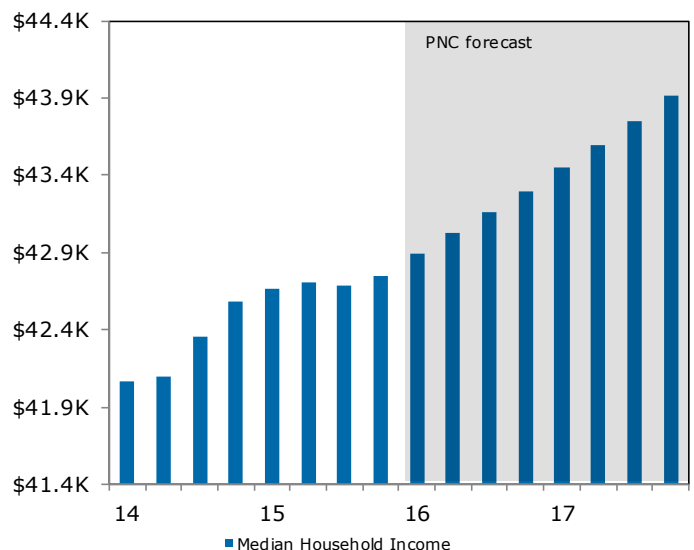


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group



living costs are 7 percent lower (Chart 2). This is a negative for local consumption, as it implies weaker-than-average purchasing power. The presence of military personnel provides some stability to incomes but this feature of the economy also tends to keep incomes low.

HOUSING

Mobile's housing market will improve slowly in the next couple of years (Chart 3). Single-family home prices will appreciate moderately in the quarters ahead. Prices are now up about 8 percent since bottoming in 2013, according to the Case-Shiller index. Moderate job growth, low (albeit rising) mortgage rates and easier access to credit will support housing demand and home sales. Construction is subdued while high affordability is helping to lift home sales. As a result, excess inventory is slowly shrinking. However, it is unlikely home values will recover completely from the Great Recession over the near-term given the region's anemic economic recovery and less favorable demographics. In addition, the region's low per capita income increases the risk that foreclosure activity rises more so than expected and weighs on prices.

DEMOGRAPHICS

Modest population growth dampens Mobile's economic growth potential. Local population growth was only slightly slower than the U.S.'s prior to the Great Recession as modest rates of in-migration were made up for with a higher birth rate. However, the difference widened substantially during the recession as net migration turned negative in 2010 and stronger economic recoveries elsewhere motivated work seekers to search for greener pastures. Migration trends and household formations will improve over the next couple of years as the economy slowly heals (Chart 4). However, the trend of below-average population growth is likely to continue for the foreseeable future. Also, labor force participation is lower than average, which will limit the economy's growth potential. Mobile's available and willing workforce is only about 57 percent of the civilian, non-institutional population, compared with the U.S. rate of about 63 percent. As with the U.S., the local population is aging as well. Although this is a plus for consumption and healthcare, it implies that there is limited scope to improve labor force participation.

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

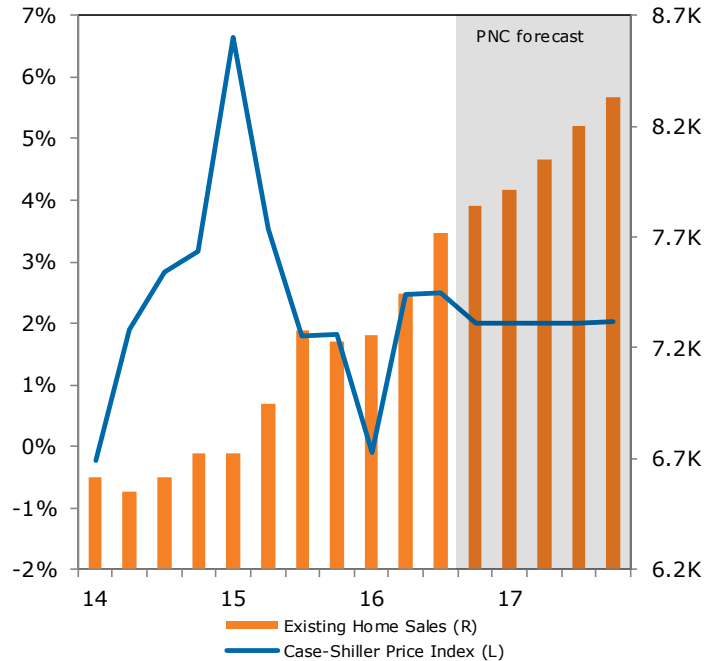


Chart sources: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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

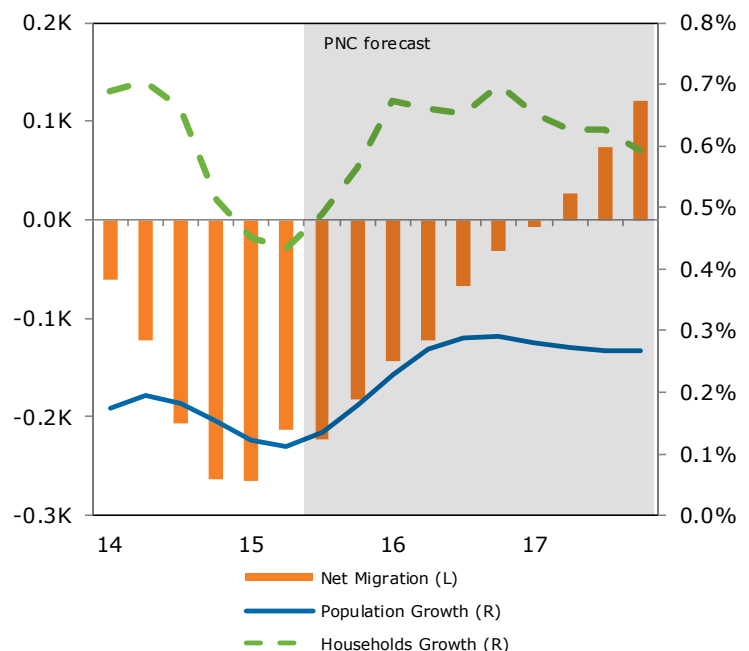


Chart sources: Bureau of Census; Bureau of Economic Analysis; Moody's Analytics; The PNC Financial Services Group

OUTLOOK SUMMARY

Mobile's economy will improve in 2017. The area has a number of positives working in its favor. Thanks to its shipbuilding industry and budding aerospace cluster, Mobile is one of the few areas that has more manufacturing jobs now than before the recession—production jobs were 25 percent higher in December 2016 than their previous peak in 2008. The first planes assembled at aerospace giant Airbus' new facility started rolling off the line last year and this year will increase from 2 planes per month to 4. When at full capacity, the company is expected to employ about 1,000 people at its facility over several years. Besides the direct manufacturing jobs that have been created since the facilities became operational, many of the goods and services the company needs could be sourced locally and suppliers are moving into Mobile. Trade, transportation, finance and professional services will also contribute to the recovery in the near term. The regional economy faces both upside potential and downside risks to its outlook. The market area would likely benefit from the President's proposal to increase defense spending as it would increase the number of ships in the Navy. Fiscal stimulus in the form of infrastructure spending could also boost the local logistics industry. On the downside, a strong dollar could weaken exports. Also, investment in the region could weaken if aggressive protectionist measures sour U.S. trading relations. Many of Mobile's largest employers are foreign-based companies.

Mobile's longer-term outlook is more favorable with payroll growth at least matching the nation's pace. PNC Economics expects population growth and in-migration to normalize over the next few years as the regional economy heals. Low business costs and strong infrastructure could attract investment. Hosting Alabama's only seaport, transportation is a key part of Mobile's economy. The presence of shipbuilding, aerospace, and the U.S. Army Corp of Engineers add upside potential for the area to draw higher value-added industries.

FORECAST TABLE

	U.S.			Mobile		
	2015	2016E	2017F	2015	2016E	2017F
Employment Growth, (% change)	2.1	1.8	1.5	0.8	0.7	1.1
Unemployment Rate, (%)	5.3	4.9	4.5	7.0	6.9	6.6
Median Household Income, (Ths. \$)	55.8	57.1	58.2	42.7	43.1	43.7
House Prices, (% change)	4.6	5.2	4.6	3.4	1.7	2.0
Single-Family Permits* (% change)	10.2	10.0	8.2	-13.1	15.7	3.1
Multifamily Permits* (% change)	11.5	-0.9	6.6	na	102.8	-29.8

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

	U.S.		Mobile	
	2007-2012†	2012-2017†	2007-2012†	2012-2017†
Employment Growth, (% change)	-0.6	1.8	-1.1	0.8
Unemployment Rate, (%)	7.7	6.0	8.8	7.6
Median Household Income, (Ths. \$)	50.8	54.7	41.0	42.7
House Prices, (% change)	-4.8	6.1	-3.4	1.5
Single-Family Permits* (% change)	-12.3	9.6	-17.2	1.7
Multifamily Permits* (% change)	-4.2	11.1	-22.4	14.9

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

LONG-RUN EMPLOYMENT TRENDS

Chart 5
Total Employment, (% change year ago)

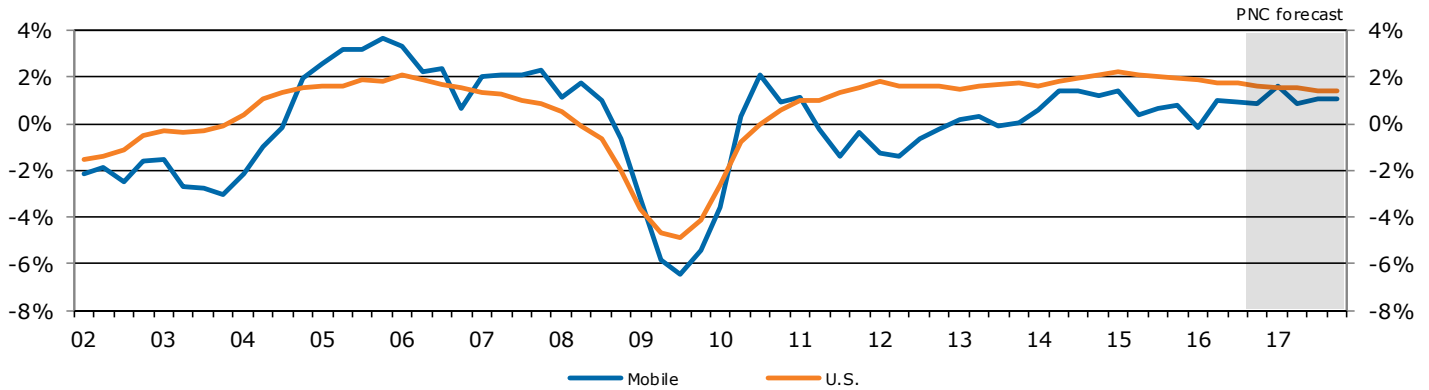


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

LONG-RUN DEMOGRAPHIC TRENDS

Chart 6
Population, (% change year ago)

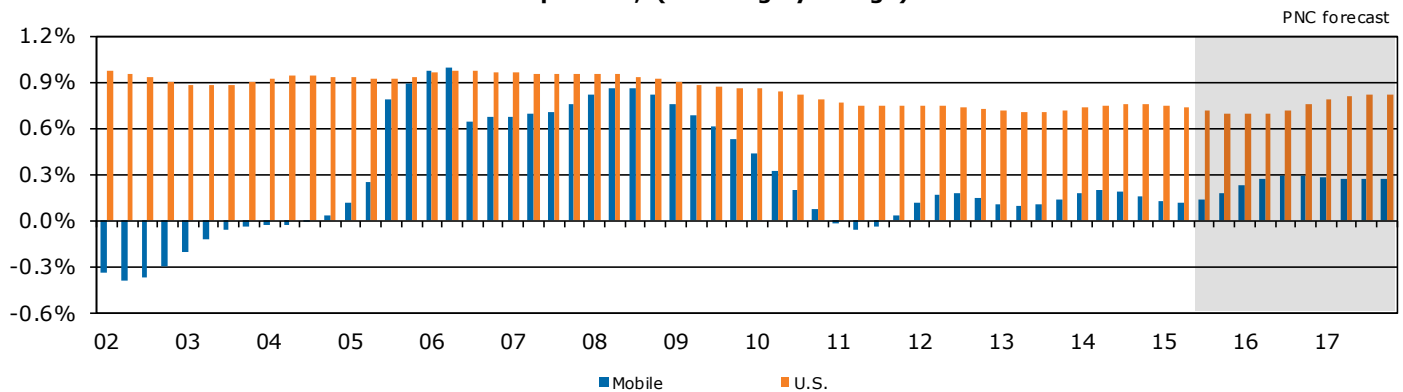


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

LONG-RUN HOUSE-PRICE TRENDS

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

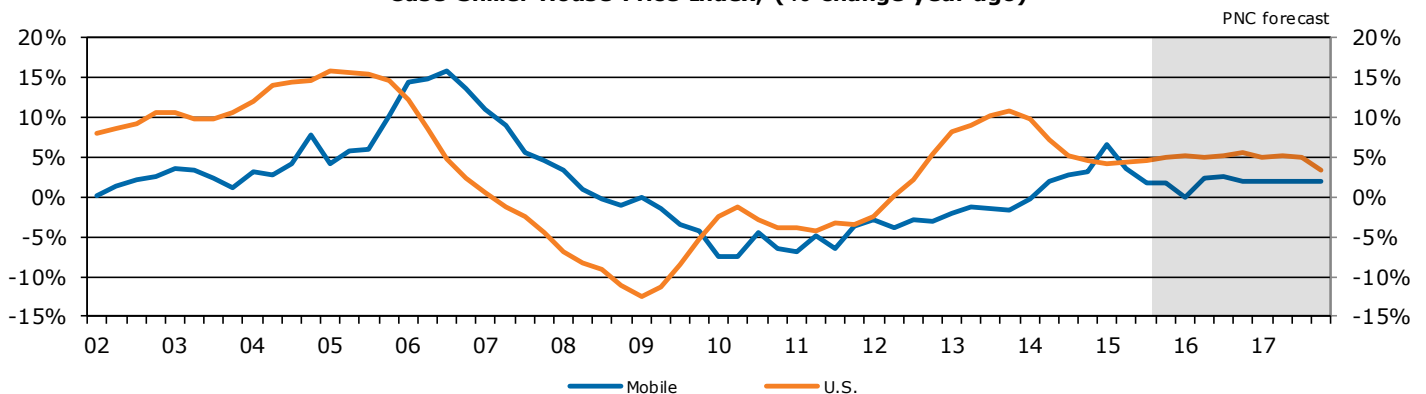


Chart source: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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.