

PITTSBURGH MARKET OUTLOOK

Stuart Hoffman
Chief Economist

Gus Faucher
Deputy Chief Economist

William Adams
Senior Economist

Kurt Rankin
Economist

Mekael Teshome
Economist

THE PNC FINANCIAL SERVICES GROUP | The Tower at PNC Plaza | 300 Fifth Avenue | Pittsburgh, PA 15222-2401

JOB SITUATION

The Pittsburgh market area's economy finds itself in a precarious situation to start 2017. The unemployment rate rose sharply through the second half of 2016, nearing 6% (Chart 1) - a level not seen in the region since 2014 when recovery from recession was just beginning to gain real momentum. Pittsburgh's unemployment rate closely mirrored national trends throughout the past 20 years prior to the 2008-09 recession. So the current divergence for the worse versus a stable labor market for the U.S. suggests that Pittsburgh's employers and employees alike may find the coming year difficult in terms of advancing toward new economic goals.

Labor force gains outpaced hiring by a three-to-one ratio last year. This mix of trends implies that workers not able to find positions in Pittsburgh due to a slower pace of hiring may well find themselves relocating to better-performing regions within the U.S. economy, leaving Pittsburgh businesses with fewer labor resources with which to take on future expansion efforts.

INCOME

Lackluster economic growth, both currently and over the near term horizon, will act to limit wage growth for existing employees. With U.S. average wage growth already well ahead of the pace being experienced in the Pittsburgh market area, the potential exists for a vicious circle of skills drain and lack of labor demand to take hold. Although Median household income (Chart 2) is below the national average, Pittsburgh incomes possess 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)

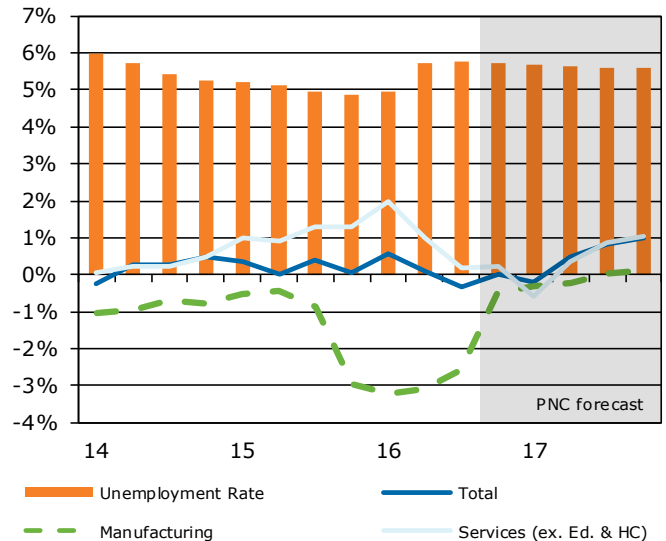


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

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

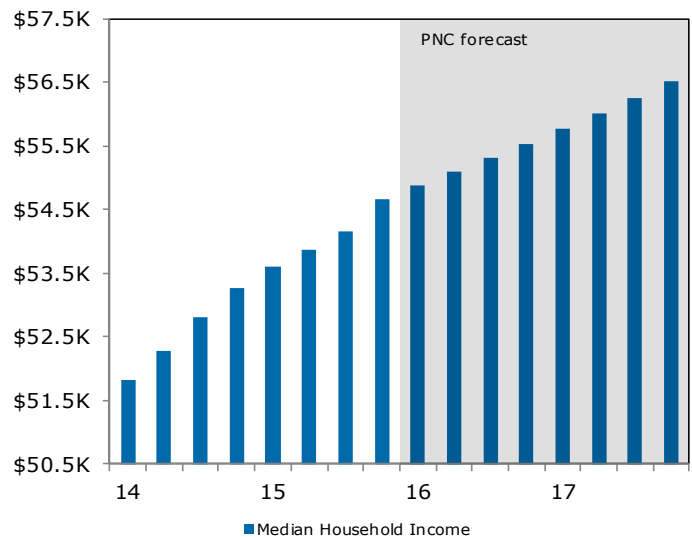


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group



HOUSING

Pittsburgh's housing market has been able to maintain stability despite the turn for the worse in hiring and income trends. Price appreciation (Chart 3) and home sales will at least be able to maintain a steady pace of gains thanks to lower housing costs overall, and the lower hurdle to entry into the housing market that they result in. Home values have been rising since 2009, and are now 22 percent above levels seen at the end of 2007.

New residential permitting activity in Pittsburgh has stalled past two years, after an initially strong push in new building activity out of recession and through the end of 2014. This development is consistent with the market area finding itself enduring a slower pace of overall economic expansion. Pittsburgh's housing market will rely more on churn of existing stock rather than the creation of—or the need for—new construction activity. In housing markets, as with job creation, the outlook for the rest of this year and next is one of subpar results.

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

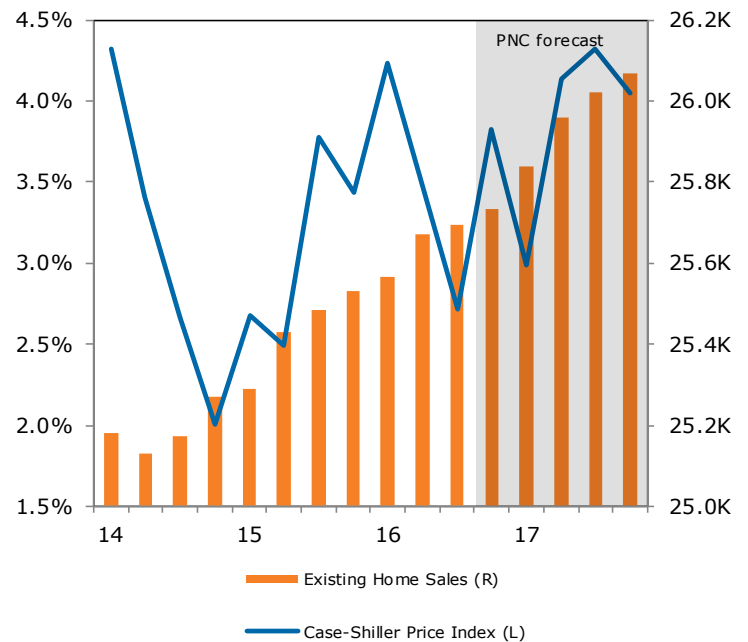


Chart sources: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

DEMOGRAPHICS

Pittsburgh's long-time trend of population declines has toned down in recent years, but the market area is not yet on track for a demographic upswing (Chart 4). Housing market stability is a plus for the market area, and Pittsburgh is always well-positioned to attract and retain young workers with its industrial diversity and presence of high-tech and cutting-edge employers. But those industries will have to grow more rapidly for Pittsburgh to turn that favorable positioning in to determined action on population growth.

Reliable education, healthcare and financial industry employers are firmly entrenched and will support workforce development for the foreseeable future. And Pittsburgh will inevitably 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 4
Demographic Growth, (% change, year ago)
& Net Migration, (Ths., SA)

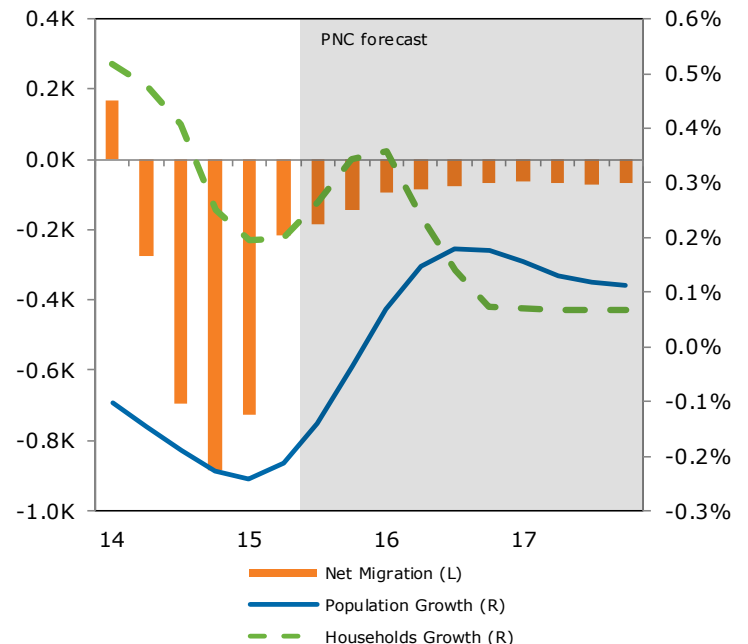


Chart sources: Bureau of Census; Bureau of Economic Analysis; Moody's Analytics; The PNC Financial Services Group

OUTLOOK SUMMARY

Pittsburgh's economic growth in 2017 is set to repeat the slow trends that have been in place over the preceding two years. New job creation has been virtually nonexistent since 2013, with only 11,000 jobs being added to the market area's base of 1.15 million over 3 years' time. Income gains have also slowed as a result. Consumer spending support for the Pittsburgh market area may come under fire in 2017 given the lack of new income generation and a likely retrenchment in consumer confidence given the economy's overall weakness.

Proposed infrastructure spending by the Trump administration could offer upside potential for Pittsburgh. The market area would benefit from Federal funds spent on traditional transportation infrastructure, as well as dollars dedicated toward energy infrastructure. But while past infrastructure proposals have focused almost exclusively on these heavy-industry areas, new spending could also include cyber infrastructure. This is an area that Pittsburgh has a competitive advantage in attracting business and workforce development thanks to its highly-regarded educational institutions. All offer the potential for a much-needed shot in the arm for Pittsburgh's economy.

Pittsburgh's highly regarded universities and hospitals will support stable income and employment trends over the longer term. Marcellus Shale natural gas drilling operations and ongoing expansion of high-tech employers also provide the basis for a significantly faster growth pace than that seen over the past few decades. Demographic trends can be reversed once these industries move from planning stages to action. Shell Chemicals moved forward with the building of a long-discussed ethane processing plant in 2016 in the first of a potential wave of new production facilities looking to take advantage of the region's energy and raw material accessibility. Each project will likely include thousands of construction-phase jobs, and permanent high-paying manufacturing and engineering positions. Highly affordable living costs will complement these eventual gains and further supports for the idea that Pittsburgh has the seeds of a strong economic future in place.

FORECAST TABLE

	U.S.			Pittsburgh		
	2015	2016E	2017F	2015	2016E	2017F
Employment Growth, (% change)	2.1	1.7	1.5	0.2	0.1	0.5
Unemployment Rate, (%)	5.3	4.9	4.5	5.0	5.5	5.6
Median Household Income, (Ths. \$)	55.8	57.1	58.2	54.1	55.2	56.1
House Prices, (% change)	4.6	5.0	3.7	3.1	3.6	3.9
Single-Family Permits* (% change)	10.2	8.5	4.4	6.6	-6.7	-7.7
Multifamily Permits* (% change)	11.5	-2.5	2.1	77.6	-42.7	5.5

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

	U.S.		Pittsburgh	
	2007-2012†	2012-2017†	2007-2012†	2012-2017†
Employment Growth, (% change)	-0.6	1.8	0.2	0.2
Unemployment Rate, (%)	7.7	6.0	6.6	5.9
Median Household Income, (Ths. \$)	50.8	54.7	47.5	53.3
House Prices, (% change)	-4.8	5.9	1.3	3.6
Single-Family Permits* (% change)	-12.3	8.5	-5.4	-0.6
Multifamily Permits* (% change)	-4.2	9.8	-8.1	16.8

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

LONG-RUN EMPLOYMENT TRENDS

Chart 5
Total Employment, (% change year ago)

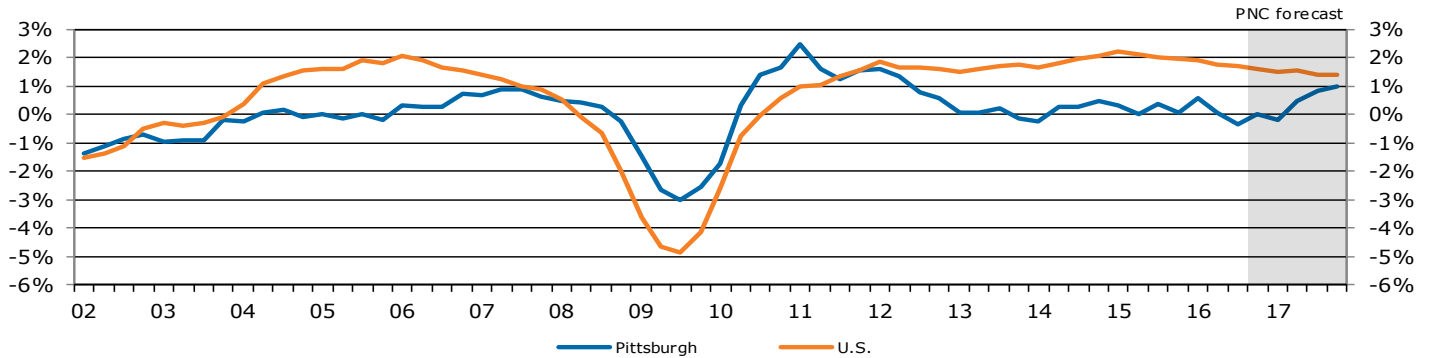


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

LONG-RUN DEMOGRAPHIC TRENDS

Chart 6
Population, (% change year ago)

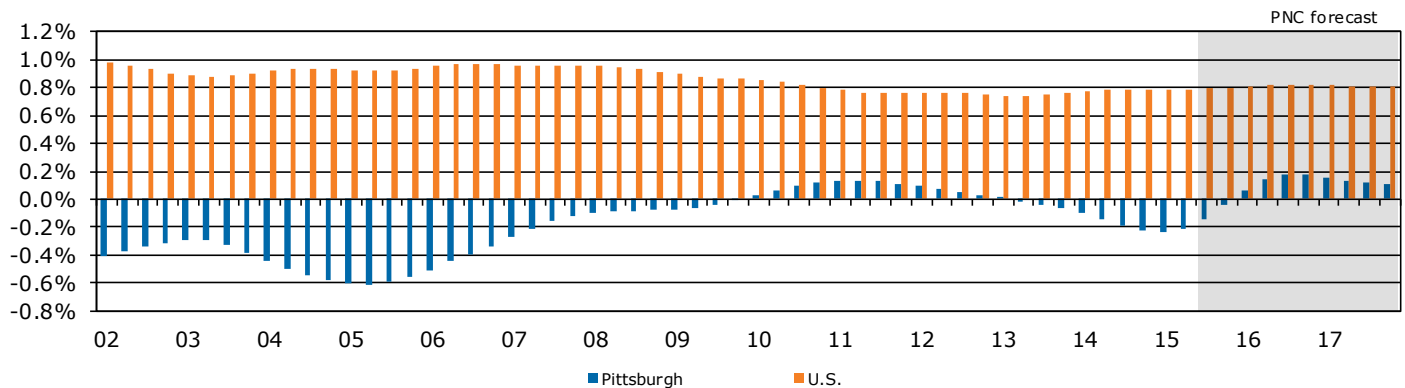


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

LONG-RUN HOUSE-PRICE TRENDS

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

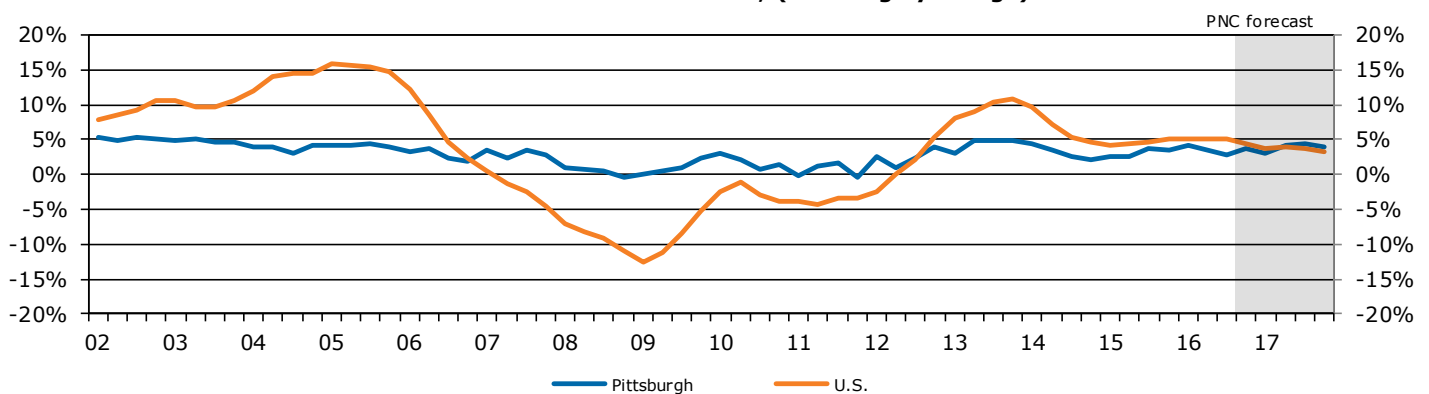


Chart source: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

Visit <http://www.pnc.com/economicreports> to view the full listing of economic reports published by PNC's economists.

Disclaimer: The material presented is of a general nature and does not constitute the provision of investment or economic advice to any person, or a recommendation to buy or sell any security or adopt any investment strategy. Opinions and forecasts expressed herein are subject to change without notice. Relevant information was obtained from sources deemed reliable. Such information is not guaranteed as to its accuracy. You should seek the advice of an investment professional to tailor a financial plan to your particular needs.