

NORTHEAST PENNSYLVANIA MARKET OUTLOOK

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JOB SITUATION

Northeast Pennsylvania, which consists of the Wilkes-Barre/Scranton and Allentown metropolitan statistical areas, should manage to maintain modest labor market momentum through 2017. The unemployment rate in the market area crept upward in 2016 (Chart 1) as a result of slower total employment growth and stable labor force gains; this implies longer searches for new job market entrants. Declines in professional and business services employment was influential in pushing the jobless rate higher. The total size of the labor force in Northeast Pennsylvania remains below its pre-recession peak. The local labor market will remain in a tenuous balance in the near term while manufacturing industries struggle to maintain their payroll levels, and consumer spending-based industries try to ride out the lack of new income generation.

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

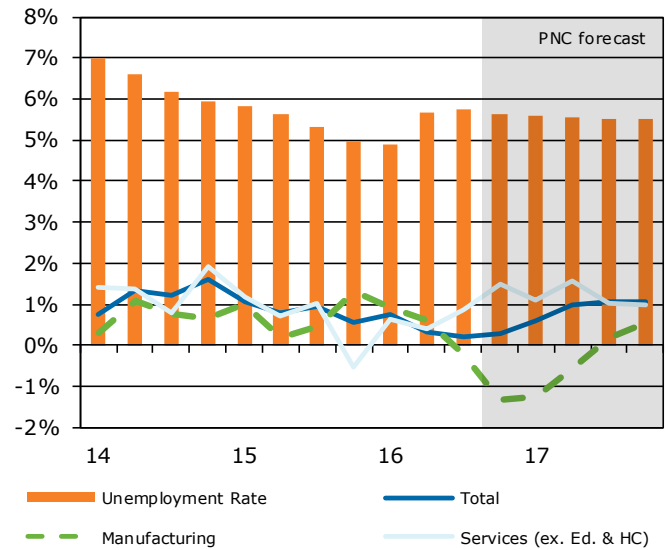


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

INCOME

Income growth in Northeast Pennsylvania will slow somewhat in 2017, alongside weaker job creation in the market area. Median household income (Chart 2) is on par with state and national averages, thanks in large part to Allentown’s manufacturing base. But new growth has been difficult to come by during this expansion as the local labor market saw some job seekers exiting the labor force, and the region, due to a lagged pace of job creation versus other Mid-Atlantic local economies. With Northeast Pennsylvania’s employment base unable to crest sustain growth now that it is above its pre-recession peaks, employers are not under exceptional pressure to raise wages as an incentive to attract or retain their most skilled workers—at least, those that want or need to remain in the region. Unless there is a push of new hiring, wage gains are unlikely to accelerate.

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

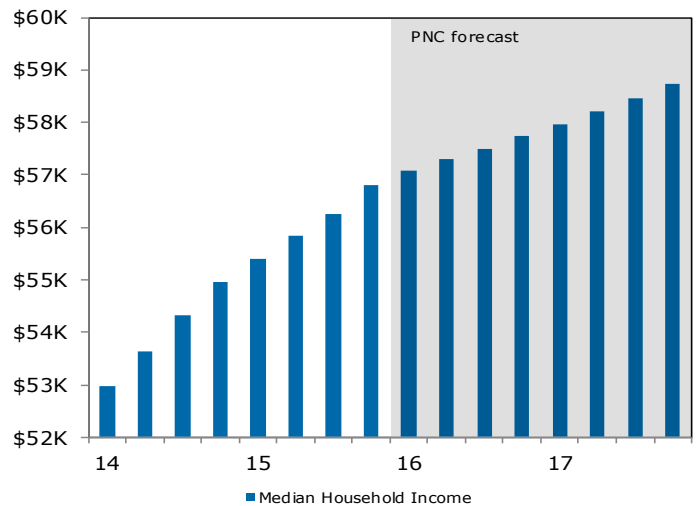


Chart sources: Bureau of Census; Moody’s Analytics; The PNC Financial Services Group



HOUSING

Northeast Pennsylvania’s housing recovery is proceeding at a modest, sustainable pace. Price appreciation (Chart 3) has maintained a positive trend after home values fell consistently from 2007 through 2013. But the market area has been unable to string together more than a few quarters of 2 percent year-over-year growth. This year could see manufacturing employment stabilizing after the modest declines experienced in 2016, which means consumer sentiment and, thus, consumer spending could also rebuild. Such a development would help home value growth through improved demand for housing—especially from local residents looking to trade up before mortgage interest rates rise further.

Whereas existing housing stock holds some upside potential over the near-term horizon, new residential construction is likely to remain a drag on the market area’s economic growth potential. New residential permit issuance is proceeding at about 25 percent of its pre-bubble pace, as compared to the U.S. average of about 70 percent. A lack of new demand will persist so long as employment growth remains subdued, and existing home sales will see far more churn versus a near-complete absence of new building activity.

DEMOGRAPHICS

Northeast Pennsylvania is still on a long road toward normalizing demographic trends. The market area enjoyed renewed popularity in the housing boom as an alternative to higher priced areas closer to New York City and Philadelphia. Both international and domestic residents have sought out the market area for its proximity to larger regional economies, and for its relatively lower costs of living and doing business. The diversity that comes with such demographic trends will eventually regain footing and provide small business development opportunities in the coming years. While Northeast Pennsylvania saw its population fall in the wake of the Great Recession as employment-driven migration froze up (Chart 6), gains in population and household formation should steady in short order (Chart 4). Longer-term trends also offer upside potential as the market area will see increased in-migration in response to natural gas drilling activity that will ramp up in the Marcellus Shale formation over the next decade.

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

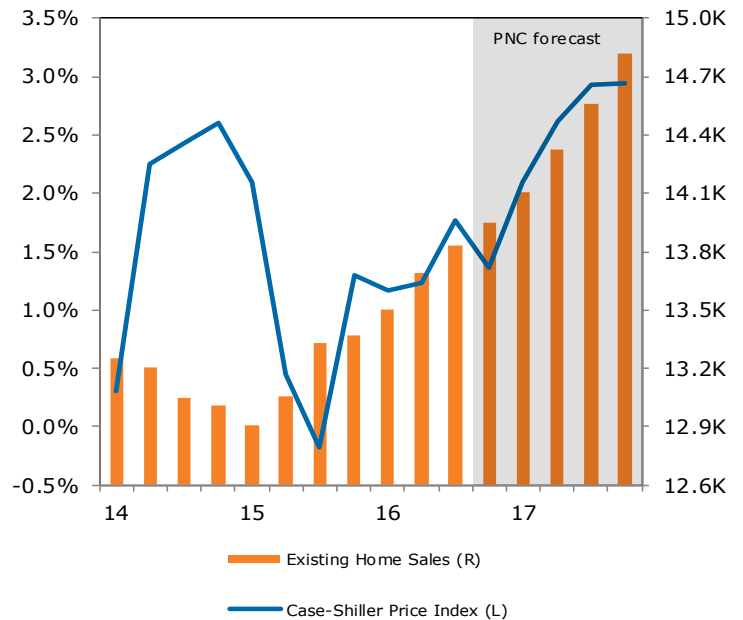


Chart sources: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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

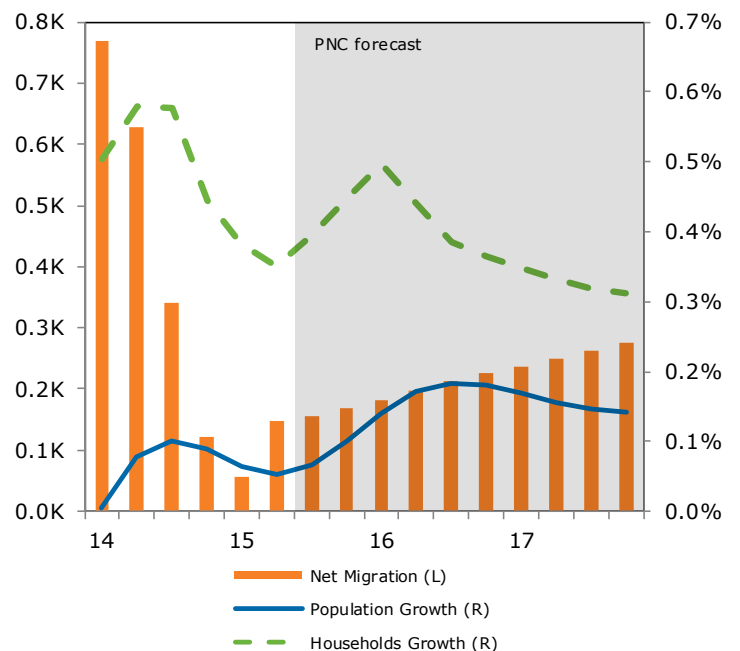


Chart sources: Bureau of Census; Bureau of Economic Analysis; Moody’s Analytics; The PNC Financial Services Group

NORTHEAST PENNSYLVANIA

OUTLOOK SUMMARY

Northeast Pennsylvania's economy is drifting along a trend of modest expansion that looks to continue in 2017 and 2018. Its labor market has achieved a near-term equilibrium of supply versus demand, but will require the emergence of an economic influence beyond what the local economy can provide. The size of the market area's labor force failed to build on growth in 2015, furthering the notion that an external jolt will be necessary to push Northeast Pennsylvania beyond its current economic capacities. Promises of corporate and personal income tax reform, as well as infrastructure spending, from the Trump administration represent one such category of growth boosters. However, until that talk becomes action, Northeast Pennsylvania will be saddled with below-average economic growth.

Housing trends in Northeast Pennsylvania are following the local labor market's lead and are improving at a very uninspired pace. The market area has managed no significant recovery in home values despite national prices that have risen consistently since 2012. Given that wage growth and consumer confidence are likely to remain subdued over the near term, what housing activity the market area does experience will come from churn in existing stock, with new residential construction being delayed until there is a sustained improvement in job creation.

The development of natural gas resources in the Marcellus Shale formation will bring the next wave of industrial development opportunities to Northeast Pennsylvania in the years to come. The future of natural gas as a part of the nation's energy infrastructure, and the very pace of Marcellus Shale development, remains a topic of debate. But each step forward on this path will mean more job opportunities for Northeast Pennsylvania.

FORECAST TABLE

	U.S.			Northeast PA		
	2015	2016E	2017F	2015	2016E	2017F
Employment Growth, (% change)	2.1	1.7	1.5	0.8	0.4	0.9
Unemployment Rate, (%)	5.3	4.9	4.5	5.4	5.5	5.5
Median Household Income, (Ths. \$)	55.8	57.1	58.2	56.1	56.5	57.4
House Prices, (% change)	4.6	5.0	3.7	0.9	1.4	2.6
Single-Family Permits* (% change)	10.2	8.5	4.4	-44.9	12.0	-5.2
Multifamily Permits* (% change)	11.5	-2.5	2.1	-52.7	-8.0	-28.1

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

	U.S.		Northeast PA	
	2007-2012†	2012-2017†	2007-2012†	2012-2017†
Employment Growth, (% change)	-0.6	1.8	-0.3	0.8
Unemployment Rate, (%)	7.7	6.0	7.5	6.6
Median Household Income, (Ths. \$)	50.8	54.7	49.3	54.5
House Prices, (% change)	-4.8	5.9	-3.1	1.6
Single-Family Permits* (% change)	-12.3	8.5	-20.0	7.7
Multifamily Permits* (% change)	-4.2	9.8	-2.8	2.5

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

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LONG-RUN EMPLOYMENT TRENDS

Chart 5
Total Employment, (% change year ago)

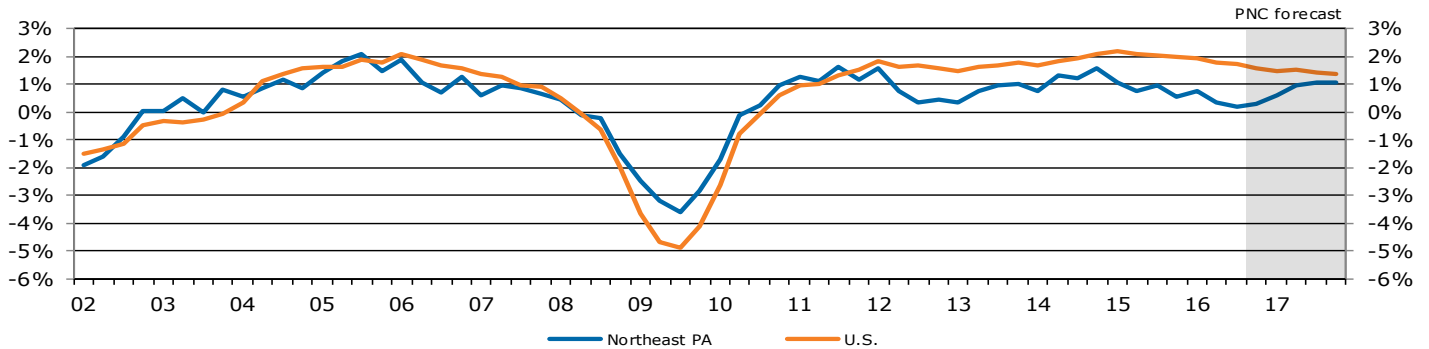


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

LONG-RUN DEMOGRAPHIC TRENDS

Chart 6
Population, (% change year ago)

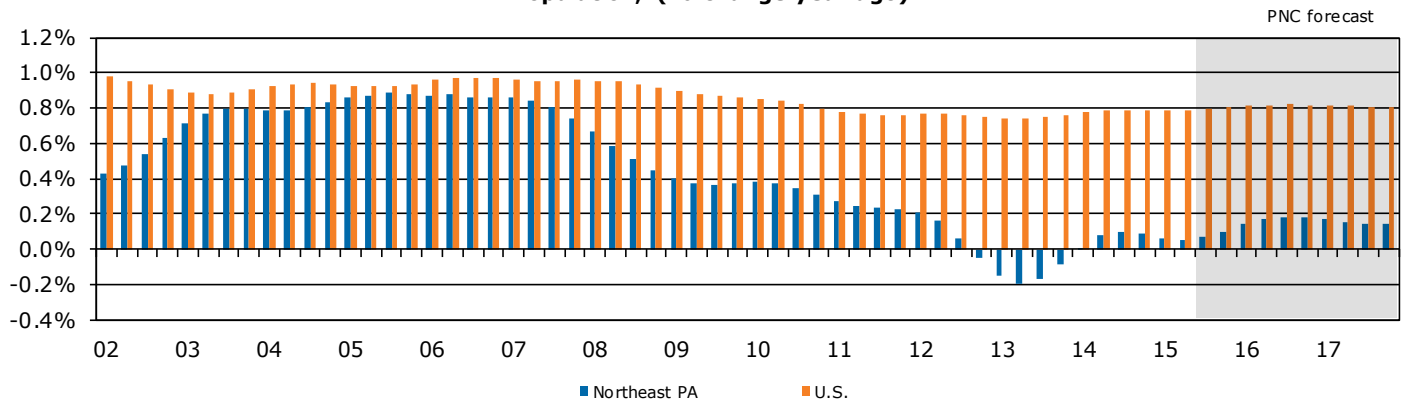


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

LONG-RUN HOUSE-PRICE TRENDS

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

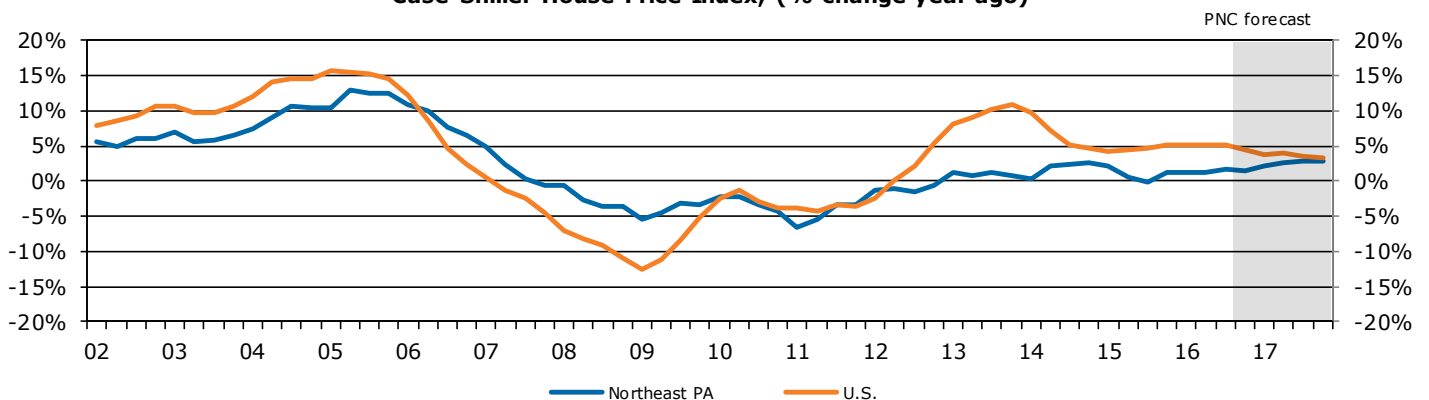


Chart source: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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