

SOUTHEAST FLORIDA 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

Southeast Florida's economy lost some speed in the final months of 2016 but the region remains an above-average performer (Chart 1). The market area, which includes Miami, Ft. Lauderdale and West Palm Beach metro divisions, is being assisted by the U.S. economy's expansion. A strong rate of migration into the region is supporting aggregate demand while jobs and income growth nationwide are lifting tourism and consumer spending. PortMiami accommodated a record 4.98 million passengers in fiscal year 2016 and planned terminal capacity expansions show the future is bright for the regional cruise industry. Professional services too, are growing at a healthy pace while education and healthcare continue to be reliable growth drivers. Finally, construction is being powered by a recovering housing market and investment in non-residential real estate. The unemployment rate decreased to 5.0 percent in the fourth quarter of 2016 from 5.4 percent in the fourth quarter of 2015. At the same time, the labor force grew at a moderate pace.

On the downside, Southeast Florida is growing more slowly than other large metro economies in Florida. Nearly two-thirds of Florida's exports go through Southeast Florida, making it exceptionally vulnerable to international risks. On a trade-weighted basis, the U.S. dollar appreciated by about 25 percent since mid-2014. At the same time, major trading partners in Latin America, such as Brazil, have had weak economies.

INCOME

Average hourly earnings in Southeast Florida will rise at a quicker pace in 2017, thanks to a more favorable mix of jobs being created and as the labor market tightens. Also, gains in the stock market and higher bond yields will support investment income. The large presence of retirees and foreign investors heightens the importance of this income category in the market area. On the downside, consumer purchasing power is weaker than in most regions in PNC's footprint and

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

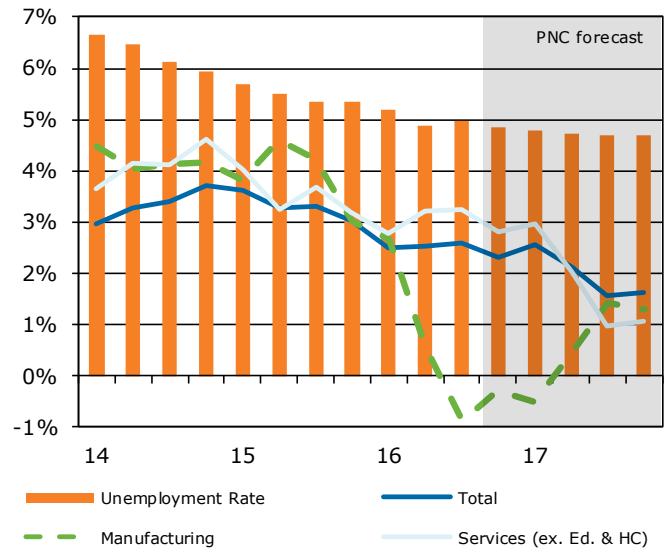


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

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

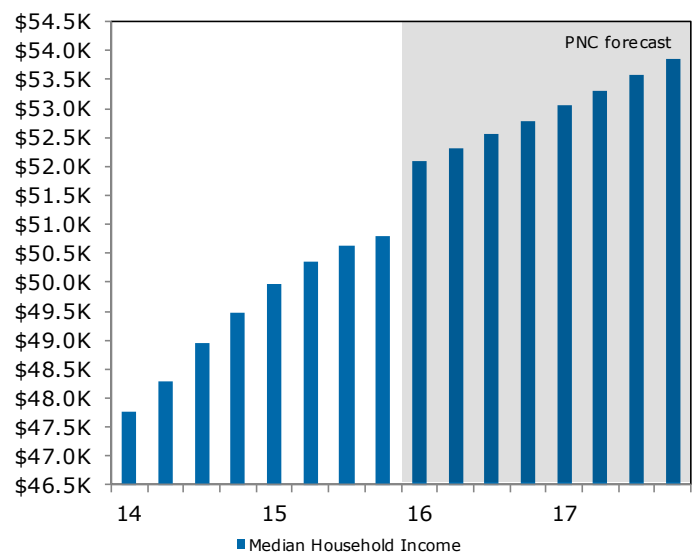


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group



varies widely within the market area. Across the region, the cost of living is about 12 percent higher than the U.S. average. However, per capita income ranges from 9 percent below the national average in the Miami metro division to as high as 45 percent above the national average in West Palm Beach. In addition, higher gasoline prices in 2017 versus 2016 will weaken consumer purchasing power somewhat. The aggregate market area's median household income is about 10 percent below the national median income (Chart 2).

HOUSING

Home price appreciation in Southeast Florida will decelerate in 2017 but will remain a full percentage point faster than the national rate (Chart 3). The large pipeline of foreclosures is steadily being processed and this supports house prices. Home sales will rise at a moderate pace in the next couple of years thanks to easier access to credit and household formations which are normalizing after having been subdued during the downturn. Though mortgage rates are crawling up, they will not be so high as to damage affordability substantially. The homeownership rate, which was higher than the national average before the recession, is now well below it. This suggests that there is some potential for increased homeownership as the region's economy recuperates. It also indicates that many residents have become renters. Indeed, multi-family permitting has risen by nearly triple the rate of single-family permits since 2009.

DEMOGRAPHICS

The healing labor market is fueling a high rate of in-migration and this helps grow the population at a rate well above the U.S.'s rate (Chart 4). Looking further ahead, strong population growth will define a significant part of Southeast Florida's economic performance for the foreseeable future. The share of the population that is of working age is lower than in the U.S. because of the in-migration of retirees. Yet, the proportion of working age adults is still higher than in other areas in Florida because the region manages to attract younger migrants, many of whom are foreign born. Strong net in-migration of both retirees and working-age adults will drive local demand for services and housing. Higher job growth in turn will attract more in-migration.

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

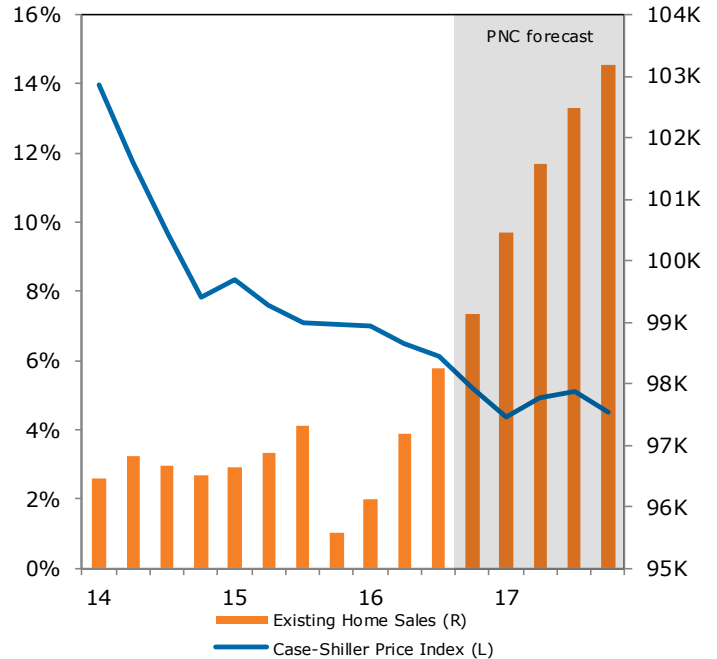


Chart sources: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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

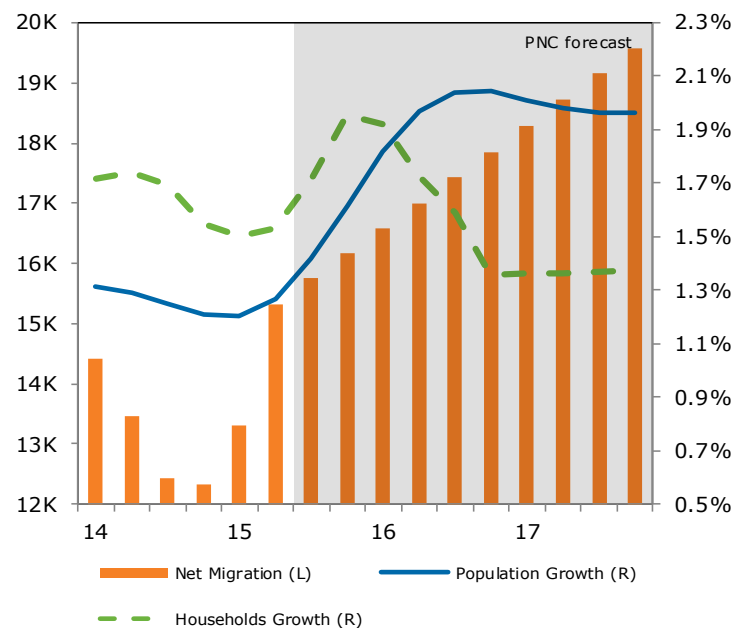


Chart sources: Bureau of Census; Bureau of Economic Analysis; Moody's Analytics; The PNC Financial Services Group

OUTLOOK SUMMARY

Southeast Florida's economy will decelerate in 2017 as the economy gets back to "normal" but it will nevertheless remain one of the faster growing regions in PNC's footprint. The region has many forces working in its favor. Rising disposable income nationwide will boost domestic tourism. Healthcare will also be a major growth driver, thanks to strong population growth and a large elderly population. The region's favorable demographics and continued jobs and income growth will sustain home sales, diminish the large inventory of foreclosed properties and boost homebuilding. Furthermore, the region escaped the worst of Hurricane Matthew's potential destruction in October 2016 and closer U.S.-Cuba relations opens opportunities for airlines, cruise lines, tourism and construction industries. The region faces both downside risks and upside potential in 2017. On the upside, Congress and the new President will likely boost infrastructure spending and cut business taxes, both of which could lift Southeast Florida's economy. On the downside, an even stronger dollar could weigh on trade, international tourism and investment. Immigration reforms that shrink the labor supply or adversarial trade relationships could also weaken the region's economy.

Longer term, strong population growth, well-developed infrastructure and deep international linkages will give the region a higher trend rate of economic growth. However, a high concentration of tourism, finance, transportation and trade-related industries will make the region's economy susceptible to downturns in national and global business cycles. In addition to heightened economic volatility, the preponderance of tourism-related and retail industries will also keep per capita income in the area below state and national averages.

FORECAST TABLE

	U.S.			Southeast FL		
	2015	2016E	2017F	2015	2016E	2017F
Employment Growth, (% change)	2.1	1.8	1.5	3.3	2.5	2.0
Unemployment Rate, (%)	5.3	4.9	4.5	5.5	5.0	4.7
Median Household Income, (Ths. \$)	55.8	57.1	58.2	50.4	52.4	53.4
House Prices**, (% change)	4.6	5.2	4.6	7.5	6.2	4.7
Single-Family Permits* (% change)	10.2	10.0	8.2	23.3	1.3	23.0
Multifamily Permits* (% change)	11.5	-0.9	6.6	72.2	-28.2	2.6

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

	U.S.		Southeast FL	
	2007-2012†	2012-2017†	2007-2012†	2012-2017†
Employment Growth, (% change)	-0.6	1.8	-1.1	2.8
Unemployment Rate, (%)	7.7	6.0	7.9	6.1
Median Household Income, (Ths. \$)	50.8	54.7	46.9	49.8
House Prices**, (% change)	-4.8	6.1	-9.4	8.7
Single-Family Permits* (% change)	-12.3	9.6	-6.4	11.8
Multifamily Permits* (% change)	-4.2	11.1	0.3	8.0

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

LONG-RUN EMPLOYMENT TRENDS

Chart 5
Total Employment, (% change, year ago)

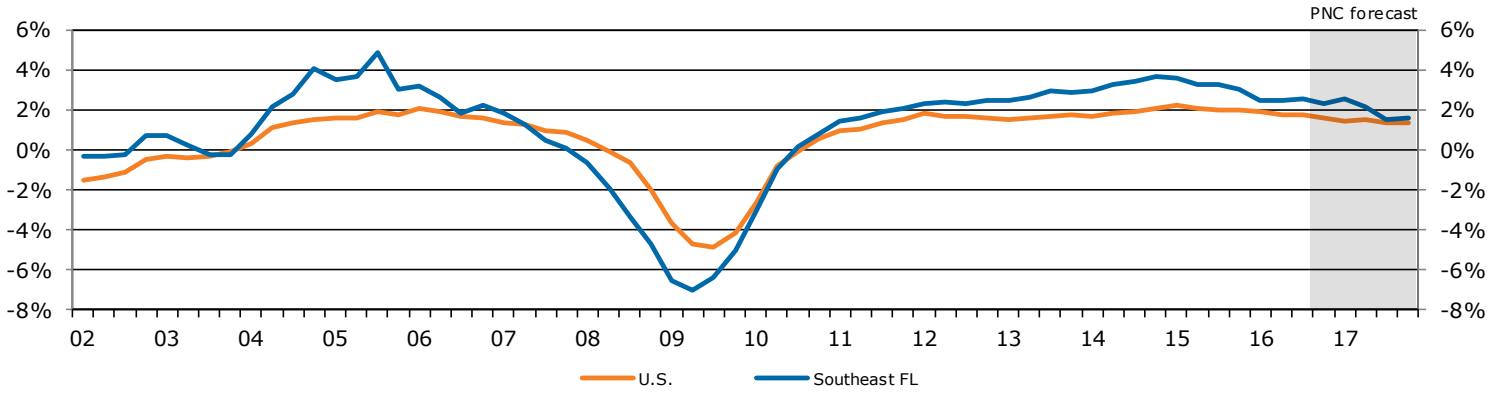


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

LONG-RUN DEMOGRAPHIC TRENDS

Chart 6
Population, (% change, year ago)

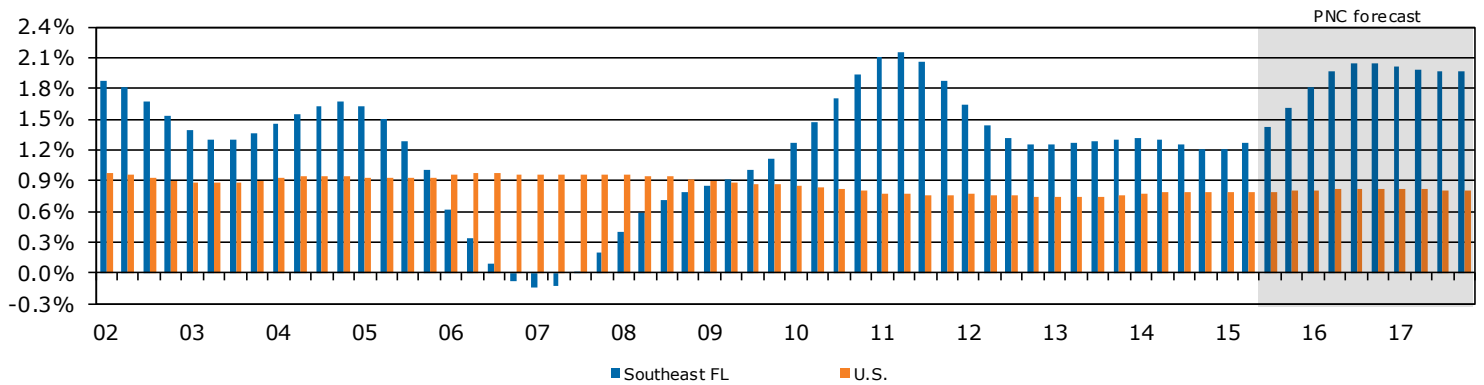


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

LONG-RUN HOUSE-PRICE TRENDS

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

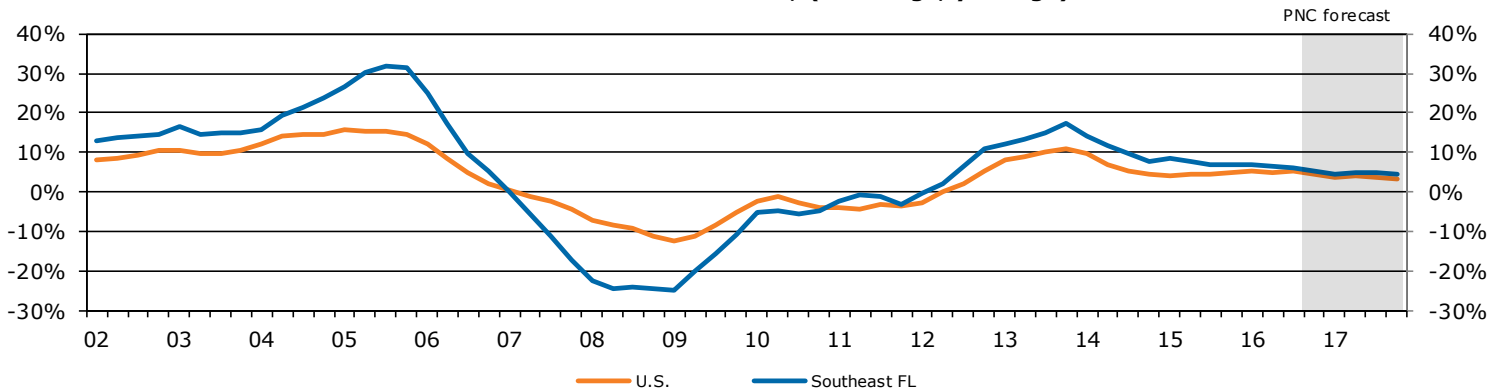


Chart source: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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.