

PHILADELPHIA MARKET OUTLOOK

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JOB SITUATION

The Philadelphia market area, which includes the city and surrounding counties in Pennsylvania and Southern New Jersey, will see a third consecutive year of healthy job growth in 2017. Service industry gains are leading the way in the market area (Chart 1), while manufacturing hiring has stalled. But Philadelphia’s overall pace of job creation should overcome this likely-temporary detriment thanks to consumer spending support and construction industry hiring that is closely tracking the national pace of growth.

Philadelphia’s unemployment rate ticked up slightly in 2016 as a result of resurgent labor force gains. The expanding pool of job seekers, feeling confident given the local economy’s sustained labor market strength, will mean more resources for employers to choose from in the coming year as payrolls across the local economy continue to grow.

INCOME

Incomes in the Philadelphia market area are above the national average, and growth over the near term should closely track the pace for the U.S. as a whole closely. Hiring trends are stable, which means that an expanding labor force should be steadily absorbed, forcing local employers to continue to raise pay in order to attract and retain their most skilled workers. Median household income (Chart 2) will not grow quite as fast as average wages, given the broad mix of high- and lower-paying industries adding jobs throughout Philadelphia. But with still-underwhelming consumer price inflation and a measured pace of interest rate hikes coming out of the Federal Reserve, the current lull in median household income growth should not significantly hamper consumer sentiment or spending.

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

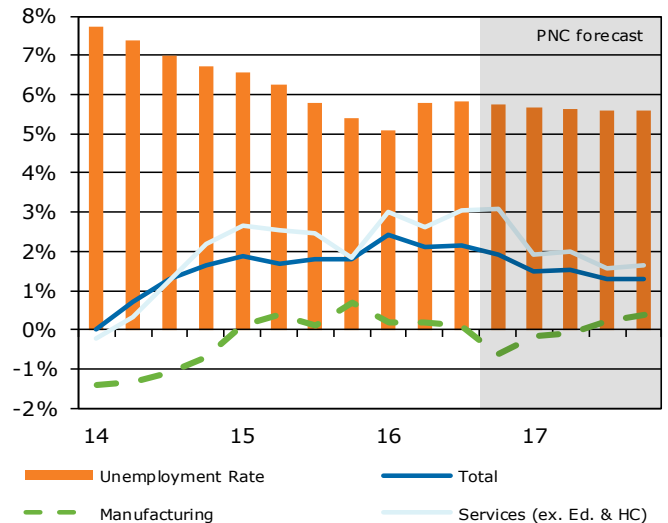


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

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

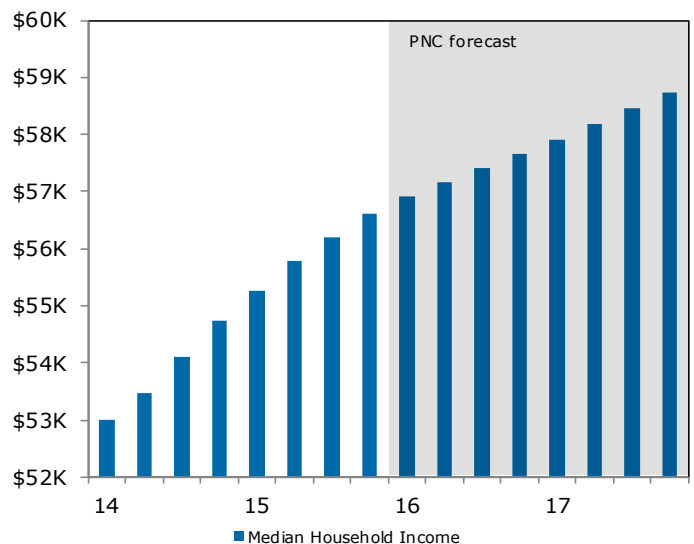


Chart sources: Bureau of Census; Moody’s Analytics; The PNC Financial Services Group



HOUSING

The Philadelphia housing market will enjoy continued gains in the near term. Home price appreciation was volatile throughout the recovery, as Philadelphia’s labor market lagged the nation in terms of returning to its pre-recession peak. But price growth managed to climb to near the national average by mid-2016 (Chart 3), and is not likely to slow significantly given the sustained demand being generated by steady hiring throughout the market area.

New residential construction does, however, continue to lag in Philadelphia. Single-family residential permit issuance finished 2016 at a pace below 50 percent of what would be considered a “normal” housing market—that is, permitting consistent with economic growth *prior to* the housing market bubble that led to the recession. The national average, however, is closer to 70 percent of the historical equilibrium pace. Stronger new construction activity will likely remain on hold until existing housing stock and rebounding demand trends settle into a sustained balance.

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

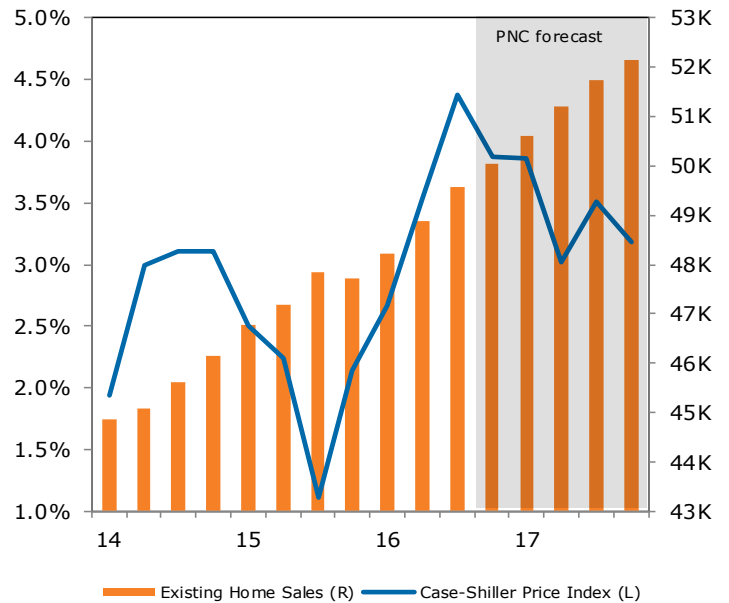


Chart sources: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

DEMOGRAPHICS

Population growth in the Philadelphia area has been slow over the past few years and remains well below the national average. Population in the three New Jersey counties of the market area actually declined slightly as recently as 2013. Because of consistent below-average economic growth, including a long-term decline in manufacturing, Philadelphia’s population growth has lagged behind that of the nation’s for decades, and that trend will remain in place for the foreseeable future (Chart 6). Over the forecast period population growth will stagnate below 1 percent, remaining below the U.S. average, due to a low birthrate and consistently weak net migration (Chart 4). Slow population growth will also weigh on the local housing market recovery, limiting demand-side potential to what prevailing labor market conditions can provide.

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

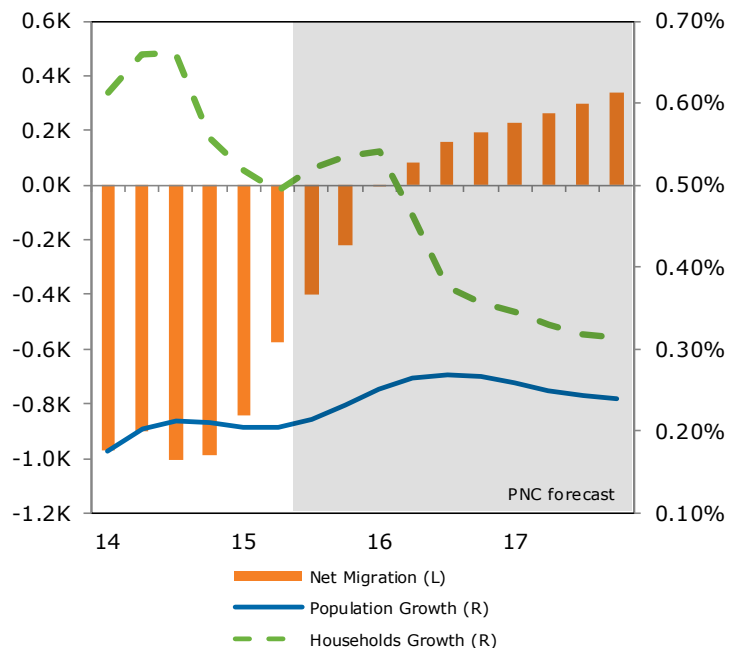


Chart sources: Bureau of Census; Bureau of Economic Analysis; Moody’s Analytics; The PNC Financial Services Group

OUTLOOK SUMMARY

Philadelphia's economy is on track to continue its current run of gains through 2017 and into 2018. Service and consumer-oriented industries are leading job creation. But higher-paying manufacturing positions should at least find stability in the coming year, and allow wage earners in those industries to spend back into the local economy with more confidence. Exposure to the consolidating pharmaceuticals industry and a weak European economy remain risks for the market area, but the baseline outlook for Philadelphia is for hiring and income trends that will overcome these risks and keep powering the local economy forward.

Philadelphia's housing market is on a slow, but steady, recovery path. Existing housing supply is enjoying the benefits of demand attributed to sustained job growth, but new residential construction trends are lacking. The local housing market will have to wait for existing supply and demand to rebalance before new construction can again contribute to overall economic activity. Looking toward the long run, however, Philadelphia's housing market is supported by a solid economic base. There should be very little concern that the current sub-par pace of recovery will persist much beyond the next couple of years.

Looking beyond the near term, the Philadelphia market area's important concentrations in education and health services and finance will provide a buffer against the worst of national economic slowdowns, but carry downside caveats as well. Consolidation in the pharmaceuticals industry may be a restraint on growth as job losses are possible. A relative lack of cyclical high-tech industries compared to regional neighbors will prevent Philadelphia from accelerating to among the strongest market areas on the East Coast, but economic gains in the market area will remain reliably positive nonetheless.

FORECAST TABLE

	U.S.			Philadelphia		
	2015	2016E	2017F	2015	2016E	2017F
Employment Growth, (% change)	2.1	1.7	1.5	1.8	2.2	1.4
Unemployment Rate, (%)	5.3	4.9	4.5	6.0	5.6	5.6
Median Household Income, (Ths. \$)	55.8	57.1	58.2	56.0	60.6	61.6
House Prices, (% change)	4.6	5.0	3.7	2.0	3.6	3.4
Single-Family Permits* (% change)	10.2	8.5	4.4	-0.9	-0.3	-7.1
Multifamily Permits* (% change)	11.5	-2.5	2.1	-14.1	-37.6	-1.7

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

	U.S.		Philadelphia	
	2007-2012†	2012-2017†	2007-2012†	2012-2017†
Employment Growth, (% change)	-0.6	1.8	-0.6	1.4
Unemployment Rate, (%)	7.7	6.0	8.0	7.2
Median Household Income, (Ths. \$)	50.8	54.7	51.0	55.9
House Prices, (% change)	-4.8	5.9	-3.1	2.9
Single-Family Permits* (% change)	-12.3	8.5	-11.6	3.9
Multifamily Permits* (% change)	-4.2	9.8	3.5	-0.2

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

Table sources: Bureau of Census; Bureau of Labor Statistics; Bureau of Economic Analysis; National Association of Realtors; National Association of Home Builders; FHFA; Moody's Analytics; The PNC Financial Services Group

LONG-RUN EMPLOYMENT TRENDS

Chart 5
Total Employment, (% change year ago)

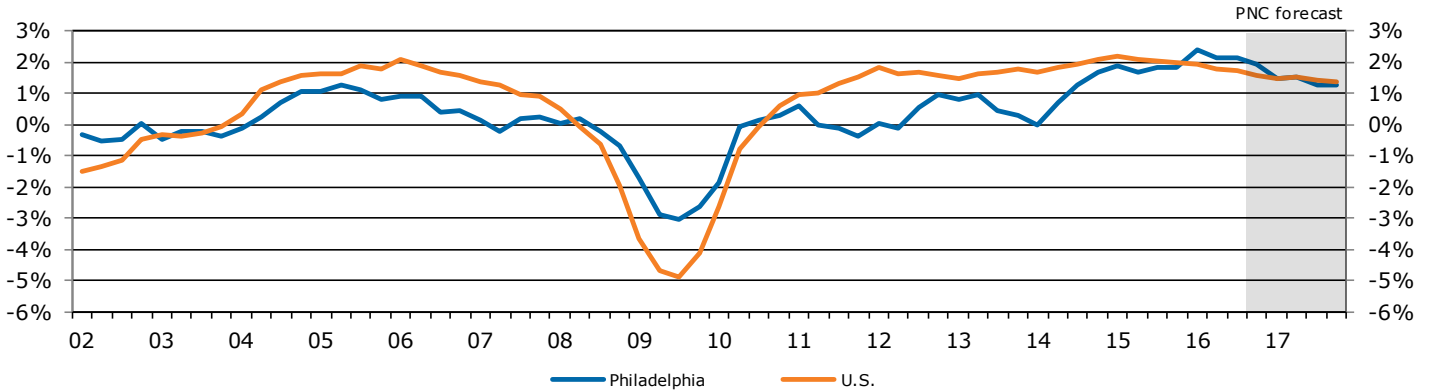


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

LONG-RUN DEMOGRAPHIC TRENDS

Chart 6
Population, (% change year ago)

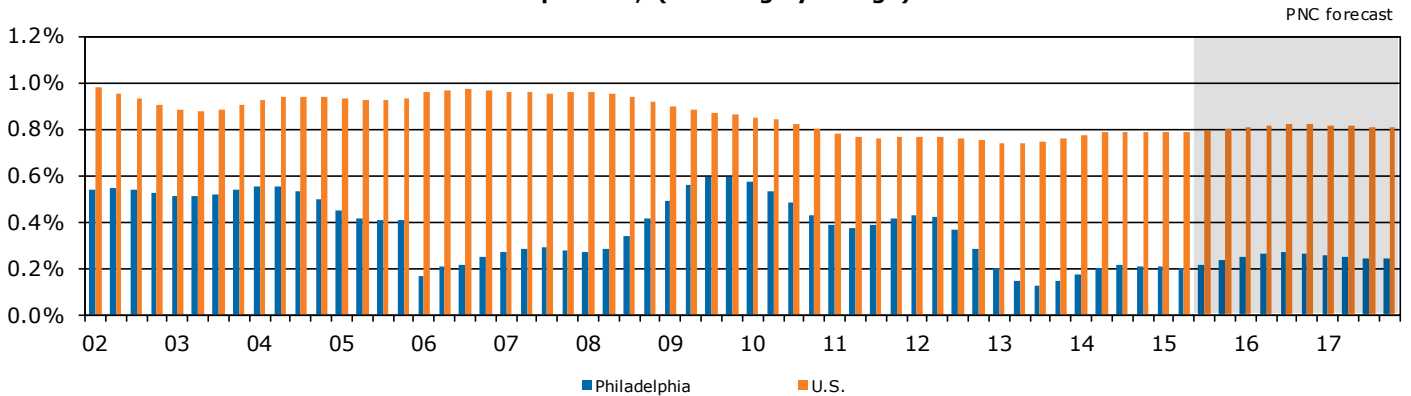


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

LONG-RUN HOUSE-PRICE TRENDS

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

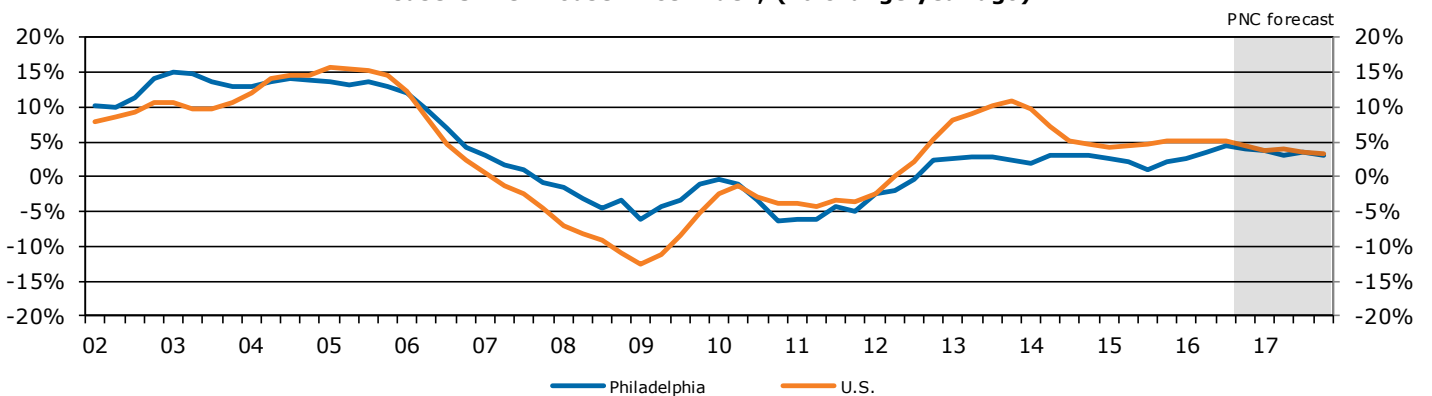


Chart source: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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