

NORTHWEST PENNSYLVANIA MARKET OUTLOOK

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JOB SITUATION

Northwest Pennsylvania, which represents Erie, PA, is fighting its way back to labor market health. The market area saw year-over-year declines in manufacturing jobs in 2013, which kept total employment at just about the break-even point for the year. Service industries, however, began to show signs of life late in the year (Chart 1), and should carry that momentum into 2014 as manufacturing—and therefore consumer spending potential—stabilizes. At 6.5%, the unemployment rate in Northwest Pennsylvania is still somewhat higher than that of its regional counterparts. Nearby Pittsburgh has seen joblessness fall to 5.8%, and the state average is down to 6.0%, even with Philadelphia’s labor market recovery still lagging. The market area’s labor force also fell throughout 2013, meaning that even with manufacturing industries set to receive support from improving national demand in 2014, Northwest Pennsylvania’s unemployment rate will fall only slowly throughout the coming year as job seekers re-enter the labor force.

INCOME

Income growth in Northwest Pennsylvania will see slow going over the near-term horizon. Median household income (Chart 2) is capable of rising at a pace even with inflation, but will lack greater growth potential as high-paying manufacturing industries struggle to maintain forward progress. 2013 also saw the market area’s labor force build up some slack as faltering employment growth yielded discouraged workers exiting the labor force for the time being. Excess labor force means weak wage growth potential as a large number of potential workers compete for limited job opportunities. Service industries have been hiring in the market area, but absorbing the excess labor supply accumulated over the past year will take a sustained period of manufacturing industry expansion given the region’s aggregate labor force skill set.

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

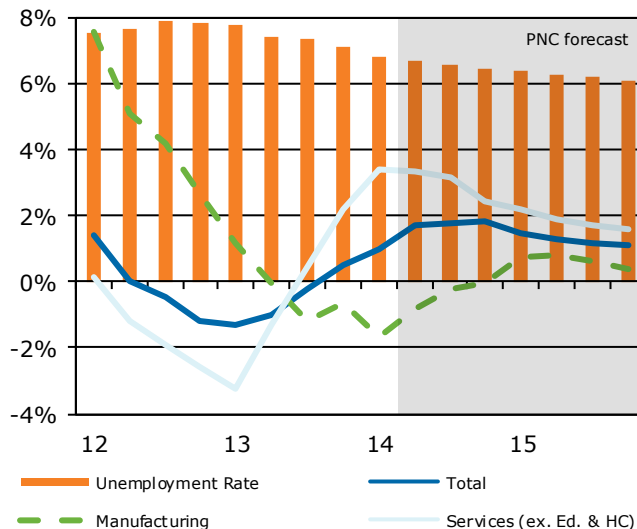


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

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

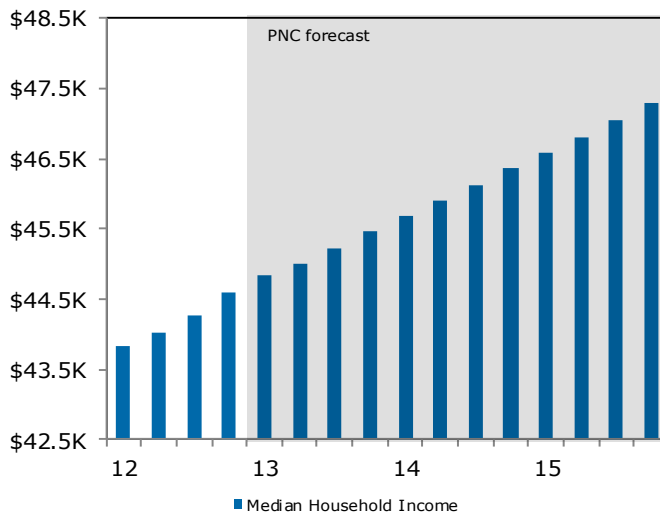


Chart sources: Bureau of Census; Moody’s Analytics; The PNC Financial Services Group



HOUSING

Northwest Pennsylvania's housing market continues to build value steadily for its residents. Home price growth will remain around a modest 2.5% year-over-year growth rate through 2014 as interest rates start to see upward pressure. The market area's underwhelming employment and income growth will keep home values from accelerating much further than that over the near term horizon (Chart 3). The tepid pace of housing market activity, though, will not be a detractor from Northwest Pennsylvania's growth potential over the coming year. The market area endured very little housing market damage during the recession (Chart 7), so household wealth is not dependent upon a dramatic rebound in home values in order to normalize consumption activity and the job creation that comes with it.

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

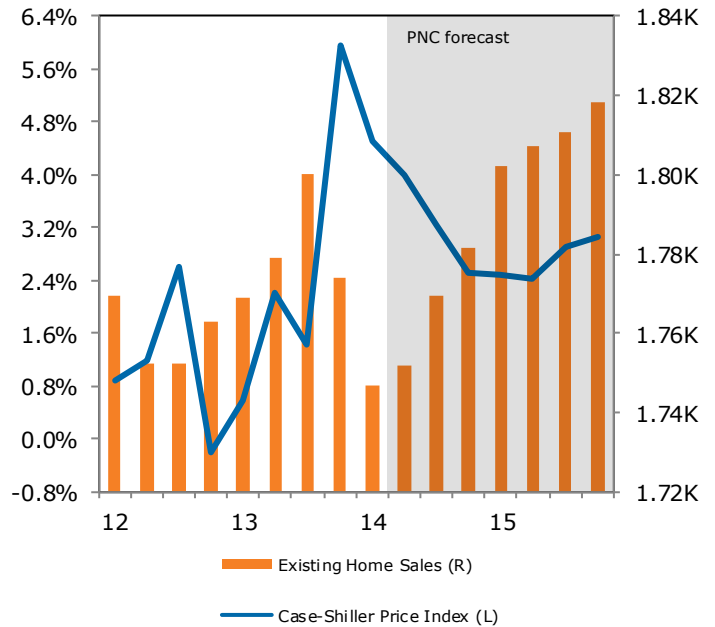


Chart sources: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

DEMOGRAPHICS

Historically, Northwest Pennsylvania is a slow population growth region (Chart 6). As manufacturing industries have cut jobs over the years, younger residents have left in search of faster growing labor markets. Manufacturers again appear to be under cost pressures that are limiting hiring after a strong post-recession push in 2011 and 2012. Weak income conditions and slow job creation will continue to weigh on migration trends (Chart 4) as the market area struggles with near-term economic attractiveness.

Natural gas drilling activity in the Marcellus Shale formation holds significant promise for Northwest Pennsylvania's future demographic prospects. As drilling ramps up, a new workforce will be drawn into the region, bringing demand for locally-provided services. This economic boost remains beyond the market area's near term concerns, however, and the next two years are likely to continue to see weak demographics, and underperforming consumption influences as a result.

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

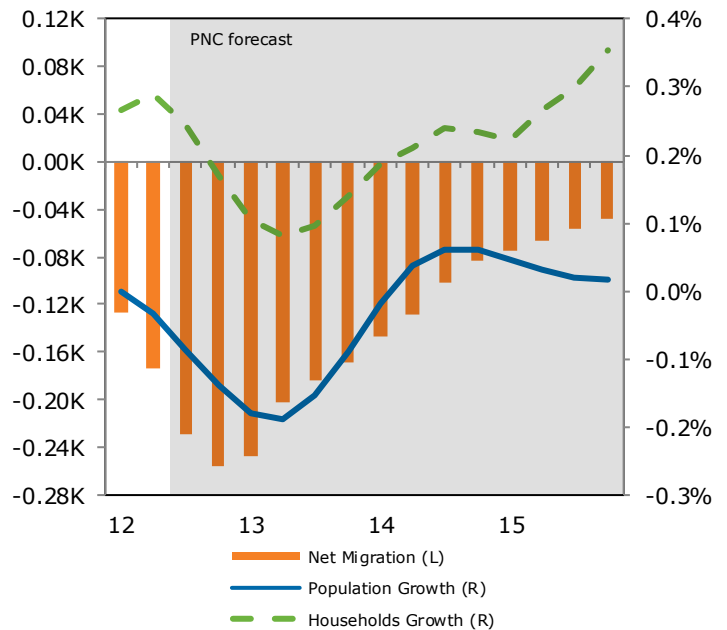


Chart sources: Bureau of Census; Bureau of Economic Analysis; Moody's Analytics; The PNC Financial Services Group

NORTHWEST PENNSYLVANIA

OUTLOOK SUMMARY

Northwest Pennsylvania will endure slow, but steady, economic growth through the rest of 2014. Employment growth in goods-producing industries stalled in 2014, leaving retail and service hiring as the sole contributor to labor market recovery for the time being. The market area sits at approximately 2% below its pre-recession jobs count. This result lags the state average slightly, while the national average will regain its pre-recession peak in total employment by mid-year 2014. Weak manufacturing hiring in the near term presents double jeopardy for the market area as its labor market is highly geared toward such jobs, and the high wages of such positions are needed in order to accelerate consumer spending any further. Wage growth will therefore also be limited to a pace closely aligned with consumer price inflation—which is to say a relatively subdued trend.

Looking further ahead Northwest Pennsylvania's economy will require a more stable foundation than heavy manufacturing typically provides. The market area will be looking to attract new businesses to help grow and diversify its economy in the years ahead. Among the positive characteristics with which Northwest Pennsylvania can compete toward this end will be its affordable housing, lower prevailing wages, its proximity to Midwestern and Mid-Atlantic population centers, and its position adjacent to the Great Lakes' shipping and recreation centers. Northwest Pennsylvania's traditional success in engineering and manufacturing will likely make it an attractive location for emerging green energy industries including wind power. GE Transportation, a local mainstay, is already involved here and its contribution to Northwest Pennsylvania's economy will improve as the global recovery continues. Natural gas drilling operations will also likely take advantage of these structural and geographical benefits in the coming decade, lending support to the prospect of the market area achieving much-needed and long-sought industrial diversity as a stabilizing economic asset.

FORECAST TABLE

	U.S.			Northwest PA		
	2013	2014F	2015F	2013	2014F	2015F
Employment Growth, (% change)	1.7	1.7	1.5	-0.5	1.6	1.3
Unemployment Rate, (%)	7.4	6.4	5.9	7.4	6.7	6.3
Median Household Income, (Ths. \$)	52.4	53.8	55.1	45.1	46.0	46.9
House Prices**, (% change)	10.6	6.3	3.6	2.5	3.6	2.7
Single-Family Permits* (% change)	15.9	12.9	6.1	5.6	-22.7	22.6
Multifamily Permits* (% change)	25.3	19.0	3.5	-38.2	-51.2	9.7

**U.S. starts, F = PNC forecast, **Case-Shiller House Price Index*

	U.S.		Northwest PA	
	2005-2010†	2010-2015†	2005-2010†	2010-2015†
Employment Growth, (% change)	-0.1	1.6	-0.7	0.9
Unemployment Rate, (%)	5.8	7.7	6.0	7.5
Median Household Income, (Ths. \$)	48.7	52.2	41.1	44.6
House Prices**, (% change)	-2.9	3.7	2.2	2.0
Single-Family Permits* (% change)	-22.7	9.6	-12.8	-10.1
Multifamily Permits* (% change)	-20.2	27.2	-8.5	-16.1

**U.S. starts, †per annum, **Case-Shiller House Price Index*

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LONG-RUN EMPLOYMENT TRENDS

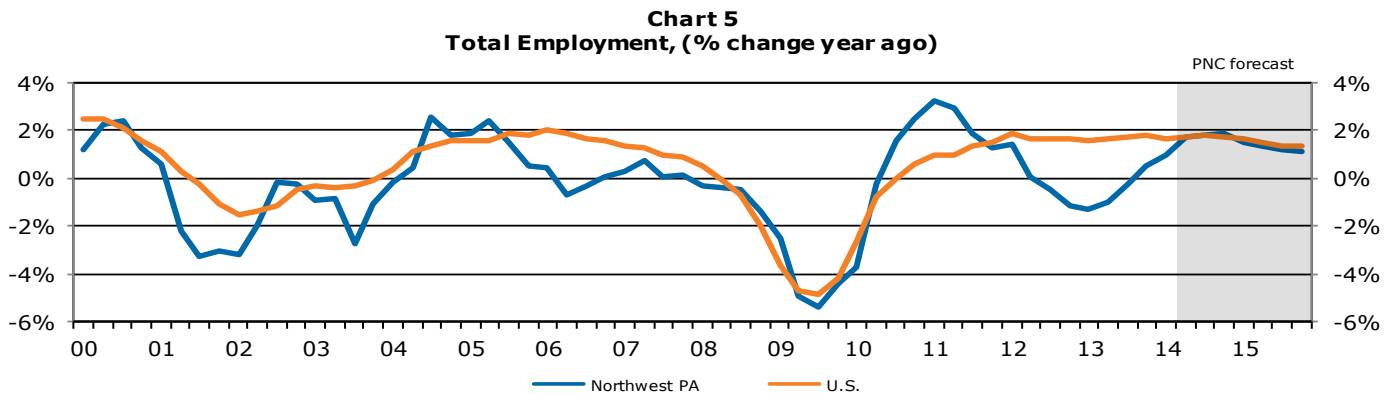


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

LONG-RUN DEMOGRAPHIC TRENDS

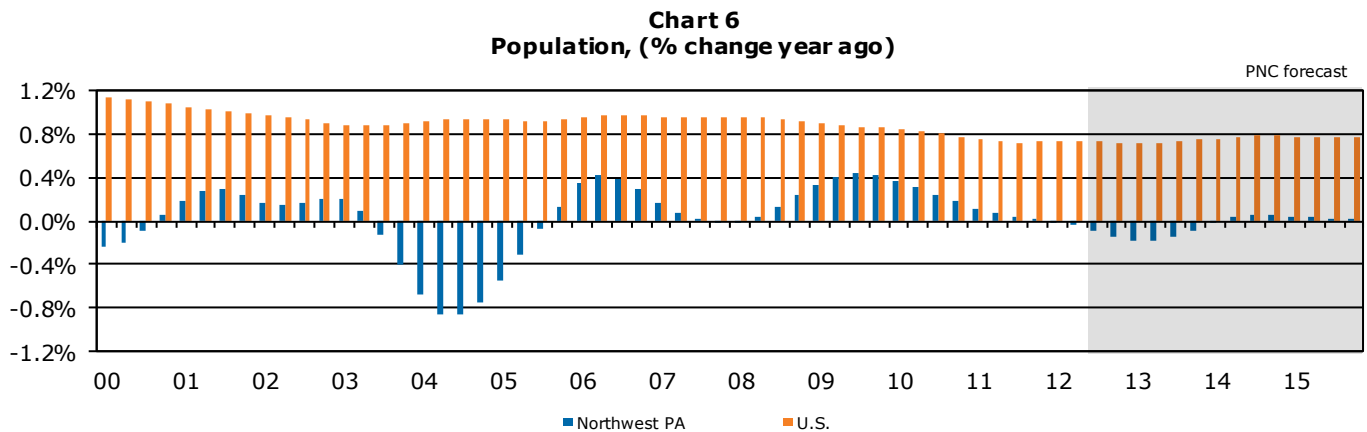


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

LONG-RUN HOUSE-PRICE TRENDS

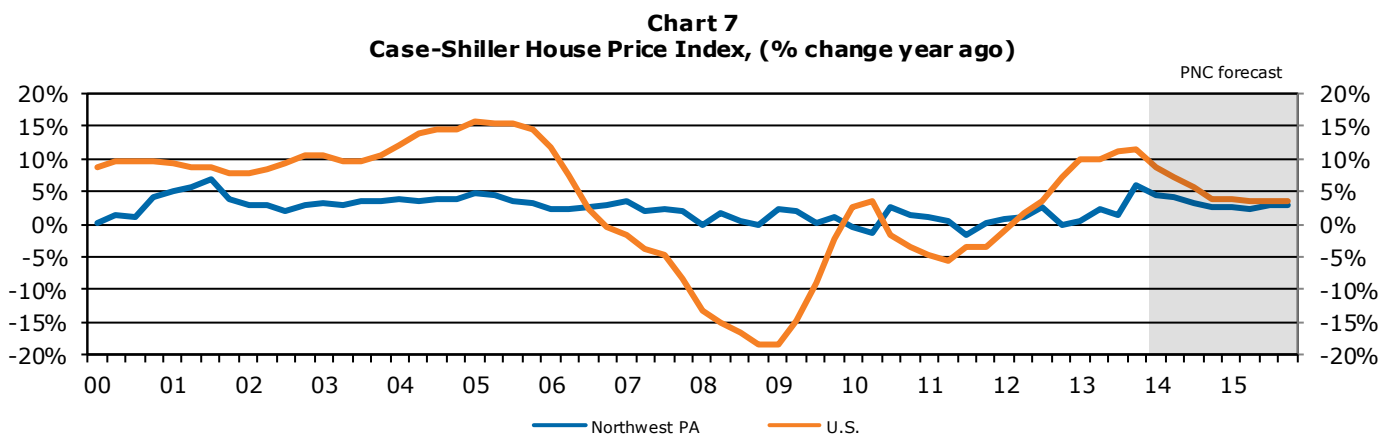


Chart source: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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