

NORTHEAST OHIO MARKET OUTLOOK

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JOB SITUATION

Northeast Ohio's economy, which includes Cleveland, Akron, Canton, and Youngstown metro areas, finished 2016 in line with PNC's expectations. The regional economy is steadily inching forward as it overcomes major drags in its key manufacturing industry (Chart 1). Healthcare has been a major job generator in the past year, thanks to the region's aging population. Continued job gains, in turn, are supporting consumer spending and retail, leisure and hospitality employment. The region's economic growth is hamstrung, however, by a manufacturing industry that is struggling on multiple fronts. Steel production and employment in 2016 had been hit hard by cheap imports and the collapse in energy prices that reduced investment in oil and gas wells. Fortunately, a few positive developments are improving the industry's prospects. First, the rig count across Ohio started to edge up in mid-2016 as energy prices crawled higher. Second, high tariffs are giving steel producers some relief at a time when a strong dollar adds to the industry's woes. Besides steel, the auto industry at the national level had a record year for sales which helped production and employment in much of the region's supply chain. In Youngstown, however, production and employment of the Chevy Cruze is being scaled back as consumer preferences shift toward larger crossover vehicles amid cheap fuel.

INCOME

Average hourly earnings have the potential to rise faster as mid- and high-wage service industries pick up the slack left by declining manufacturing employment. The overall pace of income growth is likely to be slow, however, given the considerable slack that remains in the labor market. The regional jobless rate ranged between 5.2 and 5.4 percent in the second half of 2016, even as the labor force contracted. Although the job market has been slow to recover, the region's median income has been remarkably resilient (Chart 2). The progress made by strong manufacturing-led job gains between 2011 and 2015 enabled the median household income to

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

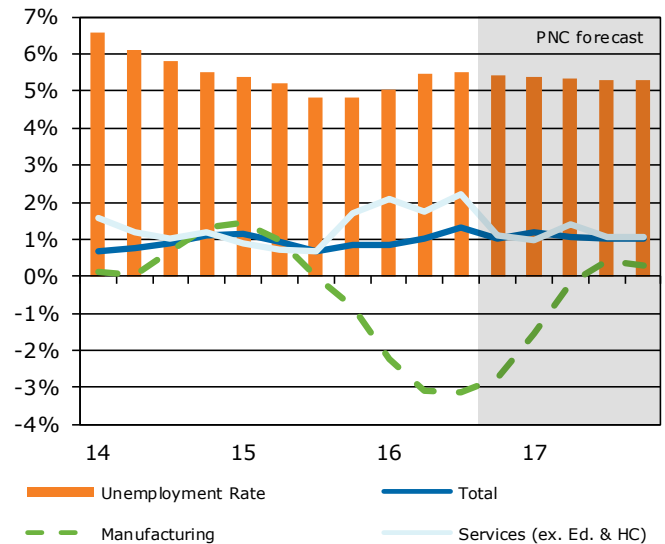


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

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

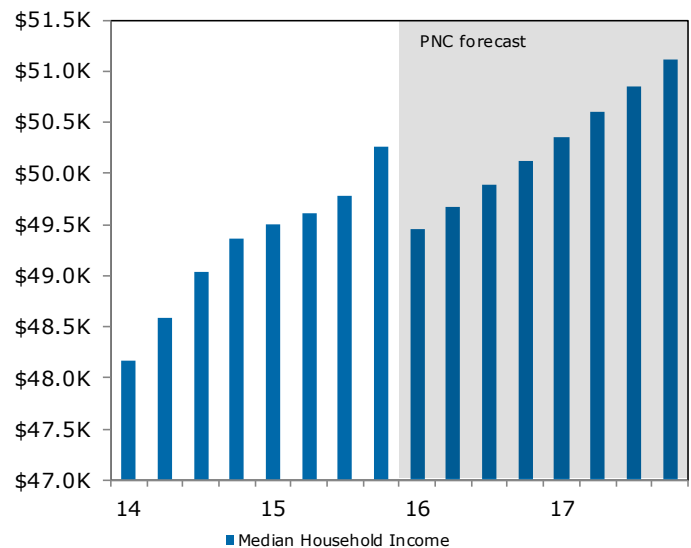


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group



exceed the pre-recession median income (Chart 2). In the long-term, income growth in the region will likely lag that of the nation. The median income is currently about 9 percent lower than the national average and with the share of jobs in high-wage goods production in long-term decline, that gap will likely remain wide. The silver lining is that plentiful labor and affordable business costs can help attract new industries and employers looking to re-establish profitability through cost efficiency. Also, living costs are lower than average as is the average consumer debt burden.

HOUSING

Northeast Ohio's housing market will inch forward with home sales, permitting and prices rising at moderate rates (Chart 3). Housing demand is being buttressed by very high affordability, easier access to credit and steady improvement in the labor market. At the same time, construction is subdued and the tighter supply of homes will set the stage for sustained, moderate price appreciation over the next several years. However, in light of weak household formations and income growth over the long term, homebuilding and sales are unlikely to match pre-Great Recession levels in the foreseeable future. Housing is very affordable in the region, but the area will struggle to capitalize on this advantage without greater economic vitality.

DEMOGRAPHICS

Northeast Ohio's potential rate of economic growth is slower than U.S.'s primarily because of its demographic profile (Chart 4). For years, the area lost population as the economy restructured away from traditional manufacturing. The Great Recession compounded the area's woes by reducing what was already low labor force participation. Younger residents migrate to faster growing job markets with more opportunities in service industries. Also, the area has a higher than average share of its population that is over age 65. This demographic feature tends to favor healthcare, finance and consumer industries rather than goods production. Population loss also leads to weak household formations, which undermines demand for housing. For now, out-migration is likely moderating, given the ongoing jobs recovery and we assume that the population is stabilizing. However, this could prove to be too optimistic unless new economic drivers take hold in the area.

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

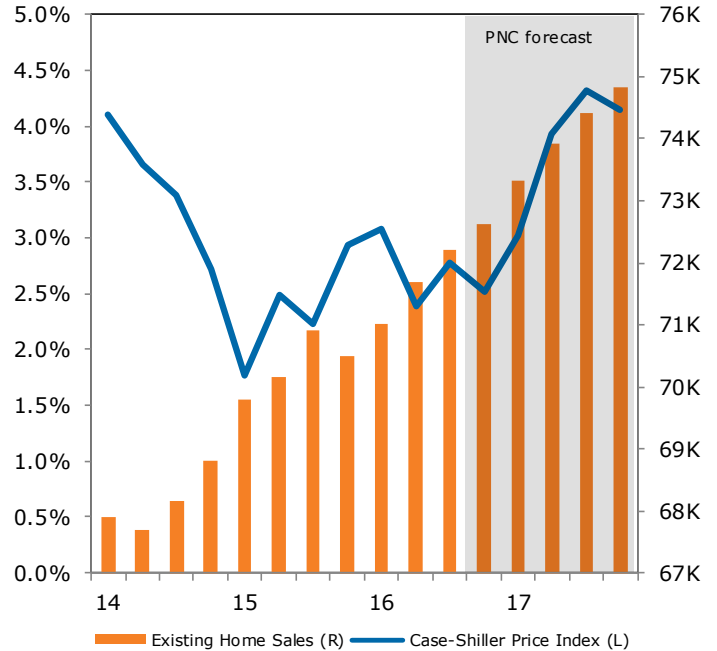


Chart sources: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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

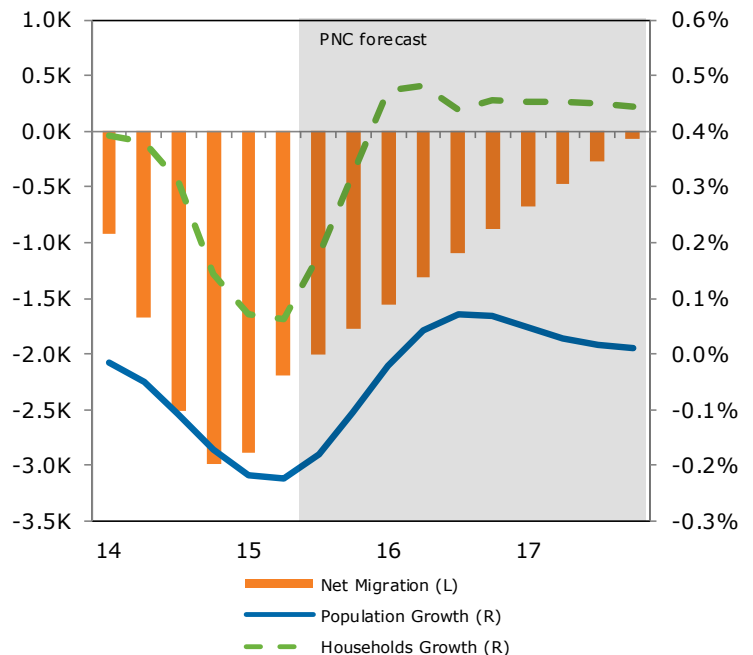


Chart sources: Bureau of Census; Bureau of Economic Analysis; Moody's Analytics; The PNC Financial Services Group

OUTLOOK SUMMARY

Northeast Ohio's economy will grow modestly in 2017 at a very similar pace to 2016. The factory sector is stabilizing as energy prices inch higher and investment in the Utica Shale formation, transportation and production of drilling-related products increases. Also, the worst of production and employment cuts in the steel industry appear to have passed, thanks to stabilizing steel demand and tariffs that give producers some relief. Auto sales are likely to have their best year on record in 2017 and this will support production in the region's extensive supply chain. Nevertheless, pent-up auto demand that had built up during the economic recovery has been satisfied and large employment gains in the industry are unlikely. Not all auto producers will see a good year. Youngstown will be a casualty of the shift from fuel-efficient small cars to larger vehicles that has been underway for the past several years. Healthcare, finance and professional services will add to the area's economic growth. The economic outlook faces both upside potential and downside risks. On the upside, congress and the new president will likely enact cut taxes and boost infrastructure spending. Infrastructure spending could be particularly beneficial as it would boost steel demand. On the downside a strong dollar and trade protectionism that could hurt exports more so than expected.

Longer term, continued population loss will cause Northeast Ohio to be a below-average performer in terms of job growth. Natural gas extraction in the Utica Shale formation promises to generate new jobs, income and tax revenue. Besides direct drilling jobs, activities related to natural gas generate demand for steel and other goods manufactured in the area as well as services such as finance and retail. Though still only in their early development stages, manufacturing hubs for the machinery of new energy technologies and transportation equipment hold great promise for those regions that can attract and cultivate them. The region's lower costs and availability of underutilized assets will be an important tool in attracting new industries and opportunities into the region in the years ahead.

FORECAST TABLE

	U.S.			Northeast OH		
	2015	2016E	2017F	2015	2016E	2017F
Employment Growth, (% change)	2.1	1.8	1.5	0.9	1.0	1.1
Unemployment Rate, (%)	5.3	4.9	4.5	5.1	5.4	5.3
Median Household Income, (Ths. \$)	55.8	57.1	58.2	49.8	49.8	50.7
House Prices**, (% change)	4.6	5.2	4.6	2.4	2.7	3.9
Single-Family Permits* (% change)	10.2	10.0	8.2	9.7	8.4	2.5
Multifamily Permits* (% change)	11.5	-0.9	6.6	-15.5	-32.3	79.0

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

	U.S.		Northeast OH	
	2007-2012†	2012-2017†	2007-2012†	2012-2017†
Employment Growth, (% change)	-0.6	1.8	-1.0	0.9
Unemployment Rate, (%)	7.7	6.0	7.8	6.0
Median Household Income, (Ths. \$)	50.8	54.7	45.8	48.9
House Prices**, (% change)	-4.8	6.1	-2.5	3.3
Single-Family Permits* (% change)	-12.3	9.6	-12.7	7.3
Multifamily Permits* (% change)	-4.2	11.1	-12.6	10.9

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

LONG-RUN EMPLOYMENT TRENDS

Chart 5
Total Employment, (% change year ago)

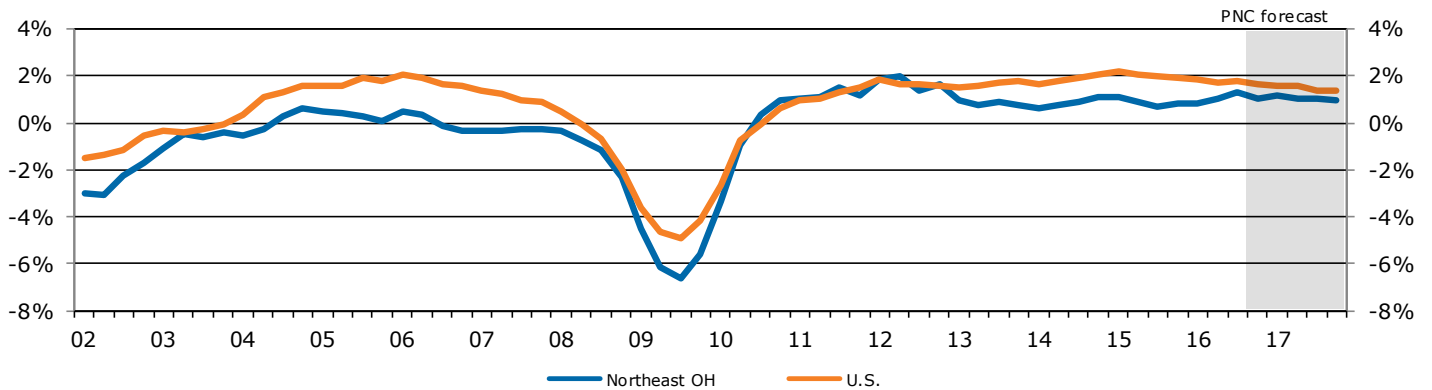


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

LONG-RUN DEMOGRAPHIC TRENDS

Chart 6
Population, (% change year ago)

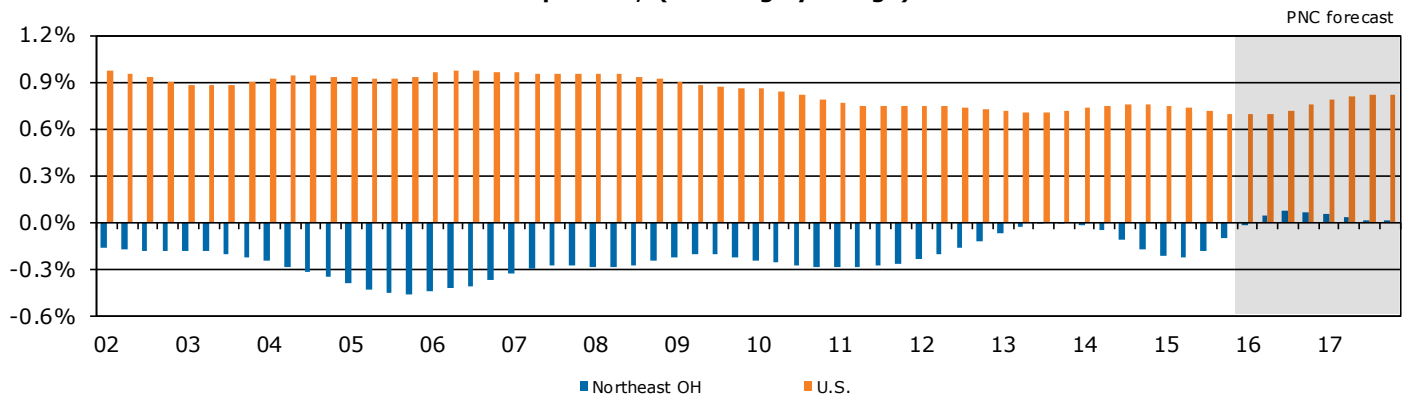


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

LONG-RUN HOUSE-PRICE TRENDS

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

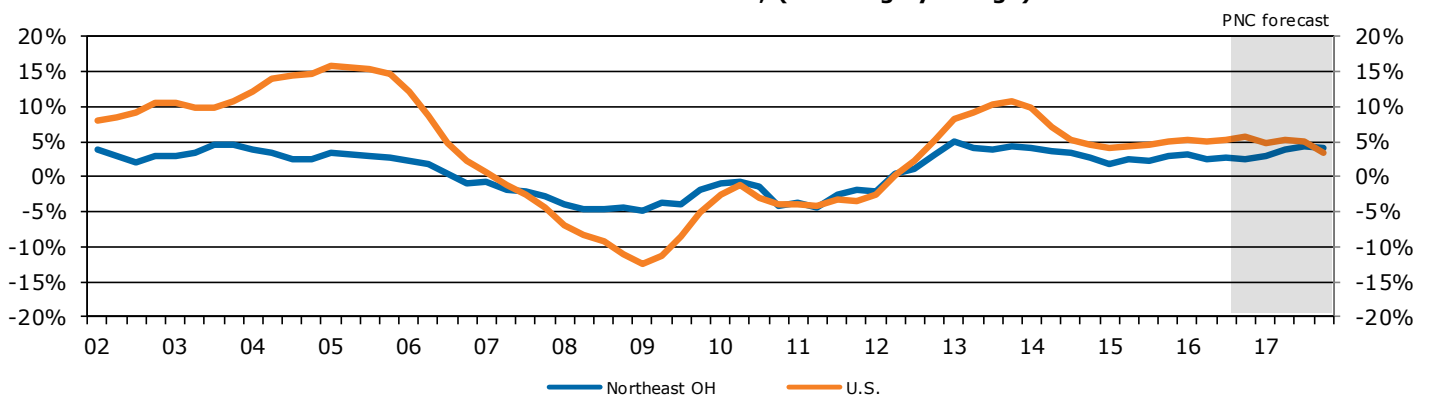


Chart source: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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