U.S. & Rochester Area Economic Outlook

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Commercial Planning & Analytics Department
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A Lot Has Changed in the Past 12 Months

Growth Has Decelerated...And Faces Multiple Headwinds

On an annualized basis, economic growth has averaged 2% over the past four quarters—the slowest pace since mid-2016

Four Quarters Average

- 3.1% average  
- 2.0% average

Source: U.S. Bureau of Economic Analysis
Growth in World Merchandise Trade

Perhaps the Greatest Headwind

Drag From Declining Global Trade

Evolving U.S. trade and tariff policies, a strong dollar and global uncertainty are hurting export demand

Sources: CPB World Trade Monitor, U.S. Commerce Dept.
Data are three-month moving averages

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Exports Share of World Economic Output

Why Is This a Concern?

Foreign Trade Increasingly Drives the Global Economy

As a share of worldwide GDP, exports have more than doubled over the past fifty years, putting countries—including the U.S.—at greater risk for trade disruptions.

<table>
<thead>
<tr>
<th>Country</th>
<th>1960</th>
<th>2016</th>
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<tbody>
<tr>
<td>China</td>
<td>4.3%</td>
<td>19.7%</td>
</tr>
<tr>
<td>Euro Area</td>
<td>18.5%</td>
<td>44.3%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>20.2%</td>
<td>28.3%</td>
</tr>
<tr>
<td>Canada</td>
<td>17.0%</td>
<td>31.0%</td>
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</tbody>
</table>

Why Is This a Concern?

Foreign Trade Increasingly Drives the Global Economy

As a share of worldwide GDP, exports have more than doubled over the past fifty years, putting countries—including the U.S.—at greater risk for trade disruptions.

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Worldwide Total

United States

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<tbody>
<tr>
<td>11.9%</td>
<td>15.4%</td>
<td>21.9%</td>
<td>27.8%</td>
<td>31.0%</td>
<td>28.5%</td>
</tr>
</tbody>
</table>
The Case For Optimism? Solid Labor Fundamentals

U.S. Private Sector Employment

Job Creation Remains Remarkably Consistent
2 million new jobs have been created annually since 2010, pushing employment 12% above the pre-recession peak.

“Help Wanted” Signs Are Still Abundant
Despite a slight pullback from November 2018’s all-time high, strong hiring plans set the stage for further income & spending growth.

Source: U.S. Bureau of Labor Statistics
Seasonally Adjusted Year-Over-Year Percentage Change

U.S. Real Personal Consumption Growth

Consumer Spending Remains Robust

With personal consumption representing 70% of GDP, strong performance in this sector puts a floor under economic growth.

3.3% average Jan 1990 to Dec 2007

2.2% average July 2009 to Nov. 2019

2.4%

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Source: U.S. Bureau of Economic Analysis
Monetary Policy Will Remain Accommodative

The Fed is expected to cut short-term rates one more time (September 2020) while medium- and long-term rates are expected to drift sideways, keeping an upward slope on the yield curve.
The Expansion Should Continue For Another Year

The economy is expected to grow at a slightly slower rate in 2020—with potential drags from a tightening labor market, evolving trade policy and monetary and geopolitical uncertainty.

Sources: U.S. Bureau of Economic Analysis, Blue Chip consensus forecast
# U.S. Housing Market Forecast

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<tbody>
<tr>
<td>New Home Sales</td>
<td>560,000</td>
<td>613,000</td>
<td>617,000</td>
<td>670,000 (+9%)</td>
<td>750,000 (+11%)</td>
</tr>
<tr>
<td>Existing Home Sales</td>
<td>5.4 million</td>
<td>5.5 million</td>
<td>5.3 million</td>
<td>5.5 million (1%)</td>
<td>5.6 million (+4%)</td>
</tr>
<tr>
<td>Median Price Growth</td>
<td>+5.1%</td>
<td>+5.7%</td>
<td>+4.9%</td>
<td>+4.3%</td>
<td>+3.6%</td>
</tr>
<tr>
<td>30-year Rate</td>
<td>3.6%</td>
<td>4.0%</td>
<td>4.5%</td>
<td>4.0%</td>
<td>3.8%</td>
</tr>
</tbody>
</table>

Source: Lawrence Yun presentation at Residential Real Estate Economic Issues and Trends Forum—November 8, 2019
Rochester Area Economic Trends & Near-Term Outlook
#1 COLDEST CITY

ROCHESTER, N.Y.
The corporate home to Eastman Kodak Company was the smallest major-metro region in the ranking, with barely one million population, and had the least dynamic labor market.

To determine the overall hottest and coldest labor markets, The Wall Street Journal looked at the 53 metro areas with more than 1 million people.

The Journal’s ranking is based on the following attributes:

- Average unemployment rate in 2018
- Labor-force participation rate in 2018
- Change in employment and change in labor force for the 4th quarter of 2018 from a year earlier
- Change in average weekly wage in the first half of 2018 from the first half 2017

March 1, 2019

THE WALL STREET JOURNAL.

WHERE THE JOBS ARE
A look at the 10 hottest and coldest labor markets in the U.S.

HOW AMERICA WORKS

M&T Bank
But Taking a Closer Look, a Much Better Picture Emerges

2019 Hiring Upswing Is Closing the “Gap” With the U.S.

While Rochester’s labor market performance remains volatile, job creation has accelerated and finished the year nearly on par with the U.S. average.
Rochester Area Job Growth—2019 Average

Year-Over-Year Absolute Change

<table>
<thead>
<tr>
<th>Sector</th>
<th>Year Absolute Change</th>
<th>Percentage Change</th>
</tr>
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<tbody>
<tr>
<td>Construction</td>
<td>2,000</td>
<td>9.3%</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>1,300</td>
<td>2.8%</td>
</tr>
<tr>
<td>Private Health Care</td>
<td>1,100</td>
<td>1.4%</td>
</tr>
<tr>
<td>Professional, Scientific &amp; Technical Services</td>
<td>800</td>
<td>2.7%</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>-100</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>-600</td>
<td>-2.6%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>-700</td>
<td>-1.3%</td>
</tr>
<tr>
<td>Admin. (“Back Office”) Business Services</td>
<td>-1,200</td>
<td>-3.9%</td>
</tr>
</tbody>
</table>

Source: U.S. Bureau of Labor Statistics

Note: figures are preliminary and subject to revision in March 2020

Construction Job Creation Led the Way
While back office administrative and manufacturing losses offset gains in other sectors
Seasonally Adjusted

Rochester Area Unemployment Rate

The Local Jobless Rate is Near a Two-Decade Low
while the U.S. rate is at a 50-year low

Housing demand is highly correlated with unemployment trends

United States

Rochester Metro Area

Rochester data seasonally adjusted by M&T

4.4% 3.5%

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Source: U.S. Bureau of Labor Statistics
Billions of Constant 2019 Dollars

Rochester Area Real Private Sector Wages

Net Result

Payroll Income & Spending
Power Climb to a New High

Adjusted for inflation, average payroll wages for Rochester area private sector workers rose 1.6% last year and are up 10.7% since 2013

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Sources: U.S. Census Bureau, Bureau of Economic Analysis, M&T Bank forecast for Q3 & Q4 2019
Healthy Labor Market Continues to Drive Sales Activity

Although existing home sales were flat in 2019, they remain high by historic standards, supported by favorable labor, income and consumer confidence fundamentals and mortgage rates that remain affordable.
Supply Constraints Remain a Major Challenge

Inventory pressures intensified yet again in 2019—will we start to see some relief in the coming year?

### Inventory of Homes For Sale

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<tr>
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<tr>
<td></td>
<td>5,446</td>
<td>5,011</td>
<td>4,842</td>
<td>3,636</td>
<td>3,033</td>
<td>2,703</td>
<td>2,429</td>
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### New Listings

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<td></td>
<td>22,860</td>
<td>22,622</td>
<td>23,958</td>
<td>22,545</td>
<td>20,808</td>
<td>20,297</td>
<td>20,107</td>
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* Monroe, Cayuga, Allegany, Genesee, Livingston, Ontario, Orleans, Seneca, Steuben, Wayne, Wyoming and Yates counties

Source: Greater Rochester Realtors Association

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Rochester Regional Housing Market*
Median Price of Existing Homes Sold

Net Result: Economics 101
Solid Demand + Limited Supply = Positive Pricing Power
Tight inventories should support moderate price increases again in 2020

Median Sales Price

<table>
<thead>
<tr>
<th>Year</th>
<th>Median Sales Price</th>
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<tbody>
<tr>
<td>2013</td>
<td>$124,000</td>
</tr>
<tr>
<td>2014</td>
<td>$123,000</td>
</tr>
<tr>
<td>2015</td>
<td>$126,500</td>
</tr>
<tr>
<td>2016</td>
<td>$125,000</td>
</tr>
<tr>
<td>2017</td>
<td>$130,000</td>
</tr>
<tr>
<td>2018</td>
<td>$140,000</td>
</tr>
<tr>
<td>2019</td>
<td>$147,817</td>
</tr>
</tbody>
</table>

Annual Change in Median Price

<table>
<thead>
<tr>
<th>Year</th>
<th>Change</th>
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<tbody>
<tr>
<td>2014</td>
<td>-0.8%</td>
</tr>
<tr>
<td>2015</td>
<td>2.8%</td>
</tr>
<tr>
<td>2016</td>
<td>-1.2%</td>
</tr>
<tr>
<td>2017</td>
<td>4.0%</td>
</tr>
<tr>
<td>2018</td>
<td>7.7%</td>
</tr>
<tr>
<td>2019</td>
<td>5.6%</td>
</tr>
</tbody>
</table>

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

Source: Greater Rochester Realtors Association
Age Distribution of U.S. Home Buyers

Demographic Trends Are Favorable For Housing Demand

The 21-38 year old age group, which now makes up the largest segment of the U.S. workforce, continues to increase in size—providing strong support for new and existing home sales in 2020

<table>
<thead>
<tr>
<th>Age Range</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>21 to 28 years</td>
<td>11%</td>
</tr>
<tr>
<td>29 to 38 years</td>
<td>26%</td>
</tr>
<tr>
<td>39 to 53 years</td>
<td>24%</td>
</tr>
<tr>
<td>54 to 63 years</td>
<td>18%</td>
</tr>
<tr>
<td>64 to 72 years</td>
<td>14%</td>
</tr>
<tr>
<td>73 to 93 years</td>
<td>7%</td>
</tr>
</tbody>
</table>

Median Age:
- 21 to 28 years: 26 years
- 29 to 38 years: 34 years
- 39 to 53 years: 45 years
- 54 to 63 years: 59 years
- 64 to 72 years: 68 years
- 73 to 93 years: 76 years

Source: 2019 NAR Home Buyer and Seller Generational Trends
Growth in Rochester’s “Millennial” Population Should Support Further Housing Demand

Rochester’s Population Growth Since 2007…

The 25-34 year old age group has increased by nearly 25,000 over the past decade.

Population 25 to 34 Years Old

Rochester Metropolitan Area

Has Been Double the U.S. Average

Planting the seeds for strong spending and housing demand over the next few years

Rochester’s Population Growth Since 2007

Relative Change Since 2007

Population 25 to 34 Years Old

Source: U.S. Census Bureau