

# ST. LOUIS MARKET OUTLOOK

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## JOB SITUATION

The St. Louis market area will enjoy continued labor market strength through 2017. Employment in manufacturing suffered a setback in 2016, but service industries have provided an adequate offset (Chart 1). In fact, total employment growth outpaced the national average for the full year in 2016—which is a first for St. Louis going back through 1990. With the prospect of manufacturing employment stemming losses and stabilizing in the coming year, the market area should continue to at least track national hiring trends if not exceed them.

St. Louis' unemployment rate finished 2016 at 4.3 percent. Only during the late 1990s has the market area seen a lower unemployment rate. St. Louis' labor force growth has been solid over the past several years as well. These factors combine to indicate a tight labor market, and that job seekers should find themselves increasingly in the driver's seat in 2017 when it comes to hiring and career advancement negotiations.

## INCOME

Wage growth strengthened in 2016. Average hourly earnings grew by 3.7 percent over the previous year, slightly above the U.S. average. And although gasoline and energy prices in general also grew at a faster pace in 2016 versus most of the recovery from recession, wage growth is still outpacing inflation, allowing household budgets to strengthen. St. Louis should continue to enjoy solid job growth across most sectors in the coming year, with higher-paying manufacturing positions potentially joining the trend and supporting household income gains (Chart 2). With consumer spending prospects firmly entrenched, St. Louis should have no trouble maintaining its economic momentum through the combination of local demand and a stable base provided by the national economy.

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

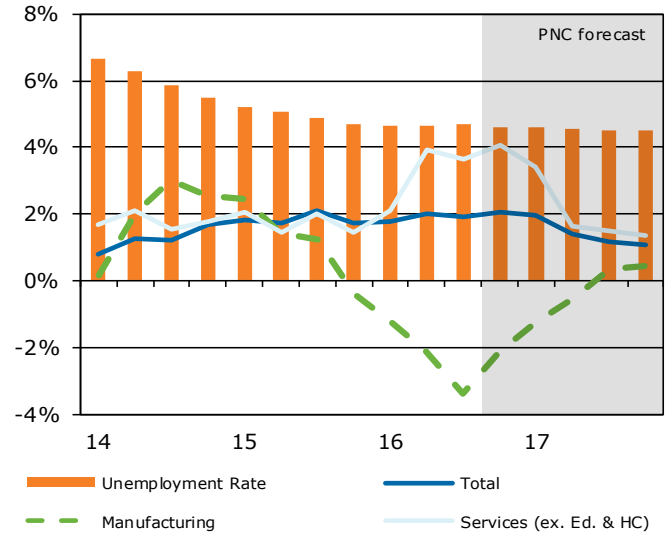


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

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

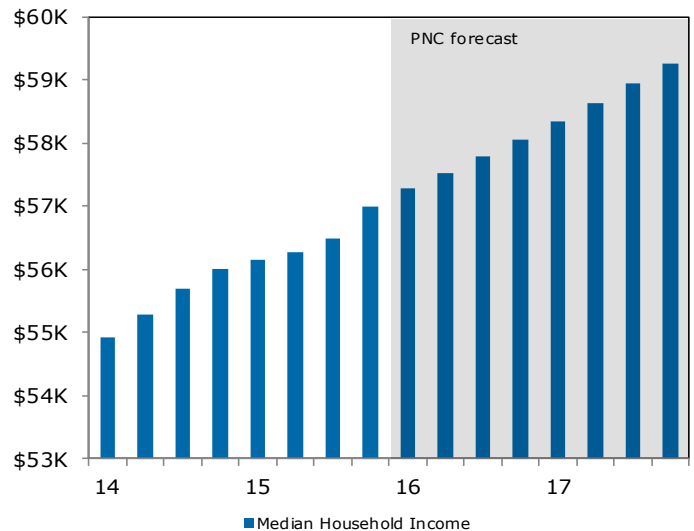


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

## HOUSING

St. Louis' housing market trends will remain healthy in 2017. House price appreciation has tracked the national average over the past year (Chart 7) despite not enduring the same degree of declines during the recession. Job growth across most of the market area's industrial base has created sustainable demand for housing. Existing home values are rising (Chart 3), and new homebuilding activity is also stable. St. Louis' economy will find additional support from a housing market that is giving homeowners the confidence to spend wages rather than saving to buffer against any looming housing market downturns.

The Federal Reserve will continue to normalize monetary policy over the coming year, with two interest rate rises likely this year. Pressure on housing demand resulting from rising mortgage rates will not be severe, but should still help St. Louis to keep its housing market advances capped at a sustainable pace.

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

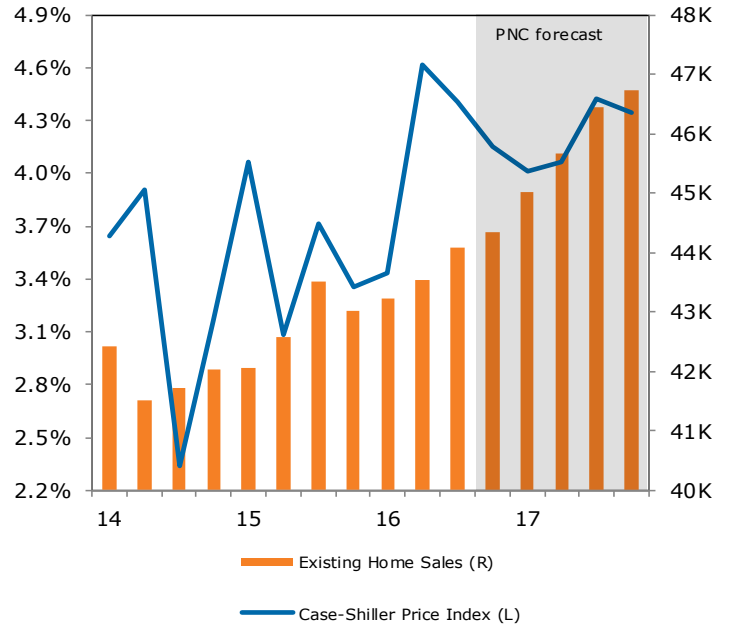


Chart sources: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

## DEMOGRAPHICS

St. Louis is typically a moderate-growth market area in terms of its demographics trends. The recession submarined net migration, as labor mobility seized up (Chart 4). The market area regularly exhibits losses of residents either retiring elsewhere or leaving in search of new job opportunities. But with job creation finally back in stable condition, St. Louis can at least look forward to leaving outright negative demographic numbers behind it. Establishing robust strength in terms of net migration, though, will take longer. St. Louis will lag regional trends over the near-term horizon as the market area competes with the likes of Chicago and Indianapolis, where economic gains are also on track and that boast somewhat more diverse economies with which to attract workers considering relocation opportunities.

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

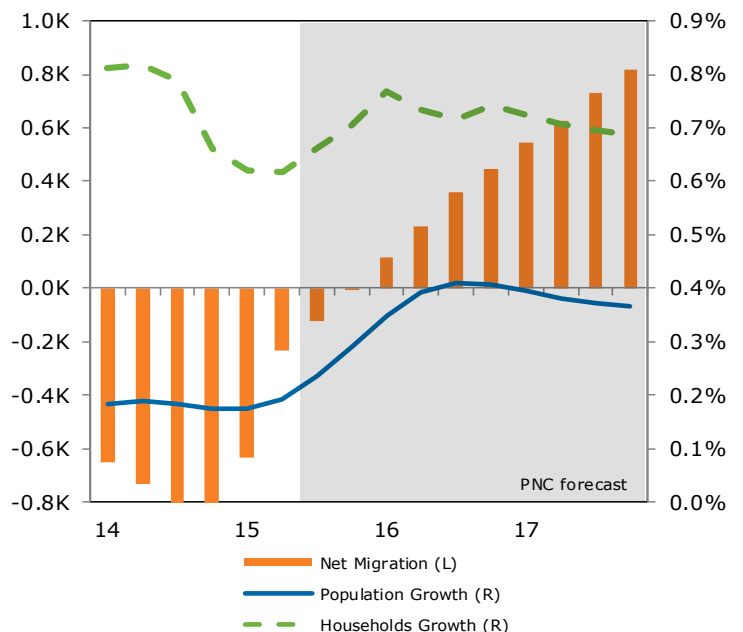


Chart sources: Bureau of Census; Bureau of Economic Analysis; Moody's Analytics; The PNC Financial Services Group

## OUTLOOK SUMMARY

St. Louis will continue to enjoy steady economic expansion over the coming year. Job creation is as strong as it has been on a sustained basis at any point since 1990 (Chart 5). Excess labor supply that plagued St. Louis through the first few years of its economic recovery has been absorbed, providing workers leverage in the marketplace. Wage growth is above average entering 2017, and the coming year should see that strength to continue thanks to tightened labor market conditions that will force employers to offer stronger compensation packages in order to retain and attract new employees. This means St. Louis' employers will face higher costs, but local and national consumer demand is healthy enough that profits should not suffer as a result.

St. Louis has the tools necessary to sustain moderate economic growth for some time, now that recession-induced imbalances are mended. Median household income is above average, and living and business costs are somewhat below average. Combined, these conditions will allow household spending to keep local businesses hiring, and allow new businesses to enter the marketplace with some confidence in the local economy's outlook. Stable housing market conditions also play a role in this potential. Residents will not be deterred from consumption activity in favor of elevated savings rates thanks to home price appreciation that is contributing positively to their personal balance sheets.

Manufacturing will remain a defining feature of St. Louis' economy. But the types of manufacturing and the types of skills required of its workers are evolving. With Boeing as one of its key employers and the military very much a part of the market region's DNA with Scott Air Force Base, occupations such as high-tech aviation manufacturing and defense related R&D will remain central components of this otherwise diversifying economy. Progress along this long-term transformation will keep income growth stable enough to allow local service industries to fill out the remainder of St. Louis' labor market needs once near-term imbalances are resolved.

## FORECAST TABLE

	U.S.			St. Louis		
	2015	2016E	2017F	2015	2016E	2017F
<b>Employment Growth, (% change)</b>	2.1	1.7	1.5	1.8	1.9	1.4
<b>Unemployment Rate, (%)</b>	5.3	4.9	4.5	5.0	4.7	4.5
<b>Median Household Income, (Ths. \$)</b>	55.8	57.1	58.2	56.5	57.7	58.8
<b>House Prices, (% change)</b>	4.6	5.0	3.7	3.6	4.2	4.2
<b>Single-Family Permits* (% change)</b>	10.2	8.5	4.4	11.2	7.6	-2.0
<b>Multifamily Permits* (% change)</b>	11.5	-2.5	2.1	7.7	1.4	-4.1

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

	U.S.		St. Louis	
	2007-2012†	2012-2017†	2007-2012†	2012-2017†
<b>Employment Growth, (% change)</b>	-0.6	0.9	-0.9	1.4
<b>Unemployment Rate, (%)</b>	7.7	6.0	7.8	5.7
<b>Median Household Income, (Ths. \$)</b>	50.8	54.7	52.4	56.0
<b>House Prices, (% change)</b>	-4.8	5.9	-2.6	4.0
<b>Single-Family Permits* (% change)</b>	-12.3	8.5	-13.3	5.8
<b>Multifamily Permits* (% change)</b>	-4.2	9.8	-7.7	11.7

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

## LONG-RUN EMPLOYMENT TRENDS

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

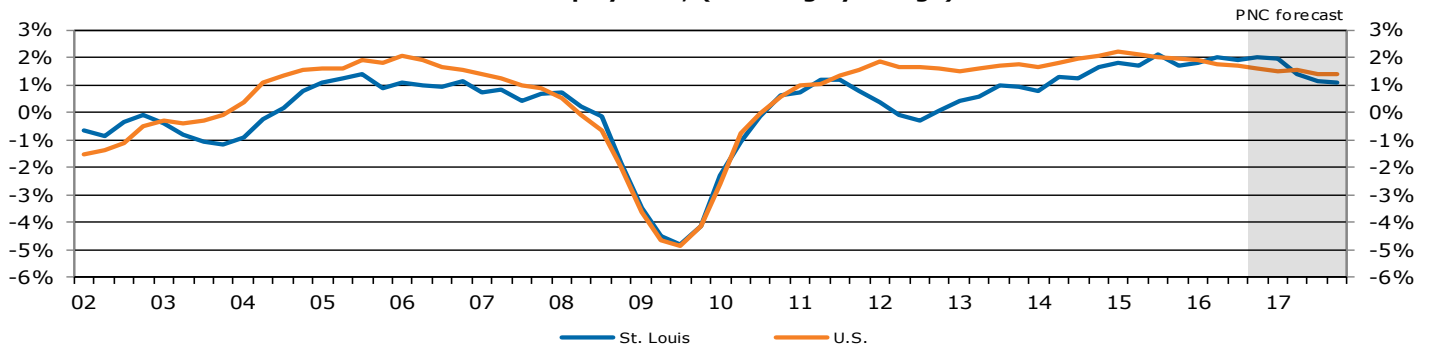


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

## LONG-RUN DEMOGRAPHIC TRENDS

**Chart 6**  
Population, (% change year ago)

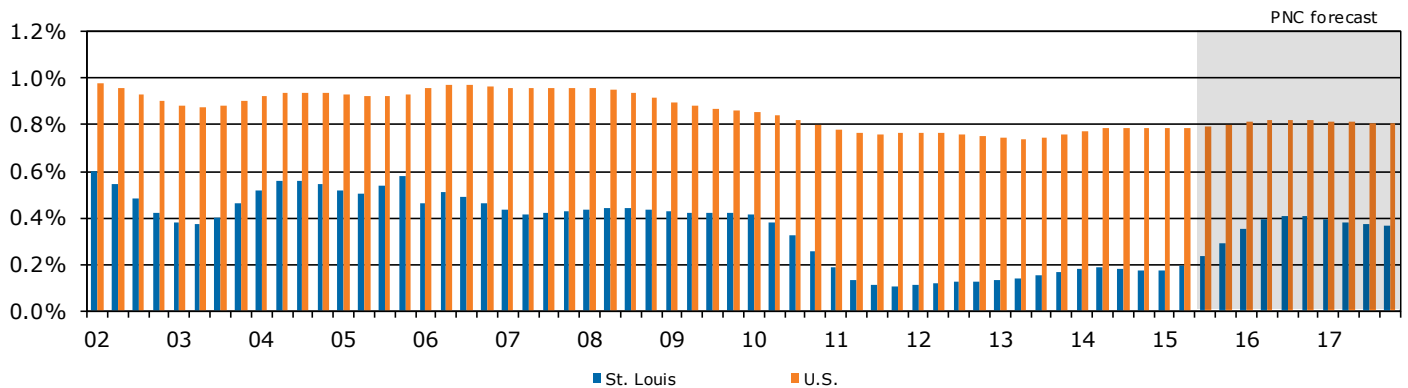


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

## LONG-RUN HOUSE-PRICE TRENDS

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

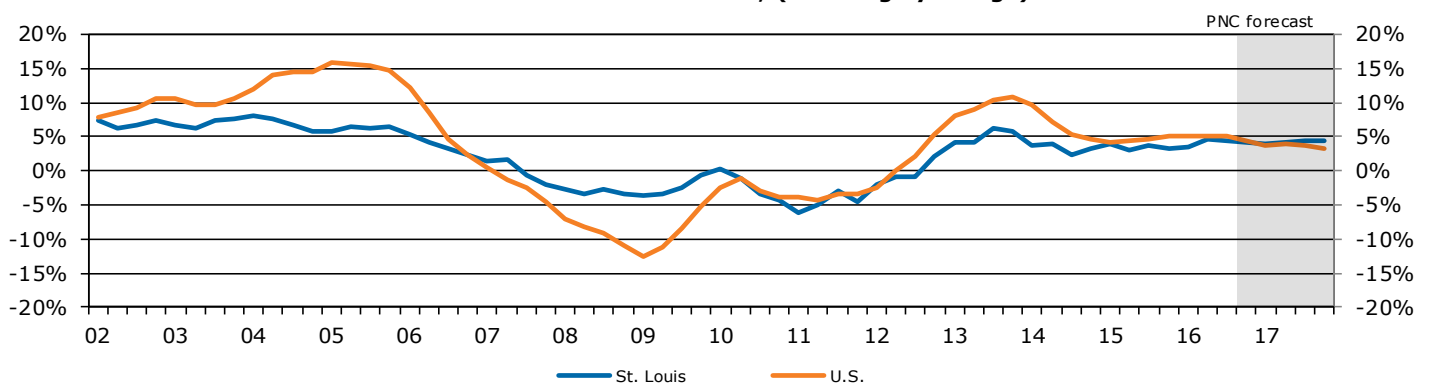


Chart source: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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