

# TOLEDO MARKET OUTLOOK

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## JOB SITUATION

Toledo's economy is inching ahead on the back of its burgeoning healthcare industry. The healthcare and education sector accounted for nearly one fourth of the region's net job gains in 2016, even though it accounts for only about 16 percent of total employment in the region. As a testament to the industry's bright future in the region, major healthcare providers are increasing investments and expanding facilities. The factory sector is doing well also, even though it is adding jobs at a slower rate than in recent years. Record auto sales in 2016 have led assemblers and parts producers to boost investment. Notably, Jeep and GM both plan to expand their Toledo facilities and introduce new products. Increases in manufacturing production are, in turn, leading to gains in transportation employment. Consumer-related industries are steadily growing as these key industries slowly make progress.

The unemployment rate fluctuated between 4.6 and 4.9 percent in the second half of 2016 (Chart 1). However, large swings in the labor force are exaggerating the extent to which the labor market is healing. Though the labor market is unmistakably moving in the right direction, payroll employment in the private sector is still down by about one and a half percent from its pre-recession peak in 2006.

## INCOME

Wage growth will improve slightly in 2017 as unemployment slowly declines. Also, the mix of new jobs will likely lean toward mid-wage industries such as healthcare, construction, business and professional services. For example, healthcare and education have average annual wages of about \$53,000 and will be the leading job creator in 2017. Over the long term, the local median income will likely grow approximately as fast as the U.S.'s, implying that the difference in incomes will remain wide (Chart 2). The shrinking share of high-wage manufacturing in total employment over the years has resulted in a median household income that is about 15 percent lower than the national average. Fortunately, Toledo residents carry

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

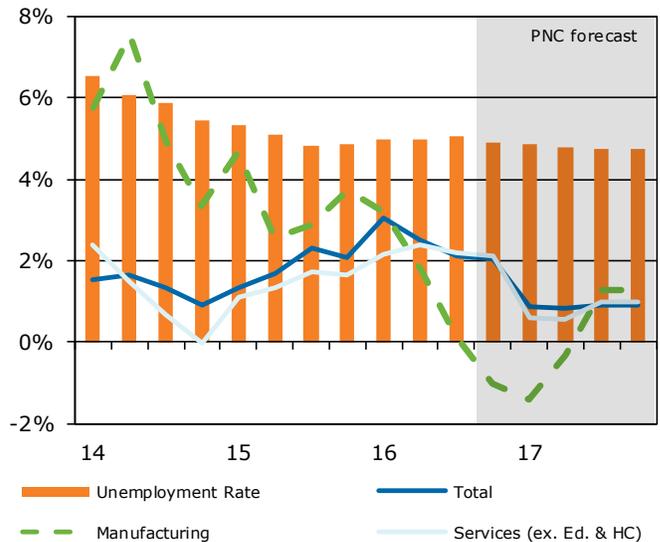


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

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

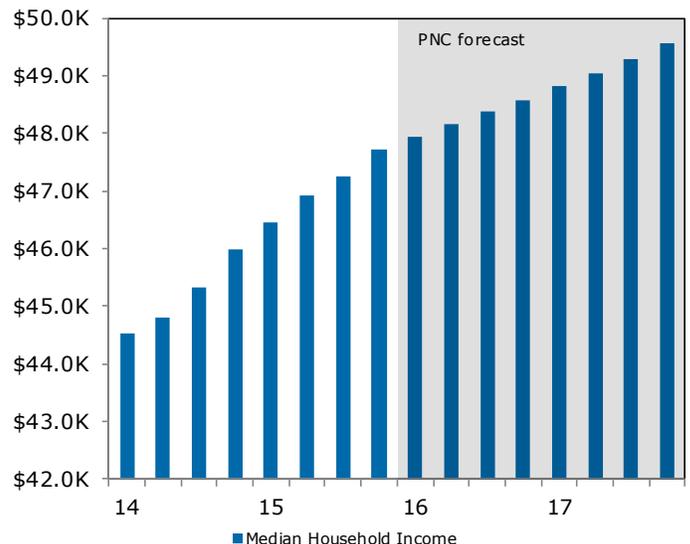


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group



much less debt than the average American household—nearly 40 percent less as of mid-2016, according to the Cleveland Fed. Also, the cost of living in the region is low enough to make up for the lower-than-average income.

## HOUSING

Home price appreciation in Toledo is on track for respectable gains of 4 to 5 percent per year in the next couple of years (Chart 3). Home prices have risen 14 percent from the cycle low in 2012, according to the Case-Shiller index and are now about 5 percent below their mid-2006 peak. The foreclosure burden has shrunk considerably as investors bought up discounted properties. Additional supports to the real estate market in the next couple of years will include increased access to credit and moderate jobs and income growth. Even though mortgage rates will likely rise over the next couple of years, they will remain low in inflation-adjusted terms and housing will still be highly affordable in the region. On the downside, years of net out-migration and weak household formations will limit prospects for more substantial growth in the long-term. Inventory will likely be absorbed slowly and residential construction will persist at a low level for an extended period.

## DEMOGRAPHICS

The local economy's primary long-run impediment is net out-migration. Resident outflows during the economic recovery have weighed on aggregate demand through reduced consumer spending and damage to public finances. Fortunately, net outmigration is likely abating, thanks to improved job prospects in the region (Chart 4). Besides population outflow, poor health outcomes weigh on the region's growth by reducing labor quality. The region's obesity, drug overdose and food insecurity rates are higher than the statewide average and these all weigh on labor productivity. Furthermore, the metro area's economic potential is hamstrung because the labor force participation rate is near historic lows and is set to fall further over the long term as the aging population retires. It will be an uphill battle for the area to attract high-wage service employment. Only about 26 percent of the population age 25 and older holds at least a college degree compared with 27 percent in Ohio and 31 percent nationally.

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

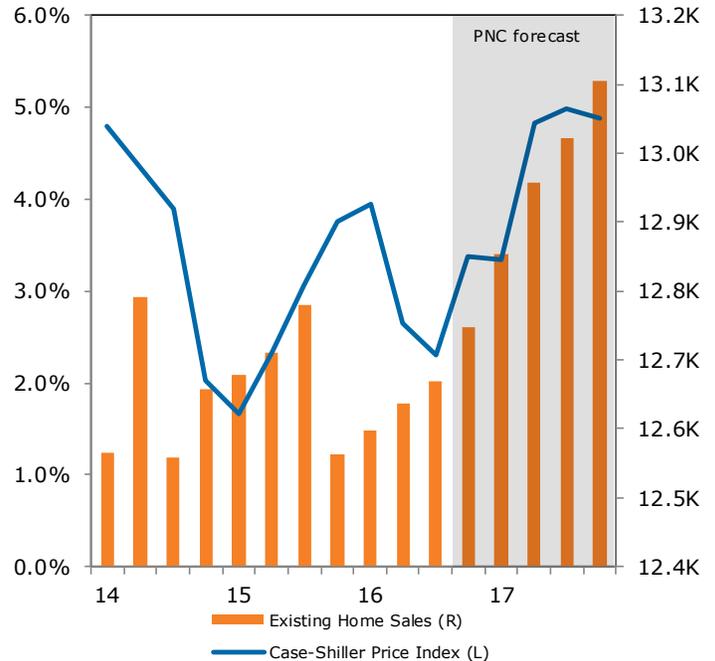


Chart sources: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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

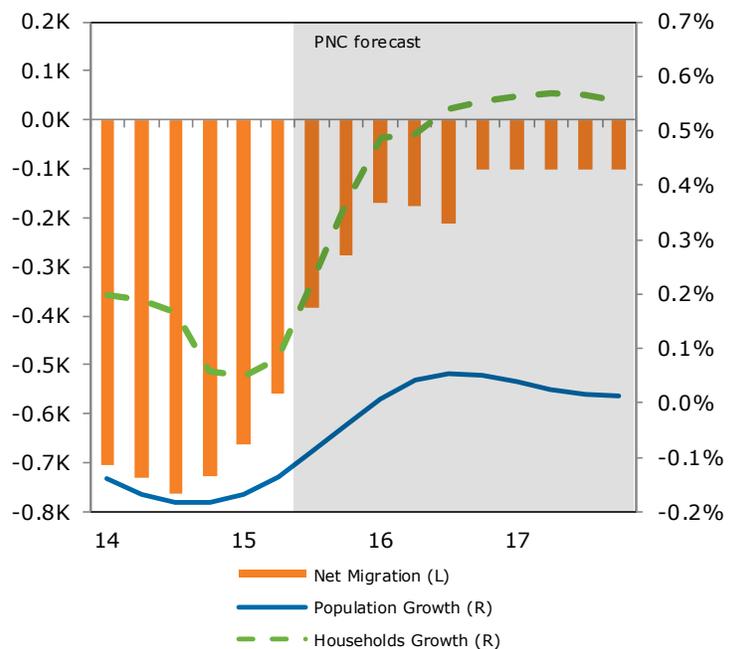


Chart sources: Bureau of Census; Bureau of Economic Analysis; Moody's Analytics; The PNC Financial Services Group

## OUTLOOK SUMMARY

Toledo's economy will continue to heal, although the rate of job growth will likely cool in 2017 versus 2016. The auto industry is on track to have its best year for sales on record in 2017 and this will sustain production, income and capital investment in the region. Consumers are increasingly preferring larger SUVs and crossovers over smaller vehicles and this will be an important support to the regional manufacturing base over the medium-term. However, the big gains in factory employment witnessed in recent years have likely run their course given that the pent-up demand for vehicles has been satisfied. Healthcare employment will expand steadily, thanks to the region's aging population. Employment in Toledo will grow more slowly than in the U.S. because of the region's demographics. Local population growth is slower than the national average and thus aggregate demand is growing more slowly as well. Despite projected steady job growth, it will take another couple of years for the region to regain its pre-Great Recession peak level of employment.

Longer term, Toledo will need to develop new growth drivers to replace its traditional durable goods manufacturing base. Demographic hurdles make the task of attracting new industries—which are dependent upon dynamic labor force trends—difficult. Solar technology is an area that holds promise as a piece of the solution for Toledo. Nicknamed the “Glass City” for its once outsized share of glassmaking, solar panels are a natural transition for Toledo, as solar panels are also glass products. In addition, they are high value-added products, which is a plus for income growth. Toledo hosts two large universities and several major healthcare providers, which improve the quality of life for potential job seekers and provide a pool of skilled labor for potential employers. So, while there are still important challenges facing the Toledo market area resulting from its past industrial structure, the local economy has some breathing room to pursue a new course— one that likely will build upon its traditional competencies in areas such as fabrication, education and healthcare.

## FORECAST TABLE

	U.S.			Toledo		
	2015	2016E	2017F	2015	2016E	2017F
<b>Employment Growth, (% change)</b>	2.1	1.8	1.5	1.9	2.4	0.9
<b>Unemployment Rate, (%)</b>	5.3	4.9	4.5	5.0	5.0	4.8
<b>Median Household Income, (Ths. \$)</b>	55.8	57.1	58.2	47.1	48.3	49.2
<b>House Prices**, (% change)</b>	4.6	5.2	4.6	2.7	3.1	4.5
<b>Single-Family Permits* (% change)</b>	10.2	10.0	8.2	8.5	13.7	0.6
<b>Multifamily Permits* (% change)</b>	11.5	-0.9	6.6	-86.2	-30.2	83.4

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

	U.S.		Toledo	
	2007-2012†	2012-2017†	2007-2012†	2012-2017†
<b>Employment Growth, (% change)</b>	-0.6	1.8	-1.2	1.5
<b>Unemployment Rate, (%)</b>	7.7	6.0	9.2	6.1
<b>Median Household Income, (Ths. \$)</b>	50.8	54.7	43.2	46.1
<b>House Prices**, (% change)</b>	-4.8	6.1	-2.6	3.3
<b>Single-Family Permits* (% change)</b>	-12.3	9.6	-15.6	11.2
<b>Multifamily Permits* (% change)</b>	-4.2	11.1	-17.1	-20.4

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

## LONG-RUN EMPLOYMENT TRENDS

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

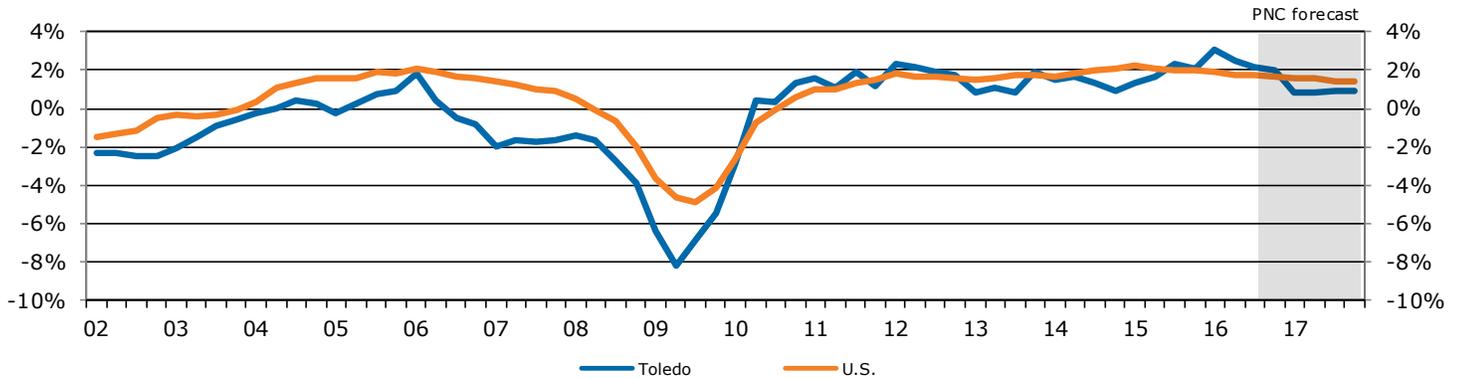


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

## LONG-RUN DEMOGRAPHIC TRENDS

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

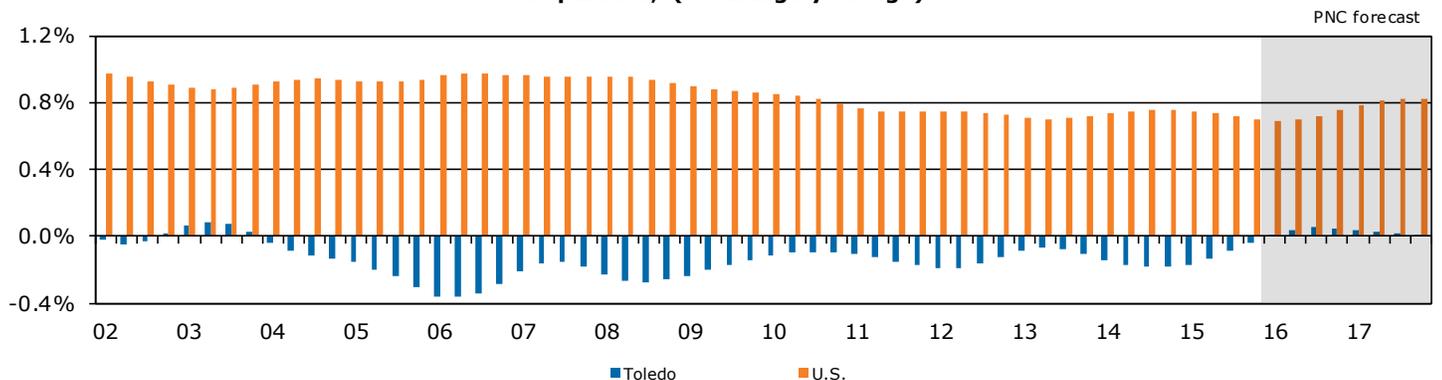


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

## LONG-RUN HOUSE-PRICE TRENDS

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

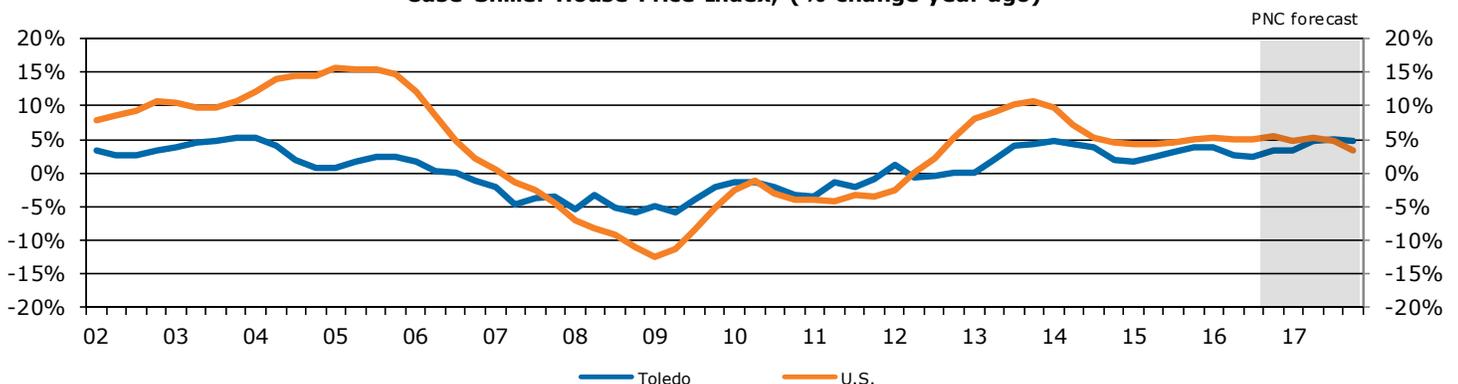


Chart source: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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