

NASHVILLE MARKET OUTLOOK

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JOB SITUATION

Nashville's economy is advancing at a rapid pace (Chart 1). In 2013, the rate of job growth in the metro area averaged one and a half percentage points faster than the U.S.'s growth rate. Moreover, payroll jobs are now up nearly 8 percent from their early-2008 peak while they just recently broke even at the national level. Recovery has been broad-based with professional services providing much of the boost to the area's job market. Local manufacturing is benefiting from steady increases in auto sales nationwide. Healthcare, education, transportation and wholesaling are also making healthy gains. A broad base for growth as well as increased tourism are supporting consumer industries such as retail, leisure and hospitality. The unemployment rate fell to 5.4 percent in the first quarter of 2014 from 6.5 percent in the first quarter of 2013. Part of that decline can be attributed to a drop in the labor force in the second half of 2013. Sustained labor force contraction is unusual for Nashville. Therefore, we do not rule out the possibility that renewed labor force growth could temporarily push up the local jobless rate in subsequent quarters.

INCOME

Disposable income growth is set to improve in 2014 versus 2013, thanks to a tighter labor market and no major tax increases unlike the previous year. Both the median income and the cost of living in the region are close to the U.S. average but rising employment in high-wage professional services, education and healthcare will enable personal income growth in Nashville to outpace the U.S. over the next couple of years (Chart 2). Nashville's workforce is skilled—close to 33 percent of the population over age 25 holds at least a bachelor's degree compared with 29 percent in the U.S. Also, business costs are low in the region, which in conjunction with high educational attainment can attract additional expansion in high wage, high value-added industries. At the industry level, average

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

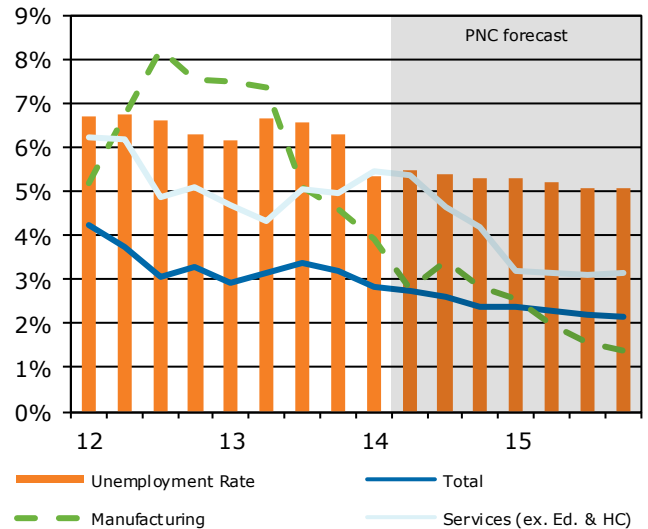


Chart sources: Bureau of Labor Statistics; The PNC Financial Services Group

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

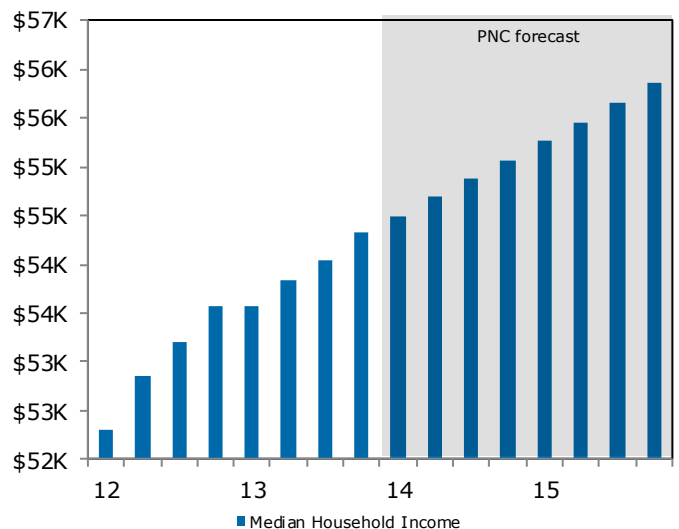


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group



annual earnings in healthcare and education exceed \$87,000. This is about 74 percent higher than the national average and is likely due to Vanderbilt University's outsize presence. Meanwhile, earnings in manufacturing and government are lower than the national average by about 17 and 10 percent, respectively.

HOUSING

Home prices are appreciating at a healthy rate (Chart 3). A strong economic recovery coupled with demographic momentum from strong population growth and household formations are pushing home sales higher. The drawdown of inventory is, in turn, supporting construction. Housing in Nashville is very affordable. The median priced home currently costs about 1.5 times the median income. This is a little less than the local long-term average and is also below the national average. Although mortgage rates are rising, they are still low by historic comparisons. Home prices are now slightly higher than their previous peak which, at this point in the business cycle, few metro areas can boast about. By contrast, home prices are still down about 20 percent in the U.S. This means homeowner wealth is in much better shape locally than elsewhere and this is a plus for consumer industries. House price increases will decelerate in 2014 but will nevertheless remain strong as healthy growth of jobs and income supports home sales and helps absorb excess inventory.

DEMOGRAPHICS

Strong demographic trends underpin Nashville's positive long-term forecast (Chart 4). The large presence of universities, corporate offices and businesses in the music industry attracts a diverse array of work-seekers to Nashville, typically from other metro areas in Tennessee and Georgia. As a result, population growth routinely outperforms both U.S. and Southern averages. Above average population growth will be a significant driver of construction, retail, and healthcare. Similarly, the area enjoys a high rate of household formations and this is a key driver of housing demand. Nashville's population is relatively young as well and this helps the area maintain a higher than average labor force participation rate and is a positive for its long-term growth potential.

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

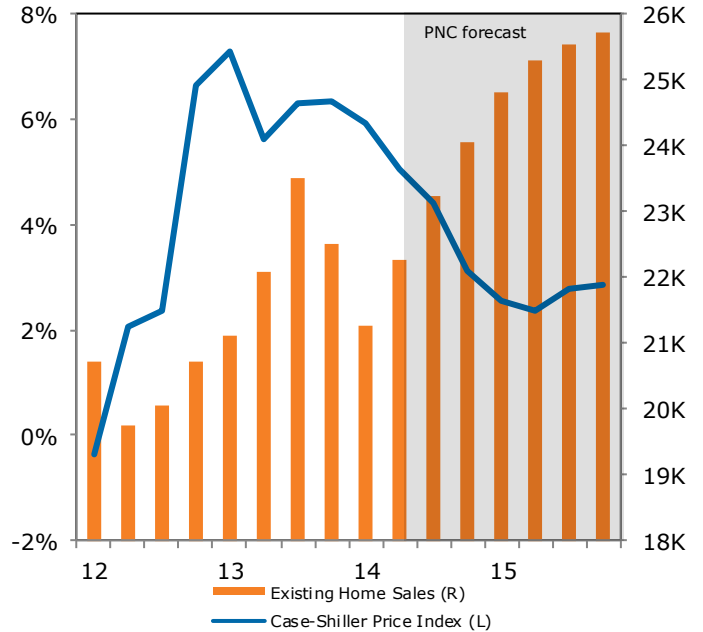


Chart sources: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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

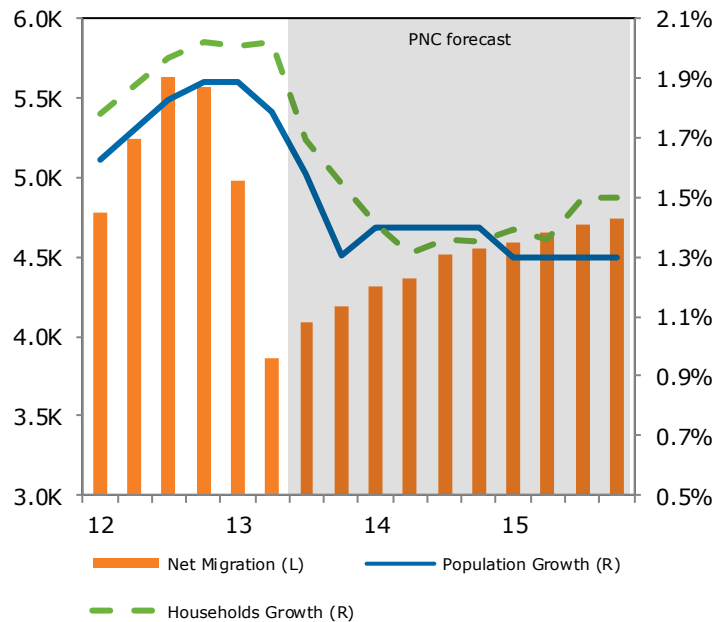


Chart sources: Bureau of Census; Bureau of Economic Analysis; Moody's Analytics; The PNC Financial Services Group

OUTLOOK SUMMARY

Nashville is well-positioned to maintain above average national economic growth in 2014 and 2015, thanks to strong gains in professional services, consumer industries, education and healthcare. 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. Persistent income growth, improved confidence and homeowner wealth that is in relatively good shape could unleash pent-up consumer demand and bolster retail and leisure spending. Continued economic recovery elsewhere around the country will bolster tourism in the region. Residential real estate conditions will improve through 2014 as home sales pick up 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. The metro area transitioned from recovery to expansion in late-2011, about two and a half years ahead of the U.S. At 5.4 percent in the first quarter of 2014, the unemployment rate will likely decline slowly henceforth as strong job growth is matched by strong labor force growth.

Longer term, a diverse industrial structure, strong population growth, low business costs, and high educational attainment elevate Nashville's growth potential above the U.S.'s. The metro area hosts a wide array of large, successful employers from auto manufacturing to education to professional services. This sustains its ability to weather most economic turbulence with relatively less damage. "Music City's" agglomeration of recording studios as well as a concentration of universities such as Vanderbilt, Belmont and Tennessee State will attract young people to the area. Other big players such as Nissan, Dell and the Hospital Corporation of America provide well-paying jobs in dynamic industries which, in turn, will keep income growth competitive.

FORECAST TABLE

	U.S.			Nashville		
	2013	2014F	2015F	2013	2014F	2015F
Employment Growth, (% change)	1.7	1.7	1.5	3.2	2.6	2.2
Unemployment Rate, (%)	7.4	6.3	5.8	6.4	5.4	5.2
Median Household Income, (Ths. \$)	52.4	53.8	55.1	53.9	54.8	55.6
House Prices**, (% change)	10.6	7.0	3.6	6.4	4.6	2.6
Single-Family Permits* (% change)	15.7	4.2	6.0	33.4	10.9	2.7
Multifamily Permits* (% change)	24.9	9.7	3.6	29.1	-20.4	-15.6

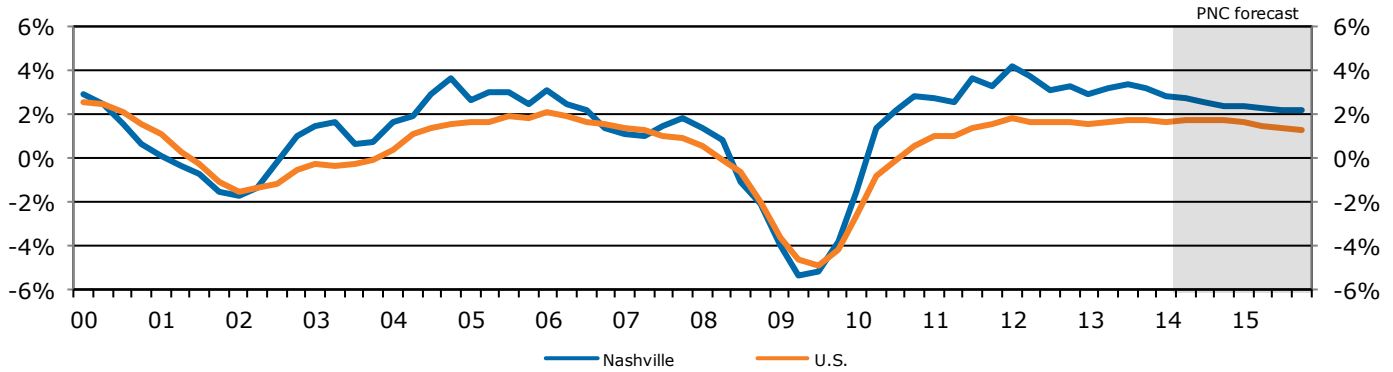
**U.S. starts, F = PNC forecast, **Case-Shiller House Price Index*

	U.S.		Nashville	
	2005-2010†	2010-2015†	2005-2010†	2010-2015†
Employment Growth, (% change)	-0.1	1.6	0.2	2.9
Unemployment Rate, (%)	5.8	7.7	5.9	6.7
Median Household Income, (Ths. \$)	48.7	52.2	56.4	53.3
House Prices**, (% change)	-2.9	3.8	-2.4	2.8
Single-Family Permits* (% change)	-22.7	7.8	-37.6	15.6
Multifamily Permits* (% change)	-20.2	25.1	-41.8	16.9

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

LONG-RUN EMPLOYMENT TRENDS

Chart 5
Total Employment, (% change year ago)



LONG-RUN DEMOGRAPHIC TRENDS

Chart 6
Population, (% change year ago)

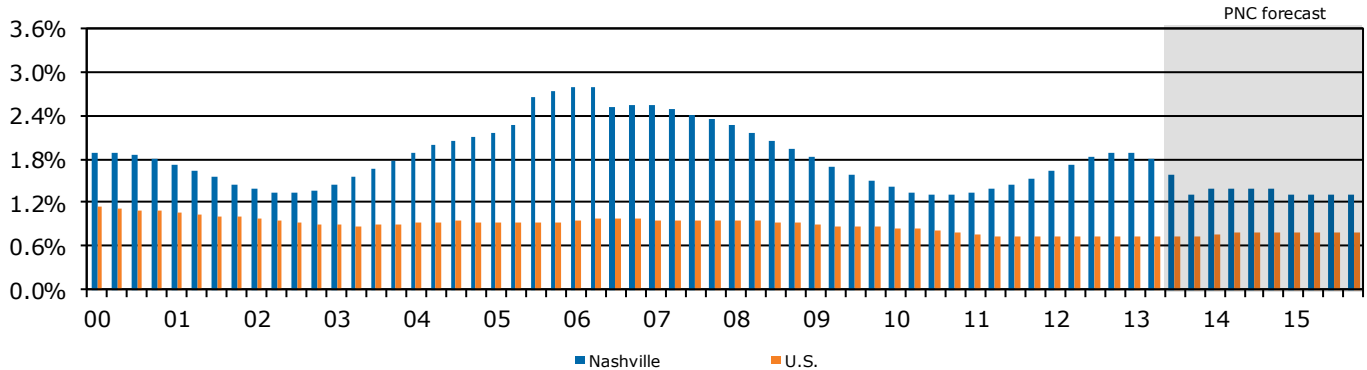


Chart sources: Bureau of Census; Moody's Analytics; The PNC Financial Services Group

LONG-RUN HOUSE-PRICE TRENDS

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

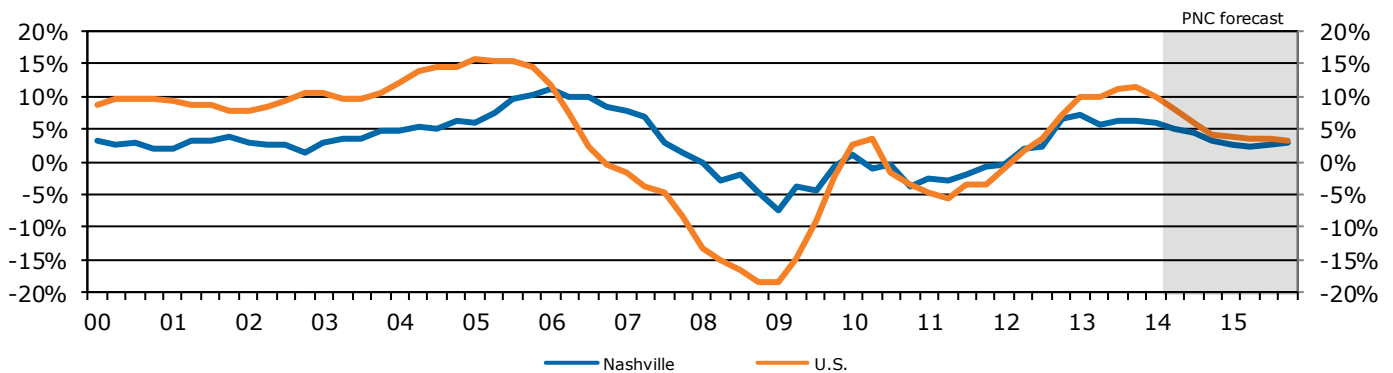


Chart source: National Association of Realtors; Fiserv, Inc.; The PNC Financial Services Group

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