Stuart Hoffman Chief Economist **Gus Faucher** Senior Economist

William Adams Senior Economist **Kurt Rankin** Economist

Mekael Teshome **Economist**

THE PNC FINANCIAL SERVICES GROUP | Three PNC Plaza | 225 Fifth Avenue | Pittsburgh, PA 15222-2724

JOB SITUATION

The first half of 2013 proved to be difficult for the Northeast Ohio economy (Chart 1). Federal tax increases, cuts to government employment and weak income growth weighed heavily on local consumption and spending. Employment growth in manufacturing has also decelerated in line with the broader macro economy. The unemployment rate in the region. which includes Cleveland, Akron, Canton, and Youngstown metro areas, fluctuated between 7.2 and 7.0 percent in the first half of 2013. Still, there are a number of positives that suggest this speed bump is temporary and that the labor market will be in better shape in the second half of 2013. First, the rig count in the Utica Shale formation is rising and this should lead to production and income gains across Eastern Ohio. Also, auto sales are trending up nationwide. Many consumers delayed purchasing a new car because of the recession. At some point. those cars need to be replaced and those who have the means to do so are. Finally, the region's aging population has enabled healthcare to be a consistent growth driver. In the U.S., about 13 percent of the population is over age 65. All four of the metros in our market area have higher shares of their populations in that cohort with the share has high as nearly 18 percent in Youngstown. This generates a lot of demand for healthcare and as a result, the industry employs over 16 percent of Northeast Ohio's workforce compared with about 13 percent in the U.S., making the industry even more important to the local economy.

INCOME

Personal income growth has moderated from its 2012 pace. However, the progress made by strong manufacturing-led job gains over the past three years has enabled the median household income to recover from the steep drop in vehicle sales and the 22 percent decline in manufacturing jobs during the recession (Chart 2). The longer-term outlook for the region is for below-average income growth. With the share of jobs in high-wage goods production in longterm decline, the gap between the region's median

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

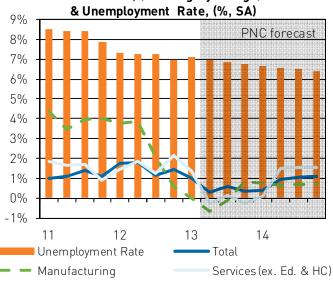


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

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

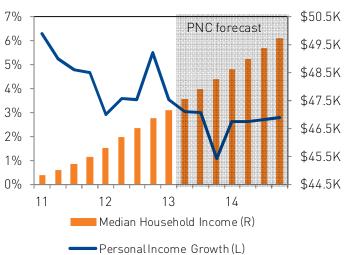


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

income and the nation's will likely remain wide. The silver lining is that plentiful labor and affordable business costs can help attract new industries and employers looking to reestablish profitability through cost efficiency.

HOUSING

Northeast Ohio's housing market is rebalancing as home sales increase and single-family permitting picks up (Chart 3). Housing demand is being buttressed by low mortgage rates and increased affordability. Home prices are rising at a moderate pace, according to estimates of the Case-Shiller index. Prices will likely rise less quickly over the next several years but will still be moving at a reasonable rate. One downside risk to our baseline forecast is that the possibility remains that it will take longer than expected to clear foreclosed properties from the market. The burden of heavily discounted homes is heavier in the region than average and foreclosure activity could remain elevated for longer if Federal fiscal tightening weakens economic growth more so than we expect. If this were to happen, the house price recovery would be dampened. In light of poor demographic trends and weak income 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 vitalitv.

DEMOGRAPHICS

Northeast Ohio's demographic profile is unfavorable for strong economic growth (Chart 4). For years, the area lost population as the economy restructured away from traditional manufacturing. The Great Recession compounded the area's woes by reducing what was already low labor force participation. Younger residents migrate to faster growing job markets with more opportunities in service industries. Also, the area has a higher than average share of its population that is over age 65. This demographic feature tends to favor healthcare, finance and consumer industries rather than goods production. Population loss also leads to weak household formations, which undermines demand for housing. For now, out-migration has likely moderated, given the ongoing jobs recovery. However, unless new economic drivers take hold in the area, we assume the area will continue to lose population to more vibrant metropolitan economies once job growth returns in full force in those areas.

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)

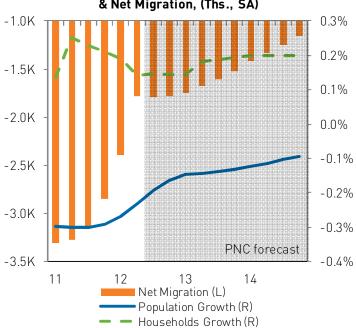


Chart sources: Bureau of Census; Bureau of Economic Analysis
Moody's Analytics; The PNC Financial Services
Group

OUTLOOK SUMMARY

Northeast Ohio's economic growth in 2013 will likely be slower than its moderate 2012 pace. Manufacturing will remain the primary growth driver, although the industry will grow more slowly than it has in the past couple of years. This will happen as the U.S. economy shifts from manufacturing investment-driven to construction investment-driven and then eventually to consumer-driven growth. Healthcare, finance and professional services will add to the recovery in 2013 and 2014 as well. We see the unemployment rate declining to 6.7 percent in the fourth quarter of 2013 from 7.1 percent in the second quarter of 2013. The housing market will also be gaining more traction by then as the foreclosure pipeline is worked out from the system.

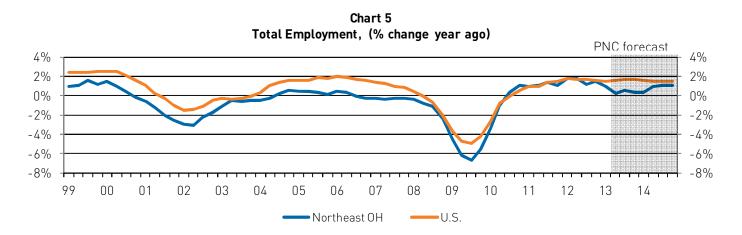
Longer term, continued population loss will cause Northeast Ohio to be a below-average performer in terms of job growth. Natural gas extraction in the Utica shale formation currently holds some promise to generate new jobs, income and tax revenue. Besides direct drilling jobs, activities related to natural gas generate demand for steel and other goods manufactured in the area as well as services such as finance and retail. However, it is unlikely that gas alone will be able to recoup all the manufacturing jobs that were lost over the years and to stem the tide of population loss. Though still only in their early development stages, manufacturing hubs for the machinery of new energy technologies and transportation equipment hold great promise for those regions that can attract and cultivate them. The region's lower costs and availability of underutilized assets will be an important tool in attracting new industries and opportunities into the region in the years ahead.

FORECAST TABLE

	U.S.			Northeast OH		
	2012	2013F	2014F	2012	2013F	2014F
Employment Growth, (% change)	1.7	1.6	1.5	1.5	0.5	0.9
Unemployment Rate, (%)	8.1	7.5	6.8	7.2	6.9	6.5
Personal Income Growth, (% change)	3.7	2.7	4.0	3.9	2.6	2.7
Median Household Income, (Ths. \$)	52.5	53.8	55.1	46.3	47.7	49.2
House Prices**, (% change)	2.8	9.5	3.6	1.3	4.4	3.3
Single-Family Permits* (% change)	23.5	20.4	5.7	17.0	22.9	10.4
Multifamily Permits* (% change)	38.7	36.8	12.3	-24.3	-3.8	39.8
*U.S. starts. F = PNC forecast. **Case-Shiller House Price Index						

	U.	S.	Northeast OH				
	2004-2009†	2009-2014†	2004-2009†	2009-2014†			
Employment Growth, (% change)	-0.1	1.1	-1.4	0.7			
Unemployment Rate, (%)	5.8	8.4	6.7	8.1			
Personal Income Growth, (% change)	3.6	3.9	1.9	3.4			
Median Household Income, (Ths. \$)	48.7	52.2	44.6	46.3			
House Prices**, (% change)	-2.9	2.2	-2.2	1.0			
Single-Family Permits* (% change)	-22.7	9.1	-24.0	6.9			
Multifamily Permits* (% change)	-20.2	27.7	-22.1	10.9			
*U.S. starts, †per annum, **Case-Shiller House Price Index							

LONG-RUN EMPLOYMENT TRENDS



LONG-RUN DEMOGRAPHIC TRENDS

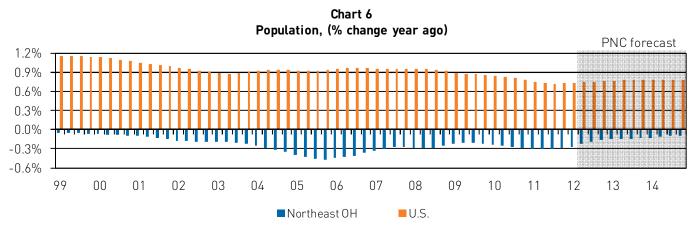


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

LONG-RUN HOUSE-PRICE TRENDS

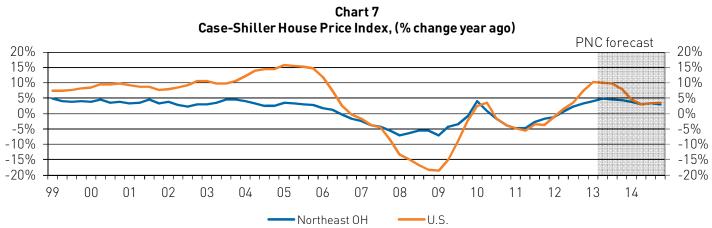


Chart source: National Association of Realtors; Fisery, Inc.; The PNC Financial Services Group

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