

SOUTHWEST OHIO MARKET OUTLOOK

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JOB SITUATION

Southwest Ohio's economy, which includes Cincinnati and Dayton metro areas, is growing in line with the U.S. economy in terms of job growth. Both Cincinnati and Dayton are buoyed by strong rates of consumer spending growth that is lifting retail, leisure and hospitality employment. Finance and professional services are supplementing the region's economic growth while healthcare and education continue to be reliable growth drivers. Manufacturing has had a mixed year. Strong demand for vehicles and non-defense aircraft are keeping auto and aerospace investment and production advancing, even if employment gains in these sectors have been limited. On the downside, the steel industry has been hit hard by cheap imports. The combined region's unemployment rate fluctuated around 4.3 percent in the second half of 2016 while the workforce grew at a moderate rate (Chart 1). The two metro areas are in different stages of their economic expansion. Employment in Cincinnati is almost 4 percent higher than its early-2008 level, thanks to its diversified service sector and the presence of large employers and corporate headquarters. Employment in Dayton is still slightly below its early-2008 level because of the metro area's less diverse industrial base.

INCOME

A tight labor market and a more favorable mix of jobs being created will lift income growth in the region in 2017. Average hourly earnings in Cincinnati grew two percentage points faster than the U.S. average in the second half of 2016 as the local unemployment rate averaged a very low 4.2 percent during that time. Average hourly earnings could have grown faster were it not for the fact that low-wage retail, leisure and hospitality employment accounted for more than 60 percent of the job growth during that time. Earnings data are unavailable for Dayton but the metro area had only one fourth of its net jobs in the second half of 2016 coming from these low-wage industries. Job growth will likely spread to higher paying industries as

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

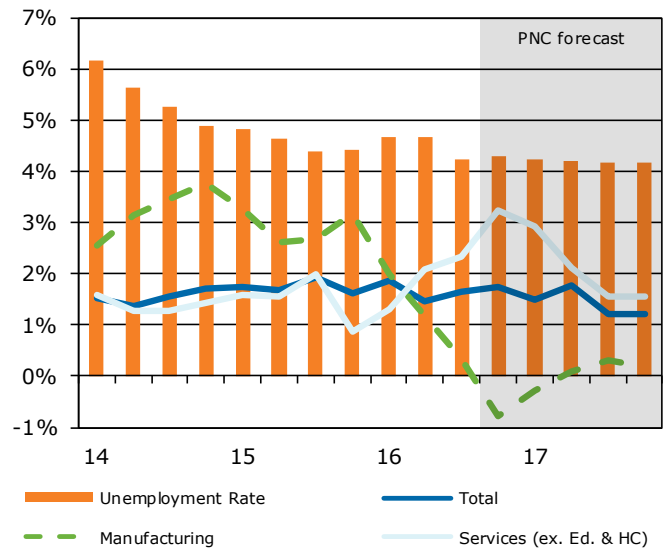


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

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

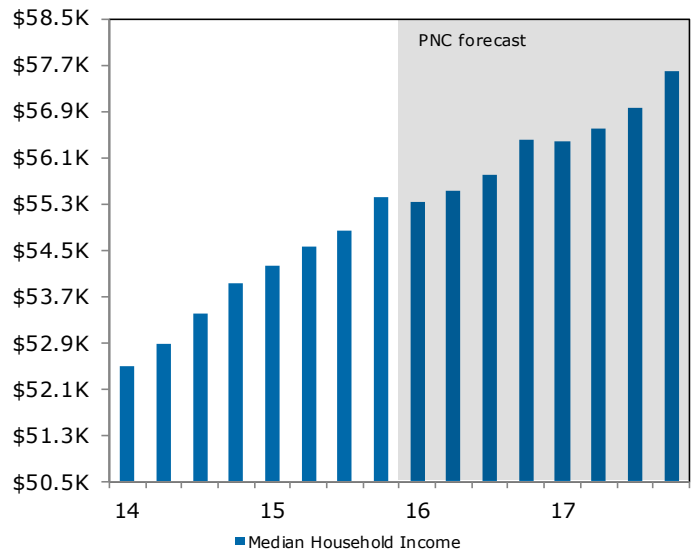


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group



the U.S. economic expansion benefits the region's corporations and professional services, which will add to higher wage employment. The combined region's median income is growing moderately and is now likely close to 5 percent higher than its pre-recession peak (Chart 2). Cincinnati's median income rose above its pre-recession level much faster than Dayton's. Dayton had suffered disproportionately during the Great Recession as the metro area witnessed its manufacturing payrolls drop by 24 percent during the recession. At that time, manufacturing payrolls had already fallen by 40 percent since late 2000.

HOUSING

Home prices are on track to rise between 4 and 5 percent per year over the next couple of years, thanks to an improved balance between supply and demand (Chart 3). Continued jobs and income growth will lift home sales. Housing demand will also be supported by easier access to credit. Although mortgage rates are rising, they will still be low by historic standards and PNC expects they will remain below 5 percent through 2018. At the same time, construction is restrained and excess inventory is being absorbed. However, in light of weak population growth over the long term, homebuilding and sales are unlikely to match pre-Great Recession levels in the foreseeable future. Housing is very affordable in the region, but the area will struggle to capitalize on this advantage without greater economic vitality.

DEMOGRAPHICS

The out-migration from which Southwest Ohio suffered during the recession has likely abated, given the ongoing jobs recovery, and will improve in the quarters ahead. As a result, we assume that population growth will stabilize at a low rate. (Chart 4). The area's population growth generally does outpace the regional average of negative net migration that is common to so many Midwestern markets. Yet, local population growth is weaker than the national trend, and this hampers the market area's economic growth potential. Within the market area itself, Dayton tends to suffer from a larger outflow of residents, while Cincinnati wavers between net gains and net losses depending on job market conditions. This balancing act yields a conservative demographic forecast over the long-term.

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

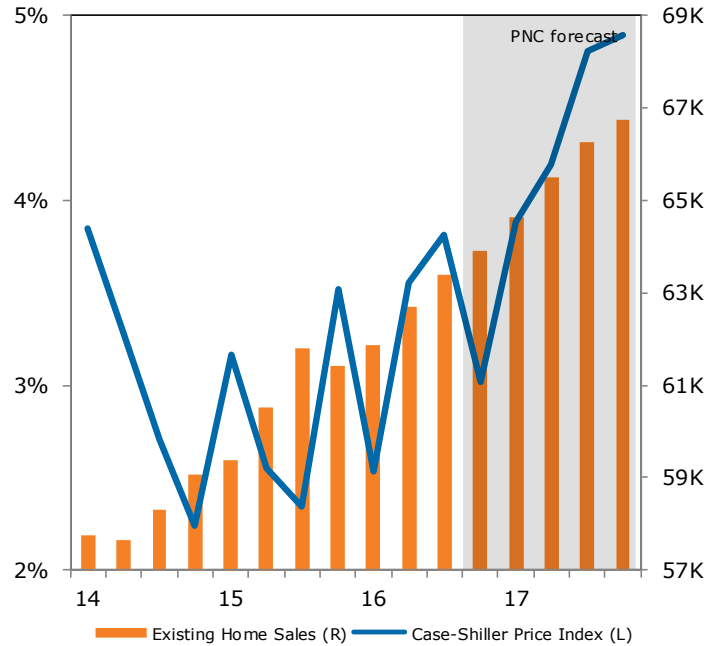


Chart sources: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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

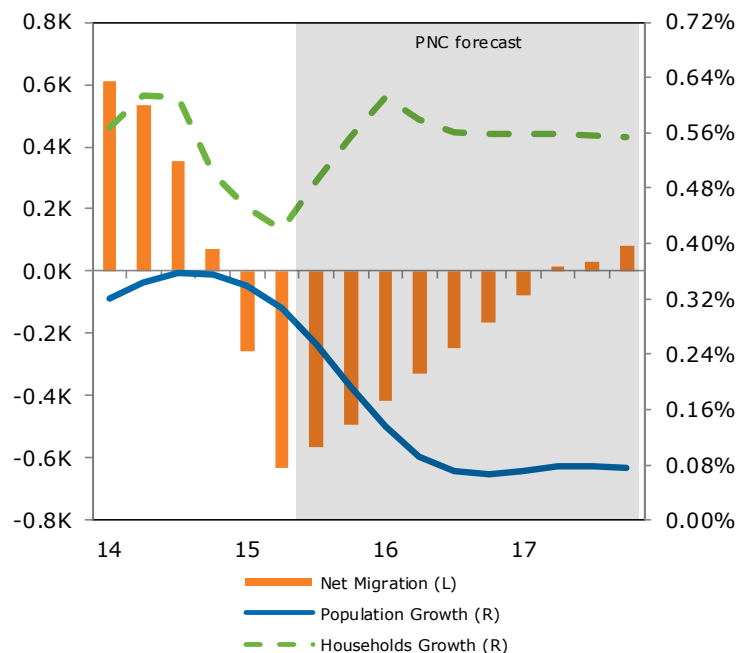


Chart sources: Bureau of Census; Bureau of Economic Analysis; Moody's Analytics; The PNC Financial Services Group

OUTLOOK SUMMARY

Employment in Southwest Ohio will grow a step slower than the U.S. average in 2017 and 2018. Healthcare and professional services will lead job growth with retail, finance, leisure and hospitality providing support. Auto sales will reach their highest level on record in 2017. Strong overseas demand for aerospace products will be an added support to investment, production and income growth in the region. Nevertheless, manufacturing is unlikely to generate a lot of new jobs. Amazon's recent decision to invest \$1.5 billion in an air hub at the Cincinnati airport could add as many as 2,000 jobs over the next couple of years. The regional unemployment rate will likely stay relatively steady as labor force growth matches job growth. Home price appreciation will maintain a moderate pace of growth, thanks to a better balance between supply and demand. There is potential for the region to experience stronger growth than forecast. Tax cuts and higher defense and infrastructure spending is in the works from the Federal government. This could boost profits for the region's large corporate sector and it could help boost production in steel and aerospace industries.

Longer-term, weak demographic trends will keep Southwest Ohio's economy growing more slowly than the U.S.'s. Nevertheless, the region has a number of positive attributes that lend it upside potential. Cincinnati is home to ten Fortune 500 companies, one of the highest concentrations per capita in the nation. A number of educational institutions, including the University of Cincinnati, the University of Dayton, Miami University of Ohio and Wright State, provide a well-educated workforce and a steady source of long-term growth that will minimize volatility. Despite deep job losses and concerns for their long-term viability, the market area's major employers survived the recession and are now looking forward to improved local and national market conditions. In particular, the presence of large manufacturers such as Honda, Procter & Gamble and GE Aviation is a great asset and source of long-term stability for the market area's economy.

FORECAST TABLE

	U.S.			Southwest OH		
	2015	2016E	2017F	2015	2016E	2017F
Employment Growth, (% change)	2.1	1.8	1.5	1.7	1.7	1.4
Unemployment Rate, (%)	5.3	4.9	4.5	4.6	4.5	4.2
Median Household Income, (Ths. \$)	55.8	57.1	58.2	54.8	55.8	56.9
House Prices**, (% change)	4.6	5.2	4.6	2.9	3.2	4.4
Single-Family Permits* (% change)	10.2	10.0	8.2	9.4	15.8	-4.7
Multifamily Permits* (% change)	11.5	-0.9	6.6	-35.4	70.0	-35.0

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

	U.S.		Southwest OH	
	2007-2012†	2012-2017†	2007-2012†	2012-2017†
Employment Growth, (% change)	-0.6	1.8	-0.8	1.5
Unemployment Rate, (%)	7.7	6.0	8.0	5.6
Median Household Income, (Ths. \$)	50.8	54.7	51.0	54.0
House Prices**, (% change)	-4.8	6.1	-2.1	3.5
Single-Family Permits* (% change)	-12.3	9.6	-12.0	6.3
Multifamily Permits* (% change)	-4.2	11.1	-6.6	4.0

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

LONG-RUN EMPLOYMENT TRENDS

Chart 5
Total Employment, (% change year ago)

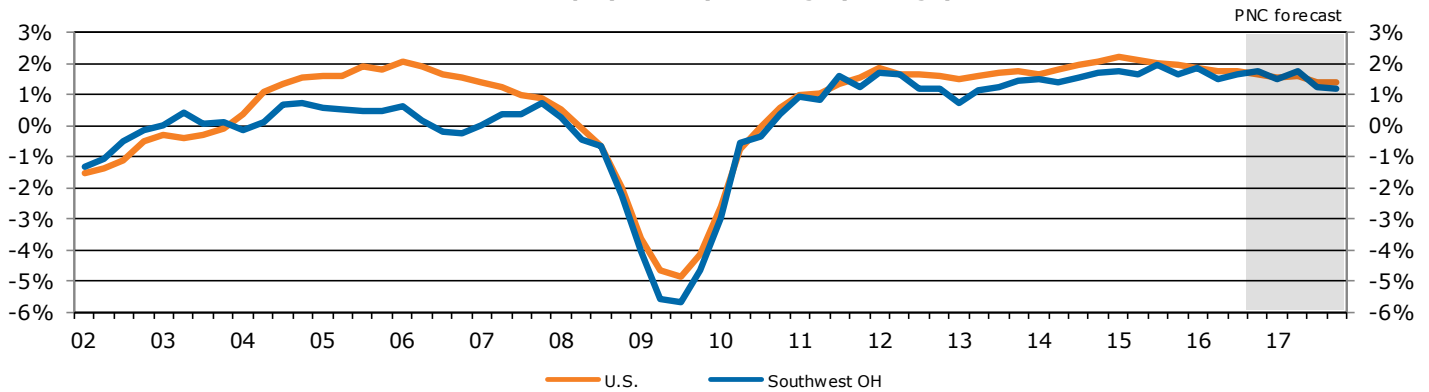


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

LONG-RUN DEMOGRAPHIC TRENDS

Chart 6
Population, (% change year ago)

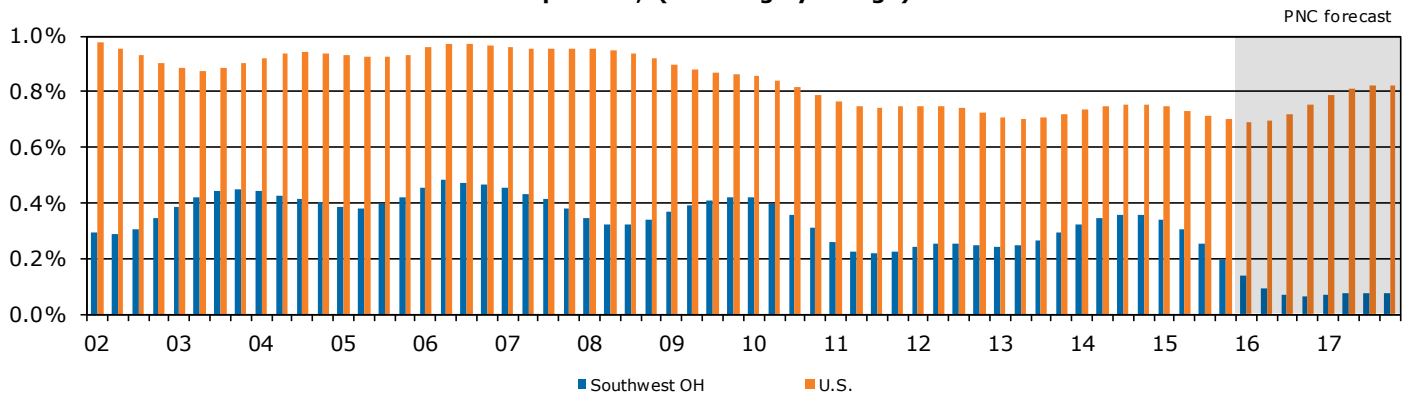


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

LONG-RUN HOUSE-PRICE TRENDS

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

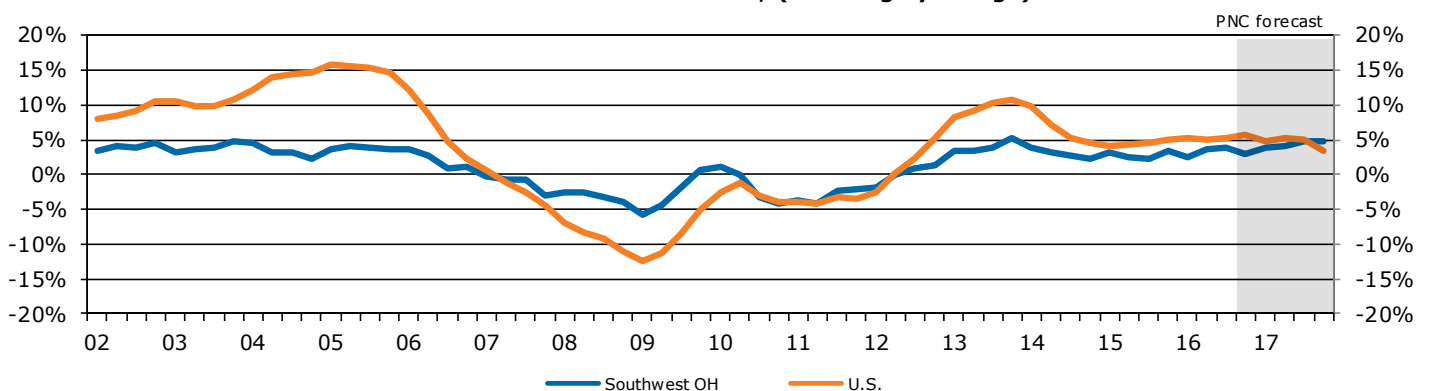


Chart source: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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