

NORTHWEST PENNSYLVANIA MARKET OUTLOOK

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JOB SITUATION

Northwest Pennsylvania, which represents the Erie, PA, metropolitan statistical area, has a period of economic rebuilding ahead of it. The local employment base was hit hard by manufacturing industry job losses (Chart 1), led by more than 1,000 layoffs at GE Transportation. Manufacturing is particularly influential given the relatively high-paying nature of its positions, which enable local consumer spending to support other local job creation. Consumer spending, and the job creation that follows it, will also have suffered as a result of this high-profile job market damage, leaving Northwest Pennsylvania fighting to regain positive hiring trends.

The unemployment rate in Northwest Pennsylvania pushed back above 6 percent as a result of the market area’s manufacturing industry woes. The size of the market area’s labor force has seen virtually no gains since hitting bottom during the recession. A rebalancing of the local labor market will be necessary before the unemployment rate can be expected to improve from its current condition.

INCOME

Income growth in Northwest Pennsylvania will be unimpressive in the near term. A lack of job creation, starting with the some of the market area’s highest-paying positions in manufacturing industries, will leave job seekers competing for relatively few openings locally, thereby keeping wage pressures from rising. Median household income (Chart 2) is approximately 15 percent below both the Pennsylvania state and national averages. Northwest Pennsylvania’s living costs are generally lower, but median household income *growth* has also fallen below average over the past two years—resulting from overall labor market weakness. Consumer spending potential is at risk in the near term as consumer goods inflation looks to ramp up somewhat in 2017. All in all, household balance sheets in Northwest Pennsylvania will find themselves as stressed as they have been since the end of the recession.

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

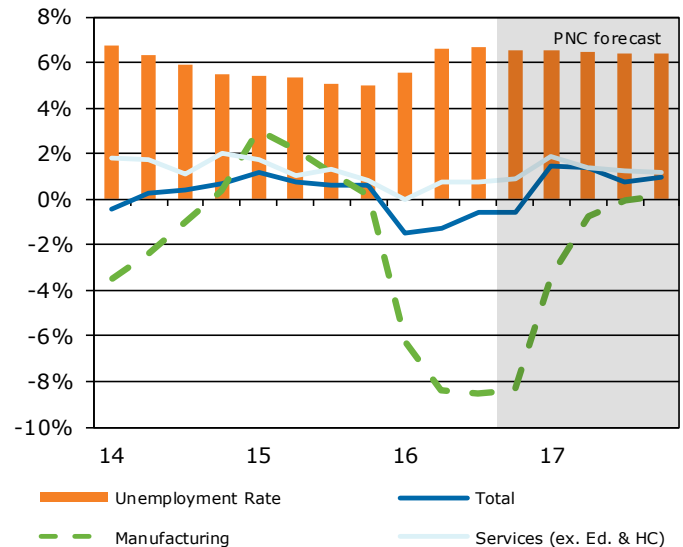


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

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

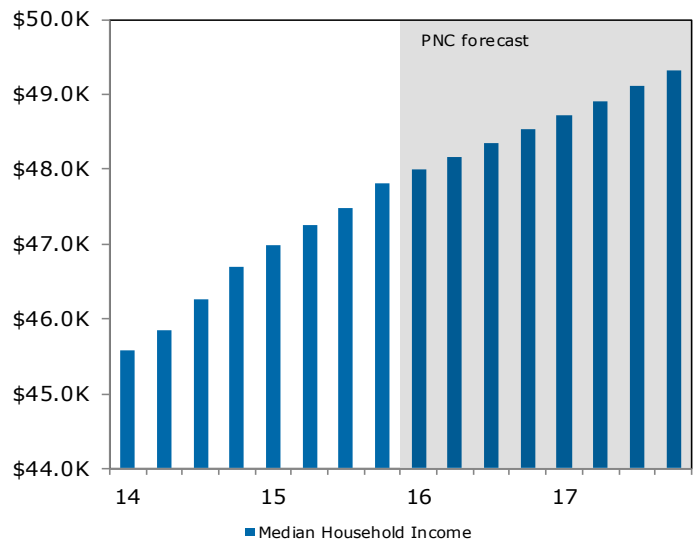


Chart sources: Bureau of Census; Moody’s Analytics; The PNC Financial Services Group



HOUSING

Northwest Pennsylvania's housing market is barely keeping its head above water. House prices are growing quite slowly (Chart 3) as a result of sorely weakened demand conditions. Existing home values will not be able to generate consumer spending potential in the near term that could offset slack hiring trends, but Northwest Pennsylvania does not normally draw significant economic gains from housing trends (a blessing during the housing market bust), so the current slow period will at least not add unexpected damage to local conditions that are battling to find traction.

As is to be expected, the weakened labor market has yielded a slowdown in new residential building activity over the past two years. Single-family building permit issuance stands at only about 15 percent of its pre-bubble pace. The lack of construction activity is doing no favors for the local job market or income trends, but subdued housing supply growth should at least keep house prices from slowing much further.

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

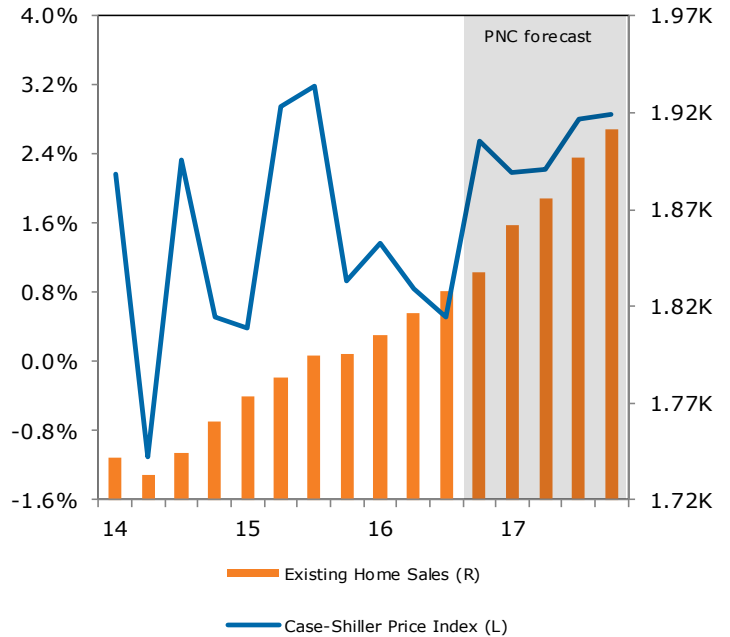


Chart sources: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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 remain under cost pressures from imports, as well as lack of demand from domestic heavy industry customers, so the near term is unlikely to offer relief from this trend. Northwest Pennsylvania will struggle with establishing economic attractiveness versus its regional counterparts over the near-term horizon.

Looking toward the long term, however, natural gas drilling activity in the Marcellus Shale formation holds significant promise for Northwest Pennsylvania's future demographic prospects. Once natural gas prices normalize and drilling ramps up, a new workforce will be drawn into the western Pennsylvania/eastern Ohio region. Northwest Pennsylvania should benefit as this trend develops from an uptick in demand for both business- and consumer-oriented services.

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

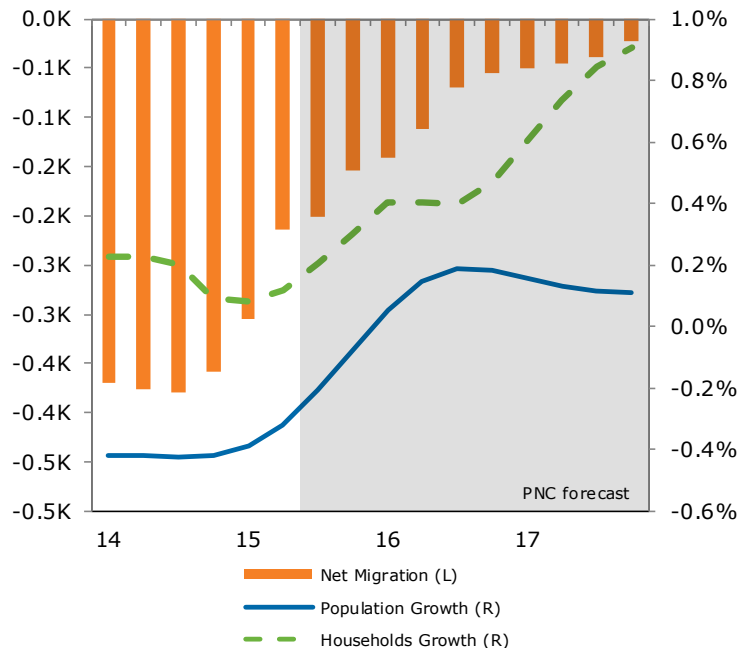


Chart sources: Bureau of Census; Bureau of Economic Analysis; Moody's Analytics; The PNC Financial Services Group

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OUTLOOK SUMMARY

Northwest Pennsylvania finds itself in difficult economic circumstances to kick off 2017. The market area's manufacturing sector is under pressure, and recovering jobs lost to layoffs over the past two years will be a struggle. The impact on local consumer activity resulting from the key manufacturing sector's malaise is evident in the consumer-oriented leisure & hospitality sector, which saw new job growth finish well below the state and national averages for the second straight year in 2016. The market area's low cost of living will allow expected modest wage growth trends for the coming year to keep household spending and saving from giving back all of the progress made during the recovery from recession. There is some upside potential on this front, however, as the Trump administration has suggested that corporate and personal income tax rates could be reduced. But until this talk becomes action, Northwest Pennsylvania will be left battling to keep consumer spending-fueled growth from collapsing.

Looking further ahead, Northwest Pennsylvania's economy continues to 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 to entice employers to the region, 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. 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		
	2015	2016E	2017F	2015	2016E	2017F
Employment Growth, (% change)	2.1	1.7	1.5	0.8	-1.0	1.2
Unemployment Rate, (%)	5.3	4.9	4.5	5.2	6.4	6.4
Median Household Income, (Ths. \$)	55.8	57.1	58.2	47.4	48.3	49.0
House Prices, (% change)	4.6	5.0	3.7	1.9	1.3	2.5
Single-Family Permits* (% change)	10.2	8.5	4.4	15.7	0.0	-9.1
Multifamily Permits* (% change)	11.5	-2.5	2.1	-51.6	22.4	-50.0

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

	U.S.		Northwest PA	
	2007-2012†	2012-2017†	2007-2012†	2012-2017†
Employment Growth, (% change)	-0.6	1.8	-0.5	0.1
Unemployment Rate, (%)	7.7	6.0	7.4	6.5
Median Household Income, (Ths. \$)	50.8	54.7	42.5	46.7
House Prices, (% change)	-4.8	5.9	1.0	1.8
Single-Family Permits* (% change)	-12.3	8.5	-18.0	-4.2
Multifamily Permits* (% change)	-4.2	9.8	3.7	-30.0

*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)

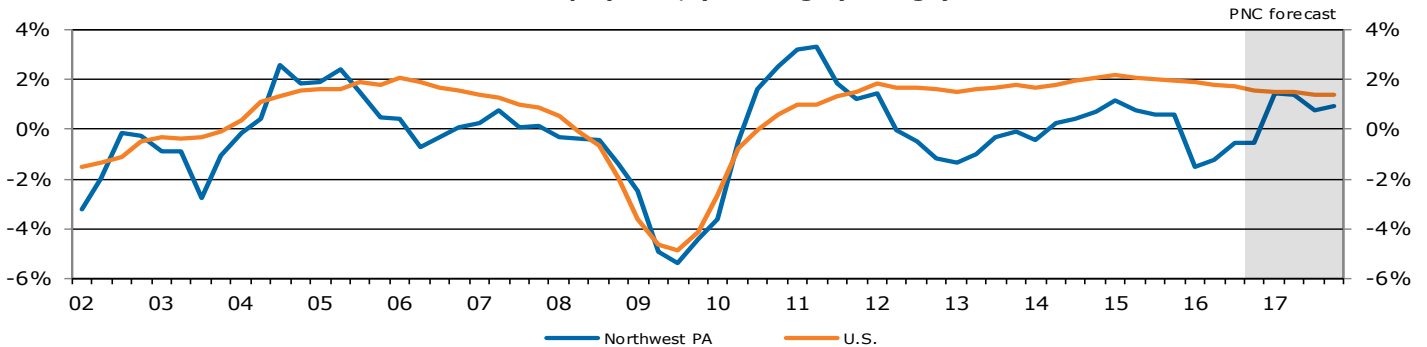


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

LONG-RUN DEMOGRAPHIC TRENDS

Chart 6
Population, (% change year ago)

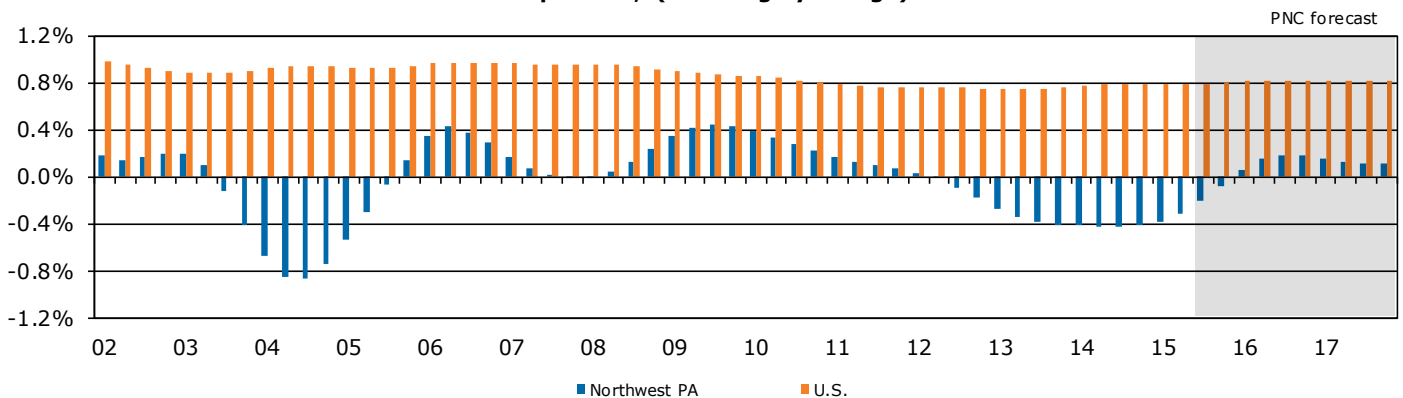


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

LONG-RUN HOUSE-PRICE TRENDS

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

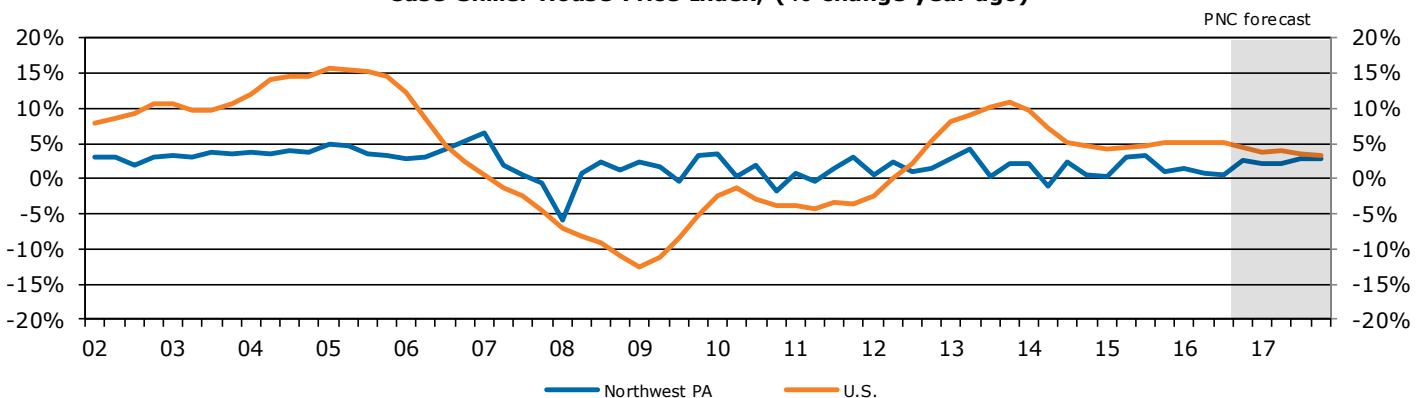


Chart source: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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