

# REGIONAL ECONOMIC OUTLOOK

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## Executive Summary

The U.S. economy is set to gain momentum in 2017 as the imbalances that caused the Great Recession are corrected and the headwinds that weighed on growth in 2016 fade. A number of forces had combined to cause the economy to grow at an uninspiring 1.6 percent rate in 2016. The collapse of energy prices between the summer of 2014 and early 2016 led to a nearly 80 percent drop in energy-producing rigs. The U.S. dollar appreciated by about 25 percent during this time, causing the trade balance to deteriorate. In addition, manufacturers throttled back production to realign inventories with sales. Fortunately, these weights are lifting. The energy industry is slowly reawakening as oil prices inch higher. Though the dollar is still strong and could even appreciate more, its massive run up has mostly ended. The economy will be able to grow 2.4 percent in 2017 as these drags abate. Moreover, fiscal stimulus in the form of Federal tax cuts, infrastructure spending and less regulation are in the works. These could boost growth more than expected over the next several years.

All the while, the fundamentals of the U.S. economy are strengthening. The labor market is on track to reach full employment by late-2017 with an unemployment rate of 4.5 percent. The number of job openings nationwide is high by historic comparisons and this has swung bargaining power in favor of workers. Worker turnover is increasing and employers are responding by boosting wages to retain their good workers and to attract qualified ones (Chart 1). Also, risk-taking and entrepreneurship are increasing as the Great Recession fades in the rear-view mirror.

Furthermore, the “Great Delay” is unwinding. Many young adults were economically sidelined during the economic recovery because of poor job markets and large education debt burdens. Major milestones such as marriage or homeownership were delayed, undermining an important source of economic activity. The good news is that as the labor market heals, many are now finding employment, moving into apartments and are even starting to venture into homeownership. The Millennial generation’s economic contribution will be increasingly felt as their finances improve.

A final reason to be upbeat about the U.S. economy is that the financial system is, for the most part, balanced. Private sector debt, for both households and businesses, are at reasonable levels when adjusted for the size of the economy. Some types of debt, such as autos and student loans, are problematic but they do not threaten to derail the economic expansion. This means that a debt-fueled boom, often a precursor to recessions, is not yet in the works. Moreover,

**Chart 1: Tide Turns in Workers’ Favor As Job Openings Rise**

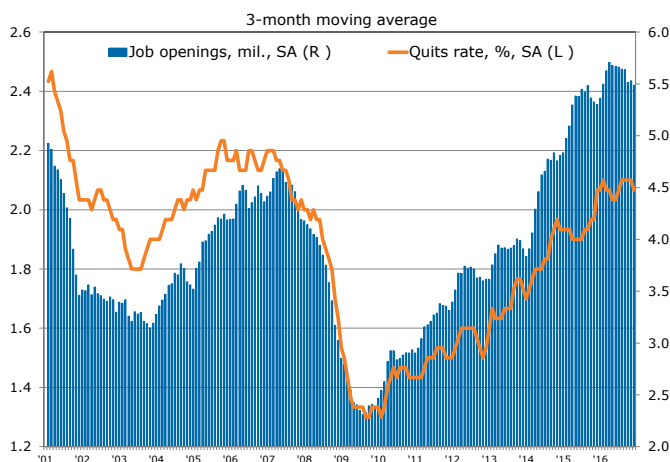


Chart source: Bureau of Labor Statistics

**Chart 2: Poverty Still High, Despite Job Gains**

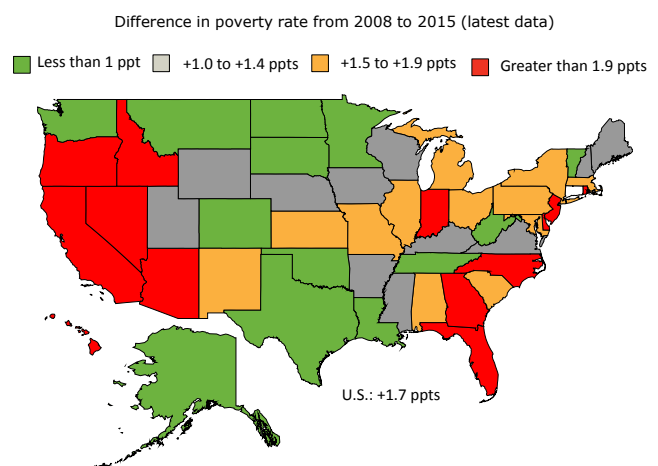


Chart source: Census Bureau

# REGIONAL ECONOMIC OUTLOOK

delinquencies are at low levels and banks are well-capitalized. These reduce the odds of a financial crisis.

There are challenges and risks to the outlook, however. Poverty rates across the country have persisted at high levels, despite the ongoing jobs recovery (Chart 2). This is especially so in states that were hardest hit during the housing crash. Also, fiscal imbalances at federal and sub-national levels will make it difficult for policymakers to make needed investments in the economy and simultaneously put finances on a sustainable trajectory. While fiscal stimulus is positive for the economic outlook, it comes with the risk of pushing inflation higher and adding to the Federal government's debt burden. Additional downside risks include the possibility that the trade balance deteriorates because the dollar appreciates even more so than forecast. Protectionist trade measures would worsen the situation. Finally, restrictive immigration policies could worsen worker shortages in some industries and regions and make it harder for businesses to find the workers they need.

## Mid-Atlantic

The Mid-Atlantic region as a whole is on track to grow in line with the U.S. economy, thanks to high levels of cargo traffic along coastal ports, stronger performance in financial services, and increased federal government spending (Chart 3). However, the aggregate region's average performance masks the disparities within the region. The largest markets, Greater Washington, Philadelphia and Baltimore are growing slightly faster than the U.S. economy. With more favorable demographics and more diverse economies, even moderate growth nationally is enough to generate momentum in professional services, finance and technology in these markets. Despite a strong dollar and weak global economy, sea ports along the coast are handling high volumes of cargo and this is boosting associated transportation and logistics industries in the region. For example, preliminary estimates indicate the Port of Baltimore handled a record volume of cargo in 2016. The completion of the Panama Canal expansion in June 2016 is benefitting the region, as Baltimore is one of the few ports on the Eastern Seaboard that can accommodate the larger ships. Continued gains in equity markets and the U.S. economy's continued expansion are benefitting financial centers such as Philadelphia. Rising interest rates and possible regulatory changes could benefit financial centers even more. The Federal government

**Chart 3: Mid-Atlantic Split Between Large, Pro-Cyclical Areas and Smaller, Demographically Challenged Areas**

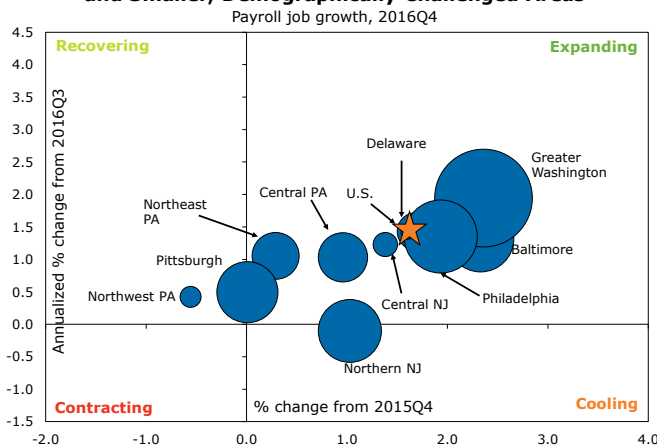


Chart source: Bureau of Labor Statistics;  
Note: Bubbles reflect relative population sizes

**Chart 4: Midwest Converging With the U.S.**

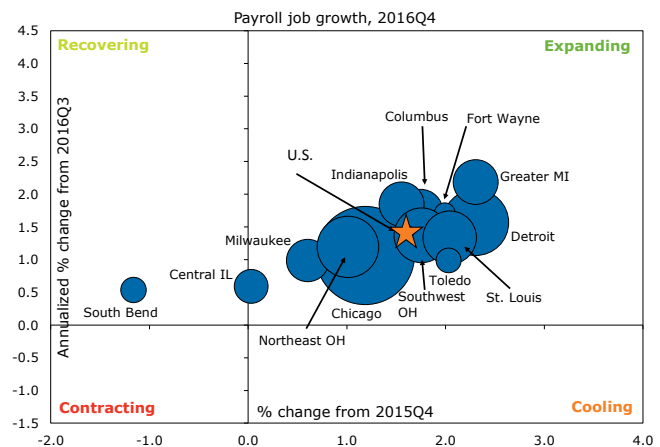


Chart source: Bureau of Labor Statistics;  
Note: Bubbles reflect relative population sizes

has turned into a net contributor to regional economies as the fiscal austerity of recent years fade. Increased Federal employment and spending are boosting both Baltimore's and Greater Washington's economies. Construction and commercial real estate are gaining momentum in all three market areas as business activity picks up.

On the other end of the spectrum, poor demographics are weighing on much of Pennsylvania. Job growth in Pittsburgh, and Northeast Pennsylvania has been very modest for the past four years. These markets are by no means doing poorly. However, their economies are dominated by healthcare, which is a great source of stability but is not sensitive enough to the U.S. economy to catch a tailwind from its expansion. In addition to these disadvantages, Northwest Pennsylvania was knocked off its feet by 1,000 layoffs at GE transportation.

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## Midwest

As with the Mid-Atlantic, the Midwest's rate of job growth is set to keep pace with the U.S. But unlike the Mid-Atlantic, growth rates have tended to converge toward the national average over time. There are a few star performers though. Markets with diversified service sectors, corporate headquarters and favorable demographics will be growth leaders over the forecast horizon (Chart 4). For example, private sector employment in Columbus is more than 12 percent higher than its pre-recession peak, compared with about 5 percent nationwide. Greater Michigan's expansion has been exceptionally strong and the region's unemployment rate ended 2016 near 3 percent. The market area's jobless rate was as high as 14 percent during the Great Recession. Indianapolis and Southwest Ohio are also major business hubs that will benefit from the U.S. economy's continued growth. Chicago is an exception to this list. The city government's troubled finances and out-migration will dilute its private sector's strong performance.

Markets with a concentration of auto production will maintain persistent and moderate growth. Auto sales reached a record level in 2016 as household finances improved. Though pent-up demand has been satisfied, sales are likely to plateau near this record pace in 2017. This is good news for Detroit, South Bend, Toledo and Northeast Ohio. Not all manufacturing is doing well, however. Central Illinois' growth is hamstrung by weak demand for its construction and industrial equipment products. A quick turnaround is unlikely. However, the possibility of higher Federal infrastructure spending, rising commodity prices and improving oil and gas investment provide upside potential for the market area.

## Southeast

The Southeast region's economy will grow rapidly and more quickly than the U.S. in 2017. Rapid population growth is driving above-average growth in aggregate demand in the region and, hence, faster overall economic growth (Chart 5). In addition to favorable demographics, the region's economic dynamism over the next couple of years will be based on four pillars: consumer spending, manufacturing, housing and technology. These are all industries that respond strongly to the macro business cycle and will benefit from the U.S. economy's continued moderate growth.

With household finances in better shape nationwide, Florida and even inland areas such as Nashville and Atlanta can expect a good year for their tourism industries. Also, 2016 was a record year for auto sales and 2017 will see a similar level. This bodes well for factories in Nashville and Louisville-Lexington.

A high level of industrial production will support gains in transportation and logistics in such hubs as Atlanta and Louisville-Lexington. In addition, home sales nationwide are increasing, thanks to continued income growth and easier access to credit. Home sales and auto sales are often correlated, which is good news for Louisville-Lexington. The market area has the advantage of producing appliances and household goods in addition to making cars.

As with parts of the Midwest, the Southeast has weak spots in its factory sector. The steel industry in Mobile suffered from weak demand from energy firms, a strong dollar and a flood of cheap imports. These impediments are easing and steel prices and production are rising but it is too soon to call it a comeback. Steel production is also a key driver in Northern Alabama, and the industry's weakness will negate some of the gains from that market area's strong auto industry. On the upside, higher Federal infrastructure spending could lift the industry more so than expected.

The U.S. economic expansion will sustain growth in business investment through 2017, driving solid gains in research and high-tech professional services. Atlanta and the Raleigh market's Triangle region stand to benefit most. High-tech industries are more concentrated in Atlanta and the Raleigh market than the U.S. average. These industries' high-paying nature will also help to sustain local consumer spending.

**Chart 5: Southeast Lifted By Population Growth, Consumers, Factories and Tech**

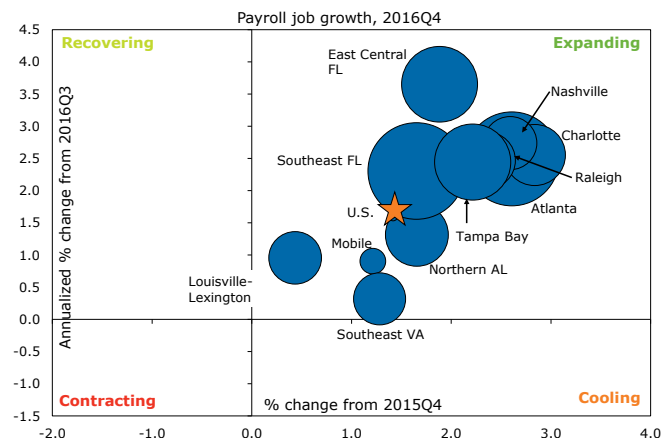



Chart source: Bureau of Labor Statistics;  
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## Summary of PNC Footprint Market Area Forecasts

### Table 1: Mid-Atlantic

	Employment, % change			Unemployment Rate, %			Median Household Income, Ths. \$			Case-Shiller House Price Index, % change			HESI* Index, %		
	2015	2016E	2017F	2015	2016E	2017F	2015	2016E	2017F	2015	2016E	2017F	2015	2016E	2017F
<b>Mid-Atlantic</b>															
<a href="#">Baltimore MD</a>	1.5	2.2	1.4	5.4	4.7	4.5	72.5	73.8	75.1	1.0	1.3	2.6	4.1	4.7	3.1
<a href="#">Central NJ</a>	3.1	2.4	1.3	4.8	4.1	4.2	72.4	73.0	74.2	0.5	0.5	2.4	3.3	3.9	3.5
<a href="#">Central PA</a>	1.6	1.4	1.1	4.1	4.3	4.4	58.6	59.7	60.6	1.4	2.7	3.5	2.0	2.6	2.6
<a href="#">Delaware**</a>	2.0	2.4	1.4	5.2	4.5	4.3	65.1	63.1	64.2	2.4	1.7	3.3	2.7	4.1	3.0
<a href="#">Greater Washington</a>	1.9	2.3	1.8	4.4	3.9	3.8	93.3	95.6	97.3	1.1	1.7	2.9	3.3	2.9	1.7
<a href="#">Northeast PA</a>	0.8	0.4	0.9	5.4	5.5	5.5	56.1	56.5	57.4	0.9	1.4	2.6	4.0	5.1	4.4
<a href="#">Northern NJ</a>	1.0	1.3	1.2	5.4	4.7	4.7	76.6	77.5	78.9	1.8	2.0	3.2	3.1	4.6	3.8
<a href="#">Northwest PA</a>	0.8	-1.0	1.2	5.2	6.4	6.4	47.4	48.3	49.0	1.9	1.3	2.5	2.6	5.7	5.6
<a href="#">Philadelphia PA</a>	1.8	2.2	1.4	6.0	5.6	5.6	56.0	60.6	61.6	2.0	3.6	3.4	3.7	3.6	3.9
<a href="#">Pittsburgh PA</a>	0.2	0.1	0.5	5.0	5.5	5.6	54.1	55.2	56.1	3.1	3.6	3.9	2.7	3.4	2.7
<b>Mid-Atlantic</b>	1.5	1.7	1.3	5.0	4.7	4.7	71.6	73.4	74.7	1.6	2.2	3.1	3.2	3.7	3.0
<b>Midwest</b>	1.8	1.5	1.3	5.2	5.1	5.0	56.5	57.6	58.8	3.3	3.8	4.2	1.5	2.1	2.7
<b>Southeast</b>	3.1	2.5	2.0	5.3	4.8	4.6	53.9	55.4	56.4	5.8	5.5	4.7	-0.3	0.5	1.5
<b>Total PNC Footprint</b>	2.1	1.9	1.6	5.2	4.9	4.8	59.3	60.7	61.8	3.7	4.0	4.1	1.3	1.9	2.3
<b>United States</b>	1.7	1.7	1.3	5.3	4.9	4.6	55.8	57.1	58.2	4.6	5.2	4.4	0.8	0.9	2.6

Data sources: Census, Labor Dept., Bureau of Economic Analysis, Fiserv, FHFA, Moody's Analytics, PNC Economics Division

E = Full year estimate, F = PNC forecast

\*PNC's Household Economic Stress Index: Unemployment rate plus local inflation rate minus Case-Shiller House Price Index rate of change (lower values denote less stress).


\*\*Wilmington and Dover

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## Summary of PNC Footprint Market Area Forecasts

### Table 2: Midwest

	Employment, % change			Unemployment Rate, %			Median Household Income, Ths. \$			Case-Shiller House Price Index, % change			HESI* Index, %		
	2015	2016E	2017F	2015	2016E	2017F	2015	2016E	2017F	2015	2016E	2017F	2015	2016E	2017F
<b>Midwest</b>															
<a href="#">Central IL</a>	0.6	-0.1	0.8	5.7	6.5	6.3	56.0	57.0	58.1	1.8	1.9	3.2	3.6	5.9	4.3
<a href="#">Chicago IL</a>	1.7	1.4	1.2	5.8	6.2	6.0	63.2	65.9	67.3	2.0	2.8	3.6	3.6	3.8	3.6
<a href="#">Columbus OH</a>	2.4	1.9	1.8	4.1	4.1	4.1	58.2	59.6	60.8	4.2	5.4	4.8	-0.4	-0.2	0.8
<a href="#">Detroit MI</a>	2.0	2.1	1.4	6.2	5.4	5.1	53.6	53.3	54.4	5.3	5.1	5.2	0.1	1.5	1.9
<a href="#">Fort Wayne IN</a>	2.6	2.3	1.8	4.5	4.7	4.6	50.9	52.1	53.1	4.6	4.5	4.3	-0.5	1.0	2.1
<a href="#">Greater MI</a>	2.2	2.5	1.9	4.0	3.5	3.4	52.9	51.7	52.7	6.8	5.6	4.7	-3.2	-1.6	0.6
<a href="#">Indianapolis IN</a>	2.5	1.7	1.8	4.5	4.6	4.5	54.3	55.5	56.7	4.6	5.1	4.7	-0.6	-0.2	2.0
<a href="#">Milwaukee WI</a>	1.1	0.7	0.9	5.1	4.8	4.6	56.4	57.7	59.0	3.1	3.5	4.0	1.8	1.2	1.5
<a href="#">Northeast OH</a>	0.9	1.0	1.1	5.1	5.4	5.3	49.8	49.8	50.7	2.4	2.7	3.9	2.5	3.4	7.4
<a href="#">South Bend IN</a>	2.6	-0.1	0.8	4.8	4.9	4.8	47.7	48.5	49.6	3.5	4.8	3.9	0.3	0.3	2.5
<a href="#">Southwest OH</a>	1.7	1.7	1.4	4.6	4.5	4.2	54.8	55.8	56.9	2.9	3.2	4.4	1.6	1.5	0.8
<a href="#">St. Louis MO</a>	1.8	1.9	1.4	5.0	4.7	4.5	56.5	57.7	58.8	3.6	4.2	4.2	1.2	0.9	0.9
<a href="#">Toledo OH</a>	1.9	2.4	0.9	5.0	5.0	4.8	47.1	48.3	49.2	2.7	3.1	4.5	1.8	2.8	1.9
<b>Mid-Atlantic</b>	1.5	1.7	1.3	5.0	4.7	4.7	71.6	73.4	74.7	1.6	2.2	3.1	3.2	3.7	3.0
<b>Midwest</b>	1.8	1.5	1.3	5.2	5.1	5.0	56.5	57.6	58.8	3.3	3.8	4.2	1.5	2.1	2.7
<b>Southeast</b>	3.1	2.5	2.0	5.3	4.8	4.6	53.9	55.4	56.4	5.8	5.5	4.7	-0.3	0.5	1.5
<b>Total PNC Footprint</b>	2.1	1.9	1.6	5.2	4.9	4.8	59.3	60.7	61.8	3.7	4.0	4.1	1.3	1.9	2.3
<b>United States</b>	1.7	1.7	1.3	5.3	4.9	4.6	55.8	57.1	58.2	4.6	5.2	4.4	0.8	0.9	2.6

Data sources: Census, Labor Dept., Bureau of Economic Analysis, Fiserv, FHFA, Moody's Analytics, PNC Economics Division

E = Full year estimate, F = PNC forecast

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### Table 3: Southeast

	Employment, % change			Unemployment Rate, %			Median Household Income, Ths. \$			Case-Shiller House Price Index, % change			HESI* Index, %		
	2015	2016E	2017F	2015	2016E	2017F	2015	2016E	2017F	2015	2016E	2017F	2015	2016E	2017F
<b>Southeast</b>															
<a href="#">Atlanta GA</a>	3.3	2.8	2.4	5.5	5.1	4.9	60.2	61.7	63.0	5.6	5.1	4.6	0.2	1.2	2.3
<a href="#">Charlotte NC</a>	3.7	2.5	2.6	5.4	5.1	4.8	54.8	55.9	56.9	5.1	4.6	4.4	0.4	1.6	2.1
<a href="#">East Central FL</a>	3.8	3.9	2.3	5.2	4.6	4.4	49.5	49.6	50.5	6.4	7.2	5.7	-1.1	-1.2	-0.6
<a href="#">Louisville-Lexington KY</a>	2.6	1.8	1.4	4.5	4.4	4.2	53.0	54.5	55.5	3.5	4.5	4.7	0.8	1.0	1.1
<a href="#">Mobile AL</a>	0.8	0.7	1.1	7.0	6.9	6.6	42.7	43.1	43.7	3.4	1.7	2.0	3.2	4.6	6.2
<a href="#">Nashville TN</a>	3.8	3.1	2.5	4.6	3.5	3.2	58.0	59.9	60.8	6.3	7.7	4.3	-1.1	-2.1	1.1
<a href="#">Northern AL</a>	1.3	1.2	1.3	5.6	5.7	5.5	50.6	51.6	52.3	3.5	3.3	3.4	1.8	2.1	3.9
<a href="#">Raleigh NC</a>	2.9	2.5	2.2	5.1	4.8	4.6	59.0	60.4	61.6	3.3	3.9	3.2	1.4	1.1	3.4
<a href="#">Southeast FL</a>	3.3	2.5	2.0	5.5	5.0	4.7	50.4	52.4	53.4	7.5	6.2	4.7	-1.5	0.0	1.2
<a href="#">Southeast VA</a>	0.9	0.5	1.0	4.9	4.5	4.4	60.1	61.3	62.5	3.3	0.6	2.6	1.3	5.5	3.6
<a href="#">Tampa Bay FL</a>	3.7	2.9	2.1	5.0	4.5	4.4	49.9	52.3	53.3	7.1	7.1	6.0	-1.6	-2.0	0.2
<b>Mid-Atlantic</b>	1.5	1.7	1.3	5.0	4.7	4.7	71.6	73.4	74.7	1.6	2.2	3.1	3.2	3.7	3.0
<b>Midwest</b>	1.8	1.5	1.3	5.2	5.1	5.0	56.5	57.6	58.8	3.3	3.8	4.2	1.5	2.1	2.7
<b>Southeast</b>	3.1	2.5	2.0	5.3	4.8	4.6	53.9	55.4	56.4	5.8	5.5	4.7	-0.3	0.5	1.5
<b>Total PNC Footprint</b>	2.1	1.9	1.6	5.2	4.9	4.8	59.3	60.7	61.8	3.7	4.0	4.1	1.3	1.9	2.3
<b>United States</b>	1.7	1.7	1.3	5.3	4.9	4.6	55.8	57.1	58.2	4.6	5.2	4.4	0.8	0.9	2.6

Data sources: Census, Labor Dept., Bureau of Economic Analysis, Fiserv, FHFA, Moody's Analytics, PNC Economics Division

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