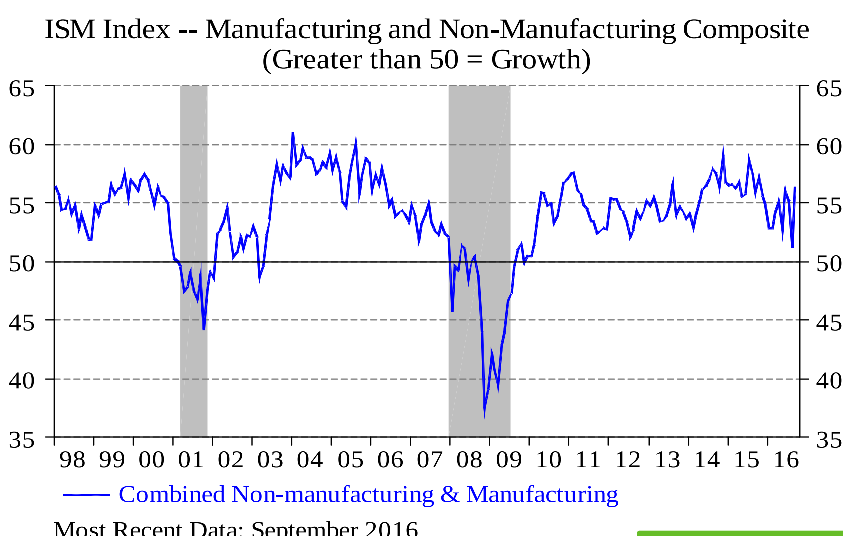
The Economic Outlook
November 1, 2016

Economic Outlook Developments

- **Consumers will likely continue to drive modest overall growth in the U.S. economy. Job markets, incomes, home prices and finances should sustain spending.**
- **After being suppressed by historic declines in energy prices, inflation is expected to return to historical norms, but with significant divergences between services and goods.**
- **Interest rates are expected to remain low, but with a gradual upward trend. The next Fed Funds rate target increase is forecasted in December, with only one increase forecasted in 2017. The dollar should hold its recent gains given the evolving monetary conditions in the U.S. relative to those abroad.**
- **Capital spending growth picks up only gradually in the forecast. Business equipment investment is expected to remain subdued until excess inventories are reduced, capacity utilization improves, policy uncertainty diminishes and the worldwide economy gains some upward growth momentum.**
- **Exports have begun a gradual rise with recent signs of stabilization in the international economy, but potential risks remain. Brexit will likely exert renewed attention in the coming months as Article 50 is triggered. China and Japan are expected to continue to grow at below average speeds compared to recent decades. High debt levels remain a long-term risk globally**

Supply Managers See Volatile But Positive Growth Overall



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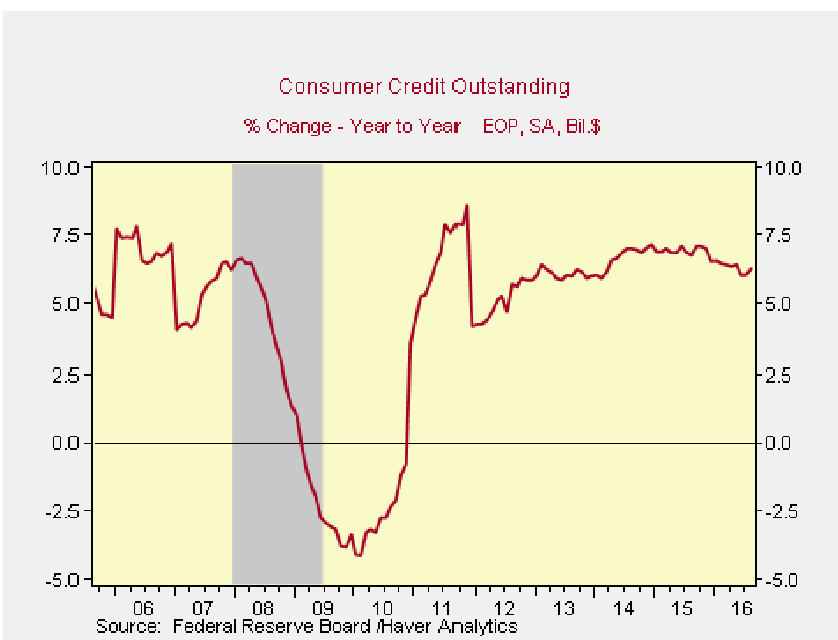
Consumers Leading the Way

Consumer spending continued to drive the U.S. economy in the third quarter, which grew 2.9% in the third quarter -- the fastest pace since the third quarter of 2014. Buoyed by an unemployment rate of 5%, steadily rising real incomes and employment, rising wealth and the lowest overall financial obligations ratio since the early 1980s, spending by consumers remained at high levels, although at a more moderate growth pace than in the second quarter. Improvements in export volumes added to real GDP growth during the quarter, but export prices declined sharply in August, especially for many commodities. Private non-residential construction grew solidly during the quarter, although real business equipment spending was down 4.5% from the third quarter of 2015. Interest rates at historically low levels supported continuation of the housing market recovery and generally strong home price gains. However, despite rising home prices, residential construction investment declined for the second consecutive quarter as the recovery in single family housing starts remained tepid. Business inventory investment remained low, but a gradual inventory correction is likely to continue. Federal government spending showed broad-based growth during the third quarter, while aggregate spending at the state and local governmental levels declined at a slower pace than in the second quarter.

After the above average third quarter, economic growth is expected to return to a moderate pace below the average of the last 2 years. Real GDP growth is forecasted to grow in the 1.5% to 2.0% range this year and next, below the 2.5% average growth during 2014 and 2015. Until private investment accelerates, labor productivity and labor supply growth are expected to keep annual GDP growth relatively modest. Highly activist central banks, virtually worldwide, will likely provide plentiful liquidity to the international economy overall in the next year, but the effectiveness of activist monetary policies probably declines at extremely low interest rate levels. The forecast incorporates a gradual pick-up in aggregate inflation with sustained upward movement in services inflation and some eventual price increases in energy and non-energy commodities.

The Federal Reserve is not forecasted to raise the Fed Funds rate target again until December, when inflation and labor market fundamentals are expected to be somewhat stronger and policy uncertainty somewhat lower. Long-term interest rates are also expected to edge higher based on the forecast for a modest acceleration in real GDP and inflation in 2017 from 2016. However, slow growth momentum in the U.S. economy overall relative to its long-term and recovery norms may make the U.S. somewhat above average in its vulnerability to economic shocks in the next year.

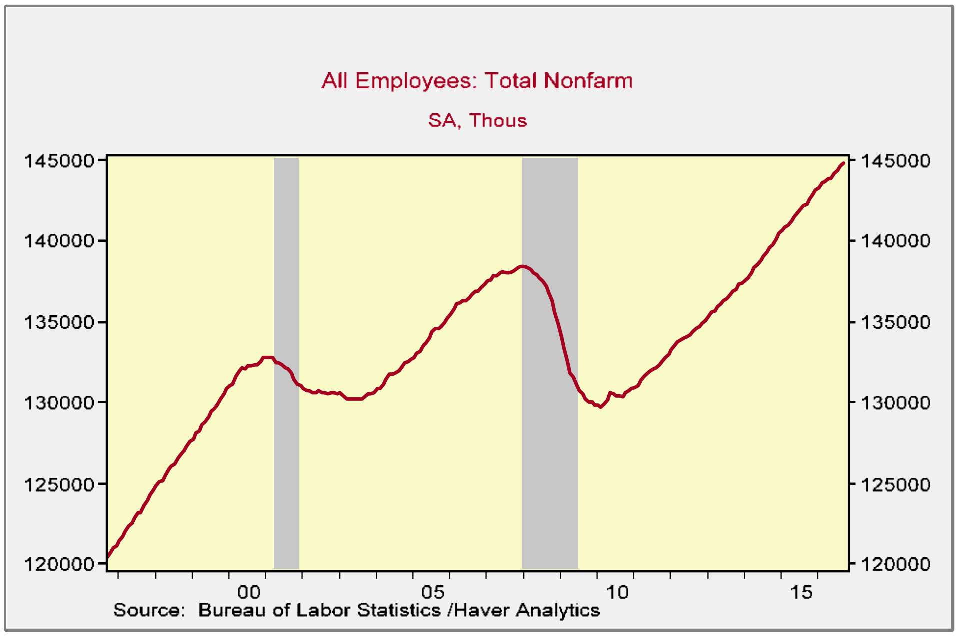
Consumers Steadily Expanding Credit



Update On The Economy

- Despite significant volatility from month to month, average monthly payroll growth in the U.S. during the third quarter was a solid 192,000 persons. Average hourly earnings were up a steady 2.6%. The official unemployment edged higher from 4.9% to 5.0% as the labor force participation rate rose somewhat faster than the rate at which willing workers were absorbed into the workforce. The U-6 underemployment rate also remained somewhat elevated at 9.7%. On net, both hawks and doves on the FOMC will likely find points in the third quarter employment reports to support their respective positions, but the direction of labor market conditions was generally upwards.

Total Job Growth Has Remained Steady



- Industrial production, retail sales and the ISM reports on manufacturing and non-manufacturing showed considerable volatility during the third quarter, but the ISM non-manufacturing report, largely a reflection of the massive U.S. services sector, finished the quarter on a strong note. While the goods sectors of the economy were largely mixed during the third quarter, services overall sustained the U.S. economic expansion that began in July 2009.

- Inflation as measured by the CPI remained relatively tame, rising only 1.5% in the 12 months ending September. Excluding food and energy, inflation was 2.2% with services inflation putting upward pressure on “core” inflation. A general excess supply of goods in the world economy will likely continue to put downward pressures on tradeable goods prices generally in the next year. However, energy prices should begin to gain some support from the possibility of OPEC’s first agreement since 2008 to control the supply of petroleum to world markets. Overall, should a final plan materialize when OPEC members meet in November, it would probably include only modest supply reductions in total. The ability of OPEC to hold its individual members to production targets could also be especially challenging given the high levels of stress incurred by large oil exporters in the last 2 years. However, if the OPEC efforts revive supply controls, then energy prices could begin to rise measurably from current levels.

Update On The Economy (Cont.)

- Brexit imposed a predictable sharp devaluation of the pound, thereby shocking the United Kingdom's economy and increasing inflation in the island country, but it did not seriously disrupt world financial market functioning. The near term impact on the United Kingdom economy was not as severe as initially expected by the Bank of England, and the sharp devaluation even improved prospects for some of the United Kingdom's export-oriented businesses, but monetary policy was ultimately eased to counter the still serious economic shock. Going forward, Brexit may increase the risk that other strong EU countries leave the EU, potentially putting new pressures on a European financial system already stressed by high sovereign debt levels, weak banks in various countries and other long-term structural economic growth challenges. Long-term adjustments to the new post-Brexit order within Europe, including the question of how easily financial companies domiciled in the United Kingdom will be able to operate on the continent, will maintain high levels of uncertainty until they are defined in the coming months and perhaps years. U.K. Prime Minister Mrs. Theresa May has set March 2017 as the deadline for triggering Article 50 to exit the European Union. We expect considerable uncertainty until that time, and potentially afterwards.

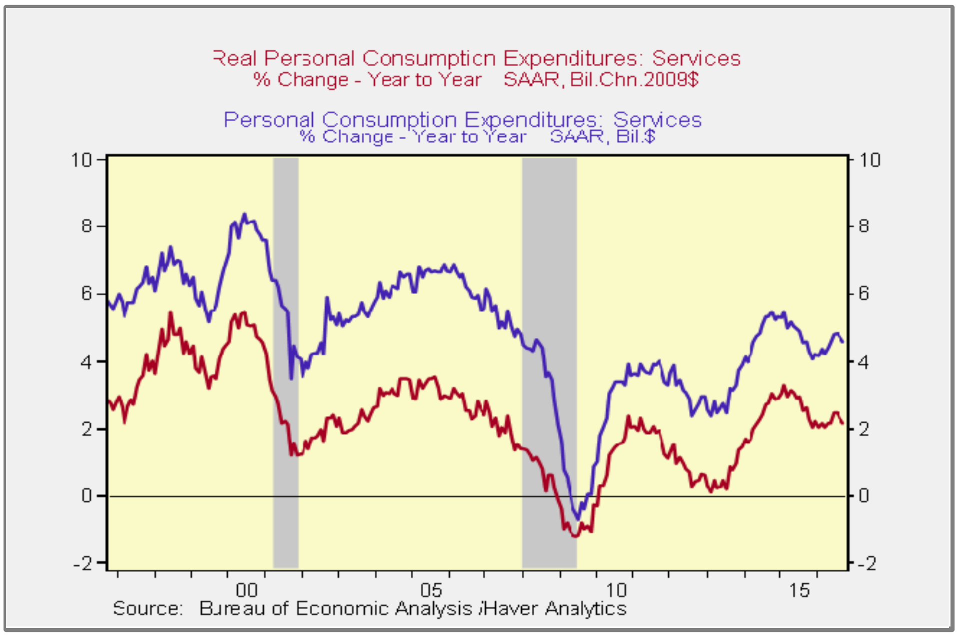
- Back in the U.S., the outlook calls for continued modest economic growth, a gradual rise in overall inflation from low rates, and gently increasing short and long-term interest rates. A total of 2 Fed Funds rate increases totaling no more than 50 basis points are forecasted to occur by the end of next year. Mixed economic data kept the Fed Funds rate target on hold during the third quarter, but rising dissents on the FOMC indicate interest rate propensity is probably upwards. Despite this relatively benign forecast, risks emanating from financial markets and the international economy are elevated in the next year. Policy uncertainty catalyzed by a large national election poses another possible dynamic in the economy that will only be determined with time.

- Struggling with a continuing weak economy and deflation, the Bank of Japan (BOJ) announced a change in its monetary policy towards explicitly targeting the interest rate on long-term government bonds at zero -- the first explicit central bank policy targeting of a market determined interest rate in the advanced economies in this millennium. The BOJ holds a large and growing portion of Japan's government debt, and from its statements is apparently at the point where it is confident that it can target the rates on that debt accurately. In addition to the zero rate target on long-term bonds, the BOJ also kept its negative interest rate policy in place on high-powered commercial bank deposits at the central bank, and kept its options open to reduce that controversial policy rate further to meet a highly publicized 2% inflation target. The BOJ is attempting to drive inflation upwards in part by increasing market expectations of higher inflation, but it will likely have enormous difficulty in this effort. Japan's CPI was at its lowest in July since May 2014.

- In his most recent report, European Central Bank Chief Draghi promised to continue to purchase bonds worth 80 billion euros each consecutive month until at least March 2017. Furthermore, the ECB will likely continue bond purchases afterwards until deflation ceases to be a risk to the euro zone. With fiscal policy and structural reforms constrained by high debt levels and political divisions, the ECB is stepping in as the main provider of economic stimulus to the Eurozone economies. The bottom line: interest rates in Europe will likely remain historically low during 2017 and potentially for years to come.

Consumers Continue To Spend On Services, Where Inflation Is The Highest

Consumers spent 4.6% more for consumer services in the second quarter over what they spent last year, but received only 2.3% more in real services. That is because half of spending went to inflation. Consumers spent $8.3 trillion on consumer services in the second quarter of 2016 representing about 2/3 of all consumer expenditures. It was on utilities, health care, school tuition, transportation, recreation, food services and accommodation, housing (primarily rents and owner imputed rents,) and other expenses. In comparison, consumer non-durables were at a $2.7 trillion rate in the second quarter representing around 21% of consumer spending, and consumer durables at $1.4 trillion represented most of the remainder at 11%. (Consumer non-profits were under 3%.) Prices have been stable or declining for most goods, but have been firm and rising in consumer services – right in the areas impacting consumer budgets the most. Hence, many of the gains in incomes in recent years have gone to services inflation, even as inflation overall has been low relative to recent decades.



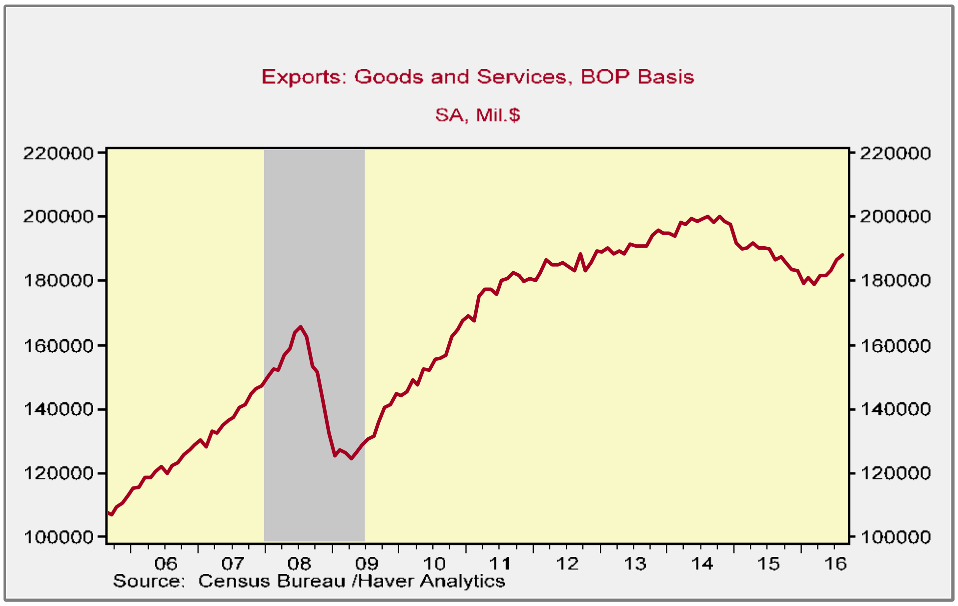
Most Recent Data in Chart: September 2016

Exports Have Begun To Recover In 2016, But Risks Remain In The International Economy

Weak export growth has been a major source of slow U.S. economic growth in the last year. However, there are nascent signs of export recovery as evident in the chart below on total U.S. Balance of Payments (BOP) dollars earned for the exports of goods and services. This positive trend is expected to continue, although forecast risks will likely remain high. Export dollars in August were up on an annual basis for the first time since December 2014 as the international economy began to show tentative signs of stabilization. China's economic downturn slowed in recent months, putting less downward pressure on its numerous trading partners, although the country's transition to a modern economy is far from complete, and other bumps are likely on the way. Rising energy and commodity prices worldwide from price bottoms generally reached in the first quarter of this year have also improved the economic growth prospects of energy and commodity rich countries around the globe. Many of these countries, such as Canada and Mexico, are significant trading partners with the United States. In the face of a generally improving international economy, a relatively strong U.S. dollar could dampen export dollar growth in the next year. For example, export prices have been generally weak in recent months despite export volume increases. However, accommodative monetary and fiscal policies worldwide are expected to be supportive of international trade growth in the next year.

Exports Have Begun To Recover In 2016, But Risks Remain In The International Economy (Cont.)

Despite this relatively positive forecast, a note of caution. The biggest long-term risk to exports, and indeed GDP growth in the world economy, is probably high debt levels. According to the IMF, Total Gross Debt in the world Non-Financial Sector stood at $152 trillion last year, equivalent to 225% of world GDP. World Government Debt has been rising rapidly relative to GDP in the last decade, and has reached around 85% of GDP, but non-financial firms and households still held two-thirds of the massive debt levels. Low interest rates engineered by central banks can only go so far in stimulating economic growth in an environment in which world debt levels have risen to unhealthy levels overall.

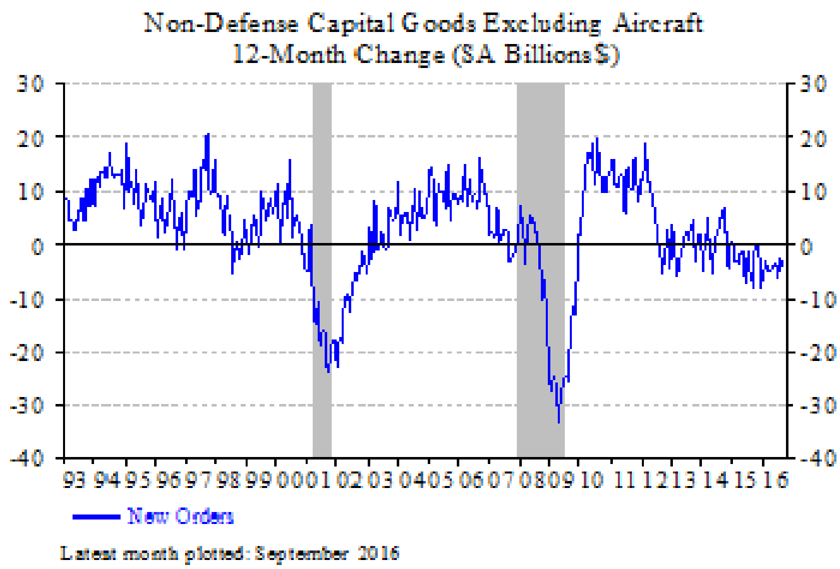


Capital Goods Orders Weak, But Possibly Bottoming

New orders for business investment in equipment have declined over the last 2 years as sharp declines in the price of oil and gas energy, coupled with sharp commodity price declines in agricultural and other commodity prices, increased excess capacity and reduced the returns on investment in areas of the economy that were previously quite strong. Recent increases in energy prices, albeit from historically low levels, and hopeful improvements in the world economy should continue to stabilize aggregate orders for capital equipment, as already reflected by modest improvements in new orders for capital goods during the summer months. However, the growth forecast for non-residential equipment investment is relatively low in magnitude. Policy uncertainty, continued risks in Europe created by Brexit, geo-political stresses in the Middle East, and still tepid economic growth in China are among the general risks to the world economic climate that could make businesses cautious in their equipment investment decisions in the next year.

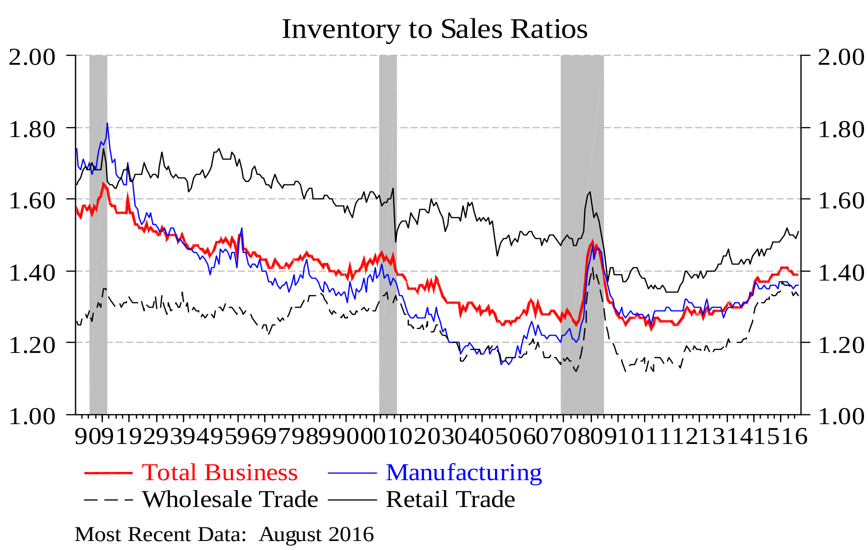
Capital Goods Orders Weak, But Possibly Bottoming (Cont.)

Yet, not all is dire in fixed investment overall. Private sector investment in intellectual property and non-residential investment are expected to remain on a solid growth trend in the next year. The services sector will also continue to invest to meet constantly evolving IT needs. Technological advancements such as the ever increasing installation of robotics in all areas of the economy should support overall capital spending, although such spending could also have labor reducing ramifications in the long-term. Tax incentives for capital equipment expensing were made permanent with recent federal budgets, after many years of temporary and uncertain status. Government policies have also been supportive of specific areas of renewables and other initiatives. These initiatives may provide some upside to an otherwise moderate forecast for total capital spending growth in the next year.



Inventory-to-Sales Ratios Show Initial Signs of Stabilizing At High Levels

Business inventory-to-sales ratios have been near their highest levels since the recession, but began to level off somewhat during the summer months. Wholesale inventories have declined the most relative to sales.



Retail inventories have remained high relative to sales as auto inventories climbed during the summer, but the retail inventory-to-sales ratio excluding autos actually declined in recent months. Stabilization in overall business inventories relative to sales is a welcome sign for the "goods" part of the economy, which has been under the most pressure in the recent manufacturing/exports/energy related economic slowdown.

Table 1
Real GDP
Forecast as of October 28, 2016

Annualized Real Growth Rates (bln Chained 2009 Dollars)	15-III	15-IV	16-I	16-II	16-III	16-IV	17-I	17-II	17-III	17-IV	2015	2016	2017
REAL GROSS DOMESTIC PRODUCT	16454.9	16490.7	16525.0	16583.1	16702.1	16773.5	16838.9	16907.2	16974.3	17039.3	16397.2	16645.9	16939.9
Real GDP Annualized Growth Rate	2.0	0.9	0.8	1.4	2.9	1.7	1.6	1.6	1.6	1.5	2.6	**1.5**	**1.8**
4-quarter % change	2.2	1.9	1.6	1.3	1.5	1.7	1.9	2.0	1.6	**1.6**			
CONSUMPTION	11255.9	11319.3	11365.2	11484.9	11545.8	11589.8	11640.2	11692.8	11737.9	11780.9	11214.7	11496.4	11712.9
% change	2.7	2.3	1.6	4.3	2.1	1.5	1.7	1.8	1.6	1.5	3.2	2.5	1.9
DURABLE GOODS	1512.4	1527.3	1524.9	1560.9	1596.7	1593.1	1609.2	1615.7	1622.4	1628.0	1498.1	1568.9	1618.8
% change	6.2	4.0	-0.6	9.8	9.5	-0.9	4.1	1.6	1.7	1.4	6.9	4.7	3.2
NON-DURABLE GOODS	2451.3	2458.4	2471.1	2505.4	2496.4	2509.9	2511.2	2523.0	2531.4	2539.4	2439.3	2495.7	2526.3
% change	3.2	1.2	2.1	5.7	-1.4	2.2	0.2	1.9	1.3	1.3	2.6	2.3	1.2
SERVICES	7327.2	7369.8	7403.9	7458.5	7497.8	7533.6	7568.4	7602.8	7632.8	7662.4	7310.3	7473.4	7616.6
% change	2.0	2.3	1.9	3.0	2.1	1.9	1.9	1.8	1.6	1.6	2.8	2.2	1.9
GROSS PRIV. DOM. INVESTMENT	2882.2	2865.4	2841.5	2783.8	2805.5	2854.1	2882.8	2901.5	2921.9	2942.1	2869.0	2821.2	2912.1
% change	2.0	-2.3	-3.3	-7.9	3.2	7.1	4.1	2.6	2.8	2.8	5.0	-1.7	3.2
FIXED INVESTMENT	2794.5	2793.3	2786.7	2778.8	2774.6	2809.3	2826.8	2847.0	2864.2	2886.2	2767.8	2787.4	2856.0
% change	5.7	-0.2	-0.9	-1.1	-0.6	5.1	2.5	2.9	2.4	3.1	4.0	0.7	2.5
NON-RESIDENTIAL	2217.5	2198.8	2179.7	2185.0	2191.2	2203.8	2212.2	2222.2	2231.6	2247.3	2200.2	2189.9	2228.3
% change	3.9	-3.3	-3.4	1.0	1.1	2.3	1.5	1.8	1.7	2.8	2.1	-0.5	1.8
NON-RESIDENTIAL STRUCTURE	453.4	435.1	435.2	432.9	438.6	436.6	439.3	441.3	442.6	445.2	452.1	435.8	442.1
% change	-4.3	-15.2	0.1	-2.1	5.4	-1.8	2.5	1.9	1.2	2.3	-4.4	-3.6	1.4
EQUIPMENT	1085.7	1078.6	1052.0	1044.1	1036.9	1038.9	1038.4	1038.7	1038.2	1042.8	1072.5	1043.0	1039.5
% change	9.1	-2.6	-9.5	-3.0	-2.7	0.8	-0.2	0.1	-0.2	1.8	3.5	-2.7	-0.3
INTELLECTUAL PROPERTY	683.1	690.7	697.1	712.2	719.3	728.3	734.6	742.2	750.8	759.4	680.0	714.2	746.7
% change	2.1	4.5	3.8	9.0	4.0	5.1	3.5	4.2	4.7	4.6	4.8	5.0	4.5
RESIDENTIAL	573.7	589.5	600.7	588.7	579.3	587.9	597.0	607.2	615.0	621.3	564.5	589.2	610.1
% change	12.6	11.5	7.8	-7.8	-6.2	6.1	6.3	7.0	5.2	4.1	11.7	4.4	3.6
CHANGE IN INVENTORIES	70.9	56.9	40.7	-9.5	12.6	27.1	39.1	38.0	40.4	38.2	84.0	17.7	38.9
NET EXPORTS	-547.1	-566.6	-566.3	-558.5	-522.9	-554.1	-580.0	-595.2	-605.9	-614.2	-540.0	-550.4	-598.8
EXPORTS	2120.4	2105.8	2102.0	2111.3	2162.4	2152.9	2149.0	2150.9	2158.8	2167.2	2120.6	2132.1	2156.5
% change	-2.8	-2.7	-0.7	1.8	10.0	-1.7	-0.7	0.4	1.5	1.6	0.1	0.5	1.1
IMPORTS	2667.6	2672.4	2668.2	2669.7	2685.3	2706.9	2729.0	2746.1	2764.7	2781.4	2660.6	2682.5	2755.3
% change	1.1	0.7	-0.6	0.2	2.4	3.3	3.3	2.5	2.7	2.4	4.6	0.8	2.7
GOVERNMENT PURCHASES	2894.4	2901.7	2913.2	2900.9	2904.5	2914.5	2926.2	2937.9	2949.7	2959.3	2883.7	2908.3	2943.3
% change	1.9	1.0	1.6	-1.7	0.5	1.4	1.6	1.6	1.6	1.3	1.8	0.9	1.2
FEDERAL	1112.7	1123.0	1118.7	1117.7	1124.6	1127.4	1130.2	1133.0	1135.8	1138.7	1113.9	1122.1	1134.4
% change	0.9	3.8	-1.5	-0.4	2.5	1.0	1.0	1.0	1.0	1.0	0.0	0.7	1.1
STATE & LOCAL	1779.9	1777.1	1792.6	1781.4	1778.3	1787.1	1796.0	1804.9	1813.9	1820.6	1768.2	1784.9	1808.8
% change	2.5	-0.6	3.5	-2.5	-0.7	2.0	2.0	2.0	2.0	1.5	2.9	0.9	1.3

Note: Data and percent changes are expressed at seasonally adjusted annual rates.
*Non-Residential Fixed Investment includes Intellectural Property Investment not shown separately.

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

Table 2
Economic Indicators
Forecast as of October 28, 2016

KEY ECONOMIC INDICATORS	15-III	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 $) *	3.2	1.8	1.3	3.7	4.4	3.6	3.5	3.6	3.7	3.7	3.7	2.8	3.7
Real GDP (2009 chained $)	2.0	0.9	0.8	1.4	2.9	1.7	1.6	1.6	1.6	1.5	2.6	1.5	1.8
Implicit GDP Price Deflator *	1.2	0.9	0.5	2.3	1.5	1.8	1.9	1.9	2.0	2.2	1.1	1.3	1.9
Consumer Price Index -- CPI-U *	1.4	0.8	-0.3	2.5	1.6	3.0	2.2	2.3	2.4	2.5	0.1	1.3	2.4
Producer Price Index *	-0.3	-5.0	-5.2	3.6	1.4	1.7	3.6	1.8	2.0	2.8	-3.3	-1.2	2.4
FEDERAL FUNDS RATE -- average	0.14	0.16	0.36	0.37	0.39	0.42	0.63	0.88	0.88	0.88	0.13	0.39	0.82
-- end of quarter	0.07	0.20	0.38	0.38	0.38	0.63	0.63	0.88	0.88	0.88			
10-YEAR T-NOTE -- average	2.22	2.19	1.92	1.75	1.56	1.80	1.86	2.00	2.14	2.27	2.14	1.76	2.07
U.S. DOLLAR (FRB Index)	91.6	92.9	93.1	89.5	90.3	91.9	92.0	91.6	91.1	90.7	90.9	91.2	91.3
AVERAGE MONTHLY CHANGE (Th	192	282	196	146	192	172	141	128	128	129	229	177	132
UNEMPLOYMENT RATE (%)	5.2	5.0	4.9	4.9	4.9	5.0	5.1	5.1	5.2	5.3	5.3	4.9	5.2
Existing Home Sales (Thous SAAR)	5403.3	5200.0	5300.0	5503.3	5383.3	5563.9	5678.0	5669.1	5605.2	5516.3	5233.3	5437.6	5617.1
Housing Starts (Millions)	1.15	1.14	1.15	1.15	1.14	1.20	1.19	1.18	1.16	1.15	1.11	1.16	1.17
Motor Vehicle Sales (Millions SAAR)	17.7	17.9	17.3	17.1	17.5	17.0	17.2	16.7	16.7	16.4	17.4	17.2	16.7
Industrial Production Growth (SA) *	1.5	-3.4	-1.8	-0.8	1.8	1.7	1.1	0.9	0.8	1.0	0.3	-0.9	1.1
Consumer Credit *	7.3	6.3	4.6	7.0	6.4	5.8	5.5	4.8	4.8	4.7	6.9	6.2	5.5
C & I *	8.3	9.5	10.7	12.6	3.5	3.8	3.6	4.1	3.0	2.6	11.3	9.2	4.1
CORPORATE PROFITS (Bil. of $)	2095.4	1967.5	2033.5	2021.0	2093.6	2115.8	2137.4	2154.3	2173.5	2193.1	2088.1	2066.0	2164.6
% change *	-3.2	-22.3	14.1	-2.4	15.2	4.3	4.1	3.2	3.6	3.7	-3.0	-1.1	4.8
(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.