

NORTHERN NEW JERSEY MARKET OUTLOOK

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JOB SITUATION

Job growth in Northern New Jersey fluctuated widely over the course of 2016 but for the year overall, the region grew at its fastest pace since 2000 (Chart 1). Transportation and logistics were critical supports to the region's economy, thanks to the high level of cargo handled at the Port of New York and New Jersey. Professional services, which claim the largest share of total employment and are concentrated in well-paying biotech and software development, also grew at a healthy pace. Healthcare contributed a steady supply of new jobs and financial services, which are anchored by insurance companies, added jobs as well. Despite the positive momentum, the local labor market is still healing more slowly than the U.S. labor market is healing. At 4.7 percent in December 2016, the local jobless rate was comparable to the national rate. Yet local employment was still 2.5 percent below its early 2008 peak while U.S. employment was 5 percent above its pre-recession peak. In addition, the local labor force fell sharply in the second half of 2016 while the workforce nationwide continued to increase.

INCOME

Moderate job growth, improving capital markets and a more profitable environment for financial services, will keep local incomes advancing in 2017. The area's median income is about 40 percent higher than the national average because of the high concentration of well-paying finance and professional services jobs (Chart 2). The population is highly educated as well, which attracts high-wage employment in other industries to the area. Locally, forty percent of adults over age 25 have at least a bachelor's degree compared with 30 percent nationally. Business and professional services, the largest local industry, pays on average almost 50 percent more than the national industry due to a higher-than-average concentration of tech and corporate office employment. On the downside, the 23 cent per gallon increase in the state's gasoline tax will lift inflation pressures and erode household purchasing power somewhat. Also, while Northern

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

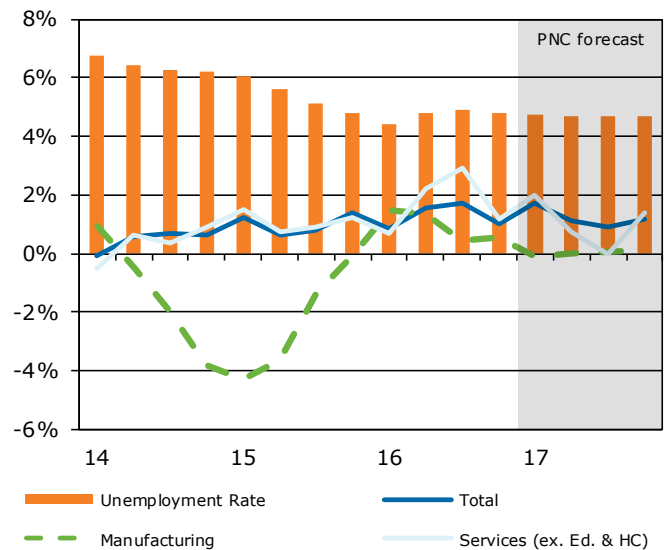


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

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

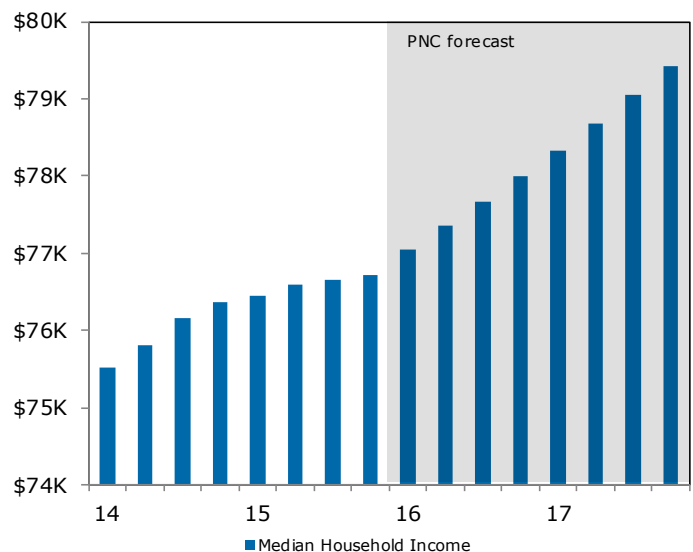


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group



New Jersey is wealthy on average, income inequality is higher than the national average. The poverty rate in Essex County was 2.1 percentage points higher than the national rate in 2015. This was the widest gap between local and national poverty rates since 2000. In the medium term, improvements to the area's infrastructure, especially upgrades to the region's port facilities, will bolster income gains.

HOUSING

Northern New Jersey's housing market will improve slowly in the near term. Existing home sales are expected to rise moderately in 2017 (Chart 3). Easier access to credit will support housing demand and although mortgage rates are crawling higher, they will remain low in 2017. Also, housing is affordable by historic comparisons. Not only does this support home sales but it helps household budgets. In the second quarter of 2006, households spent, on average, an estimated \$6,700 on mortgage principles and interest. By the third quarter of 2016, that expense fell to just over \$4,000. Home prices will increase moderately in 2017. However, these gains will be weaker than average over the next couple of years given moderate employment growth, the weak demographic outlook, and high foreclosure inventories. The level of permitting and construction is expected to settle at a lower trend rate than in years past.

DEMOGRAPHICS

As a mature market, Northern New Jersey's population will likely grow modestly over the forecast horizon. PNC's forecast assumes the net outflow of people will soon reverse (Chart 4). However, there is significant risk that this may not occur. Out-migration from the area is driven by the long-term unemployed and low wage-earners seeking a cheaper cost of living (often to the Southeast) and a more active job market. Domestic out-migration intensified between 2013 and 2015, even while the economy continued to heal. In-migration is driven by international migrants looking to tap the New York area job market while taking advantage of lower living costs relative to New York City. International in-migration steadily increased between 2013 and 2015. However, it could slow in the future if immigration policies become more restrictive. The highly-educated workforce is one advantage for the region. Forty percent of its residents have a college degree, compared with 31 percent in the U.S. This will help attract high-wage, high-value added employment.

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

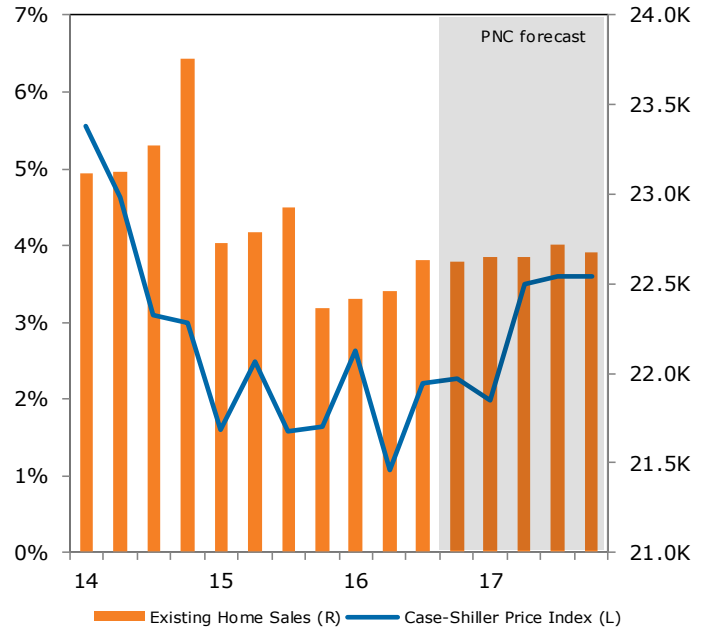


Chart sources: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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

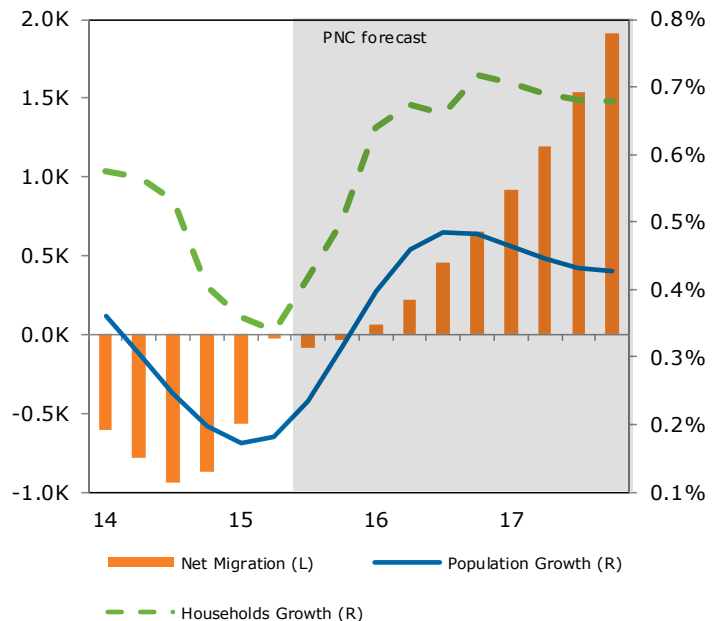


Chart sources: Bureau of Census; Bureau of Economic Analysis; Moody's Analytics; The PNC Financial Services Group

OUTLOOK SUMMARY

Northern New Jersey's economy is on track for steady growth in 2017. Professional services will continue their ascent as the U.S. economy gains momentum. Business taxes are likely to come down either this year or next and that will improve profits. Financial services will also add to the regional recovery thanks to the agglomeration of stable insurance firms. Other types of financial services also face positive outlooks as interest rates rise, stock markets reach new highs and regulations are relaxed. The global economy's prospects are improving which could boost port activity and warehousing. The recent raising of the Bayonne Bridge and planned investments in local port terminals improve the outlook for the logistics industry, as these will enable the East Coast's largest port to accommodate the megaships that are passing through the expanded Panama Canal. However, a stronger dollar and trade protectionism pose downside risks. The area's relatively lower business costs and highly educated workforce can help New Jersey grab more jobs from New York businesses that are looking to cut real estate costs. Also, median household income in Northern New Jersey is over 40 percent higher than the national average while living costs are only about 22 percent higher. This implies that consumer purchasing power is higher in the region than average.

The market area is a mature economy with significant ties to the greater New York economy, but it also has its own unique industry characteristics: transportation and trade via its ports and airport, and its mix of biotech, pharmaceutical, and telecom industries. Some Northern New Jersey mainstays such as telecom and pharmaceutical research and manufacturing are not likely to add jobs in the near future. While large traditional pharmaceutical employers appear vulnerable, the glut of emerging biotech companies holds promise for employment growth. However, it is unclear whether Northern New Jersey can compete with the likes of Massachusetts and California in this field.

FORECAST TABLE

	U.S.			Northern NJ		
	2015	2016E	2017F	2015	2016E	2017F
Employment Growth, (% change)	2.1	1.7	1.5	1.0	1.3	1.2
Unemployment Rate, (%)	5.3	4.9	4.5	5.4	4.7	4.7
Median Household Income, (Ths. \$)	55.8	57.1	58.2	76.6	77.5	78.9
House Prices**, (% change)	4.6	5.0	3.7	1.8	2.0	3.2
Single-Family Permits* (% change)	10.2	8.5	4.4	0.1	-3.7	16.0
Multifamily Permits* (% change)	11.5	-2.5	2.1	31.1	-27.4	-3.9

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

	U.S.		Northern NJ	
	2007-2012†	2012-2017†	2007-2012†	2012-2017†
Employment Growth, (% change)	-0.6	1.8	-1.1	1.0
Unemployment Rate, (%)	7.7	6.0	7.5	6.3
Median Household Income, (Ths. \$)	50.8	54.7	74.7	76.5
House Prices**, (% change)	-4.8	5.9	-4.6	3.1
Single-Family Permits* (% change)	-12.3	8.5	-11.3	7.8
Multifamily Permits* (% change)	-4.2	9.8	0.1	11.7

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

LONG-RUN EMPLOYMENT TRENDS

Chart 5
Total Employment, (% change year ago)

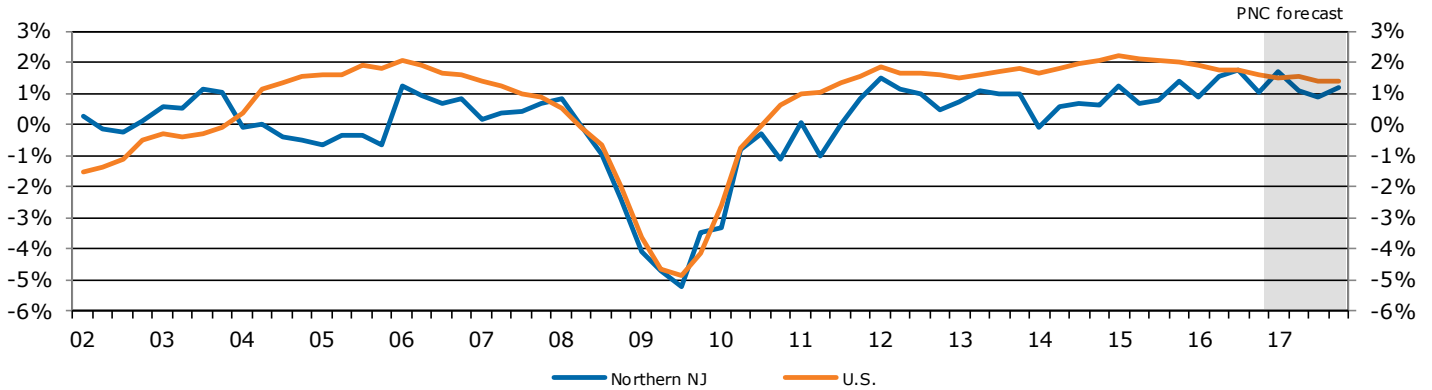


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

LONG-RUN DEMOGRAPHIC TRENDS

Chart 6
Population, (% change year ago)

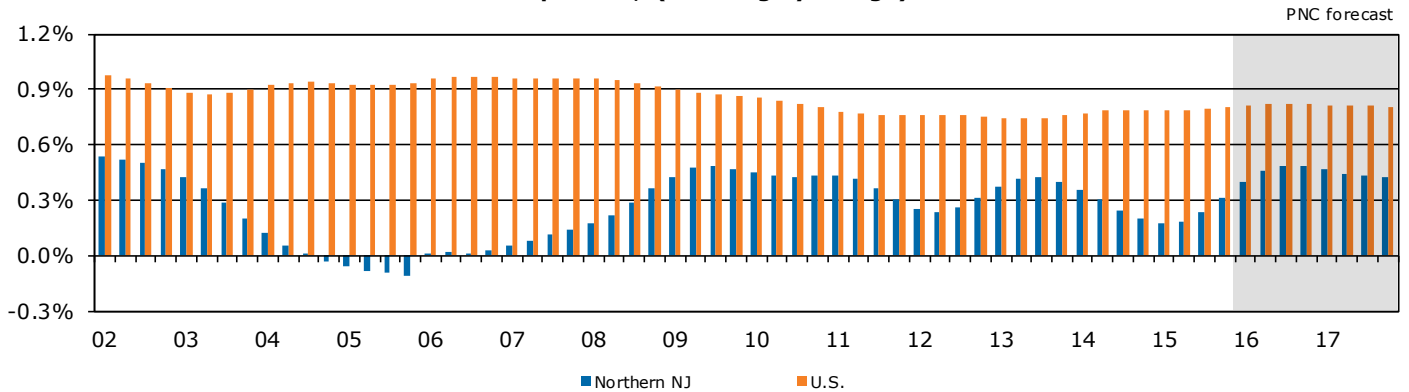


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

LONG-RUN HOUSE-PRICE TRENDS

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

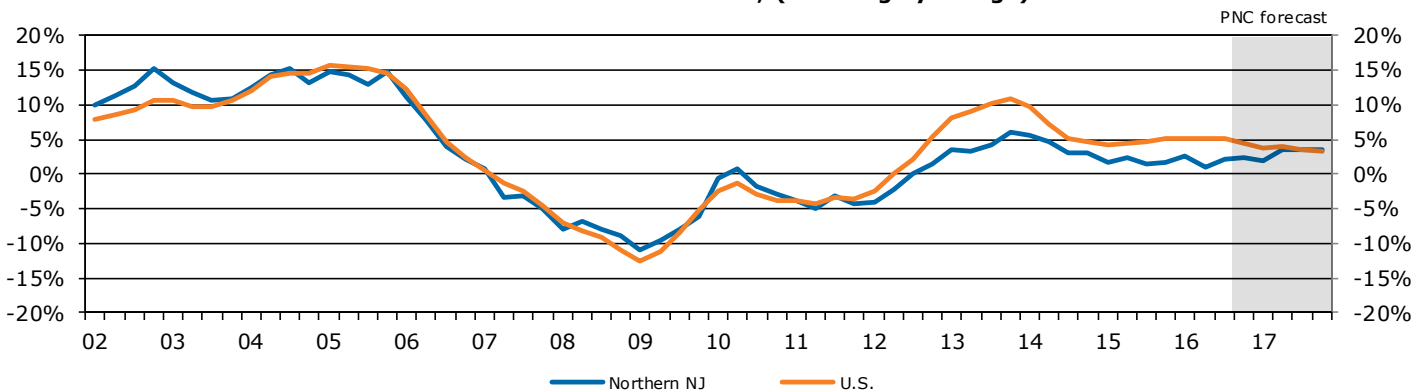


Chart source: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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