

PITTSBURGH MARKET OUTLOOK

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JOB SITUATION

The Pittsburgh market area is a picture of stability entering 2016. Though overall hiring has slowed significantly since the early years of recovery from the recession, the unemployment rate for the market area is steady at just under 5 percent, with labor force growth having been renewed after sub-par results posted in 2013 and 2014. One drag on job creation prospects in the near term is an ongoing pullback in manufacturing (Chart 1). Weak natural resources industry demand and market share competition from low-price imports have forced job cuts among local manufacturers. But total employment faces little threat of outright declines. A healthy consumer base should keep spending trends intact under an umbrella of consumer confidence. Pittsburgh's job market may not lead many nationwide, or even region-wide, economic metrics in the near term, but a steady, sustainable growth pace has become a hallmark of the market area's economy and will provide local employers with a familiar environment in which to do business.

INCOME

Pittsburgh will manage modest income gains throughout the coming year thanks to the inertia provided by a solid employment base. Although wage growth slowed over the past year, low gasoline and energy prices will support consumer spending in 2016. Median household income (Chart 2) is only slightly below the national average, but represents greater purchasing power thanks to the market area's below-average cost of living.

Pittsburgh's strongest wage and income growth potential is still several years out into the forecast horizon. Natural resources development, construction, and manufacturing jobs are all likely once energy markets find a new balance and prices again start to rise. The sum influence of these high-paying industries represent upside potential for Pittsburgh's income base beyond what has been possible in recent decades.

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

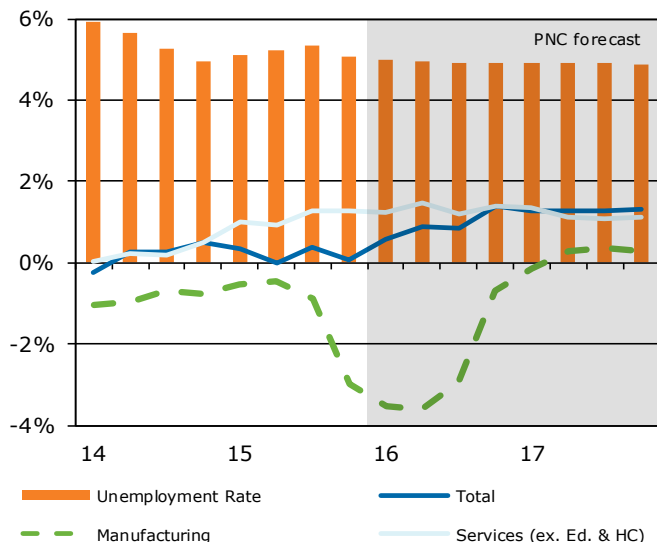


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

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

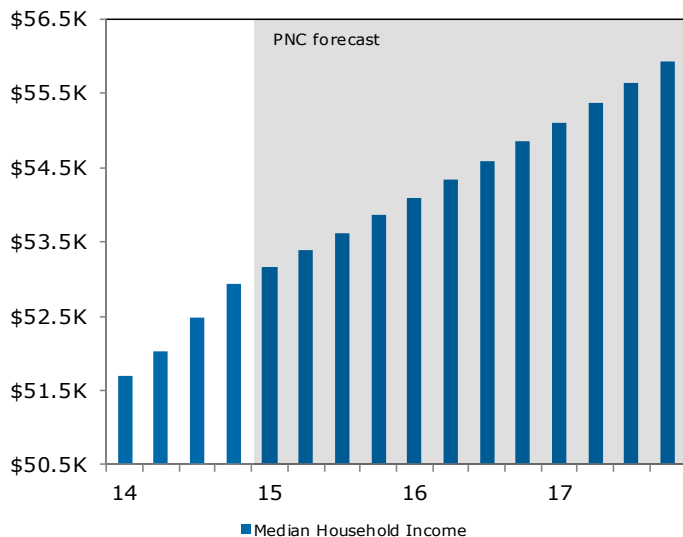


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group



HOUSING

Pittsburgh's housing market is advancing in lock-step with its overall pace of economic expansion. That is, price appreciation and home sales are stable and are unlikely to see much change over the coming year. Home values have been rising since 2009, and are now 17 percent above levels seen at the end of 2007. Steady job creation, high affordability, and no measurable excess housing supply in the market area will keep prices trending steadily upward for the foreseeable future (Chart 3).

New residential permitting activity in Pittsburgh has slowed somewhat over the past two years. This development is consistent with the market area settling into a slower pace of overall economic expansion. Slow, but steady, job creation has capped housing demand growth, thus leaning the housing market more toward churn of existing stock rather than creating the need for new construction activity. This pace of permitting in Pittsburgh is closer to equilibrium than in either the state or nation as a whole. In housing markets, as with job creation, the outlook for the rest of this year and next is one of continued steady gains, as opposed to attention-grabbing acceleration.

DEMOGRAPHICS

Pittsburgh's long-time trend of population declines appears to be in the early stages of a turnaround (Chart 4). With housing market strength and stability in its job market, Pittsburgh is well positioned to attract and retain young workers going forward. Reliable education, healthcare and financial industry employers are firmly entrenched and will support workforce development for the foreseeable future. And Pittsburgh is well positioned to benefit from gas drilling activity in the Marcellus Shale formation over the longer term. Skilled workers already experienced in this industry will find Pittsburgh's low living costs attractive, and migration trends are likely to see a boost as a result.

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

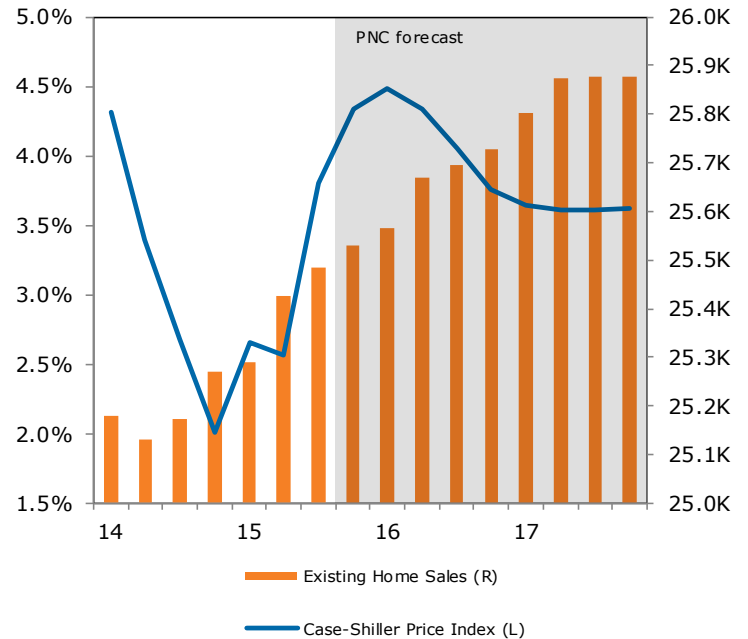


Chart sources: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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

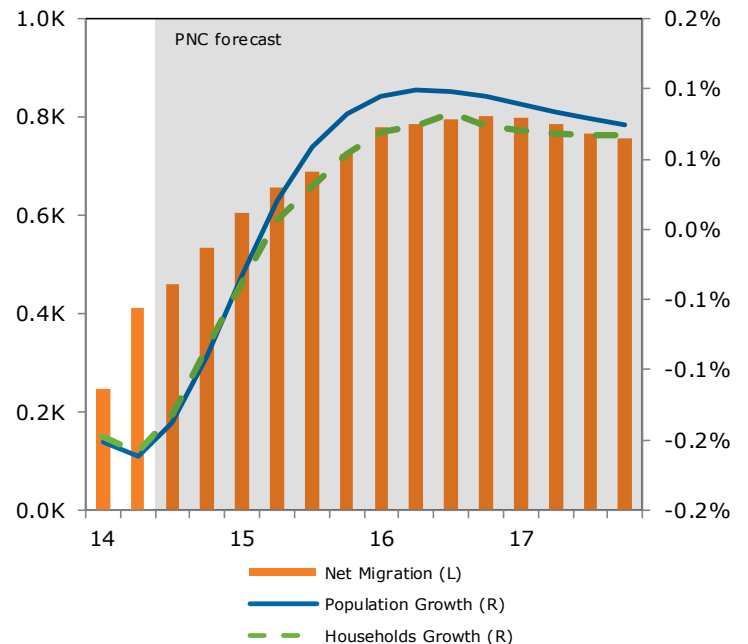


Chart sources: Bureau of Census; Bureau of Economic Analysis; Moody's Analytics; The PNC Financial Services Group

OUTLOOK SUMMARY

Pittsburgh's economic growth in 2016 will follow a pattern familiar to the region—that is, a steady pace of new job creation, moderate income gains, and stable housing markets. The market area's unemployment rate may find some resistance against further topline improvement, given a turnaround after two-years' worth of labor market weakness in terms of labor force participation. But an unimpressive performance on this front will be more a statistical quirk than a lack of economic progress. Job creation will continue, the question will be only whether employers can entice workers back into its ranks through a long-awaited spark in wage growth.

Pittsburgh's manufacturing and transportation industries will require an acceleration of business expansion at the national level if they are to rejoin the market area's economic progress. The local manufacturing base is concentrated in the production of primary metals, computer components, and machinery, all of which would do well if businesses put profits to use toward building new facilities and expanding operations. Capacity utilization for the U.S. economy is nearing 80%, which is where that metric has plateaued during each of the past two economic expansions. The result of reaching that level again may be that businesses are forced to expand to keep up with even moderate demand growth. Pittsburgh should grow more strongly if that benchmark does trigger broad business expansion over the coming year.

Pittsburgh's highly regarded universities and hospitals support stable income and employment trends. Over the longer term, Marcellus Shale natural gas drilling operations and ongoing expansion of high-tech employers such as Westinghouse provide the basis for a significantly faster growth pace than that seen over the past few decades. Already, demographic trends appear to be reversing from steady net out-migration. Highly affordable living costs add further support for the idea that Pittsburgh may be just at the start of a stronger economic future.

FORECAST TABLE

	U.S.			Pittsburgh		
	2015	2016F	2017F	2015	2016F	2017F
Employment Growth, (% change)	2.1	1.7	1.3	0.2	0.9	1.3
Unemployment Rate, (%)	5.3	4.8	4.6	5.2	5.0	4.9
Median Household Income, (Ths. \$)	55.2	56.4	57.5	53.5	54.5	55.5
House Prices**, (% change)	4.6	5.0	3.2	3.3	4.2	3.6
Single-Family Permits* (% change)	10.1	7.8	4.4	-63.7	204.1	6.2
Multifamily Permits* (% change)	11.4	-0.2	1.3	101.6	-50.2	6.3

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

	U.S.		Pittsburgh	
	2007-2012†	2012-2017†	2007-2012†	2012-2017†
Employment Growth, (% change)	-0.6	1.7	0.2	0.5
Unemployment Rate, (%)	7.7	6.0	6.6	5.7
Median Household Income, (Ths. \$)	50.8	54.4	47.5	52.9
House Prices**, (% change)	-4.8	5.8	1.3	3.7
Single-Family Permits* (% change)	-12.3	8.3	-5.4	4.4
Multifamily Permits* (% change)	-4.2	10.1	-8.1	16.7

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

LONG-RUN EMPLOYMENT TRENDS

Chart 5
Total Employment, (% change year ago)

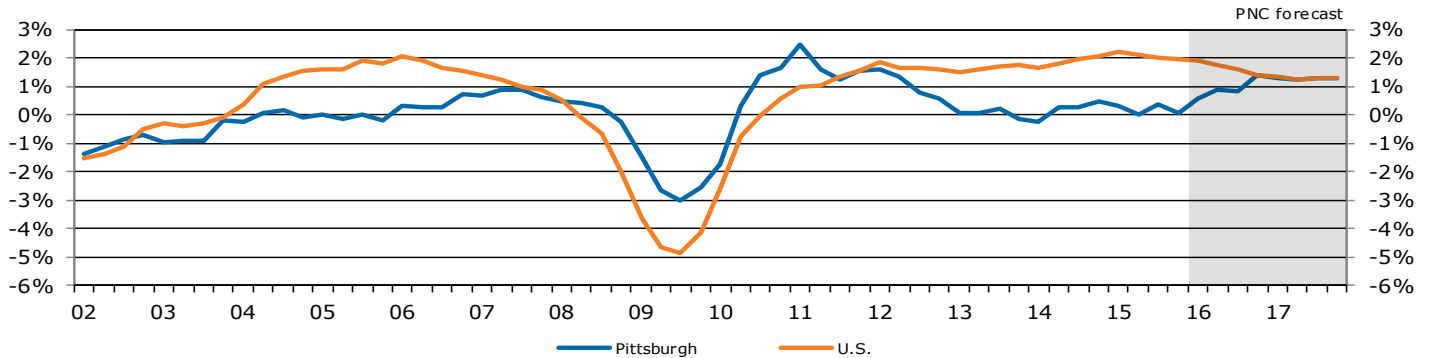


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

LONG-RUN DEMOGRAPHIC TRENDS

Chart 6
Population, (% change year ago)

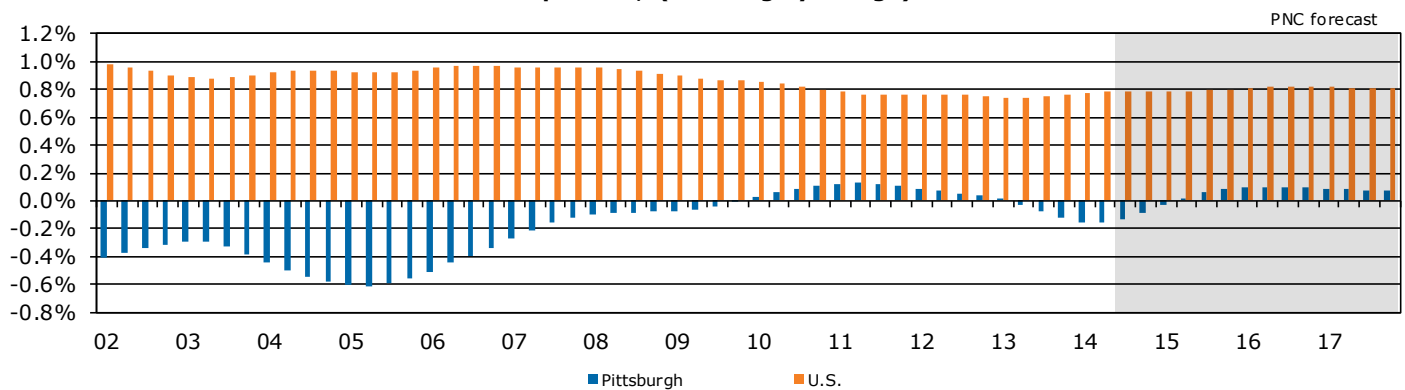


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

LONG-RUN HOUSE-PRICE TRENDS

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

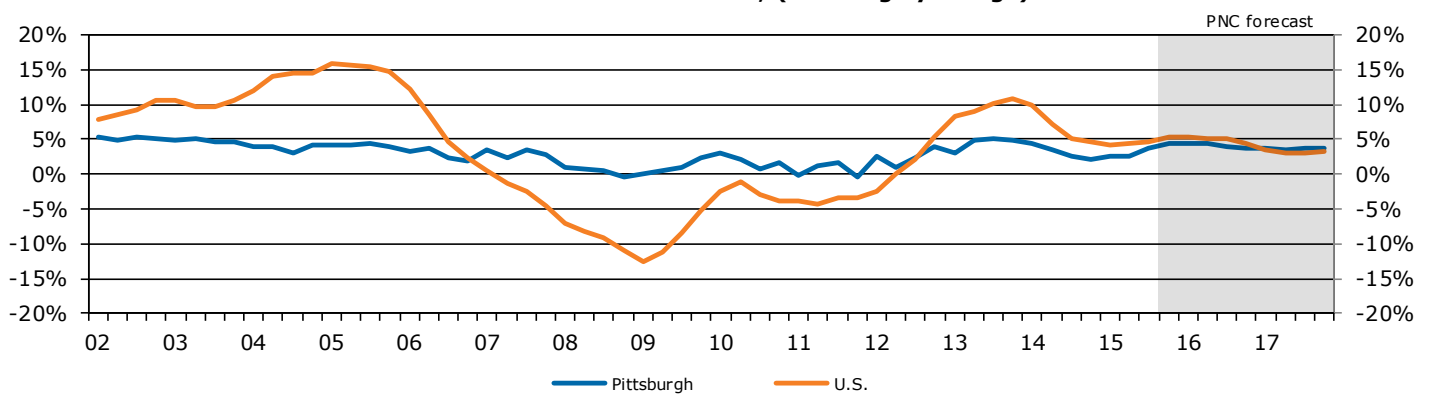


Chart source: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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