

RALEIGH MARKET OUTLOOK

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JOB SITUATION

The Raleigh market area, which consists of the Raleigh, Durham, Goldsboro and Rocky Mount metro areas, enters 2017 with considerable strength (Chart 1). The rate of job growth exceeds the national rate by a significant margin. Professional services, which include high-wage and technical employment, are mainstays of the region's buoyant economy. Education and healthcare are reliable and essential drivers as well while continued jobs and income growth are boosting retail, leisure and hospitality. Payroll employment is almost 10 percent higher than its early-2008 peak. By comparison, payroll employment in the U.S. is about 5 percent above its pre-recession peak.

However, the aggregate region's strong performance masks the disparities within the market. The larger, high-tech oriented Raleigh and Durham metros are among growth leaders in PNC's footprint. They have rapidly growing workforces and have jobless rates that are well below the U.S.'s. In contrast, the smaller, manufacturing reliant areas of Rocky Mount and Goldsboro have yet to shake off the Great Recession. In December 2016, their unemployment rates were 7.5 and 6.0 percent, respectively. In addition, both metros have seen their public sectors shrink significantly. Fortunately, both metro areas have pockets of strength in private service industries. Nevertheless, it will be a long and difficult recovery.

INCOME

A tighter labor market in 2017 will lead to a pickup in wage income. This will especially be the case in the Raleigh and Durham metros where their unemployment rates have been close to 4 percent since mid-2016. The market area's median income is 8 percent higher than the national average, thanks to a high concentration of tech industries in the Durham and Raleigh metro areas (Chart 2). Anchored by Research Triangle Park, the area boasts some of the largest technology, research, and development operations in the country. In Durham and Raleigh, high-tech employment accounts for nearly 14 percent

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

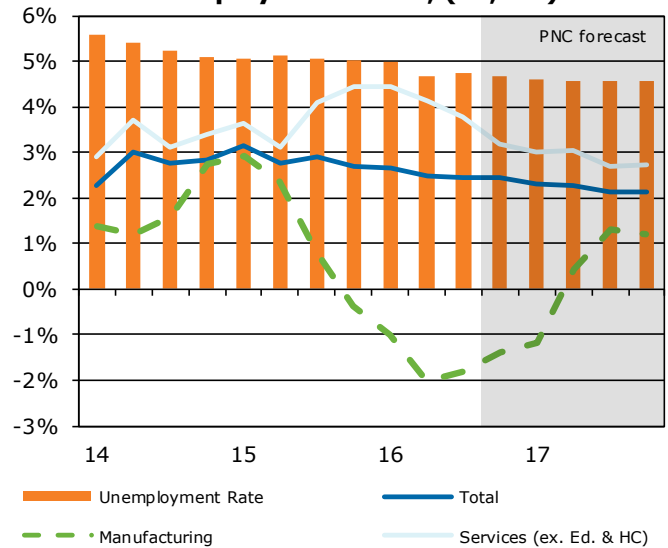


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

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

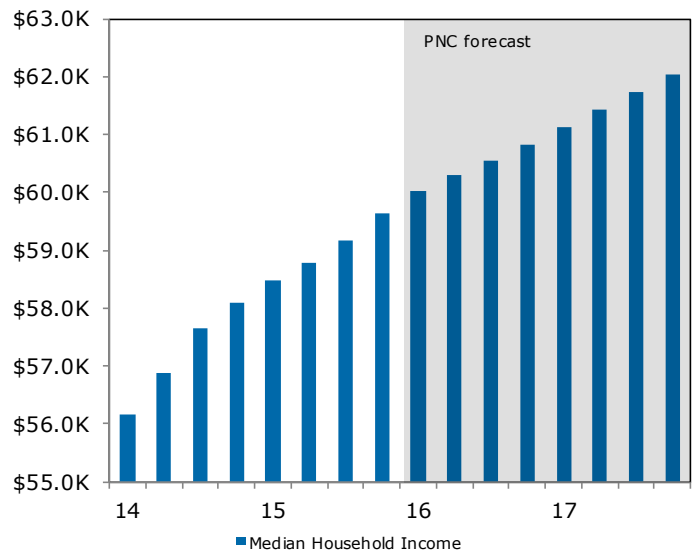


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group



and 10 percent of employment, respectively, while tech accounts for less than 5 percent of employment nationwide. Over the long term, strong population growth will drive above-average total personal income growth.

HOUSING

Home price appreciation in the region is likely to cool in 2017 but prices will still rise at a moderate rate (Chart 3). Single-family home sales will likely accelerate in 2017 as a solid rate of job growth, moderate income growth and easier access to credit lift demand. Strong population growth in Raleigh and Durham is boosting demand for multifamily units. Price increases in recent years have eroded affordability in Raleigh and Durham, but housing remains very affordable in Rocky Mount and Goldsboro. Although local home prices will rise more slowly in 2017 than the national average, they are nearly 5 percent above their pre-recession peak. Nationally, prices have only recently broken even with the pre-recession peak. A relatively stronger jobs recovery and faster household formations provide some upside potential to the housing outlook. The longer-term picture for the region's housing market is bright. Household formations have outpaced construction for several years, implying that there is potential for pent-up demand to be released, which would drive a faster pace of building.

DEMOGRAPHICS

Strong population growth supports the Raleigh market's bright long-term outlook (Chart 4). The agglomeration of corporate offices, high-tech, educational and research institutions attracts migrants, usually from other Southern metro areas. The workforce is educated as well, which entices firms to expand employment in high value-added industries. In the region, educational attainment is about 44 percent in the Raleigh metro area and 45 percent in Durham. Nationwide, about 31 percent of the population over 25 years of age holds at least a bachelor's degree. Besides strong in-migration, the natural rate of population increase, the difference between births and deaths, is also higher than average owing to the high share of the population that is between ages 18 and 44. With lower labor force participation rates and educational attainment, the Rocky Mount and Goldsboro metro areas have less favorable demographics.

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

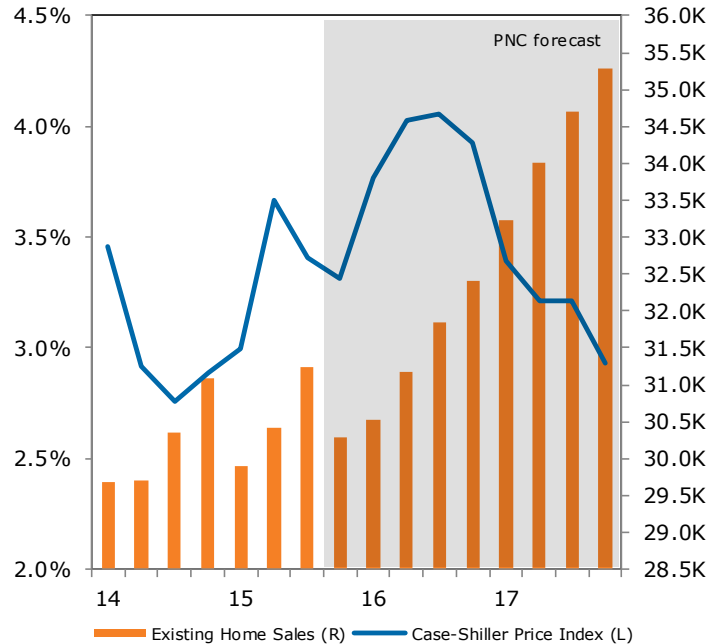


Chart sources: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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

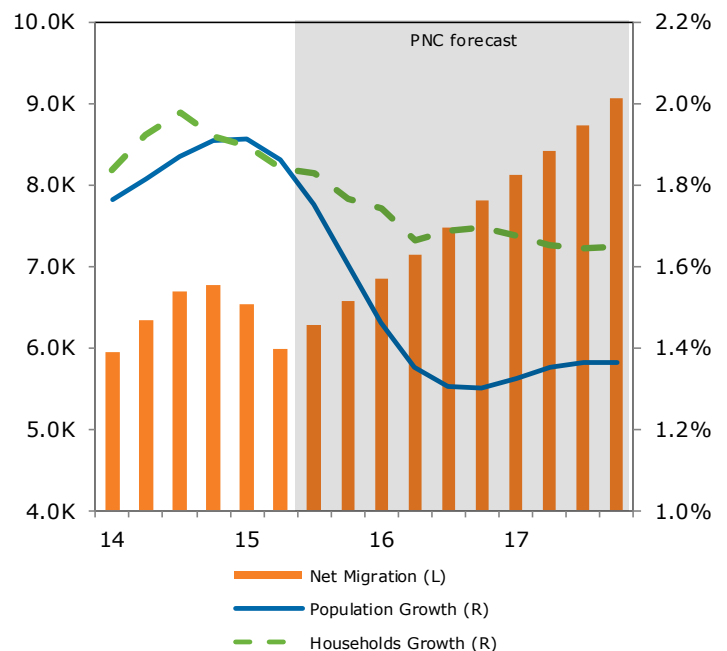


Chart sources: Bureau of Census; Bureau of Economic Analysis; Moody's Analytics; The PNC Financial Services Group

OUTLOOK SUMMARY

The Raleigh market is set for another good year of above-average growth. The Raleigh and Durham metro areas will lead the pack as education, healthcare, tech and professional services drive above-average payroll growth. Their excellent demographics will give these metro areas a leg up over other parts of PNC's footprint. PNC Economics expects the U.S. economy to gain momentum over the next couple of years and this could give an extra boost to technology, research and development spending in the region. With less dynamic economic drivers and steep declines in government employment, the smaller metros of Goldsboro and Rocky Mount will lag the footprint but both areas will see improvement in 2017 as continued economic growth throughout the region enables other industries to pick up the slack. There is upside potential for both metro areas. Goldsboro relies heavily on spending generated by Seymour Johnson Air Force Base. A recent pay increase for personnel and contracts for defense-related construction will help the base's ability to drive growth. The White House's proposed increase in defense spending could also be a plus. The downside risk Goldsboro faces is that its large manufacturing base leans on food production, especially chicken products. Unlike durable goods production, this sector benefits little from the U.S. economy's growth. Rocky Mount, though it is undergoing a long-term shift toward services, could see its manufacturing base firm up in the near term because its diverse factory sector focuses on durable goods that respond strongly to the U.S. business cycle.

A solid rate of increase is in store for home sales and construction over the next couple of years. A combination of favorable demographics, stronger jobs and income growth and low mortgage rates will support housing demand and stimulate moderate house price increases. Although home prices will rise less quickly than the national average, the relatively small decline in prices during the recession means that local household wealth is on better footing. Over the long term, the market area will be an above-average performer in terms of jobs and income growth, thanks to its low business costs, strong population growth and young and educated workforce.

FORECAST TABLE

	U.S.			Raleigh		
	2015	2016E	2017F	2015	2016E	2017F
Employment Growth, (% change)	2.1	1.8	1.5	2.9	2.5	2.2
Unemployment Rate, (%)	5.3	4.9	4.5	5.1	4.8	4.6
Median Household Income, (Ths. \$)	55.8	57.1	58.2	59.0	60.4	61.6
House Prices, (% change)	4.6	5.2	4.6	3.3	3.9	3.2
Single-Family Permits* (% change)	10.2	10.0	8.2	14.5	8.2	5.1
Multifamily Permits* (% change)	11.5	-0.9	6.6	16.0	4.5	4.2

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

	U.S.		Raleigh	
	2007-2012†	2012-2017†	2007-2012†	2012-2017†
Employment Growth, (% change)	-0.6	1.8	0.0	2.5
Unemployment Rate, (%)	7.7	6.0	7.2	5.7
Median Household Income, (Ths. \$)	50.8	54.7	53.8	58.1
House Prices, (% change)	-4.8	6.1	-1.6	3.5
Single-Family Permits* (% change)	-12.3	9.6	-13.1	9.9
Multifamily Permits* (% change)	-4.2	11.1	13.9	-7.7

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

LONG-RUN EMPLOYMENT TRENDS

Chart 5
Total Employment, (% change year ago)

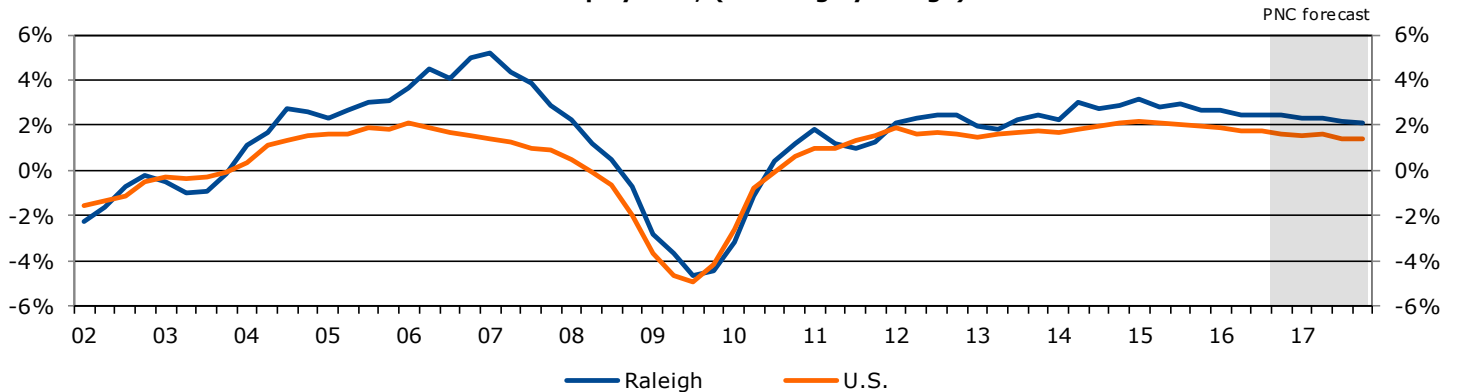


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

LONG-RUN DEMOGRAPHIC TRENDS

Chart 6
Population, (% change year ago)

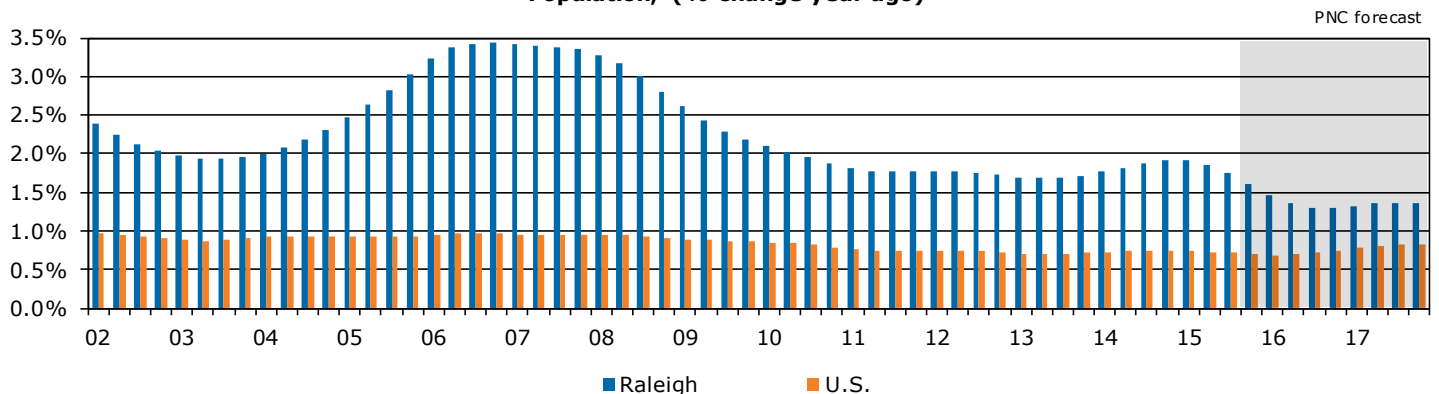


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

LONG-RUN HOUSE-PRICE TRENDS

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

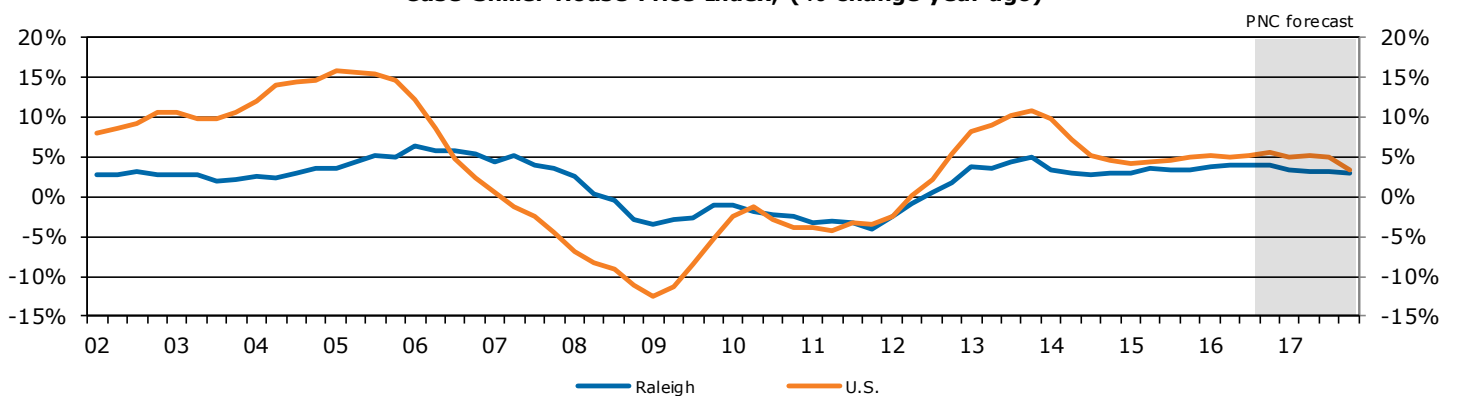


Chart source: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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