CHARLOTTE MARKET OUTLOOK

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JOB SITUATION

After a slow start in early 2013, the Charlotte economy regained momentum with payrolls rising much faster than the U.S. average in the second quarter (Chart 1). Office employment is providing much of the boost to the area's job market, as it has over the course of the recovery. Across other industries, however, job gains have been mixed. Local manufacturing is downshifting in step with the cool-down in production nationwide. Transportation and wholesaling are making modest gains, thanks to Charlotte's status as a regional hub. Yet finance remains a weak spot. Locally, the industry is restructuring and although job loss has not been disastrous, gains will likely be inconsistent in the quarters ahead.

The jobless rate declined to 8.7 percent halfway through the second quarter of 2013 from 9.4 percent in December 2012. Even though the jobs recovery has been stronger than average, the market area's unemployment rate remains more than one percentage point higher than the national rate. Healthy labor force growth had persisted during the recession and ensuing recovery as new job opportunities enticed workers to enter the labor force. Historically, the local jobless rate was only slightly higher than the national rate.

INCOME

Tax increases earlier in 2013 took a bite out of disposable income but improving job growth will boost wage and salary income over the next several quarters (Chart 2). In particular, rising employment in high-wage professional services will enable personal income growth in Charlotte to outpace the U.S. Steep losses in well-paying financial services caused the median household income to drop sharply between 2008 and 2010. We anticipate it will take another couple of years for the area to recover that lost ground. Longer-term, the area is expected to enjoy above average income growth. Personal income in Charlotte typically outpaces national and regional trends, thanks to a large presence of dynamic and

Chart 1 Job Growth, (% change year ago) & Unemployment Rate, (%, SA) 12% PNC forecast 10% 8% 6% 4% 2% 0% -2% 12 14 13 Unemployment Rate Total Manufacturing Services (ex. Ed. & HC)

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

Chart 2 Income Growth (% change year ago) & Median Household Income (Ths. \$. SA)

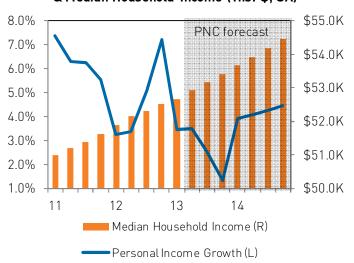


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

CHARLOTTE

well-paying finance and professional services. Low business costs and a persistent inflow of educated workers in turn, attract additional expansion in highvalue added industries.

HOUSING

Charlotte's housing market is gaining momentum as home price appreciation heats up (Chart 3). Demographic momentum is slowly pushing home sales higher and is supporting construction. Although mortgage rates are higher compared with a year ago, they are still low by historic comparisons and this too. is supporting demand. Also, according to CoreLogic data, the share of home sales in Charlotte by institutional investors was 21 percent in 2012. This is very high by national standards and has the effect of boosting prices by reducing the share of real estate owned properties (these are often foreclosed properties owned by banks). Stronger demand from investors and reduced inventory of foreclosed properties are leading to smaller discounts on foreclosure sales and hence, higher overall prices.

House price increases will accelerate in 2013 as the jobs and income recovery gathers pace and excess inventory is absorbed. There is some upside potential to the outlook. The vacancy rate in Charlotte is relatively low and this could allow homebuilding to recover more quickly than average as builder confidence returns and demand re-engages with population growth.

DEMOGRAPHICS

Strong demographic trends underpin Charlotte's optimistic long-term forecast (Chart 4). A diverse array of employment opportunities and strong job growth during normal times attract educated work-seekers to Charlotte, typically from other Southern metro areas. The area's population is younger than average as well. Locally, the population between ages 18 and 64 comprises 67 percent of the total. Nationally, that cohort accounts for 62 percent of the total. This accounts for the area's higher than average labor force participation rate and is a positive for its long-term growth potential. Household formations, a key driver of housing demand, are likely to have quickened in the past year as well. Above average population growth will be a significant driver of construction, retail, and healthcare.

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

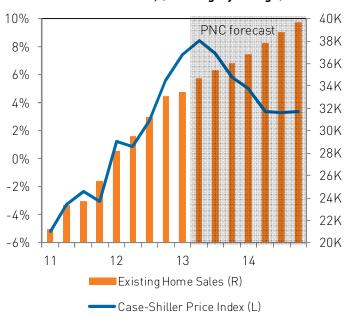


Chart sources: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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

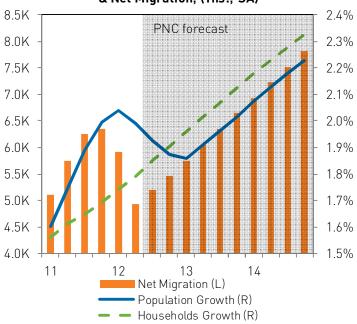


Chart sources: Bureau of Census; Bureau of Economic Analysis
Moody's Analytics; The PNC Financial Services
Group

OUTLOOK SUMMARY

Charlotte's economy will maintain its solid pace of growth in 2013 and 2014 thanks to strong gains in professional services and consumer industries. Manufacturing's cyclical boost will wane but the industry will still add to the economy while strong population growth will keep the service sector advancing. Weakness in government and finance that was evident during 2012 will also fade as continued economic recovery lifts tax revenues and major financial institutions regain their footing. Persistent income growth and improved confidence over the next year could unleash pent-up consumer demand and bolster retail and leisure spending even as households maintain their focus on saving and paying down debt. The unemployment rate is expected to decline to 8.6 percent in the fourth quarter of 2013 from 9.3 percent in the first quarter of 2012. Over the next couple of years, the labor force will likely grow at a healthy pace. Hence, the unemployment rate is expected to remain relatively elevated for a few years, despite faster than average job growth.

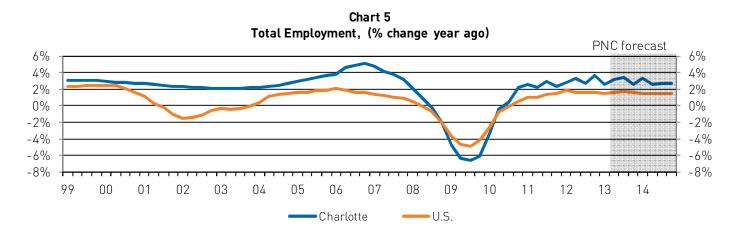
Residential real estate conditions will improve through 2013 as home sales firm up, foreclosures decline and prices rise. Home prices will not rise as quickly as the national average. However, the smaller than average decline in house prices during the recession means that local household wealth is on better footing. Strong job creation and increasing business and investor confidence will also help improve conditions in nonresidential real estate. Over the long term, low business costs and a young, growing, educated population will enable Charlotte to outperform the U.S.

FORECAST TABLE

	U.S.			Charlotte			
	2012	2013F	2014F	2012	2013F	2014F	
Employment Growth, (% change)	1.7	1.6	1.5	3.1	3.0	2.8	
Unemployment Rate, (%)	8.1	7.5	6.8	9.5	9.0	8.1	
Personal Income Growth, (% change)	3.7	2.7	4.0	4.7	2.7	4.2	
Median Household Income, (Ths. \$)	52.5	53.8	55.1	52.2	53.0	54.1	
House Prices**, (% change)	2.8	9.5	3.6	2.6	7.3	3.7	
Single-Family Permits* (% change)	23.5	20.4	5.7	36.5	8.6	3.5	
Multifamily Permits* (% change)	38.7	36.8	12.3	261.4	-18.1	-4.0	
*U.S. starts, F = PNC forecast, **Case-Shiller House Price Index							

	U.	S.	Charlotte				
	2004-2009†	2009-2014†	2004-2009†	2009-2014†			
Employment Growth, (% change)	-0.1	1.1	1.0	2.2			
Unemployment Rate, (%)	5.8	8.4	6.3	10.1			
Personal Income Growth, (% change)	3.6	3.9	4.1	4.5			
Median Household Income, (Ths. \$)	48.7	52.2	51.1	52.2			
House Prices**, (% change)	-2.9	2.2	1.1	1.2			
Single-Family Permits* (% change)	-22.7	9.1	-24.2	11.2			
Multifamily Permits* (% change)	-20.2	27.7	-7.0	10.3			
*U.S. starts, †per annum, **Case-Shiller House Price Index							

LONG-RUN EMPLOYMENT TRENDS



LONG-RUN DEMOGRAPHIC TRENDS

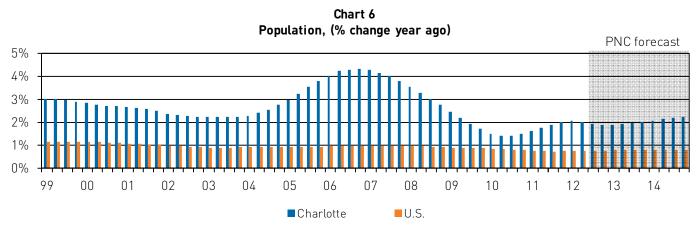


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

LONG-RUN HOUSE-PRICE TRENDS

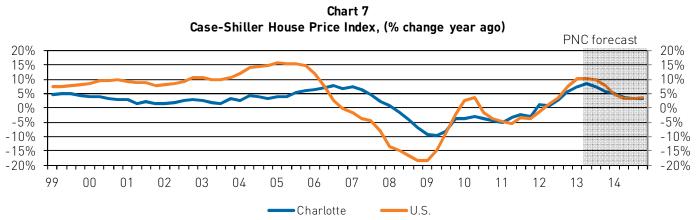


Chart source: National Association of Realtors; Fisery, Inc.; The PNC Financial Services Group

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