The Economic Outlook
January 30, 2017

The Economic Forecast for 2017

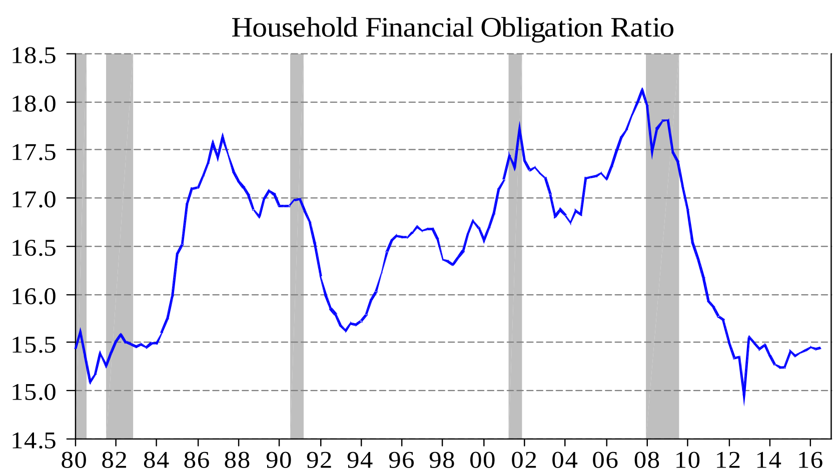
Here are our macro economic thoughts:

- The U.S. economy is forecast to continue to grow at a moderate pace of 2.2% in 2017, up from slow estimated growth of 1.6% in 2017.
- After average annual inflation of nearly 0% in 2015 and just over 1% in 2016, inflation is forecast to broaden and widen to 2.5% in 2017.
- Along with rising inflation and somewhat stronger economic growth, the 10-year Treasury yield is projected to continue on a rising trend that probably reaches 3.0% by year-end.
- The Federal Reserve is forecast to raise the Fed Funds rate target 2 times in 2017.

With respect to the Fed and interest rates, our view is that the risks for the Fed Funds rate target and overall market interest rates are to the upside, which will largely depend on the net stimulatory impact of potential fiscal policy change by the new administration and Congress.

Consumer spending growth is expected to slow somewhat from the last 2 years, but remain at a relatively solid pace of 2.4%. Consumers should continue to benefit from improved finances, rising incomes, job growth and an official unemployment rate for the nation that will likely dip to 4.6%. However, even with the rise in Consumer Confidence from the below chart, the passage of time from being nearly 8 years of economic recovery argues that the release of large amounts of pent-up consumer demand will likely be less significant in the New Year than in earlier years of the recovery.

After reaching Multi-Decade Lows, Household Financial Obligation Ratio Expected to Rise Gradually in 2017



Latest data plotted: 2016-Q3
Household Debt Service Ratio (ratio of debt-service payments to disposable personal income), plus auto lease payments, rent on tenant-occupied property, homewoners' insurance and property tax

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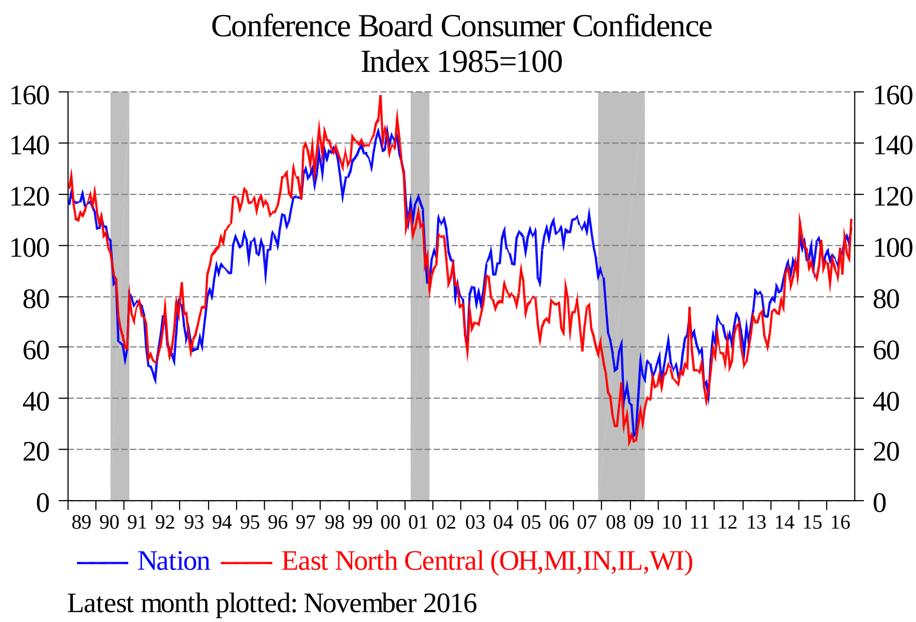
Prepared by:
George Mokrzan, Ph.D.
Director of Economics, Huntington National Bank

Consumer Confidence Rises in Late 2016, Especially in the East North Central States



Total business spending on investment is forecast to grow again in 2017 after contracting in 2016. The recession in corporate profits ended in the second half of 2016, and confidence has been rising in both small and large business surveys, increasing the likelihood of greater private capital spending in the next year.

The international economy is expected to strengthen moderately overall in 2017, providing a boost to U.S. exports in 2017 after 2 consecutive years of weakness, although a strong dollar could be a headwind to rising international demand for US goods and services. The saga of 'Brexit' will continue as the U.K. moves towards formally exiting the EU. However, the European economy has generally picked up in growth during the last year, and China has stayed consistently in their year-over-year estimated 6-7% GDP growth range. The 12% gain in the price of Copper during the fourth quarter argues for a better global economic circumstance in 2017.

Fiscal policy change, both Federal tax and expenditure policies, will be THE focus items of the new Congress and President Elect in 2017. However, the impact of these changes will not be reflected in the economic forecast until specific policies are approved and implemented, which will take an unknown period of time in 2017. Hence, policy changes could affect the economy more into 2018 than in 2017. Overall, this the current unknown of fiscal policy will be a large source of forecast uncertainty in 2017, offering the potential for both upward and downward revisions in economic growth and interest rates.

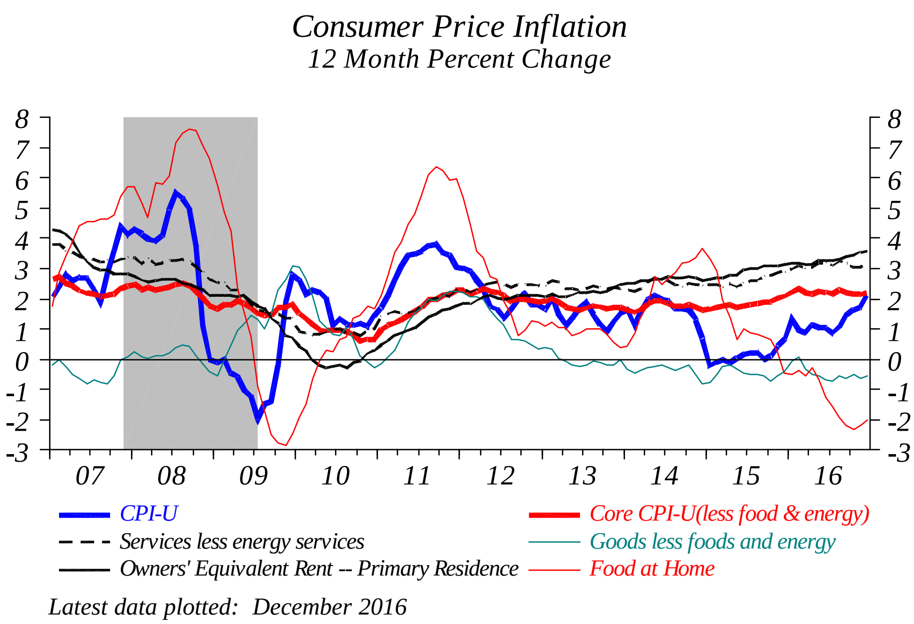
Higher interest rates, should they occur as expected, will likely have a slowing impact on the housing recovery, but continued improvements in consumer finances, strengthening labor markets and generally rising rents should provide some offsetting factors to rising mortgage rates.

The manufacturing sector will likely be negatively impacted by the strong dollar, but the forecast for generally rising prices on goods and commodities should improve nominal sales growth in 2017 versus the challenging period encountered by many good-producing industries during the last two years.

Inflation has been dispersed, but gradually moving higher

Overall inflation as measured by the Consumer Price Index excluding Food & Energy (core inflation) has held remarkably close to 2% for five consecutive years. However, extreme divergences have developed between services and goods. Most consumer spending is on services, and inflation in services has been on a gradually accelerating trend throughout the economic recovery as seen in the chart below. Services less energy services rose 3.0% in the 12 month period ending in November. Some of its largest components were Medical care services (up 3.9%), transportation services (up 2.5%) and Shelter (up 3.6%). Driven by increasing rents, rising shelter cost was a major inflation accelerator in 2016. Rising rents will likely encourage more individuals to start purchase a home in 2017. A generally expanding U.S. economy will likely continue to lift prices for consumer services at an accelerating pace in 2017.

Inflation Diverged Sharply in 2016

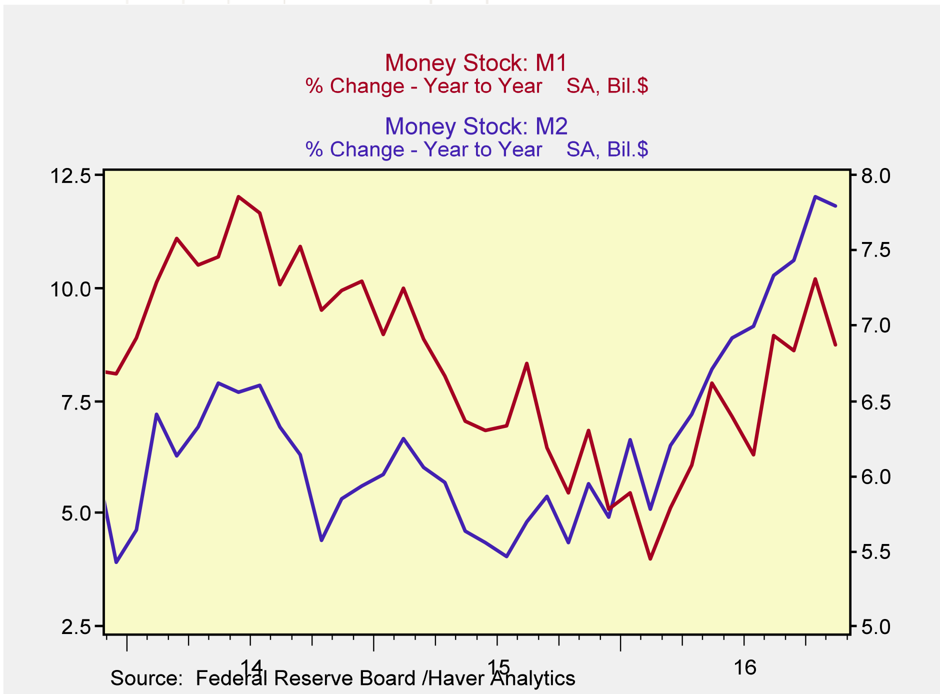


In contrast to services, Food prices have actually declined (down at -0.35%) with Food at Home dropping a substantial -2.2% in the last year. Sharp drops in energy and other commodity prices in the last 2 years catalyzed food price declines, thereby benefiting consumers regardless of their income. Volatile consumer energy prices have declined 20.0% from the recovery high in January 2014, but have risen a modest 1.1% in the last 12 months. If recent attempts by OPEC to control supply are partially successful and the world economy continues to expand at a non-recessionary pace in 2017 as expected, then energy prices and interconnected food prices will likely commence rising again in 2017.

Suppressed by a strong dollar and relatively high worldwide supply, goods excluding energy and foods experienced deflation again in 2016. Low average consumer goods prices in the context of rising average incomes should support continued spending on consumer durable and many non-durable goods in 2017. However, price competition will likely continue to be intense from both domestic and international producers and suppliers.

Rising Expectations for Real GDP Growth and Inflation

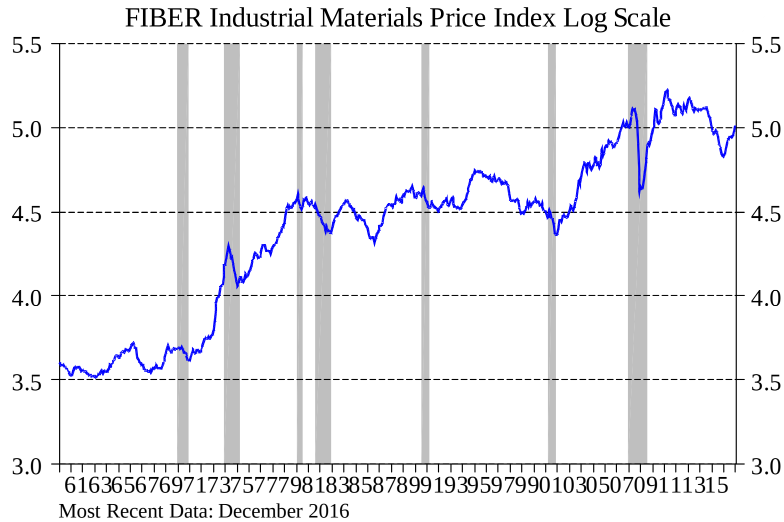
Money Supply Growth Accelerating – A potential sign of a stronger economy and inflation



Regardless of what occurs with fiscal policies in 2017, monetary policy will continue to promote strong aggregate demand even as interest rates begin to rise. In conjunction with low interest rates, high reserves and a strongly capitalized banking system, money supply growth has been accelerating in 2016 after a 3-year slowdown. Historically, such expansions of money supply growth are generally associated with stronger economic growth in the intermediate term and increasing inflationary pressures in the long-term. Money supply growth is a leading indicator in the Conference Board's Index of Leading Economic Indicators, and is an important source of economic growth and inflation according to macroeconomic theory. Increased liquidity is not occurring in just the United States. Monetary policies have been highly accommodative worldwide, thereby having a potentially expansionary impact on worldwide economic growth and inflation in 2017 through 2019, and possibly beyond.

Commodity prices are typically the first areas where rising demand is felt. One such barometer of worldwide commodity price sensitivity to demand is the FIBER (Foundation for International Business and Economic Research) Industrial Materials Price Index, shown in the following chart. In January 2016 the broad-based index of commodity prices associated principally with industrial activity reached its lowest point since August 2009. Since, January it has bounced back 16%. The index is expected to remain on a rising trend in 2017 given the forecast for plentiful liquidity worldwide and continued expansion in the world economy.

Commodity Prices Rising Again

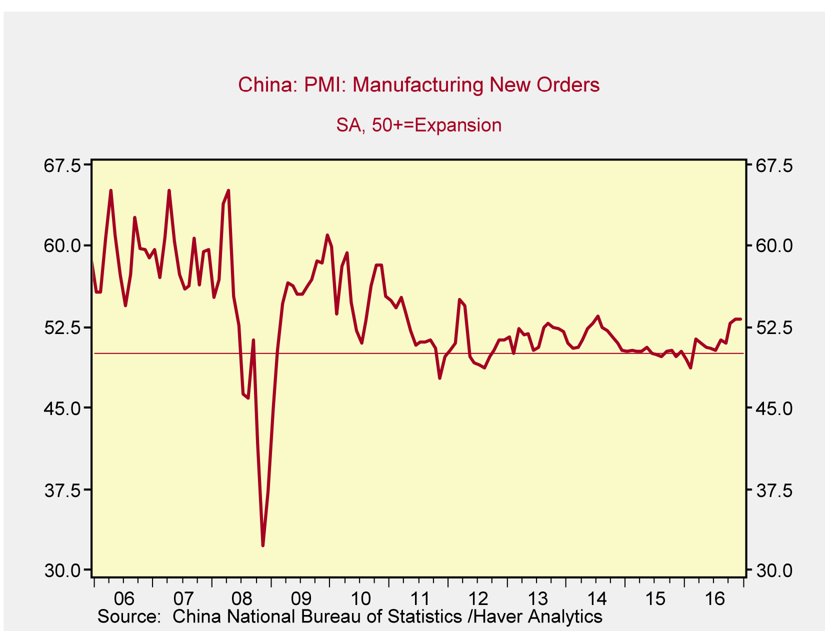


It should be noted that the collapse in petroleum prices that began in late 2014 was not the only major factor driving down the FIBER index. As a major international purchaser of goods and commodities, China's recession in 2015 had a dampening impact on worldwide trade and the price of many commodities. Although China's economy will probably not reach the double digit growth rates of the last decade any time soon, there are nascent signs that economic activity in China is picking up

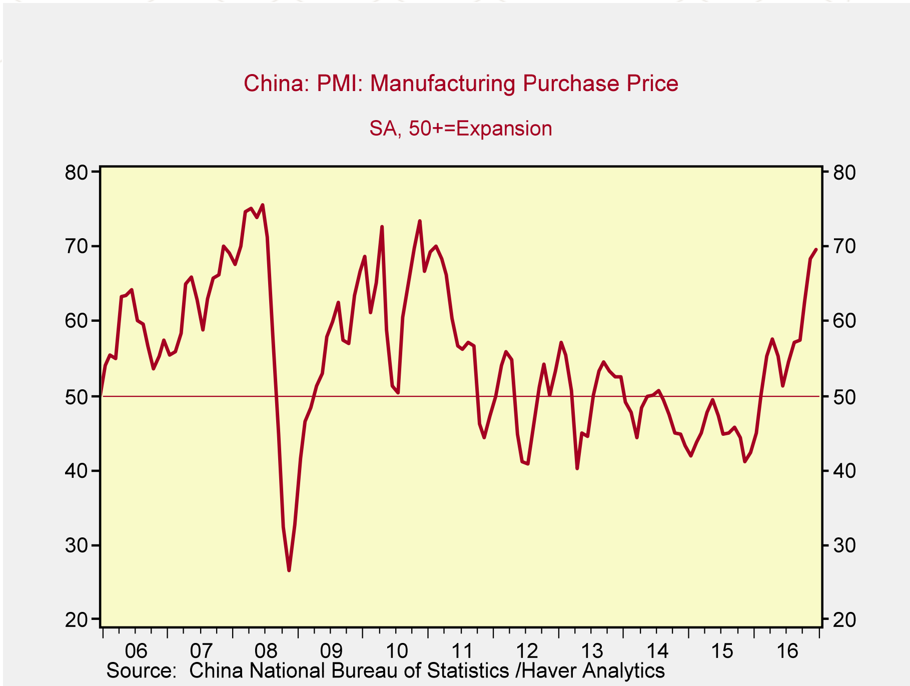
China's Economy expected to continue gradual improvement in 2017

The following chart indicates China's key manufacturing sector began to grow orders again in the second half of 2016. The second chart from the same survey of China's purchasing managers shows a dramatic increase in prices paid, and is comparable to earlier periods of strong growth in China. A potentially stronger economy in China will likely create stronger import demand to that country, especially from China's neighboring Asian economies. A more vibrant Asian economy overall would be a strong boost for worldwide economic growth in 2017.

China Shows Nascent Signs of Recovery



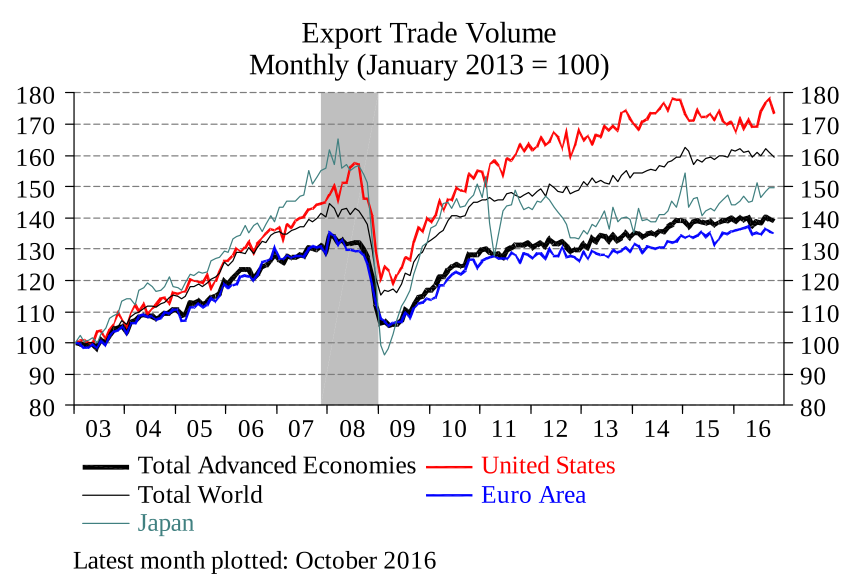
Prices Paid by China's Manufacturers Accelerate in 2016



U.S. Export Growth Expected to Improve

One of the bright-spots of the U.S. economic growth through the new millennium has been strong broad-based exports to the world economy. Since 2003 U.S. export growth has outpaced overall export growth volume in the world economy and has far exceeded growth in the other advanced economies. Additionally, export growth was one of the few areas of the U.S. economy that experienced a classic V-like recovery from Great Recession. (Please see the chart below.)

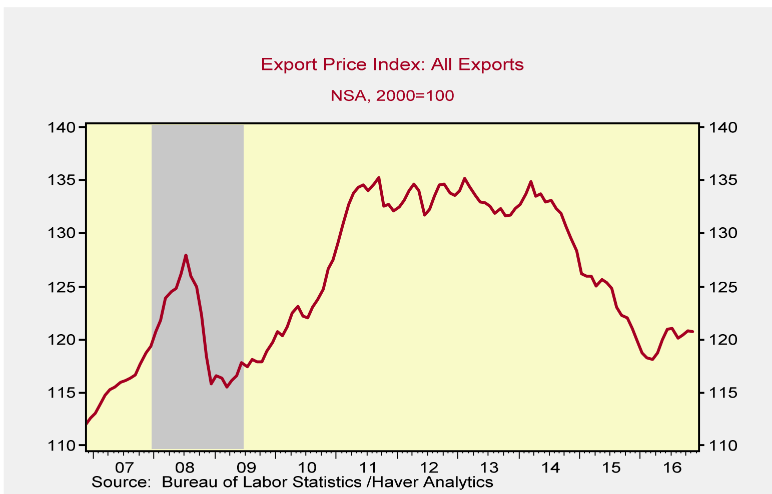
The United States -- a Leader in Worldwide Export Growth



U.S. Export Growth Expected to Improve (cont.)

While we observe that U.S. export volume growth had largely stalled since 2014 (see above chart) for a variety of reasons including economic weakness in the energy and commodity rich countries of the world slowed overall world trade. We also observe that U.S. exports have shown overall robust growth in the second half of 2016. A stronger world economy in 2017 should improve both export volumes and export prices, but headwinds from a strong U.S. dollar could offset some of the potential gains in exports.

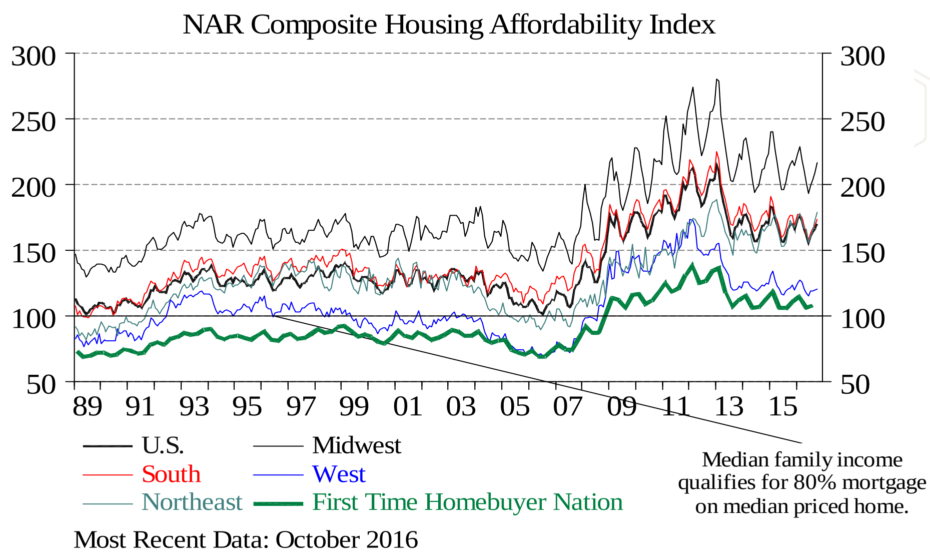
Export Prices Have Weakened Sharply Since 2014. A strong dollar will be a headwind, but export prices should begin gradual recovery



Higher rates likely to reduce housing affordability. Midwest advantage should remain, especially for First Time Buyers

Housing affordability will likely be moving downwards with the expected ascent of mortgage rates in 2017. However, the impact of higher mortgage rates will likely depend on the region of the country. As seen in the following chart, the National Association of Realtors (NAR) provides an index that incorporates multiple factors that influence housing affordability relative to incomes. Despite coming down from peaks achieved early in the economic recovery, affordability has remained historically high throughout October 2016. We also note that here is a noticeable dispersion between the least affordable region (the West) and the most affordable region (the Midwest).

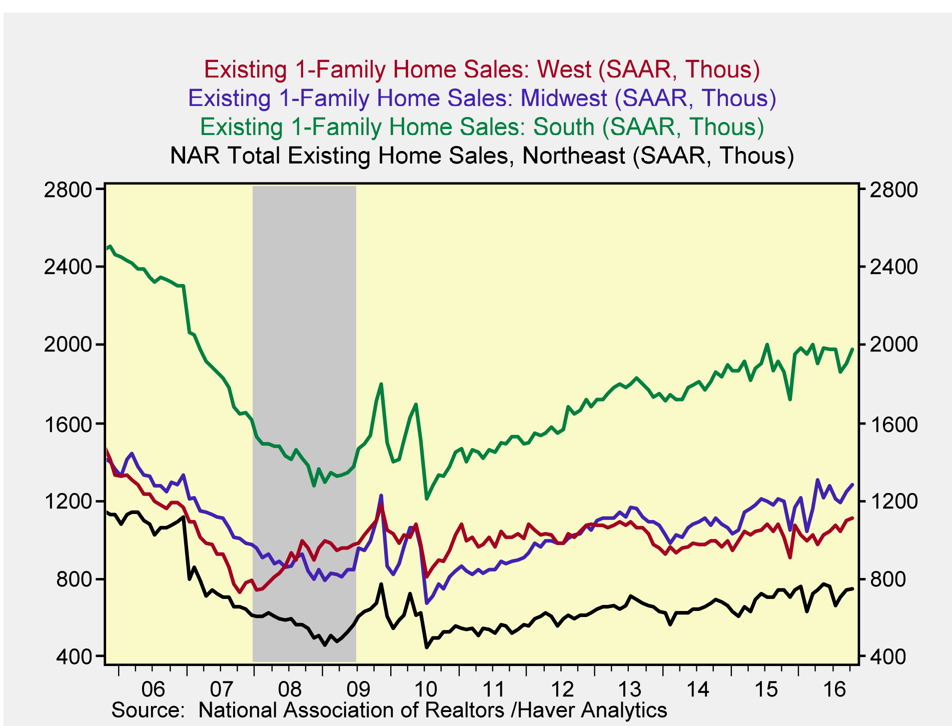
As the potential of rising mortgage rates would decrease affordability to levels in-line with recent decades, the affordability advantage of the Midwest could become more significant in guiding location decisions for those Millennials establishing new households. As an illustration, the important First Time Homeowner index for the nation, shown in green in the below chart, will probably dip below the line where average housing in the nation is affordable for the median First Time Buyer. With the wide affordability advantage of the Midwest, a median homebuyer in the nation will be significantly more likely to afford an 80% of value mortgage in the Midwest than in many other parts of the country.



Overall, we suspect that higher mortgage rates will generally slow, but should not stop the recovery in residential housing. As the chart below indicates, the recovery in sales has been steady, but the overall level has not reached the pre-recession peak.

Although mortgage rates are rising, so are rents and incomes. Additionally, the expectation for mortgage rates to continue rising will incentivize individuals on the sidelines to enter the housing market before rates rise even further. The affordability of the Midwest should help this region perform relatively well in the next year. Sales should continue to grow at a faster pace than in the Northeast and West, and at a rate on par with the South.

Existing Home Sales Rising Strongly in Midwest



Further for the housing market, the recovery in residential construction has been ongoing gradually but housing starts still remain below the levels experienced prior to the recession. (Please see the chart below). Multi unit housing construction has recovered fully, and a slowing trend in multiple unit housing has probably begun to develop in 2016. Single family home construction has been growing steadily, but only at about half the volume prior to the recession. Although mortgage rates are rising, the forecast is for continued growth in home construction overall, albeit at a slower pace, with most of the growth occurring in single family homes. With rents and the prices of existing homes rising, more individuals with long-term horizons will likely choose to make investments in new homes in 2017 even as mortgage rates rise as expected.

Multi-unit starts begin to stabilize while single family units continue growth, but remain at low levels

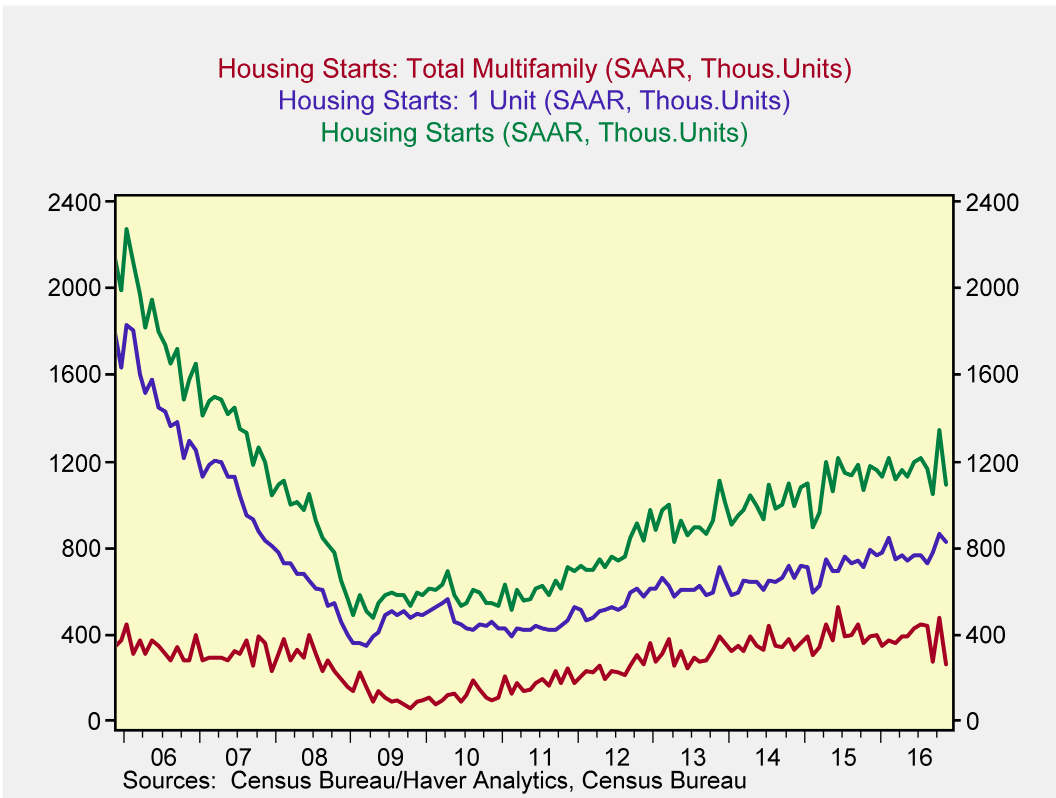


Table 1
Real GDP
Forecast as of January 30, 2017

	15-IV	16-I	16-II	16-III	16-IV	17-I	17-II	17-III	17-IV	2015	2016	2017
Annualized Real Growth Rates												
(bln Chained 2009 Dollars)												
GROSS DOMESTIC PRODUCT (bln $)	18222.2	18281.6	18450.4	18675.7	18869.3	19069.7	19269.1	19491.1	19730.4	18036.5	18569.2	19390.1
%change	1.8	1.3	3.7	5.0	4.2	4.3	4.2	4.7	5.0	3.7	3.0	4.4
IMPLICIT PRICE DEFLATOR	110.5	110.6	111.3	111.7	112.3	112.9	113.5	114.2	114.8	110.0	111.5	113.8
%change	0.9	0.5	2.3	1.4	2.3	2.1	2.3	2.3	2.3	1.1	1.3	2.1
REAL GROSS DOMESTIC PRODUCT	16490.7	16525.0	16583.1	16727.0	16804.8	16893.3	16974.4	17074.2	17186.4	16397.2	16660.0	17032.1
Real GDP Annualized Growth Rate	0.9	0.8	1.4	3.5	1.9	2.1	1.9	2.4	2.7	2.6	**1.6**	**2.2**
4-quarter %change	1.9	1.6	1.3	1.7	1.9	2.2	2.4	2.1	**2.3**			
CONSUMPTION	11319.3	11365.2	11484.9	11569.0	11640.4	11699.1	11764.0	11829.8	11899.7	11214.7	11514.9	11798.1
%change	2.3	1.6	4.3	3.0	2.5	2.0	2.2	2.3	2.4	3.2	2.7	2.5
DURABLE GOODS	1527.3	1524.9	1560.9	1604.4	1646.4	1661.7	1674.5	1685.6	1700.2	1498.1	1584.2	1680.5
%change	4.0	-0.6	9.8	11.6	10.9	3.8	3.1	2.7	3.5	6.9	5.7	6.1
NON-DURABLE GOODS	2458.4	2471.1	2505.4	2502.5	2516.5	2530.1	2546.4	2563.3	2579.7	2439.3	2498.9	2554.9
%change	1.2	2.1	5.7	-0.5	2.3	2.2	2.6	2.7	2.6	2.6	2.4	2.2
SERVICES	7369.8	7403.9	7458.5	7508.5	7531.9	7564.0	7601.9	7639.6	7678.6	7310.3	7475.7	7621.0
%change	2.3	1.9	3.0	2.7	1.3	1.7	2.0	2.0	2.1	2.8	2.3	1.9
GROSS PRIV. DOM. INVESTMENT	2865.4	2841.5	2783.8	2804.7	2877.0	2919.7	2932.1	2957.6	2991.1	2869.0	2826.8	2950.1
%change	-2.3	-3.3	-7.9	3.0	10.7	6.1	1.7	3.5	4.6	5.0	-1.5	4.4
FIXED INVESTMENT	2793.3	2786.7	2778.8	2779.3	2807.9	2849.3	2869.3	2894.2	2931.7	2767.8	2788.2	2886.1
%change	-0.2	-0.9	-1.1	0.1	4.2	6.0	2.8	3.5	5.3	4.0	0.7	3.5
NON-RESIDENTIAL	2198.8	2179.7	2185.0	2192.5	2205.5	2218.2	2240.9	2271.8	2311.7	2200.2	2190.7	2260.6
%change	-3.3	-3.4	1.0	1.4	2.4	2.3	4.1	5.6	7.2	2.1	-0.4	3.2
NON-RESIDENTIAL STRUCTURE	435.1	435.2	432.9	445.3	439.7	443.1	446.7	451.2	458.7	452.1	438.3	449.9
%change	-15.2	0.1	-2.1	12.0	-4.9	3.1	3.3	4.2	6.7	-4.4	-3.1	2.7
EQUIPMENT	1078.6	1052.0	1044.1	1032.2	1040.2	1038.9	1048.4	1063.8	1085.7	1072.5	1042.1	1059.2
%change	-2.6	-9.5	-3.0	-4.5	3.1	-0.5	3.7	6.0	8.5	3.5	-2.8	1.6
INTELLECTUAL PROPERTY	690.7	697.1	712.2	717.9	729.1	736.3	745.8	756.8	767.3	680.0	714.1	751.6
%change	4.5	3.8	9.0	3.2	6.4	4.0	5.3	6.0	5.7	4.8	5.0	5.2
RESIDENTIAL	589.5	600.7	588.7	582.5	596.8	613.4	610.9	604.7	602.5	564.5	592.2	607.9
%change	11.5	7.8	-7.8	-4.1	10.2	11.6	-1.7	-4.0	-1.5	11.7	4.9	2.7
CHANGE IN INVENTORIES	56.9	40.7	-9.5	7.1	48.7	51.6	44.8	44.9	39.8	84.0	21.8	45.3
NET EXPORTS	-566.6	-566.3	-558.5	-522.2	-599.6	-623.4	-631.8	-635.5	-636.8	-540.0	-561.7	-631.9
EXPORTS	2105.8	2102.0	2111.3	2162.0	2138.4	2139.8	2150.5	2172.8	2195.8	2120.6	2128.4	2164.7
%change	-2.7	-0.7	1.8	10.0	-4.3	0.3	2.0	4.2	4.3	0.1	0.4	1.7
IMPORTS	2672.4	2668.2	2669.7	2684.3	2738.0	2763.2	2782.4	2808.3	2832.5	2660.6	2690.1	2796.6
%change	0.7	-0.6	0.2	2.2	8.2	3.7	2.8	3.8	3.5	4.6	1.1	4.0
GOVERNMENT PURCHASES	2901.7	2913.2	2900.9	2906.4	2914.9	2924.8	2936.5	2948.3	2957.9	2883.7	2908.9	2941.9
%change	1.0	1.6	-1.7	0.8	1.2	1.4	1.6	1.6	1.3	1.8	0.9	1.1
FEDERAL	1123.0	1118.7	1117.7	1124.4	1121.1	1123.9	1126.7	1129.5	1132.3	1113.9	1120.5	1128.1
%change	3.8	-1.5	-0.4	2.4	-1.2	1.0	1.0	1.0	1.0	0.0	0.6	0.7
STATE & LOCAL	1777.1	1792.6	1781.4	1780.4	1792.0	1800.9	1809.8	1818.8	1825.6	1768.2	1786.6	1813.8

Note: Data and percent changes are expressed at seasonally adjusted annual rates.

Table 2
Economic Indicators
Forecast as of January 30, 3017

KEY ECONOMIC INDICATORS	15-IV	16-I	16-II	16-III	16-IV	17-I	17-II	17-III	17-IV	2015	2016	2017
Gross Domestic Product (bln $) *	1.8	1.3	3.7	5.0	4.2	4.3	4.2	4.7	5.0	3.7	3.0	4.4
Real GDP (2009 chained $)	0.9	0.8	1.4	3.5	1.9	2.1	1.9	2.4	2.7	2.6	1.6	2.2
Implicit GDP Price Deflator *	0.9	0.5	2.3	1.4	2.3	2.1	2.3	2.3	2.3	1.1	1.3	2.1
Consumer Price Index -- CPI-U *	0.8	-0.3	2.5	1.6	3.4	2.7	2.2	2.3	2.4	0.1	1.3	2.5
Producer Price Index *	-5.0	-5.2	3.6	1.7	3.3	3.4	1.8	2.4	2.7	-3.3	-1.0	2.7
FEDERAL FUNDS RATE -- average	0.16	0.36	0.37	0.40	0.43	0.63	0.67	0.91	1.13	0.13	0.39	0.84
-- end of quarter	0.20	0.38	0.38	0.38	0.63	0.63	0.88	1.13	1.13			
10-YEAR T-NOTE -- average	2.19	1.92	1.75	1.56	2.13	2.55	2.74	2.88	3.03	2.14	1.84	2.80
U.S. DOLLAR (FRB Index)	92.9	93.1	89.5	90.3	93.7	92.9	92.5	91.8	91.5	90.9	91.7	92.2
AVERAGE MONTHLY CHANGE (Th	282	196	146	212	165	188	181	174	171	229	180	178
UNEMPLOYMENT RATE (%)	5.0	4.9	4.9	4.9	4.7	4.7	4.7	4.7	4.7	5.3	4.9	4.7
Existing Home Sales (Thous SAAR)	5200.0	5300.0	5503.3	5390.0	5570.0	5431.0	5145.1	5022.6	4933.9	5233.3	5440.8	5133.1
Housing Starts (Millions)	1.14	1.15	1.15	1.15	1.18	1.20	1.16	1.15	1.14	1.11	1.16	1.16
Motor Vehicle Sales (Millions SAAR)	17.9	17.3	17.1	17.5	18.0	17.1	17.2	16.7	16.9	17.4	17.5	17.0
Industrial Production Growth (SA) *	-3.4	-1.8	-0.8	1.8	-0.5	3.3	2.8	1.8	2.0	0.3	-1.0	1.8
Consumer Credit *	6.3	4.5	7.0	6.8	6.2	6.2	5.8	5.9	6.0	6.9	6.3	6.2
C & I *	9.2	10.6	12.2	3.8	5.7	5.6	5.8	4.5	4.1	11.6	9.3	5.6
CORPORATE PROFITS (Bil. of $)	1967.5	2033.5	2021.0	2138.8	2165.0	2200.0	2246.2	2291.0	2352.3	2088.1	2089.6	2272.4
% change *	-22.3	14.1	-2.4	25.4	5.0	6.6	8.7	8.2	11.2	-3.0	0.1	8.7
(Profits generated through U.S. GDP)												

* Annualized Growth Rates
Red -- First Period Forecasted
Brown -- Annual Averages

Historical Data Source: Haver Analytics, the Financial Times, other sources in text, FACTSET
Recessions shown in grey in charts
Forecasts: Huntington Wealth and Investment Management, a division of The Huntington National Bank.