

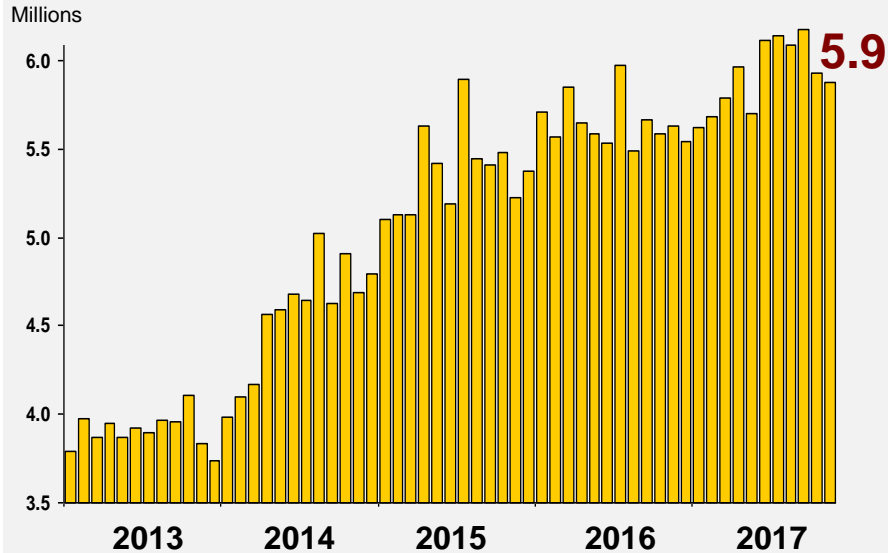
2018 U.S. and Rochester Area Economic Outlook

Gary Keith – Vice President, Regional Economist
Commercial Banking Division
January 26, 2018



Solid Economic Momentum Heading Into 2018

Number of Non-farm Job Openings



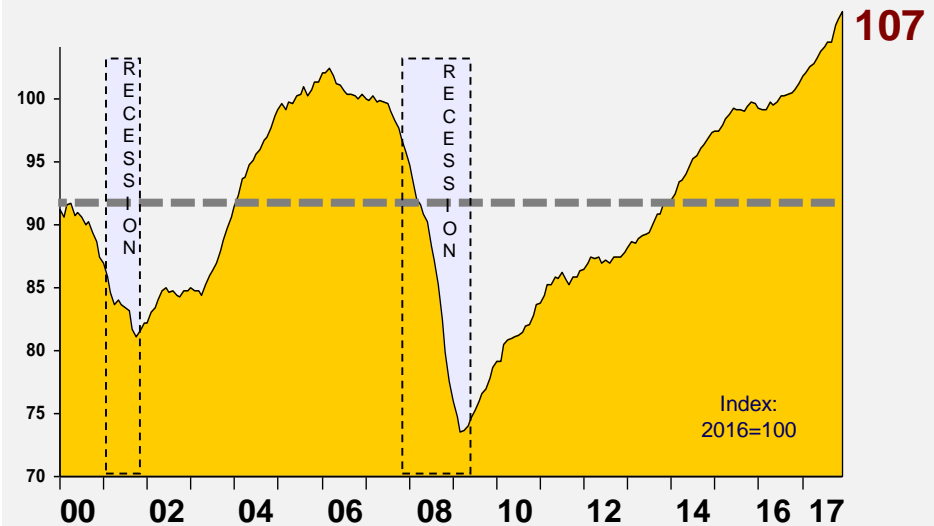
Hiring Demand Remains Robust

Strong hiring plans set the stage for faster income and spending growth in the coming year

U.S. Leading Indicators Point to Further Expansion

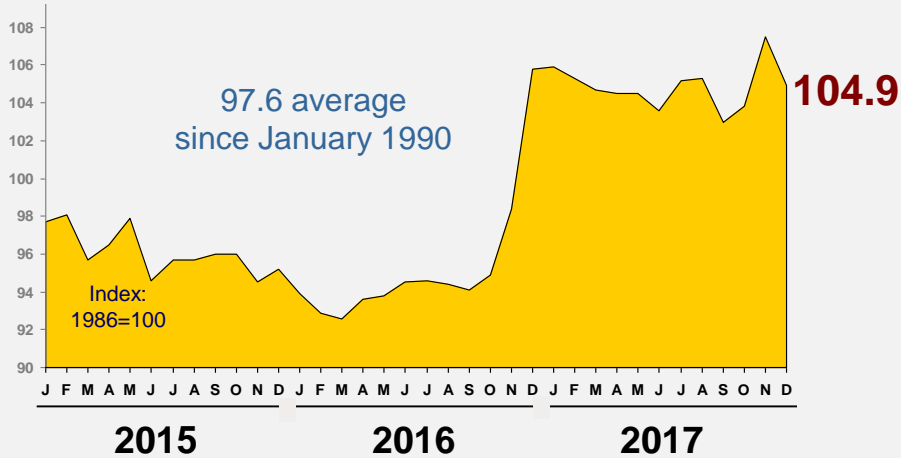
“The Index...suggests that solid economic growth will continue into the first half of 2018”

The Conference Board U.S. Leading Economic Index



Sentiment Has Moved Sharply Higher Over Past Year

National Federation of Independent Business U.S. Small Business Optimism Index



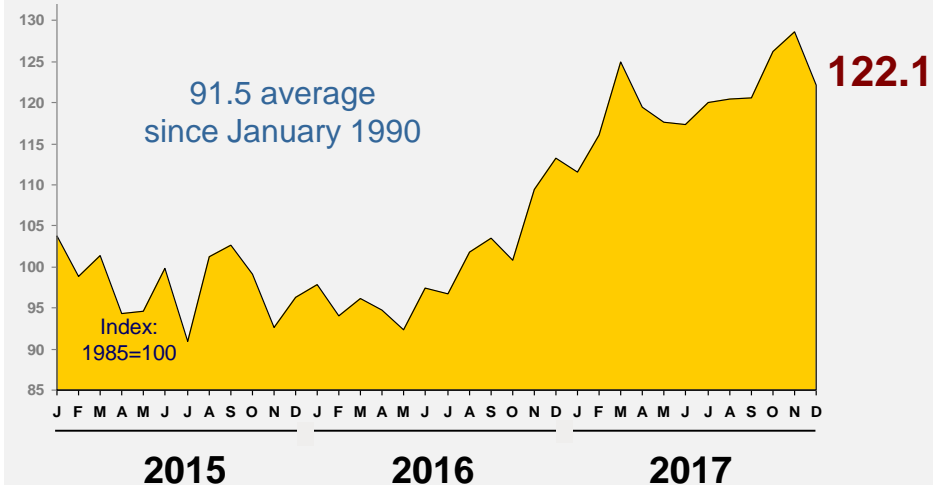
Small Business Optimism Is At An All-Time High

“We haven’t seen this kind of optimism in 34 years, and we’ve seen it only once in the 44 years that NFIB has been conducting this research”

Upbeat Consumer Outlook Bodes Well For Spending

“After hitting a 17-year high in November, expectations remain at historically strong levels, suggesting growth will continue well into 2018”

The Conference Board U.S. Consumer Confidence Index

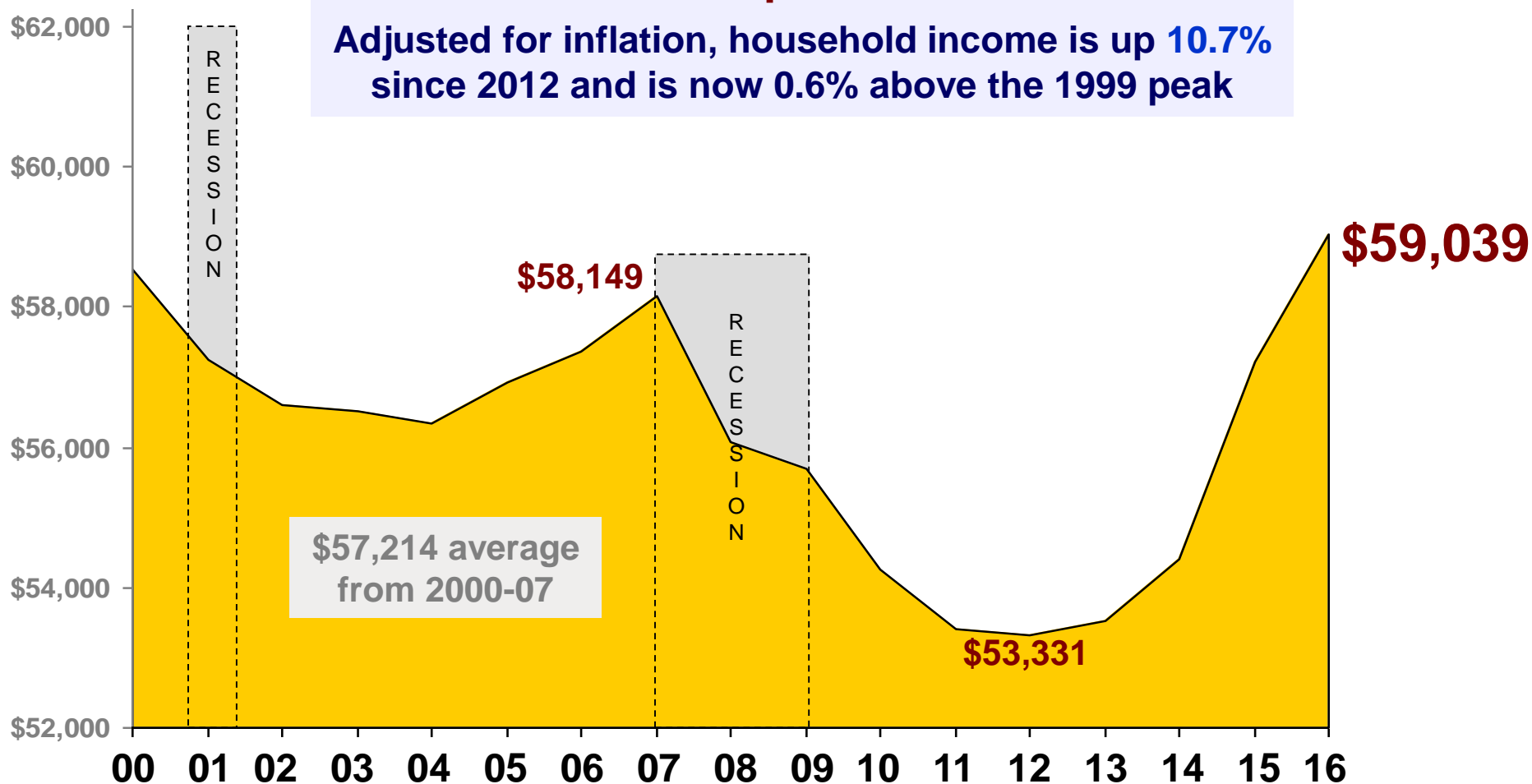


Constant 2016 Dollars

U.S. Real Median Household Income

**Household Income Has (Finally)
Crossed an Important Threshold**

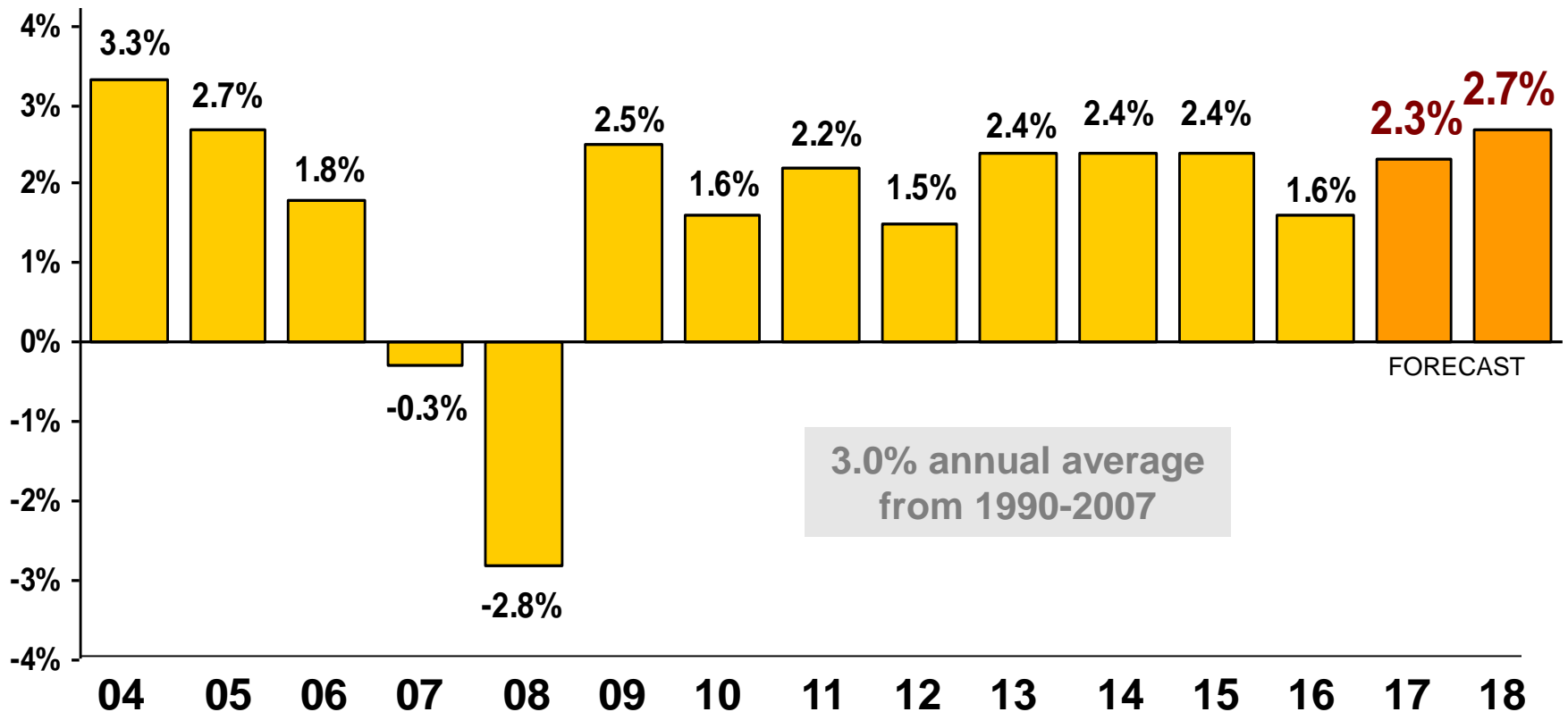
Adjusted for inflation, household income is up **10.7%**
since 2012 and is now **0.6%** above the 1999 peak



U.S. Real Gross Domestic Product Growth

2018 Growth Should Improve...With Plenty of Wildcards!

The economy is expected to grow at a solid pace in 2018, with continued support from consumer spending, improving global trade and bump from federal tax cuts



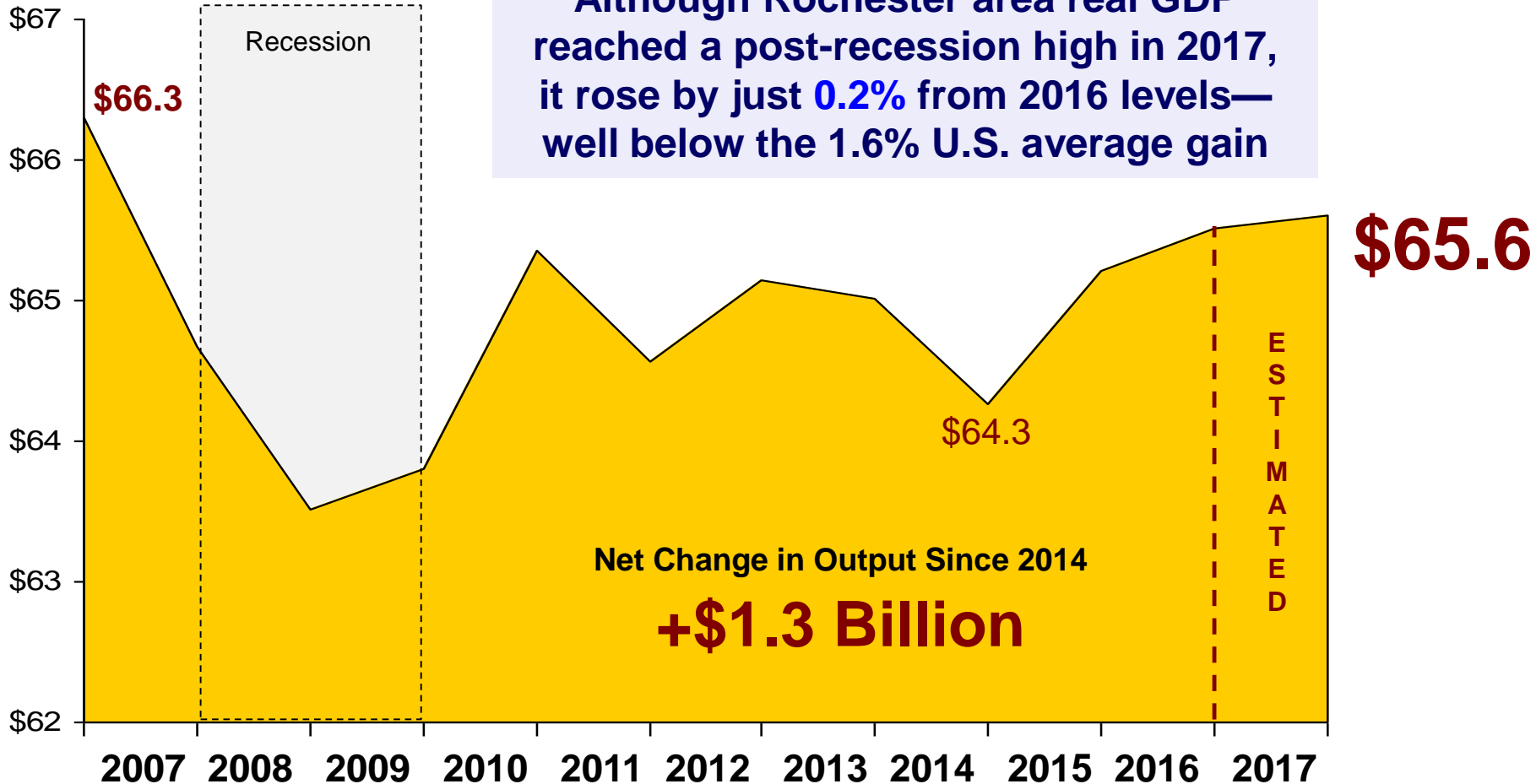
How's the Rochester Area Performing?



Rochester Metro Area Real Gross Domestic Product

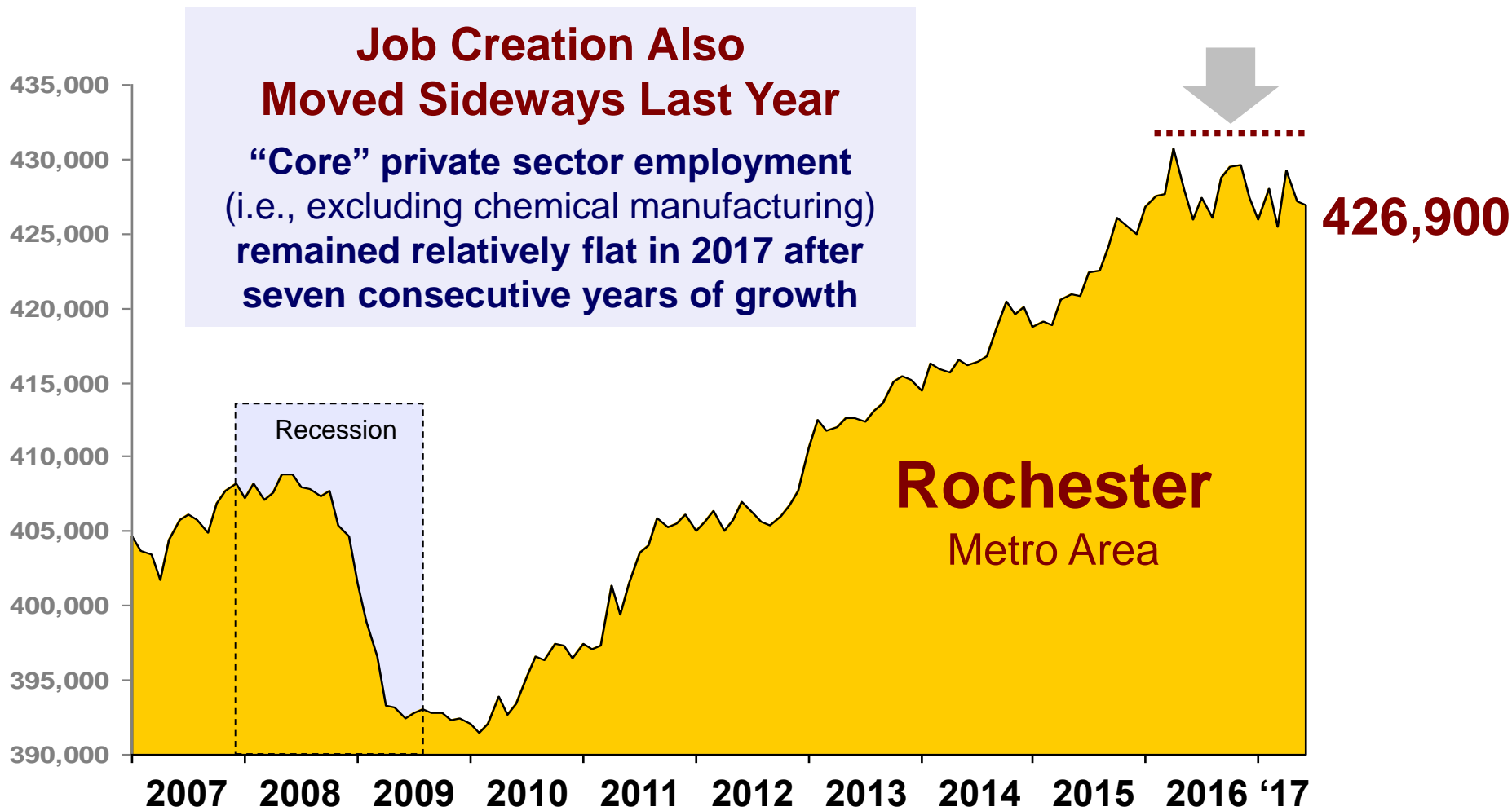
Still Climbing Out of a Deep Hole

Although Rochester area real GDP reached a post-recession high in 2017, it rose by just **0.2%** from 2016 levels—well below the **1.6%** U.S. average gain



Seasonally Adjusted

Rochester Area Private Sector Employment Excluding Chemical Manufacturing

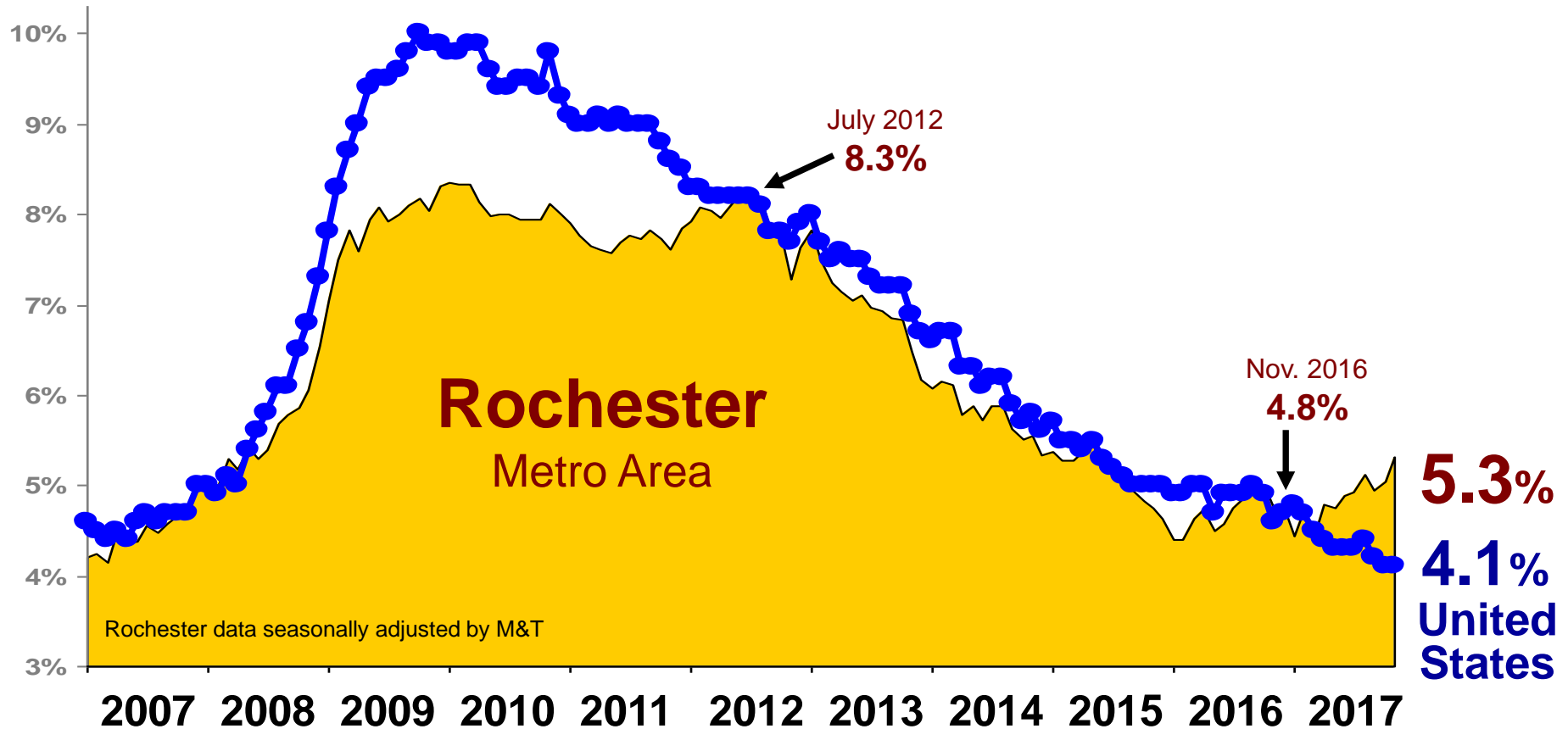


Seasonally Adjusted

Rochester Area and U.S. Unemployment Rate

“But Isn’t Labor Stress Continuing to Ease?”

While down three points since 2012, the Rochester area jobless rate edged up slightly during the past year



5.3%
4.1%
United States

**So...Not Much
Good News to Get
Excited About?**



Seasonally Adjusted Relative Change Since January 2015

Rochester Area “Tech Knowledge” Job Growth*

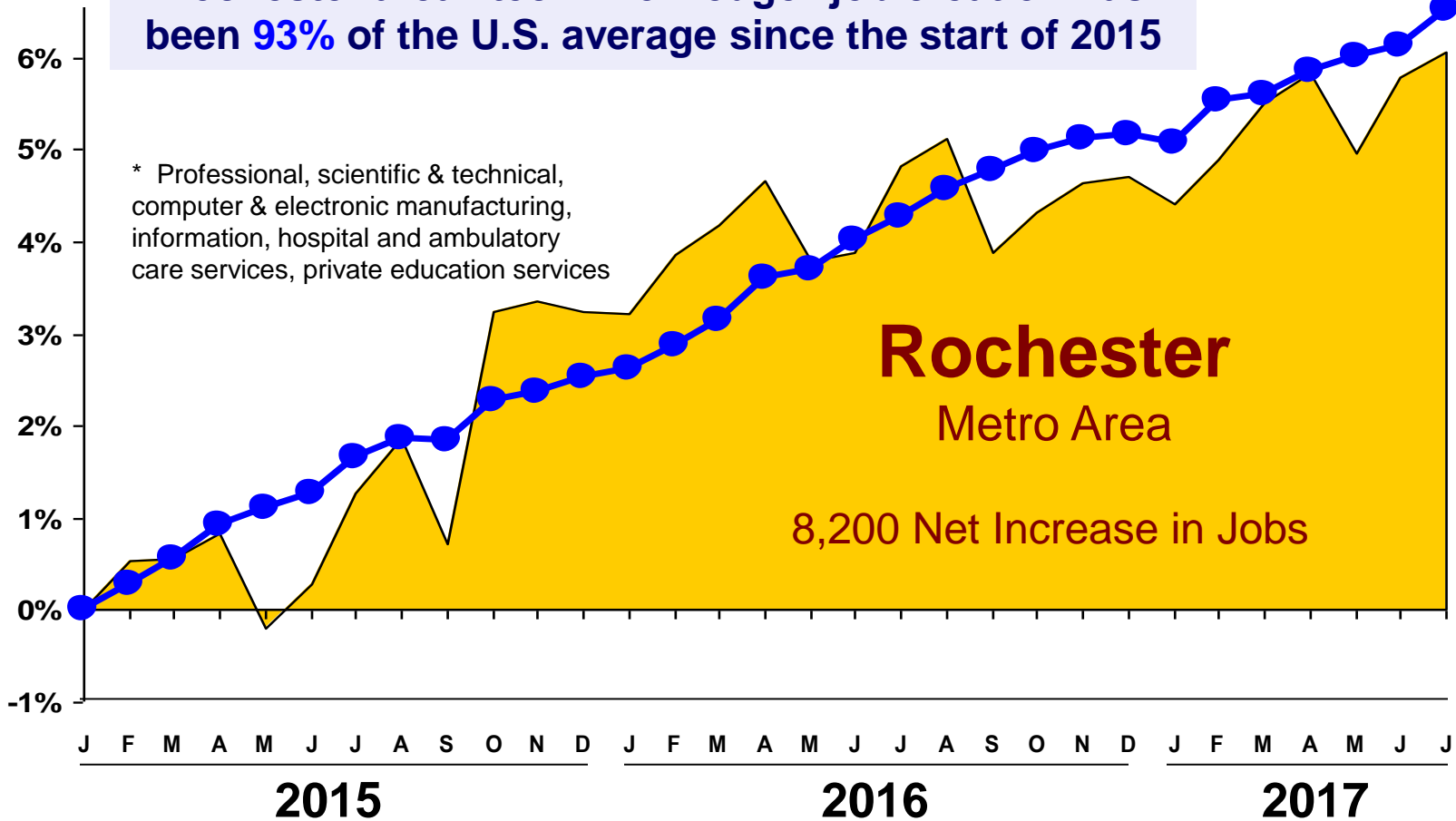
Growth in Knowledge-Intensive Employment Continues to Track the U.S.

Rochester area “tech knowledge” job creation has been **93%** of the U.S. average since the start of 2015

United States

+6.5%

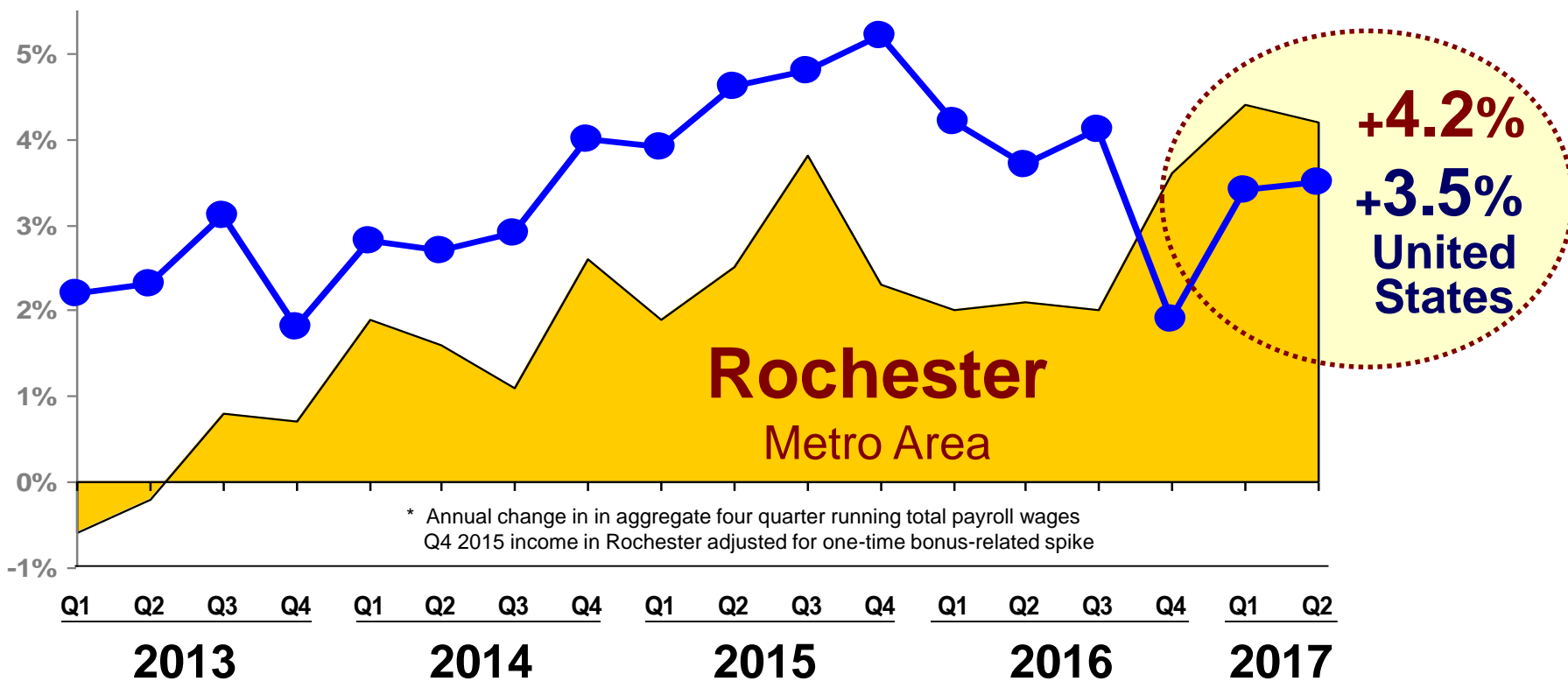
+6.1%



Growth in Real Rochester Area Private Sector Payroll Income Ex. Chemical Manufacturing

Payroll Income Growth Has Accelerated

Excluding the sector that includes Kodak, aggregate payroll income is now growing at a faster pace than the U.S. overall



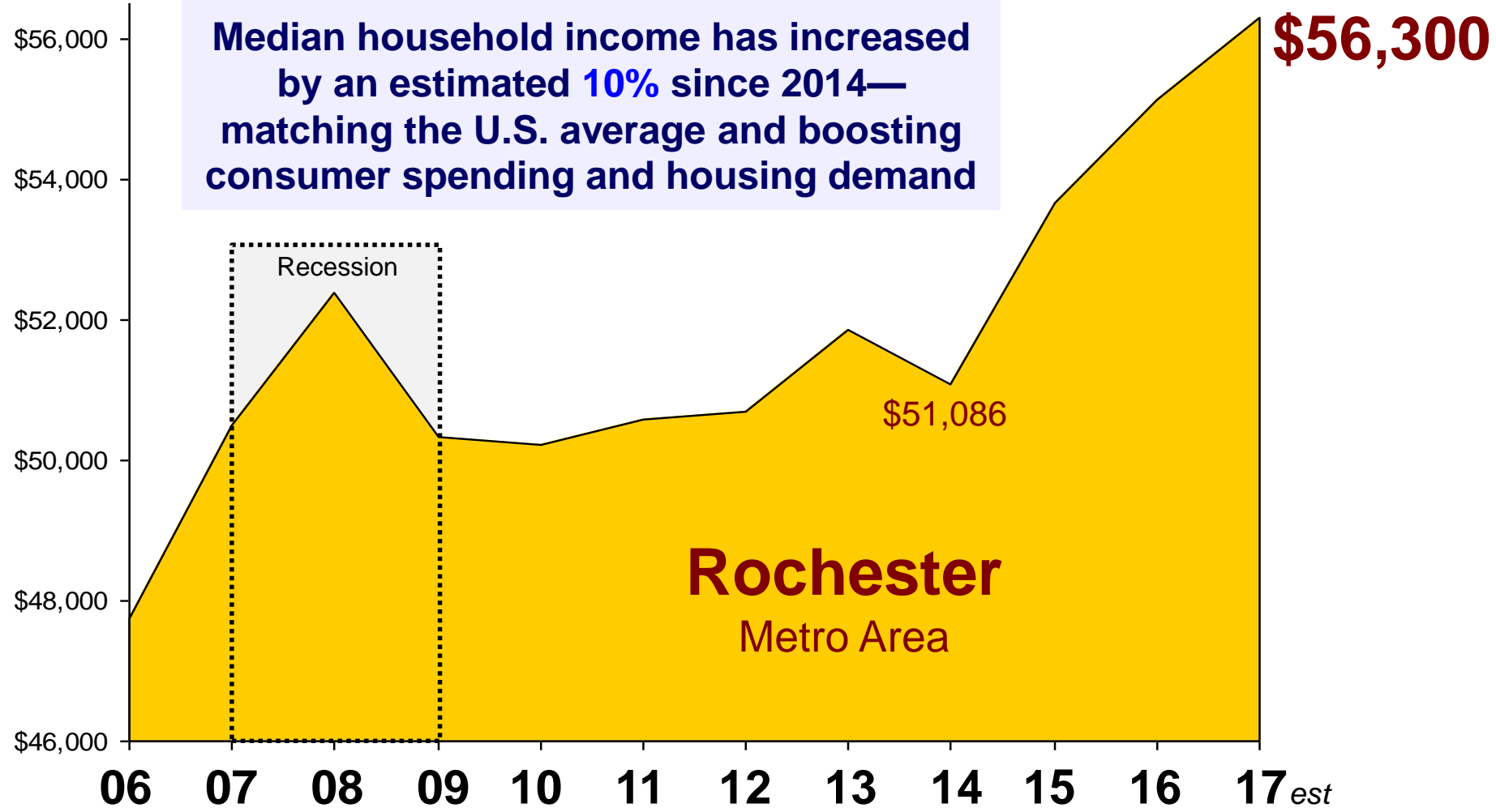
+4.2%
+3.5%
United States

Rochester
Metro Area

Rochester Area Median Household Income

Household Spending Power Climbs For the Third Consecutive Year

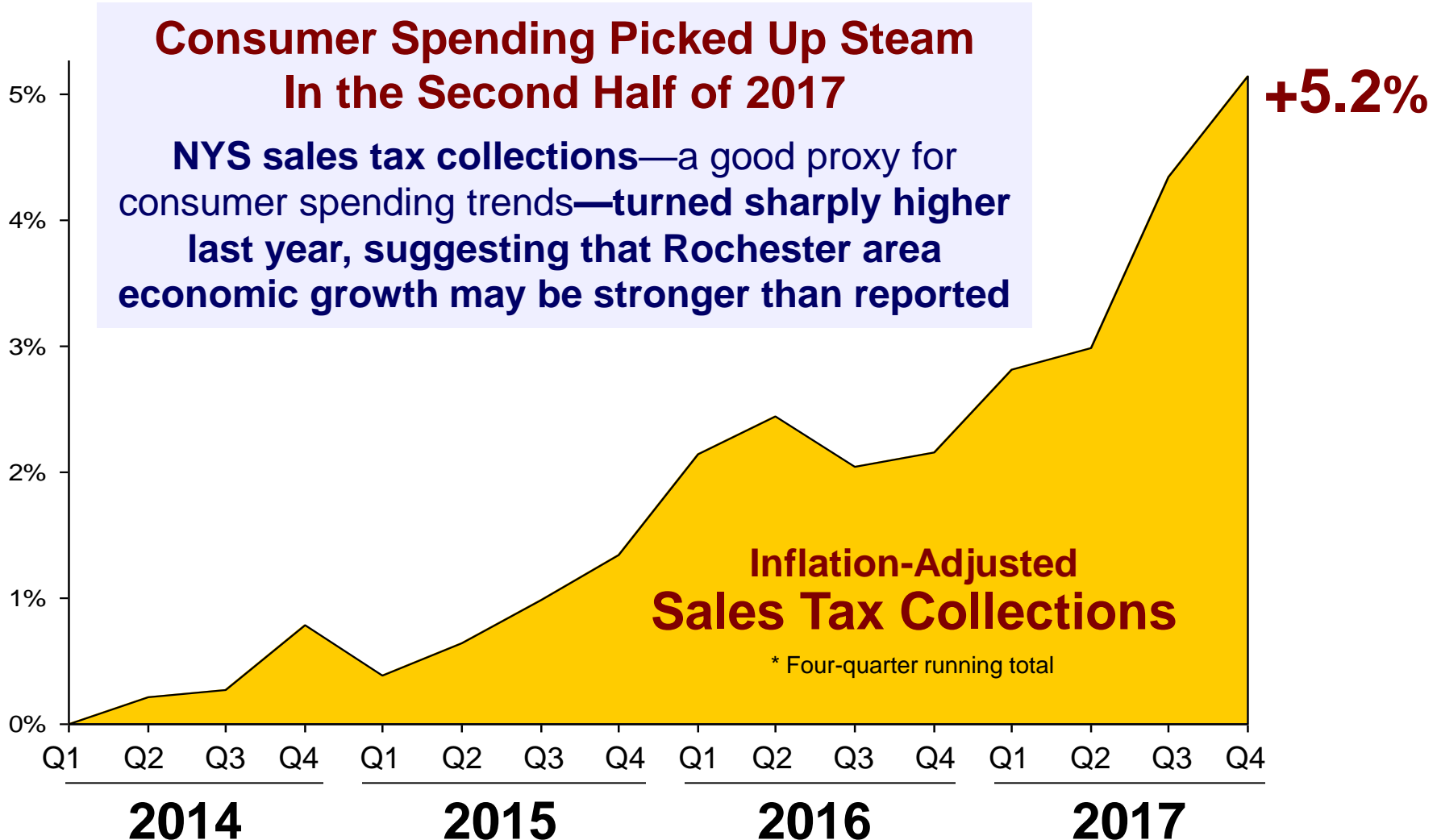
Median household income has increased by an estimated 10% since 2014—matching the U.S. average and boosting consumer spending and housing demand



Rochester
Metro Area

\$56,300

Rochester Area Real Sales Tax Collections*



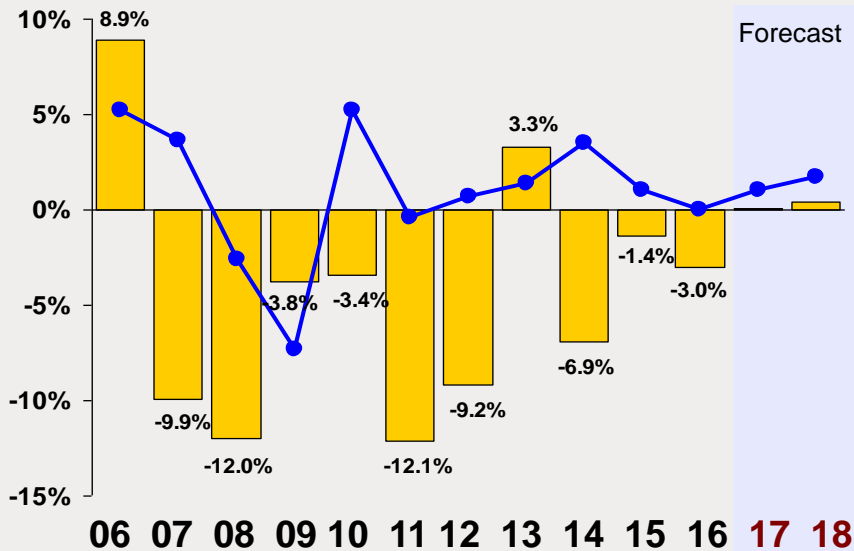
Rochester Area Real GDP Growth Forecast

Two-Track Recovery Should Continue in 2018

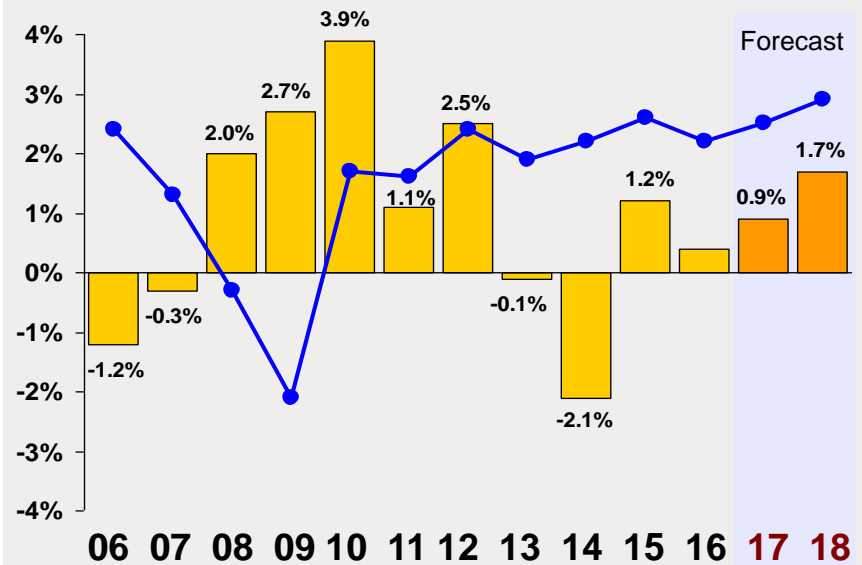
Drag from contracting manufacturing output should diminish, lessening downward pressure on growth in other sectors

■ Rochester **● U.S. Metro Area Average**

Manufacturing



Non-Manufacturing



Impact on Housing Demand



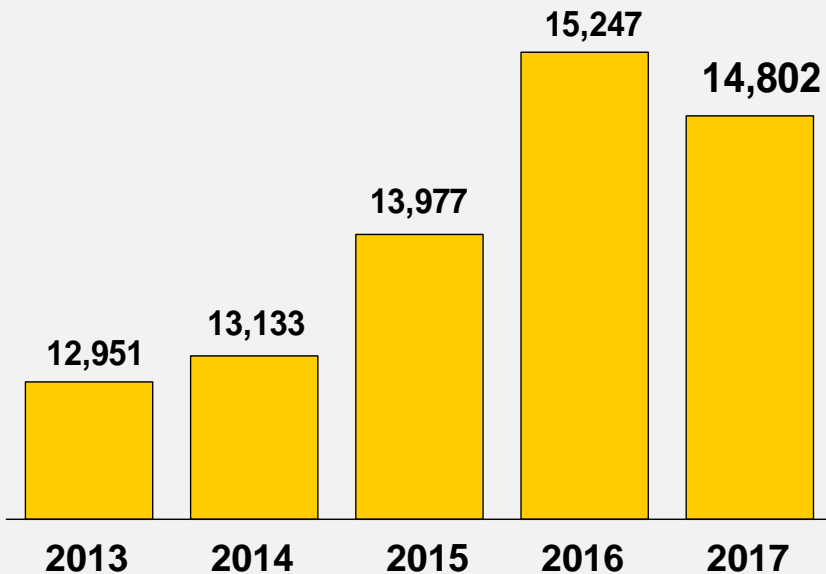
Rochester Regional Housing Market*

Closed & Pending Sales of Existing Homes

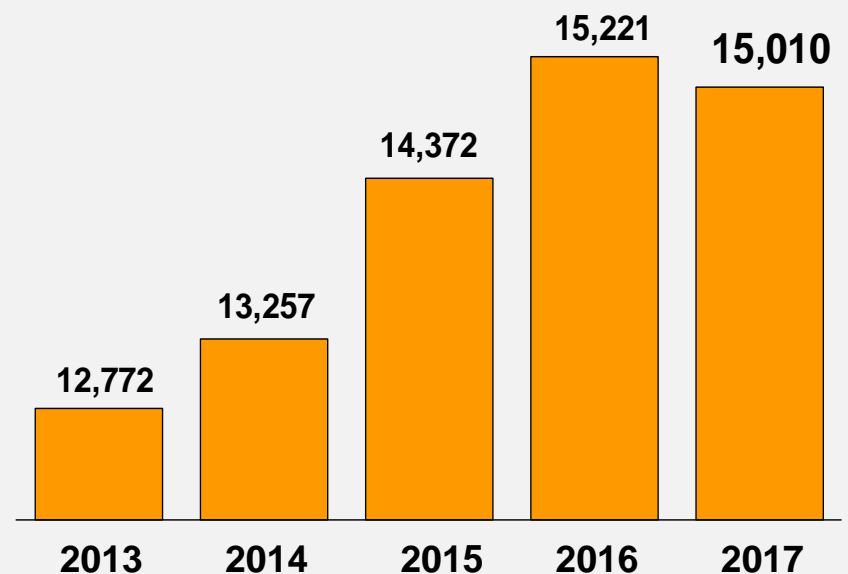
Rising Income & Pent Up Demand Keep Sales Elevated...

While existing home sales dipped slightly in 2017, they remain high by historic standards, propelled by improving household incomes, rising consumer confidence and affordable mortgage rates

Total Closed Sales



Pending Sales (At Year End)



* Monroe, Cayuga, Allegany, Genesee, Livingston, Ontario, Orleans, Seneca, Steuben, Wayne, Wyoming and Yates counties

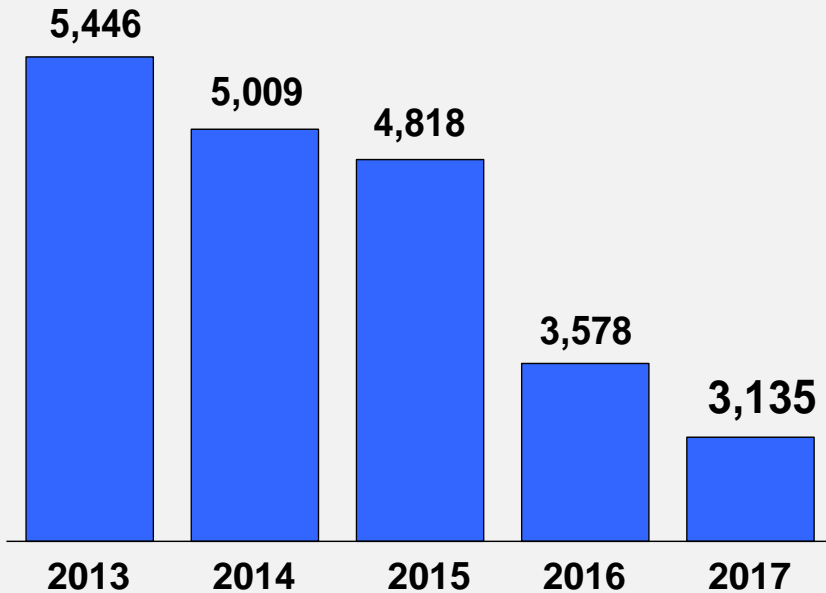
Rochester Regional Housing Market*

Inventory of Existing Homes For Sale

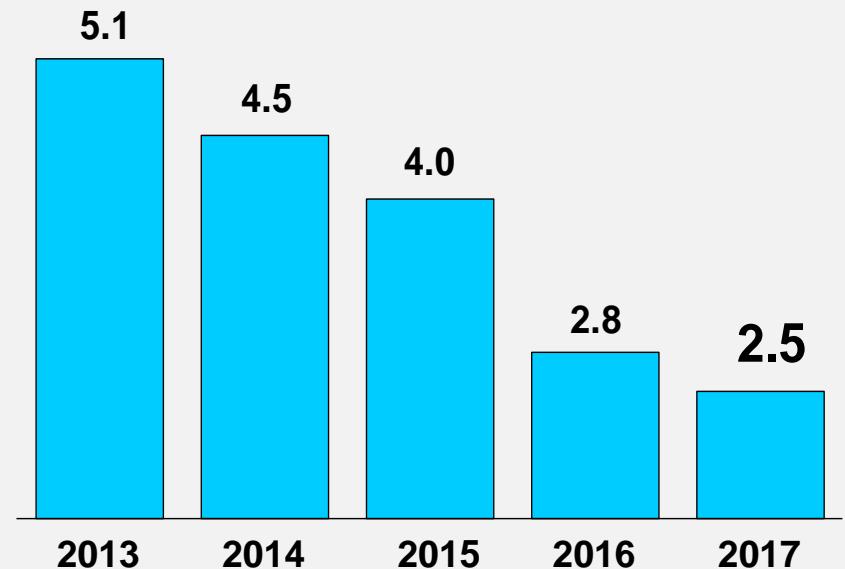
...Even as Available Supply Continues to Tighten

Inventory constraints are a major challenge, intensifying competition for prime properties and putting upward pressure on pricing

Inventory of Homes For Sale



Months Supply of Inventory



* Monroe, Cayuga, Allegany, Genesee, Livingston, Ontario, Orleans, Seneca, Steuben, Wayne, Wyoming and Yates counties

Rochester Regional Housing Market*

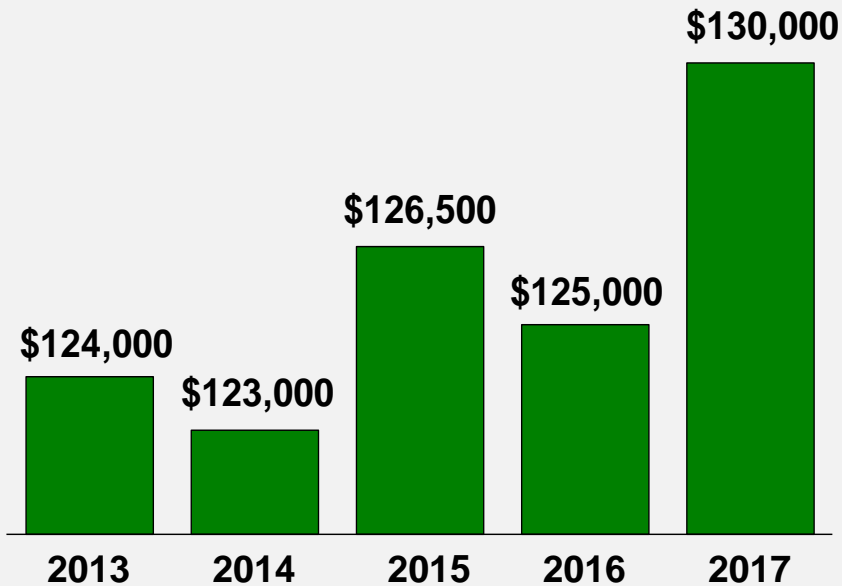
Median Price of Existing Homes Sold

Net Result: Economics 101

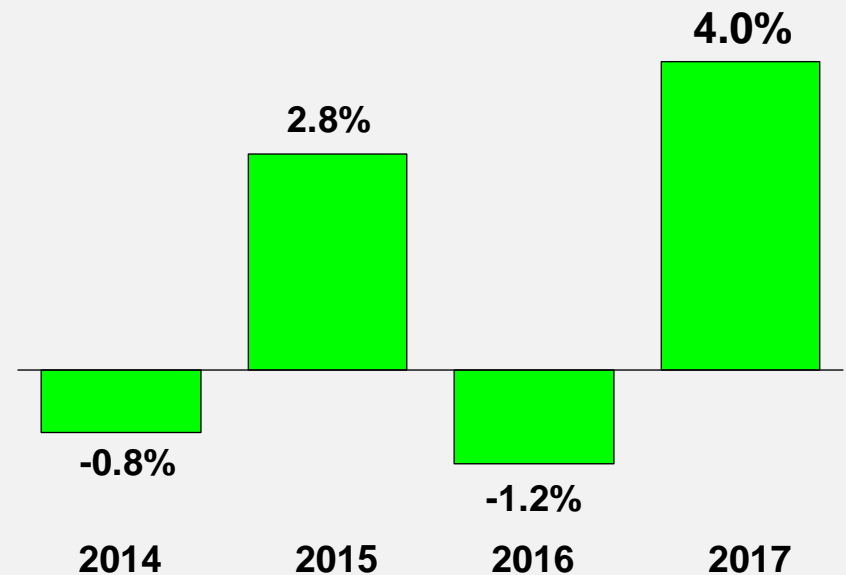
Solid Demand + Less Supply = Positive Pricing Momentum

Limited inventory should continue to put upward pressure on pricing

Median Sales Price



Annual Change in Median Price



* Monroe, Cayuga, Allegany, Genesee, Livingston, Ontario, Orleans, Seneca, Steuben, Wayne, Wyoming and Yates counties

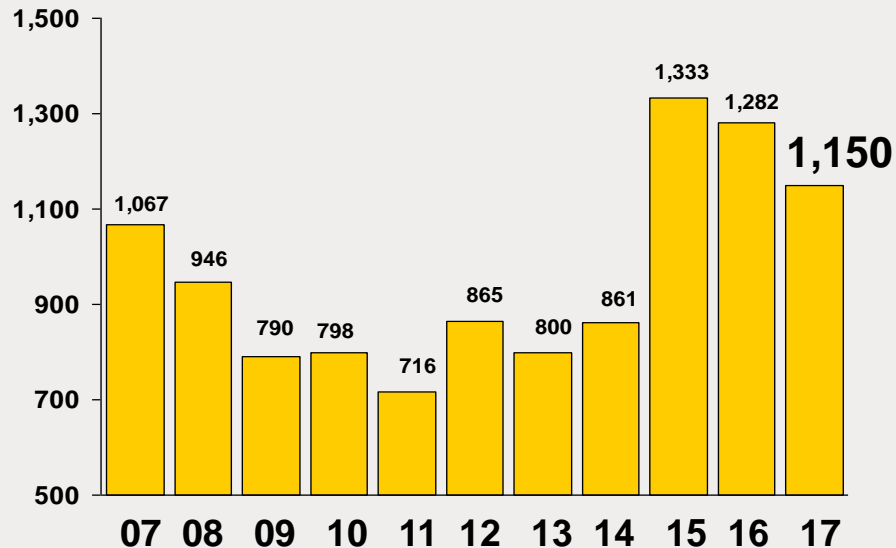
Rochester Area Single and Multifamily Home Building Permits

New Residential Construction Also Remains Elevated

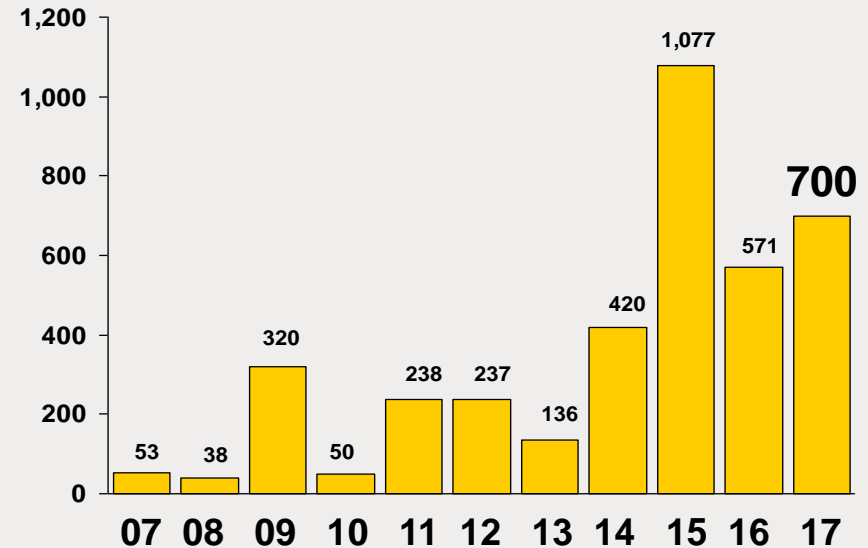
Single and multifamily building permit counts are well above pre-recession levels

Limited supply, rising resale values and improving household income fundamentals should continue to support demand for new residential construction

Single Family Permits



Multifamily Permits

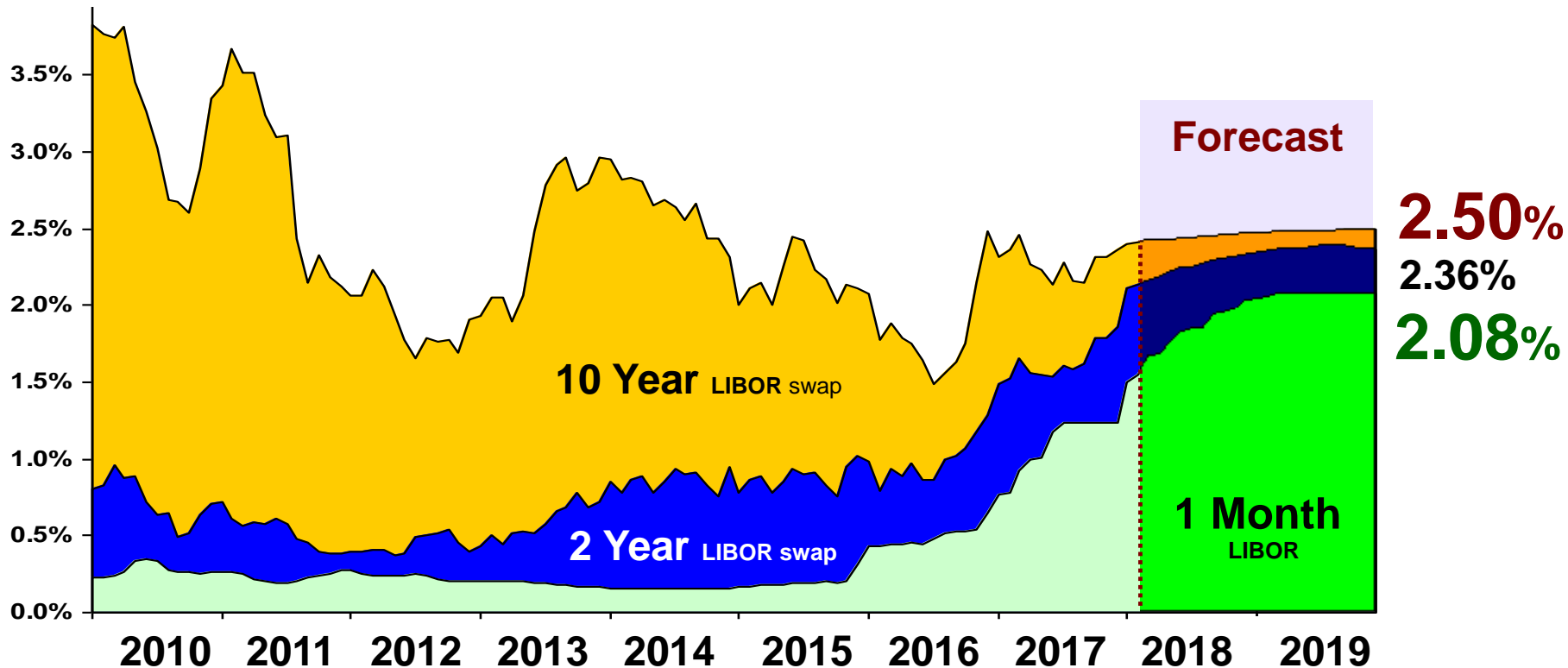


Interest Rate Forecast

January 18, 2018

**Monetary Policy Will Continue to Slowly Tighten,
But Remain Accommodative by Past Recovery Standards**

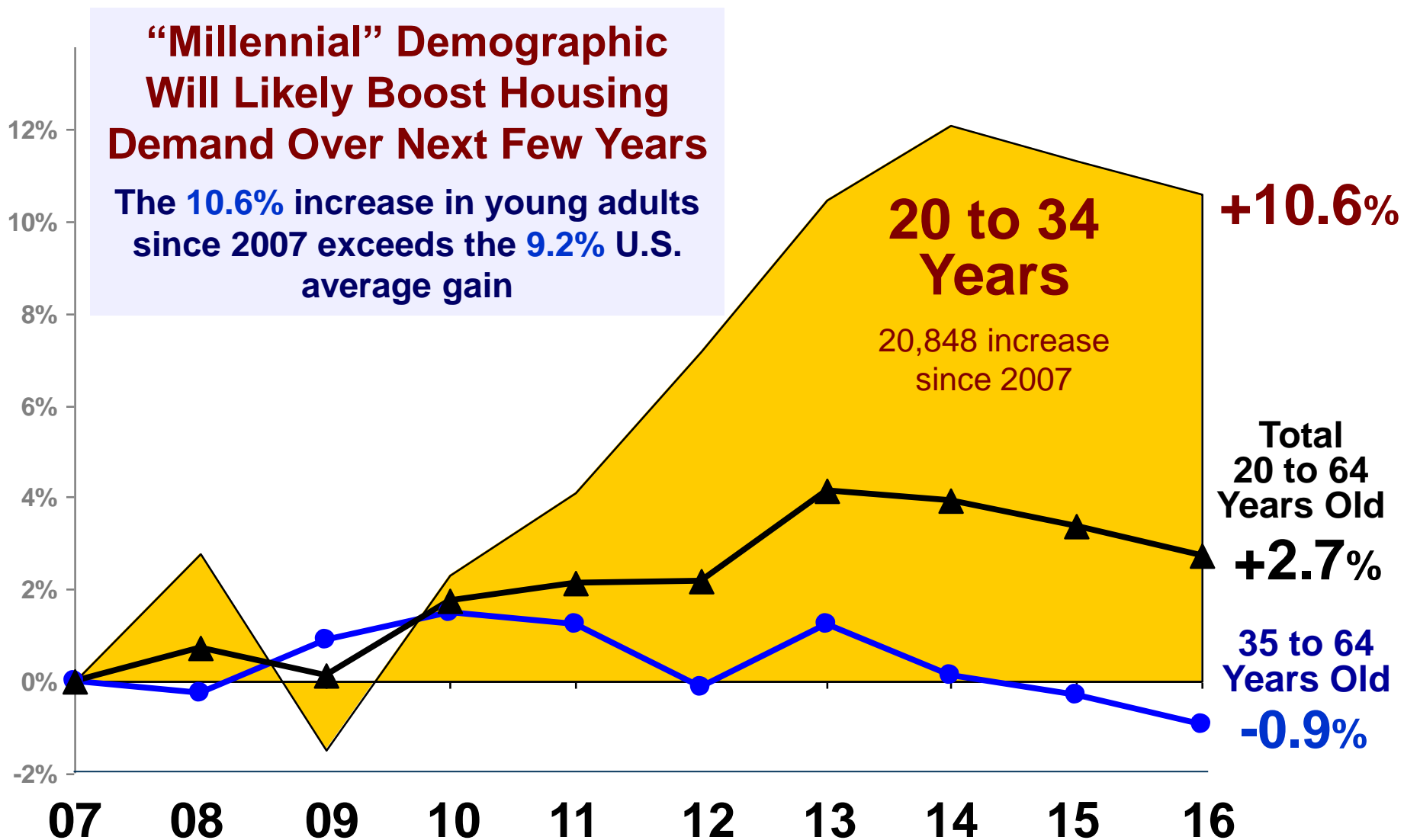
The next Fed rate hikes are expected in March and July 2018 with one more increase in 2019. Meanwhile, a tame inflation outlook will keep downward pressure on medium- and long-term rates.



Monroe County Federal Personal Income Tax Filers Taking Selected Itemized Deductions—2015 Tax Year

	Total Tax Filers		AGI* of \$100,000+	
	<u>Total Returns</u>	<u>Average Deduction</u>	<u>Total Returns</u>	<u>Average Deduction</u>
State & Local Income Taxes	103,160 <small>28% of returns</small>	\$8,303	49,860 <small>85% of returns</small>	\$13,945
Real Estate Taxes	112,750 <small>31% of returns</small>	\$6,836	50,390 <small>86% of returns</small>	\$8,865
Mortgage Interest Paid	92,500 <small>25% of returns</small>	\$4,942	41,090 <small>70% of returns</small>	\$5,895
TOTAL		\$20,081		\$28,705

Rochester Metro Area Population by Age Group



Questions?

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