

ATLANTA MARKET OUTLOOK

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JOB SITUATION

Atlanta's strong economic expansion is showing no signs of fatigue. Employment growth in 2015 topped the U.S.'s by more than a percentage point. The metro area's industrial structure makes its economy sensitive to macroeconomic trends which means that the U.S.'s continued economic expansion can translate into strong job growth locally. Total payroll employment is now almost seven percent above its pre-recession peak. High-tech professional services have been the mainstay of Atlanta's economic rebound. A number of high profile expansions and relocations to Atlanta by large firms attest to the strength of Atlanta's tech and corporate cluster. Education, healthcare and manufacturing have also been adding to the recovery, while persistent job growth is helping consumer-related industries such as retail and leisure/hospitality gain ground. A strong housing recovery has led to improvement in construction while financial services are healing.

The jobless rate was 5.3 percent in December 2015, a full percentage point lower from a year earlier (Chart 1). Though this is above the U.S. rate, the labor force has grown more quickly than average, a sign of confidence in Atlanta's economic dynamism.

INCOME

The favorable mix of jobs being created will enable average hourly earnings in Atlanta to grow at a solid rate over the next several quarters. Moreover, real disposable income is set to rise as a tighter labor market lifts wages and low energy prices cool consumer price inflation. Atlanta's industrial structure results in a median household income that is 4 percent higher than the national average; a highly educated workforce is a key reason for this (Chart 2). Over 36 percent of adults over age 25 hold at least a bachelor's degree in Atlanta, compared with 30 percent in the U.S. Well-paying professional services have an outside presence because of the agglomeration of corporate offices and tech firms. As a result, high-tech employment accounts for more than

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

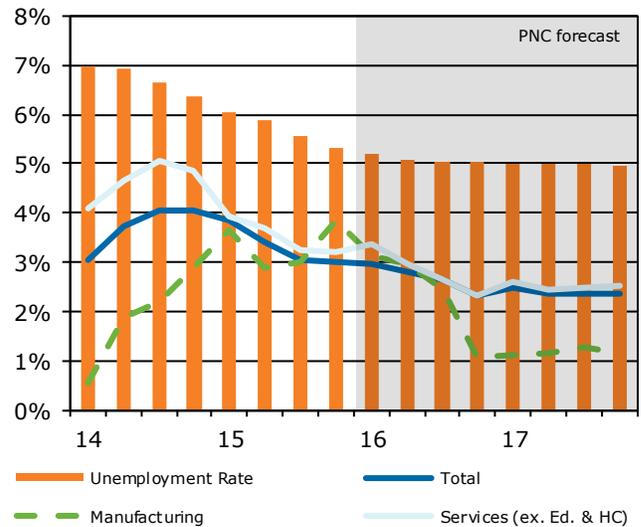


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

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

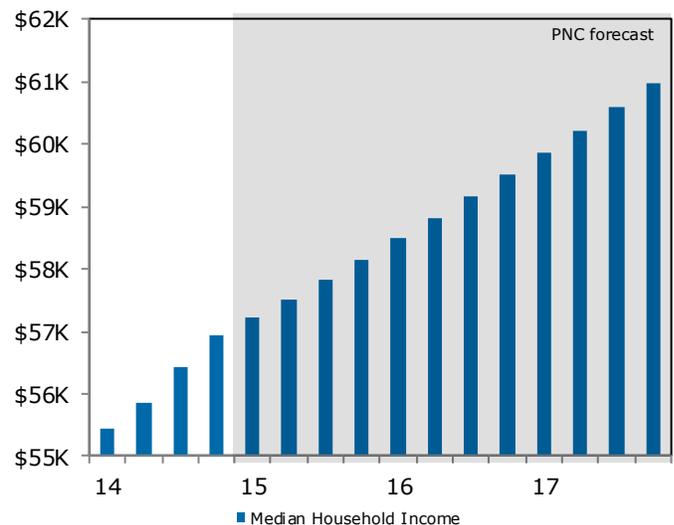


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group



6 percent of total employment in Atlanta compared with 4.7 percent nationally. Also, the information industry is a bigger player than average and is dominated by international broadcast networks that boast some of the highest wages in the region. Besides the presence of high-wage industries, over the long-term, strong population growth will enable total personal income in the area to grow faster than the national average.

HOUSING

Atlanta's housing market will remain buoyant over the next couple of years but price gains will cool from their heady pace of recent years (Chart 3). Housing supply is tight because construction has not kept pace with the region's rapid population growth. The multi-family segment in particular is undersupplied with the rental vacancy rate near its lowest level in two decades. This points to sustained increases in both single-family and multi-family units. In addition to strong employment and income gains, housing remains affordable with the median priced home now costing 1.4 times the average income. Nationally, the median priced home costs about 1.7 times the average income. Low mortgage rates and easier access to credit will also support housing demand. Home price growth will likely decelerate in 2016 and 2017 as construction improves and keeps up with the demand for homes. The longer term outlook is favorable. Strong population and income growth will support demand for housing and drive above-average home price appreciation.

DEMOGRAPHICS

Atlanta's growth potential is bolstered by strong demographic trends (Chart 4). With the exception of the years between 2006 and 2009, strong in-migration fuels above-average population growth. Foreign-born migrants play a significant role in local population growth. International migrants accounted for 37 percent of all in-migrants in 2014 and ranged from 19 to 65 percent since 2001. This is an advantage during times when reduced labor mobility hampers domestic in-migration. The region's population is youthful as well. A third of the population is between the ages of 18 and 34, this compares with less than a fourth in the U.S. Population and household growth will surpass the U.S. over the forecast horizon, supporting demand for retail, construction, education and healthcare.

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

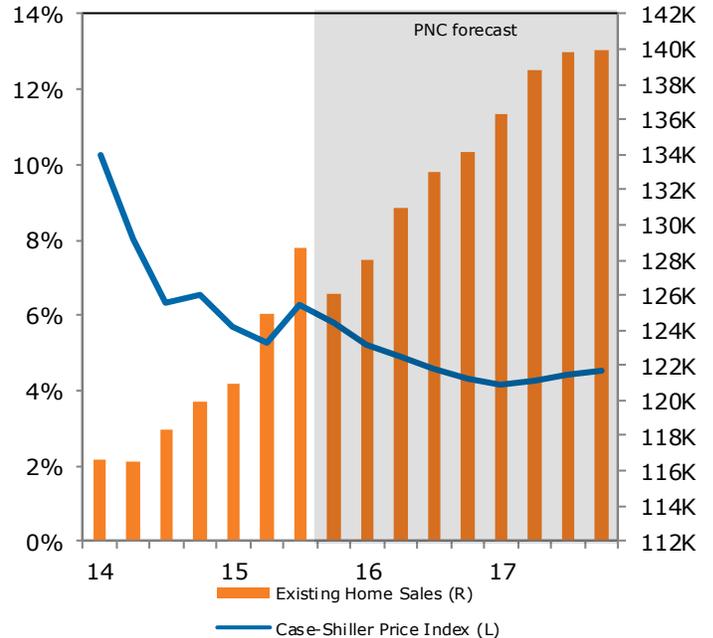


Chart sources: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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

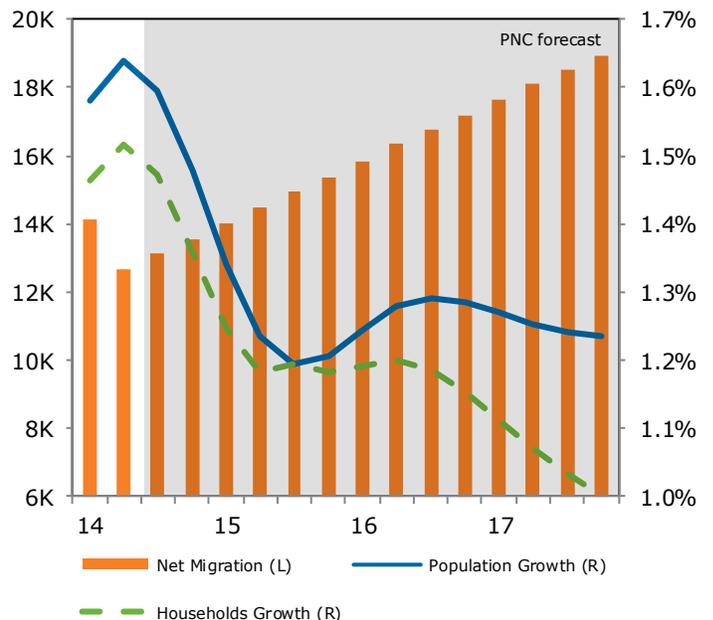


Chart sources: Bureau of Census; Bureau of Economic Analysis; Moody's Analytics; The PNC Financial Services Group

OUTLOOK SUMMARY

The Atlanta economy will remain among the leaders in PNC's footprint over the next couple of years, thanks to its broad array of dynamic growth drivers and favorable demographics. High value-added industries such as technical and professional services will be major employment generators which, in turn, will drive above-average income growth. Moderate economic growth nationwide bodes well for the area's transportation and logistics industries. The U.S. economy's continued expansion also increases demand for convention space and will sustain leisure and hospitality as tourism spending rises. The dramatic plunge in gasoline prices over the past year and a half is a boon for the region, as Georgians spend a greater-than-average share of their incomes on gasoline. The region's transportation and logistics firms will also benefit from reduced input costs. A buoyant housing market and strong non-residential construction will be additional supports enabling Atlanta to outpace the U.S. in terms of job growth. The unemployment rate will decline to about 5 percent in the fourth quarter of 2016 from 5.3 percent from the fourth quarter of 2015. Strong economic growth will encourage workers to enter the labor force and this could cause the unemployment rate to decline more slowly than the better jobs numbers would suggest.

Longer term, Atlanta will be an above-average performer. The Atlanta metropolitan area is the 10th largest metro economy in the United States by real GDP and the largest in the South, yet living and business costs compare with metros of smaller size. A diverse industrial structure, strong population growth, reasonable business costs, and high educational attainment lift Atlanta's growth potential above the nation's. Also, its status as a major transportation and logistics hub makes the metro economy a vital player in the South.

FORECAST TABLE

	U.S.			Atlanta		
	2015	2016F	2017F	2015	2016F	2017F
Employment Growth, (% change)	2.1	1.7	1.3	3.3	2.7	2.4
Unemployment Rate, (%)	5.3	4.8	4.6	5.7	5.1	5.0
Median Household Income, (Ths. \$)	55.2	56.4	57.5	57.7	59.0	60.4
House Prices**, (% change)	4.6	5.0	3.2	5.8	4.7	4.3
Single-Family Permits* (% change)	10.1	7.8	4.4	20.8	-2.0	7.3
Multifamily Permits* (% change)	11.4	-0.2	1.3	6.2	13.2	-0.7

**U.S. starts, F = PNC forecast, **Case-Shiller House Price Index*

	U.S.		Atlanta	
	2007-2012†	2012-2017†	2007-2012†	2012-2017†
Employment Growth, (% change)	-0.6	1.4	-0.9	2.9
Unemployment Rate, (%)	7.7	33.7	8.3	6.5
Median Household Income, (Ths. \$)	50.8	54.4	56.5	57.2
House Prices**, (% change)	-4.8	5.8	-5.2	6.9
Single-Family Permits* (% change)	-12.3	8.3	-21.7	18.6
Multifamily Permits* (% change)	-4.2	10.1	-17.5	17.3

**U.S. starts, †per annum, **Case-Shiller House Price Index*

LONG-RUN EMPLOYMENT TRENDS

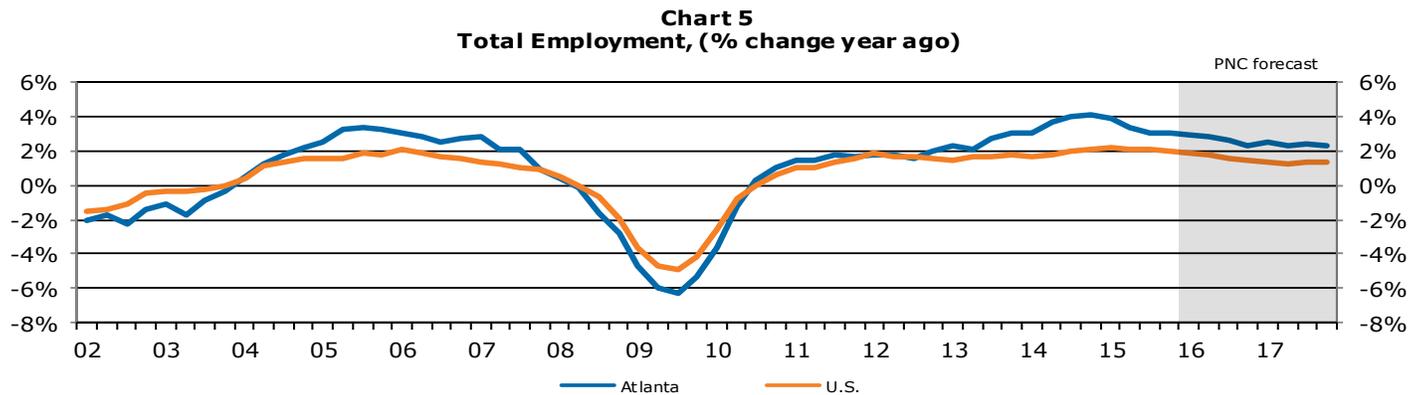


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

LONG-RUN DEMOGRAPHIC TRENDS

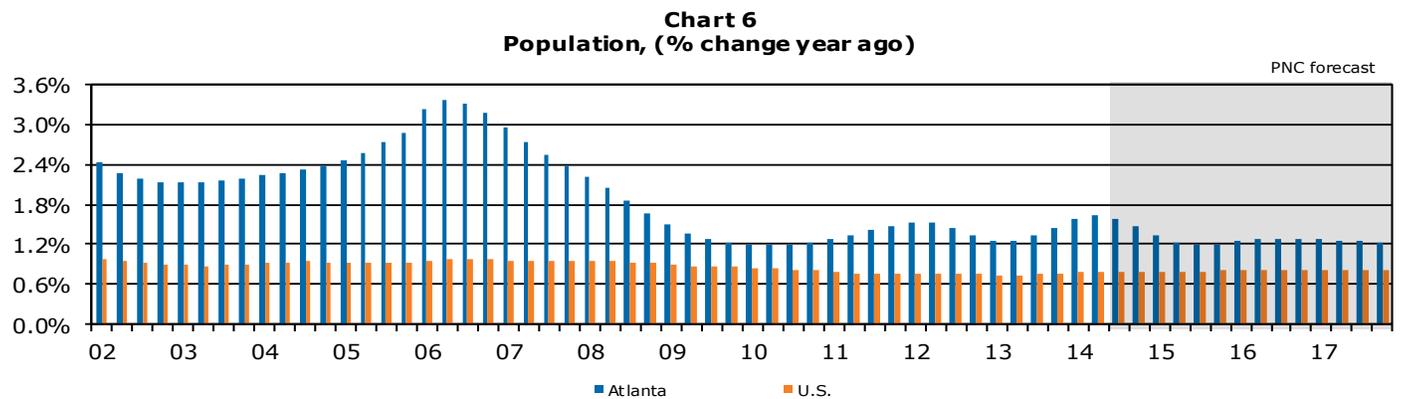


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

LONG-RUN HOUSE-PRICE TRENDS

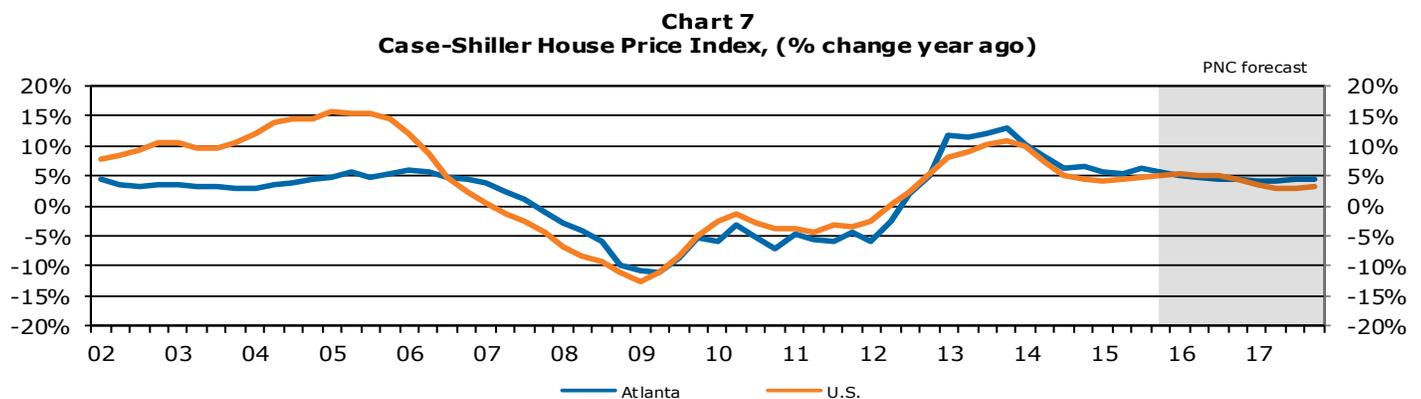


Chart source: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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