

TAMPA BAY MARKET OUTLOOK

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JOB SITUATION

The Tampa Bay economy is going into 2017 with considerable strength. Employment in the market area, which includes the Tampa and North Port-Bradenton-Sarasota metro areas, grew a full percentage point faster than the national rate of job growth in 2016. The Tampa Bay economy is sensitive to macroeconomic trends. Although this is a liability going into a downturn, it currently is an asset that allows the region to ride the coattails of an expanding U.S. economy. Continued jobs and income gains nationwide are boosting regional tourism, which is fueling a boom in hotel construction. The population is growing at a healthy pace as retirees around the country recover the wealth they lost during the recession and are able to sell their homes and move into the area. This strong pace of population growth fuels stronger demand for housing, healthcare, professional services and consumer spending on retail trade. Entrepreneurship is picking up, indicating that the regional economy is getting back to normal. The jobless rate fluctuated between 4.4 and 4.7 percent throughout 2016 (Chart 1). Yet the labor force expanded at healthy rates throughout the year which is a good sign of stronger confidence in the region's economy.

INCOME

Income growth is set to gain momentum as the labor market tightens, interest rates rise and employment in mid-wage industries increases. Over the years, the Tampa metro area has developed into a corporate services hub and this has enabled professional services to be a major growth driver. This industry accounted for nearly one third of net job gains in 2016 and has average annual earnings of about \$58,000. Construction and healthcare are other important job generators with positive outlooks in 2017. Both industries also have average annual earnings of over \$50,000. Rising interest rates will boost regional income as new bond issues carry higher yields. Because of its large retiree population, 23 percent of personal income in Tampa Bay is derived from dividends, interest and rent, compared with the national average of about 19 percent. The median income is set to rise but the gap between the regional

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

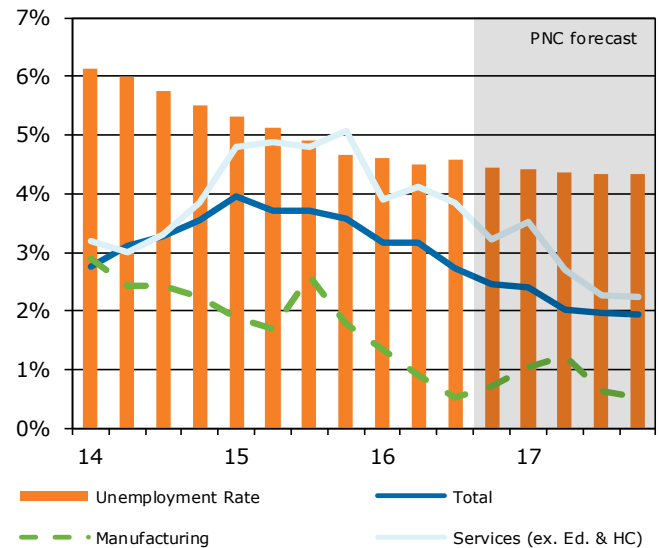


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

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

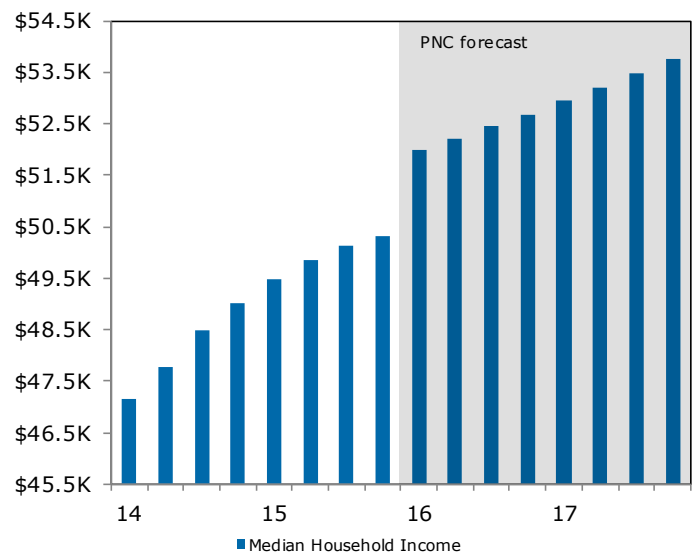


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group



and national median incomes is unlikely to narrow much in the foreseeable future (Chart 2). One of Tampa Bay's weaknesses is that the gap between income and living costs is wide. Living costs are close to the national average. However, per capita income in the Tampa metro area is about 11 percent lower than the U.S.'s per capita income. Residents in North Port-Bradenton-Sarasota fair better, with per capita income that is 3 percent higher than the national average, but that metro area only accounts for about 20 percent of the entire region.

HOUSING

Home price appreciation will decelerate in 2017 but will still be strong by national comparisons (Chart 3). Strong population growth, a rising number of households and easier access to credit will support housing demand. Mortgage rates are trending up but this is unlikely to dent demand as they will likely remain below 4.5 percent in 2017. Retirees especially are unlikely to be deterred by the slightly higher rates as they are more likely to purchase a home with the proceeds of a sale of an existing home. On the supply side, single-family construction is increasing and is better aligned with household formations than it was over the past several years. The inventory of foreclosed homes has fallen to a decade low, which also supports regional home prices. The multi-family segment has been strong as well, as occupancy rates are high and rents are rising.

DEMOGRAPHICS

A combination of healthy job growth and improved housing affordability is boosting migration into the Tampa Bay area and this is lifting population growth (Chart 4). Household formations, which are key drivers of housing demand, are quickening as well. Historically, above-average population growth has been a significant driver of Tampa's mainstay industries such as construction, finance, and healthcare. A significant proportion of new residents are retirees, who boost consumer spending in the area without competing for jobs. The downside to this is that it can make the region vulnerable to fluctuations in financial markets, as retirees generally derive a significant share of their income from this source. Having an older population than the U.S. average also keeps labor force participation relatively low.

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

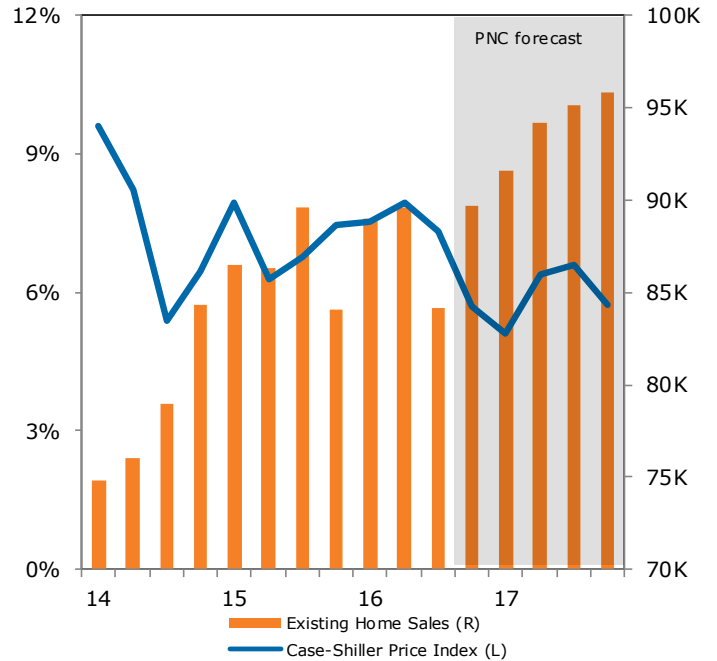


Chart sources: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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

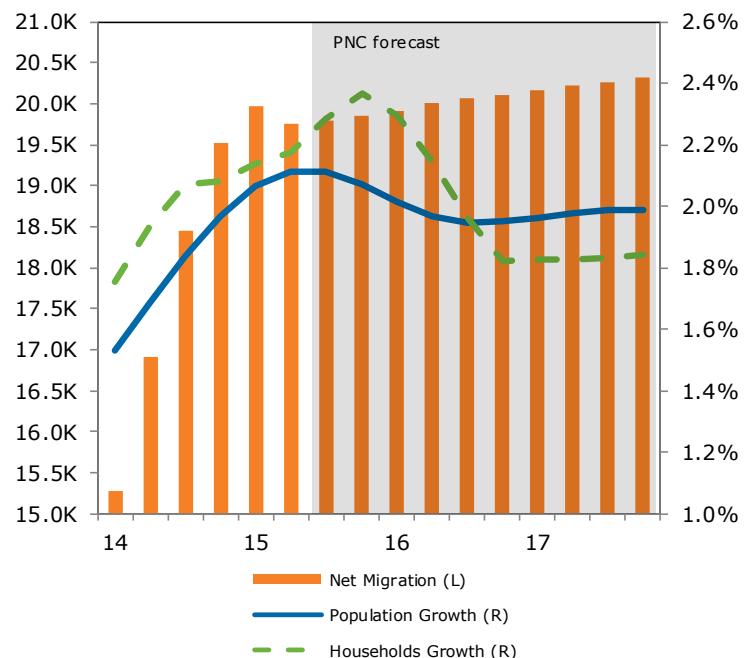


Chart sources: Bureau of Census; Bureau of Economic Analysis; Moody's Analytics; The PNC Financial Services Group

OUTLOOK SUMMARY

Job growth in the Tampa Bay region will likely cool in 2017 as the regional economy approaches full employment. Still, the regional economy will be firing on all cylinders, allowing it to outrun the U.S. economy. The unemployment rate will likely decline steadily to a low of 4.3 percent in the second half of 2017. Meanwhile, the tight labor market will lead to faster wage growth. Much of 2016's story will continue to be played out in the coming year. Professional and business services will play a major role in job creation, while a healing labor market and income growth nationwide will boost tourism. Strong-rates of in-migration will bolster housing demand and will stimulate consumer spending. The presence of the University of South Florida and a large, elderly population will keep education and healthcare growing. Home prices are expected to rise by 6 percent in the coming year, thanks to strong housing demand and a shrinking foreclosure pipeline. Borrowing costs, including mortgage rates, will likely tick higher over the course of the year. However, this is unlikely to adversely affect the economy, given that rates are very low to begin with. On the upside, rising interest rates will be a plus for savers and retirees that depend on interest income.

Longer term, Tampa's economy will be an above-average performer as the area still has many positives that have not been diminished by the Great Recession. The cost of doing business in the area is relatively low and the region serves as the state's financial services hub. Also, the pleasant winter weather, beautiful beaches and accessibility to other Florida attractions will remain significant draws for snowbirds. A maturing economy will increasingly include a diversity of industries that will help stabilize the area through future boom and bust cycles.

FORECAST TABLE

	U.S.			Tampa Bay		
	2015	2016E	2017F	2015	2016E	2017F
Employment Growth, (% change)	2.1	1.8	1.5	3.7	2.9	2.1
Unemployment Rate, (%)	5.3	4.9	4.5	5.0	4.5	4.4
Median Household Income, (Ths. \$)	55.8	57.1	58.2	49.9	52.3	53.3
House Prices**, (% change)	4.6	5.2	4.6	7.1	7.1	6.0
Single-Family Permits* (% change)	10.2	10.0	8.2	28.8	17.2	15.8
Multifamily Permits* (% change)	11.5	-0.9	6.6	22.1	7.5	5.1

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

	U.S.		Tampa Bay	
	2007-2012†	2012-2017†	2007-2012†	2012-2017†
Employment Growth, (% change)	-0.6	1.8	-1.5	2.9
Unemployment Rate, (%)	7.7	6.0	8.6	5.8
Median Household Income, (Ths. \$)	50.8	54.7	45.1	49.2
House Prices**, (% change)	-4.8	6.1	-8.6	8.1
Single-Family Permits* (% change)	-12.3	9.6	-3.6	18.5
Multifamily Permits* (% change)	-4.2	11.1	0.3	14.0

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

LONG-RUN EMPLOYMENT TRENDS

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

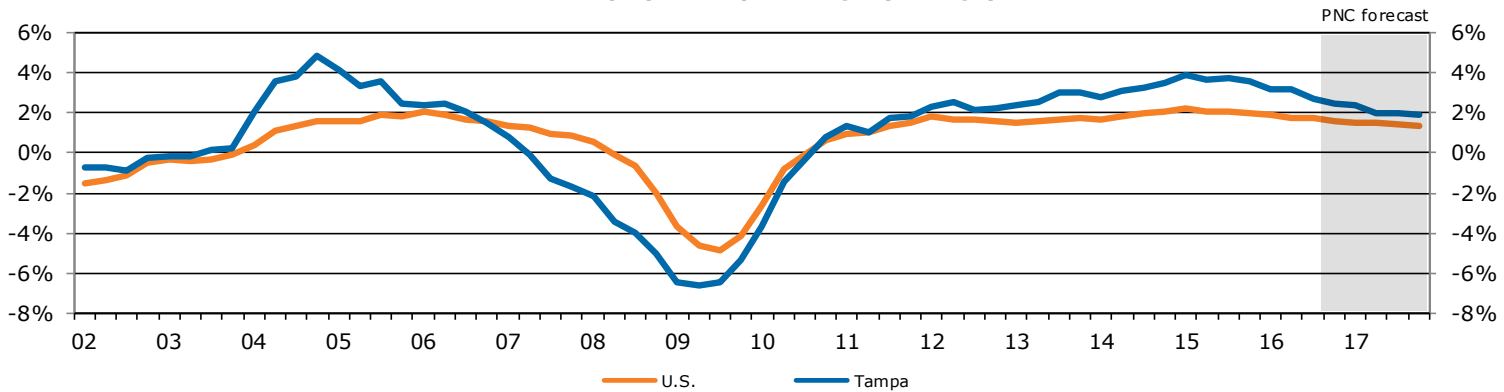


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

LONG-RUN DEMOGRAPHIC TRENDS

Chart 6
Population, (% change, year ago)

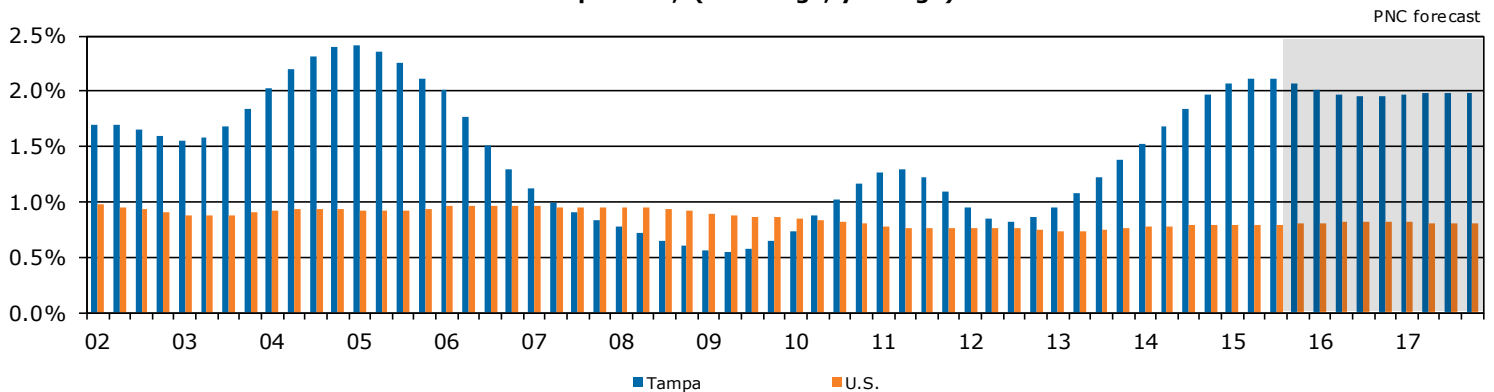


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

LONG-RUN HOUSE-PRICE TRENDS

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

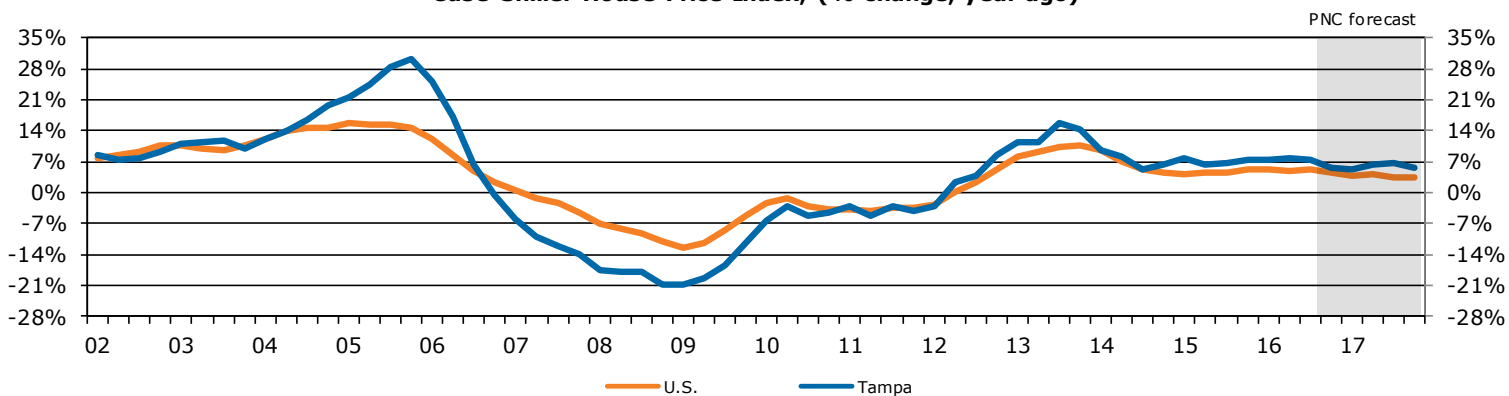


Chart source: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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