The Economy in Focus

First Quarter 2019

April 23, 2019

Executive Summary

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The First Quarter of 2019 experienced slow economic growth as consumers and businesses reacted to volatility in financial markets, a government shutdown, concerns about international trade with China, and a broad slowdown in the international economy. While the international economy will likely remain relatively weak in 2019, the other factors creating the first quarter slowdown were reduced or ended. Our overall forecast for 2019 is revised downward somewhat because of the slow first quarter and some projected inventory adjustments in the second quarter, but our outlook for moderate economic growth for the remainder of the year has not changed. Risks to our positive forecast, should they occur this year, would likely emanate primarily from the international economy.

In this edition of the Economy in Focus:

- The economy growing at a slower, but still solid pace.
- Labor Markets remain strong.
- Consumer spending cooled this Winter, but expected to pick up this Spring.
- Inflation slows in early 2019.
- The Goods sector slows after a strong run up in the last 2 years.
- Consumer Confidence remains high.
- Capital spending on Equipment slows, but overall investment still strong.
- Small Businesses taking the lead.
- Housing markets showing nascent signs of revival.
- Yield curve inversion – Not necessarily a precursor to recession.

We begin with the Economic Forecast.

The Economic Forecast

- Our economic forecast remains largely positive for 2019, with a tilt toward domestic economic growth over growth in foreign economies. Real GDP growth is forecasted to slow from 2.9% in 2018 to 2.1% in 2019. The forecast was revised downward from 2.5% as the fourth quarter of 2018 and especially the first quarter of 2019 were negatively impacted by tight monetary policy, the government shutdown, policy uncertainty regarding international trade with China and a weakening international economy. Whereas growth in the international economy will likely remain slow in 2019, the other factors creating the slowdown have been reduced or ended going forward. Consumers will likely continue to be the major drivers of economic growth on strong jobs and income growth. Interest rates and inflation are expected to be relatively stable in 2019 at low levels, providing additional support to housing and vehicle sales.

- Business capital investment is expected to slow from 2018, but continue to benefit from recent business tax cuts, the need to expand productivity growth in tight labor markets, and generally rising obsolescence compounded by years of underinvestment in the U.S.

- Inflation is expected to decline from 2.4% in 2018 to 1.9% in 2019 for the lowest inflation since 2016. Lower energy prices, slower expected growth in the international economy, lower commodity prices and the lagged impact of tightened U.S. monetary policy are expected to contain inflationary pressures. Wages will likely continue to rise and could create cost push pressures on business earnings, but it is our view that most inflation is ultimately generated by high aggregate demand and not supply tightness.

- After tightening monetary policy in 2018 with 4 Fed Funds rate target increases totaling 1.0% and the continuation of its balance sheet reduction program, the Federal Reserve adopted a flexible 'patient' stance on further Fed Funds rate changes that will depend on the strength of U.S. economic growth, inflationary pressures and overall risks in the international economy. In addition to a pause in Fed Funds rate target increases, the Federal Reserve announced that it would begin to phase out its balance sheet reduction program in May and end its balance sheet reductions in September of this year. Hence, the Federal Reserve plans to keep a higher level of excess reserves in the banking system than previously expected by financial markets. With inflation expected to be low, and past interest rate increases already exhibiting slowing effects on interest-rate sensitive areas of the economy, the Federal Reserve is forecasted to keep the Fed Funds rate target in the 2.25% - 2.50% range this year. This forecast also corresponds to the Federal Reserve's guidance provided after the March 19-20 FOMC meeting. We view this plateau of the Fed Funds rate target as largely neutral, and consistent with our fundamental forecast of a solid but not over-heated economy.

- The international economy is expected to fuel slower US export growth this year than in the last several years barring sweeping trade agreements with Europe, Japan, Canada, Mexico and China that increase the volume of international trade.

- Commodities started the year generally higher for energy and industrial metal prices, as these two sectors recover from a tumultuous Q4-2018. Whether they hold those gains for the entire year will depend on strength of the global economy, outcome of trade negotiations/approvals, and direction of the US Dollar.

- Developments in international trade remain in flux. Progress has been made in negotiations between the U.S. and China, but trade negotiations are inherently complex and lengthy. Congressional approval to replace NAFTA with the new USMCA will be important to prevent disruptions in trade with our largest trading partners. A dispute with the EU over unfair subsidization of aircraft producers indicates that international trade uncertainties will likely remain for the foreseeable future. Yet, despite the rancorous international trade events, *we continue to think that the current period is one of trade renegotiation rather than trade war.*

- The international economy will likely be the primary area of financial risk in 2019. Brexit is the biggest likely source. However, policy makers generally have a mutual interest in not creating financial and economic disturbances. This was most recently exemplified in the extension of the EU Brexit deadline to the end of October from March. The primary influence of the international economy in 2019 will likely be through slower trade, business sales and profit growth from international sources than during the previous 2 years.

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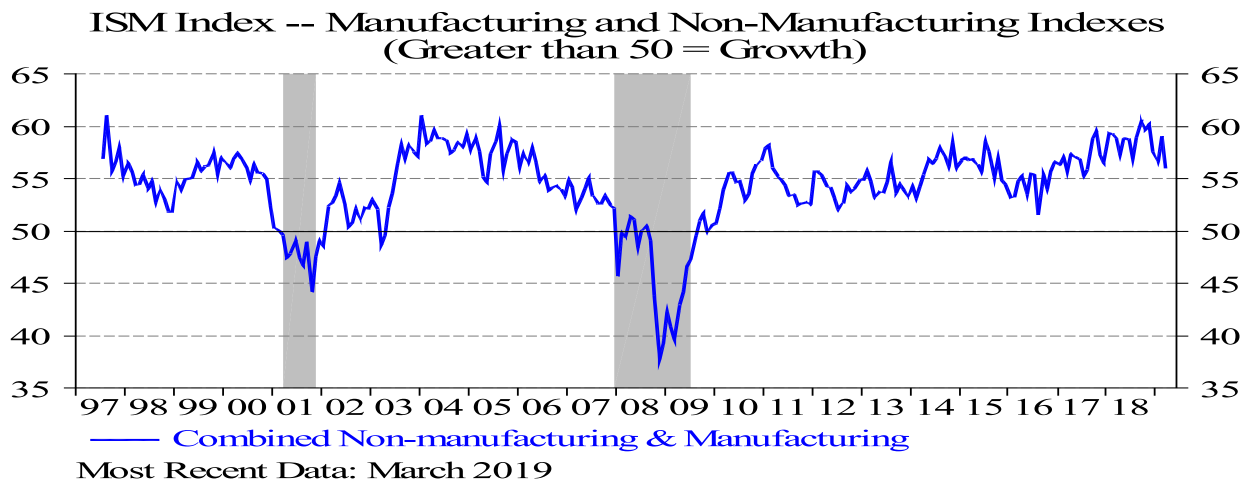
Economic Activity Growth Slower but Still Above Average for Expansion

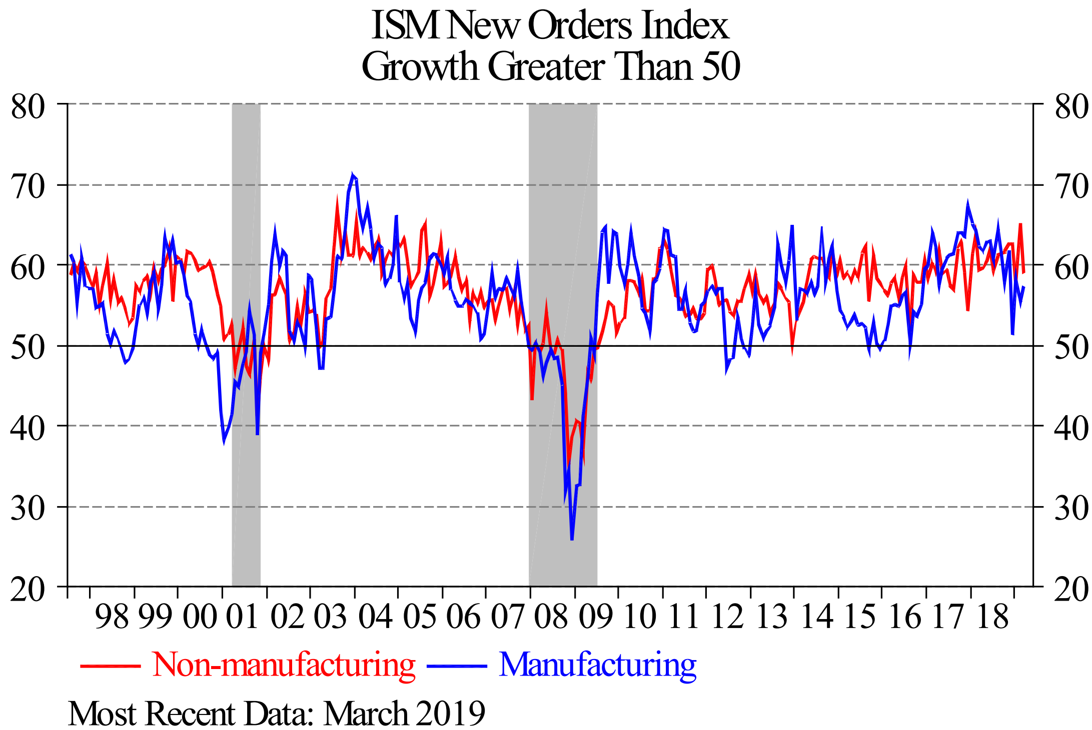


Economic Activity Rising at a Slower Pace at the Start of 2019

- Economic Activity slowed in the first quarter from its relatively high pace of the last 2 years. Based on the Institute for Supply Management Composite index, economic activity growth during the first quarter of 2019 was the lowest since the first quarter of 2017. However, even this slower pace of growth in the first quarter was faster than the average annual growth in the Composite index since 2005.

- Growth in the vast Non-manufacturing sectors of the economy slowed in March but remained solidly in expansion mode. New orders in Non-manufacturing were only somewhat slower than in 2018. However, manufacturing experienced a greater slowdown as New orders in the ISM Manufacturing survey weakened to their slowest pace since the fourth quarter of 2016. As a result, Manufacturing production in the first quarter likely declined -1.1% for the slowest quarter since Q3 2017. Manufacturing activity is expected to pick up as the year progresses, but relatively slow growth in the international economy and elevated inventories in some industries will likely keep overall growth below the growth pace of the last 2 years.

New Orders Growth Remains High in Non-Manufacturing, but Slow in Manufacturing



Labor Markets Remain Strong

- Labor markets started and ended the first quarter strong, with a soft patch occurring in February. In total, Nonfarm payrolls grew by 541,000 net new jobs in the first quarter, continuing a streak of half-million plus net new jobs created going back to the third quarter of 2012. A total of 2,679,000 net jobs were created in 2018 – the strongest year of job growth since 2015, when 2,729,000 net new jobs were created.

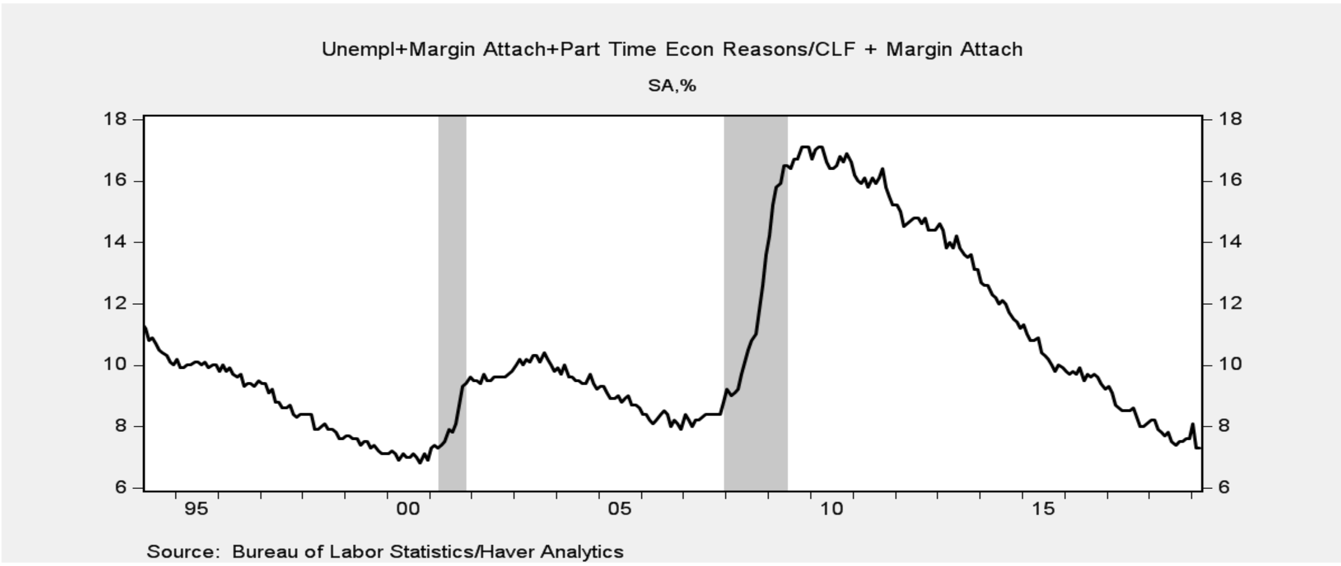
- The private sector continued to be the primary job creator as it added 507,000 jobs during the first quarter. Private services added 443,000 jobs, with large gains occurring in Education and Health services (+151,000), Leisure and Hospitality (+125,000), and Professional and Business Services (+96,000).

  - NOTE: The weakest area of Private Services employment was Retail Trade, which lost 22,600 Seasonally Adjusted jobs in the first quarter. Retail Employment peaked in January 2017 and has been underperforming in net jobs growth as online retailing has pressured 'brick and mortar' stores. A weak holiday shopping season likely increased cost pressures on many retailers, as well.

- At its slowest pace since Q1 2016, the Goods sector created 68,000 jobs in the first quarter, with 47,000 of those jobs created in Construction. Durable Goods employment growth slowed to 13,000, also the smallest quarterly gain since Q1 2016. The weak jobs first quarter in durable goods jobs growth was in conjunction with payroll declines in small vehicle production (cars) even as sales of large vehicles (trucks) remained high.

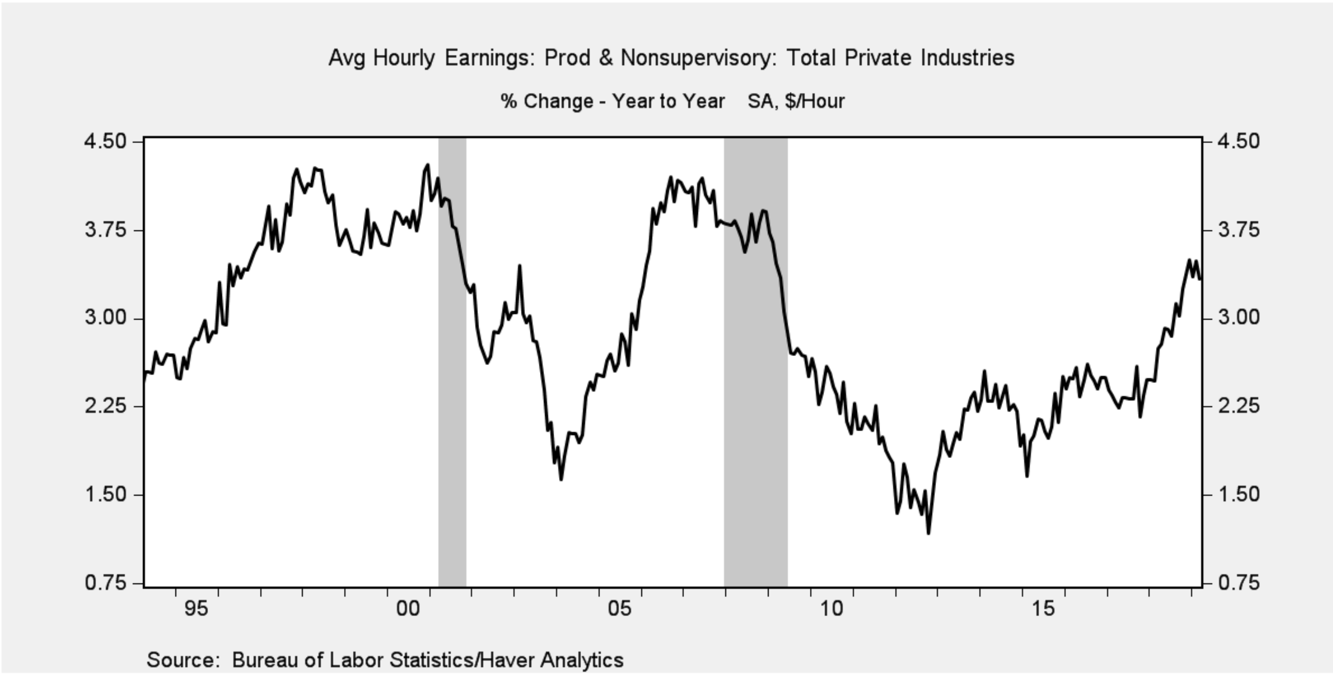
- The unemployment rate ended the quarter at 3.8% -- its lowest since the late 1960s. At 7.3%, the Underemployment rate (U-6) was the lowest since March 2001. The underemployment rate includes marginally attached workers and those working part-time who would prefer to work fulltime. The economic recovery has been extending opportunities to many that were on the margins of labor markets for years, if not decades.

The Underemployment Rate Drops to Lowest since March 2001



- Stronger labor markets raise employee compensation. Average Hourly earnings in the first quarter rose 3.4% year-over-year. The accelerating trend is likely to continue in conjunction with continued business profit growth and tight labor markets.

Employee Compensation on Rising Trend



Consumer Spending Cools in the Winter Months, but is Expected to Return in Spring

- Retail Sales cooled during the Winter months but warmed up in Spring. Retail Sales went through a bowl-like swing in recent months. After 2 consecutive months at $511.6 billion, retail sales dipped to $503.3 billion in December. Retail sales recovered in the first quarter, with total Retail sales ultimately rising to $514.1 billion in March – a record high month in the nation.

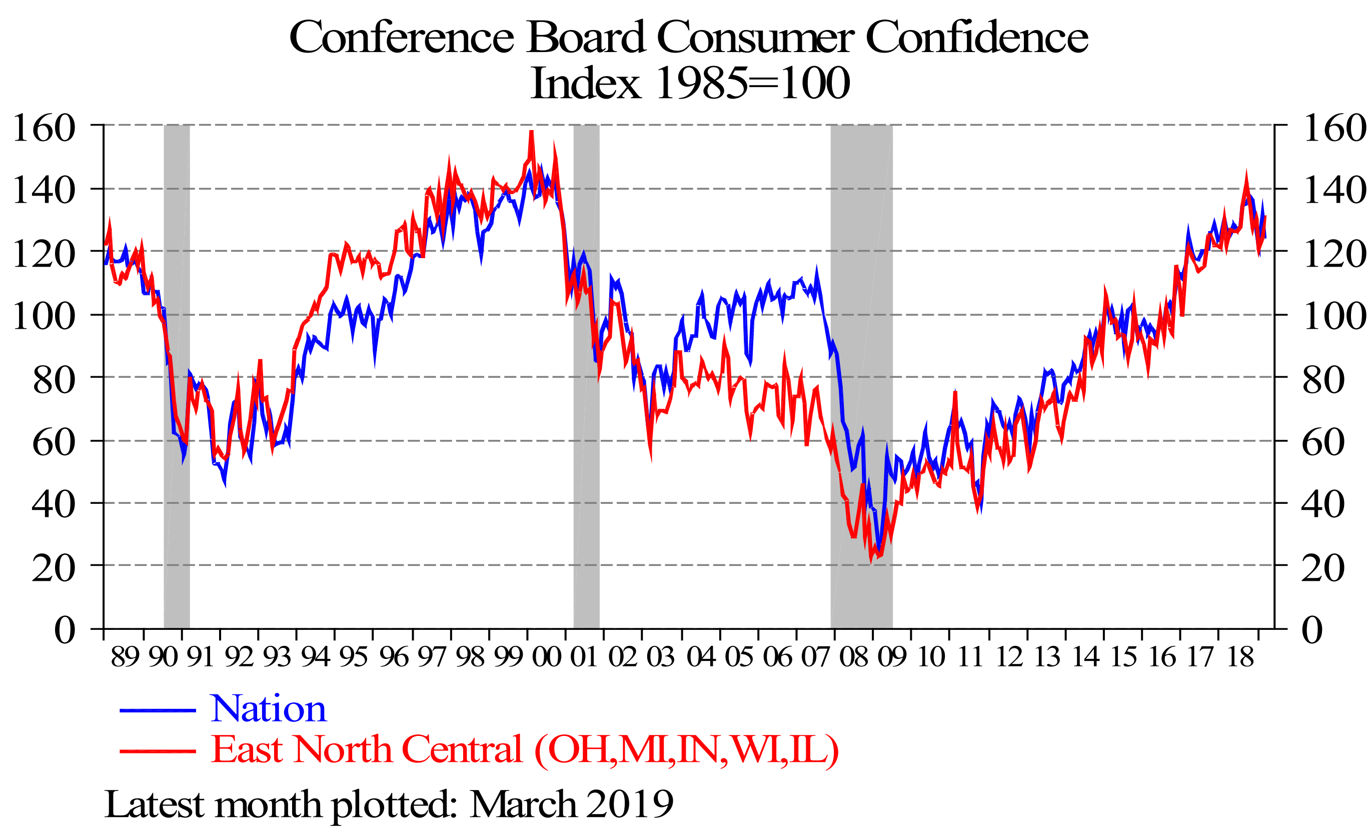
  - NOTE: Unusual non-recessionary stock market volatility and a temporary though lengthy government shutdown slowed retail sales at the cusp of the holiday season. Unseasonably harsh winter weather was also a contributing factor. Although the slowdown in retail sales is expected to weigh on official first quarter real GDP growth when it is released in late April, consumer spending will likely start the second quarter on much firmer footing.

- Consumer fundamentals remain solid. Active labor markets, rising incomes and generally strong overall consumer finances are expected to continue to reignite consumer spending in the second quarter, and for the remainder of 2019.
  - The S&P 500 stock market index rose 20.56% from its recent December 24th low to the end of the first quarter, restoring consumer wealth and confidence.

- Total vehicle sales rose to a 17.45 million annual rate in March, exceeding the total sales in 2018 of 17.21 million vehicles.
- Consumers should also benefit from contained inflation and more moderate borrowing cost increases than in 2018, especially for mortgages.
- The 30-Year Fixed Mortgage Rate dropped from 4.89% on Sept 31, 2018 to 4.10% at the end of March.

- Sustained economic growth, albeit at a more moderate pace than in the last 2 years, should support continued consumer confidence and spending.

Consumer Confidence Remains at Highest Levels since 2000

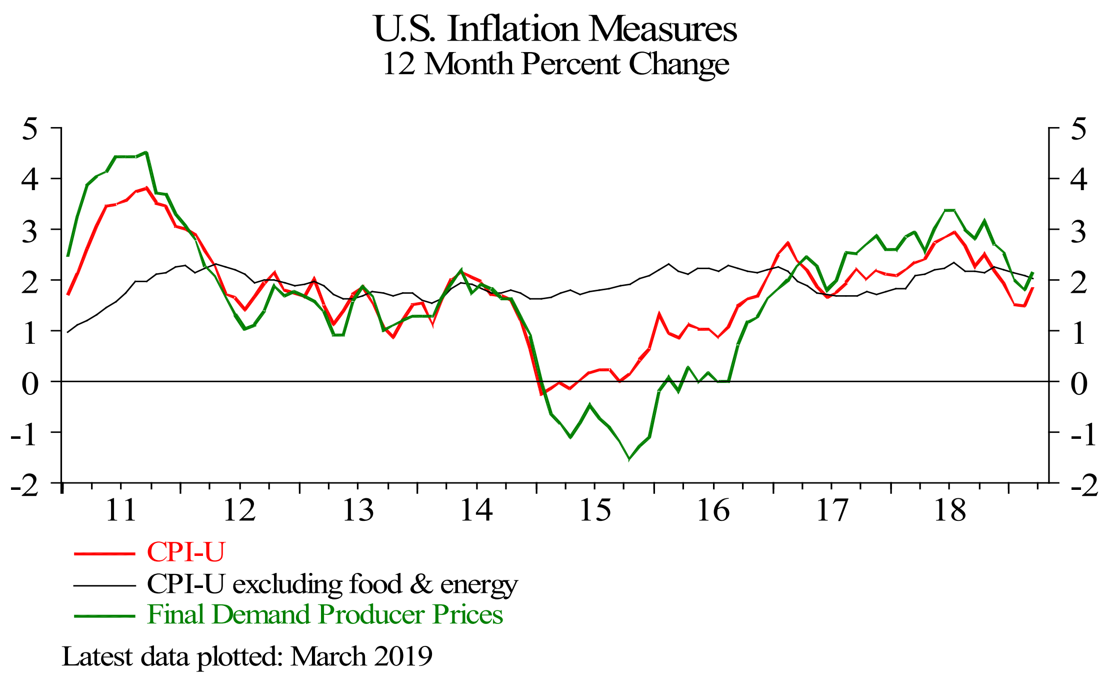


Inflation Eases after Strong Acceleration

- Inflation slowed significantly in the second half of 2018 and the first quarter of 2019, effectively cooling an accelerating trend that began in 2016.
    - The 12-month percent change in the Consumer Price Index for Urban Consumers (CPI-U) declined to 1.86% in March after peaking at 2.95% in July of last year. Most of the slowdown in inflation was the result of a sharp decline in energy prices, but the CPI-U excluding food and energy also slowed from a peak of 2.34% in July 2018 to 2.04% in March.
    - Final Producer Prices showed a comparable price decline from 3.38% in June to 2.17% in March. Consumer prices for Personal Consumption Expenditures (PCE) have followed similar slowing trends in the last 9 months and are expected to be somewhat lower than CPI-U inflation when statistics are released for the first quarter.

- The slowdown in inflation will be certainly welcomed by most consumers as well as businesses. Slower inflation should also reduce the urgency of the Federal Reserve to tighten monetary policy. Lower expected inflation in 2019 relative to last year will likely result in the Federal Reserve holding the Fed funds rate target in the current range of 2.25% -- 2.50% for the remainder of the year.

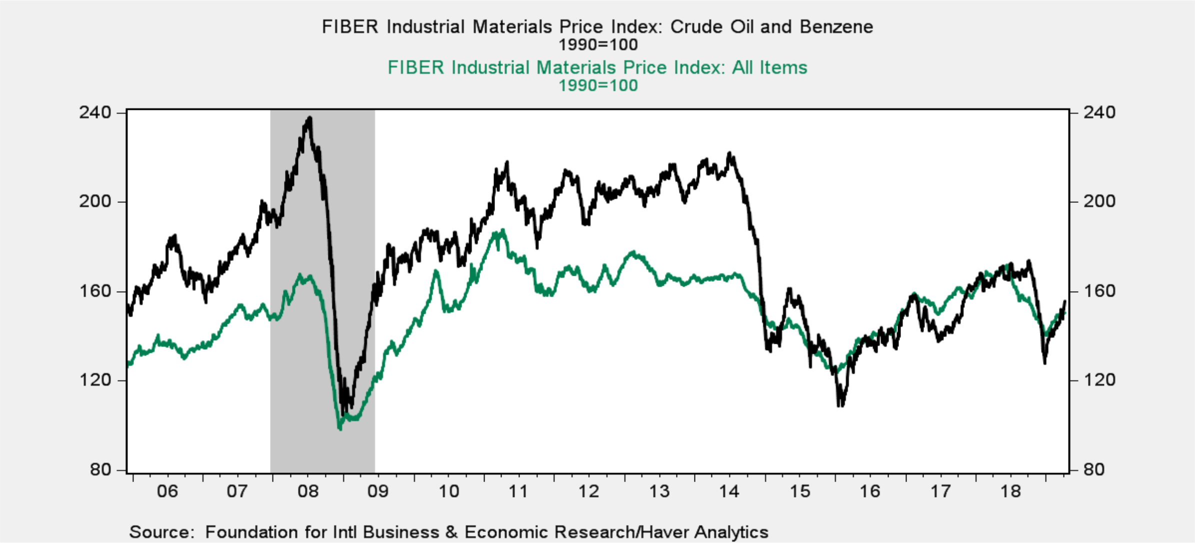
Consumers and Most Businesses Encounter Lower Inflation than in 2018



Energy and Commodity Prices Rising Again, but no significant increase in inflationary pressures yet

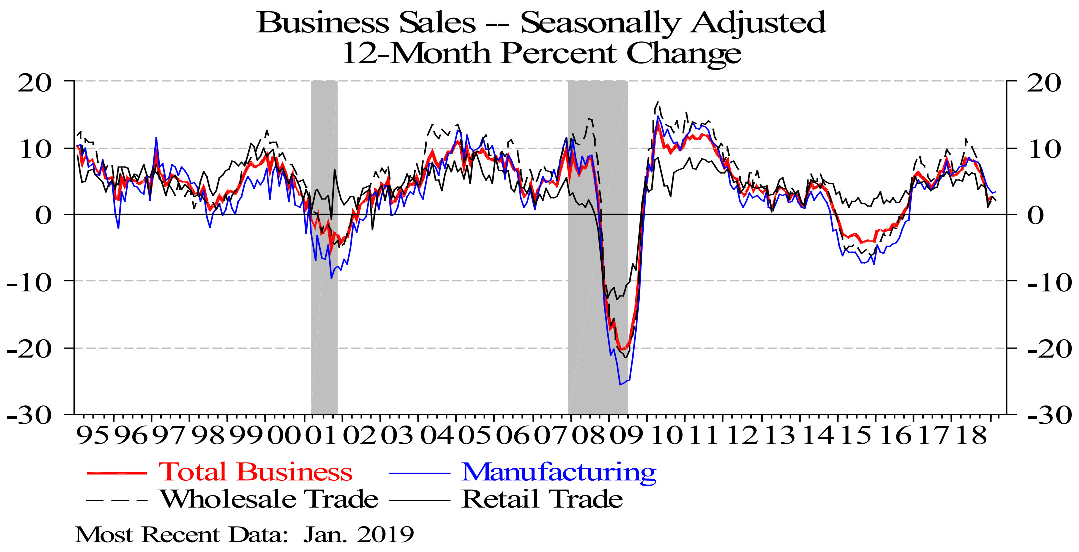
- The FIBER Industrial Materials Price index and the FIBER Sub-index for Crude Oil and Benzene rose steadily in the first quarter thereby ending the period of sharp declines in both indexes that occurred in the second half of 2018. (Please see the Chart below.) The overall FIBER index rose 5.6% during the quarter, ending an 18.3% slide in the index from June 13 to January 3rd. The rise in the energy sub-index ended a 24.2% drop from July 3, 2018 to December 31, 2018. The growth in these indexes during the first quarter is a significant change in trend that is indicative of greater economic growth and liquidity. However, the magnitude of the changes from relatively low levels of the index overall do not indicate a significant building of inflationary pressures. The growth in the overall FIBER Industrial Materials Price Index was well within the bounds of its performance during the prior years of the current economic expansion. The FIBER Industrial Materials Price Index has led inflationary periods in the past, such as the one in the 1970s. Its relative tameness within the bounds of recent years is supportive of our view that overall inflation should remain moderate overall in next 2 years even as energy prices continue to rise periodically, as they are currently are doing.

Energy & Other Commodity Prices Rising from Low Levels



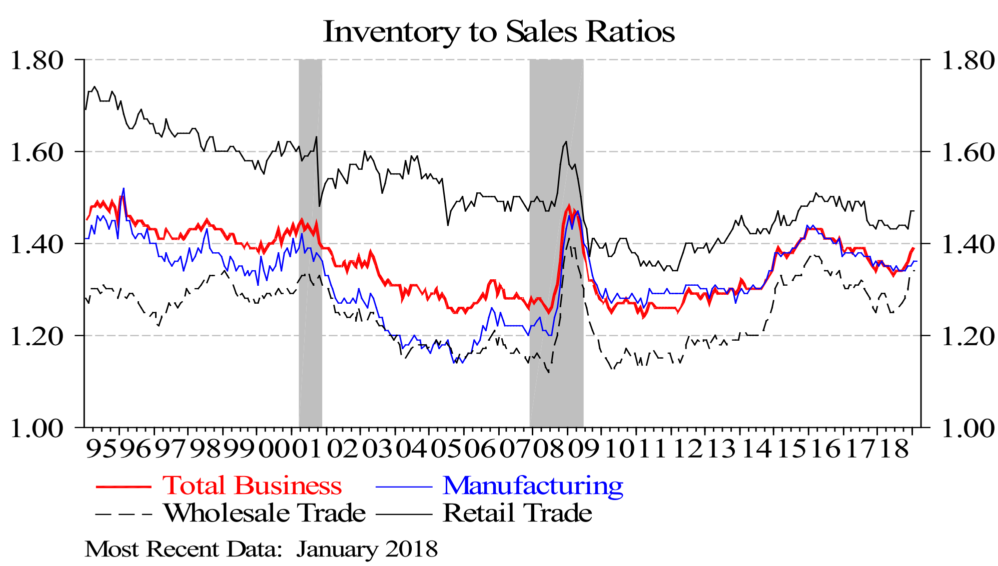
Goods-related Sectors Slow

- Business Sales Growth in Retail Trade, Wholesale Trade and Manufacturing slowed on a year-over-year basis during the fourth and first quarters. The slowdown is expected to be temporary, but a recent build-up in inventory levels will need to be worked down before sales growth resumes the high levels of the last 2 years.

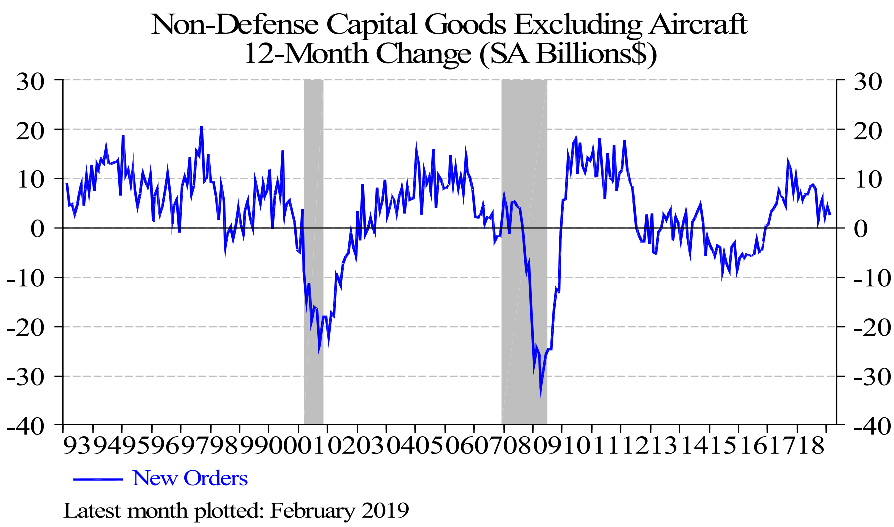


- Slower business sales have led to higher inventory levels. Inventory-to-Sales Ratios rose significantly in Wholesale Trade, Retail Trade and Total Business during December and January. In the March 2019 Non-Manufacturing ISM report on business, an increasing number of businesses indicated that inventories had become "too high." A similar sentiment was expressed in the most recent NFIB survey of small businesses. Manufacturers have been more comfortable with inventory levels overall than in Non-Manufacturing businesses, due in part to precautionary inventories built up to buffer against supply chain disruptions created by tariffs and international trade uncertainties. Total Business Sales could remain relatively low in the first half of 2019 as firms work down their excess inventories relative to sales.

Inventory-to-Sales Ratio Rise Abruptly in Recent Months



- The general slowdown in business sales and energy prices during the second half of 2018 have likely contributed to the slowdown in New Orders for Nondefense Capital Goods Excluding Aircraft that began in the third quarter of 2018 and extended into early 2019. New durable goods orders for Capital Goods have been highly sensitive to the general level of growth in the international economy and energy markets in recent years. The international economy is expected to have a subpar year in 2019, but supply constraints in energy markets will likely lead to higher demand to support new drilling this year.

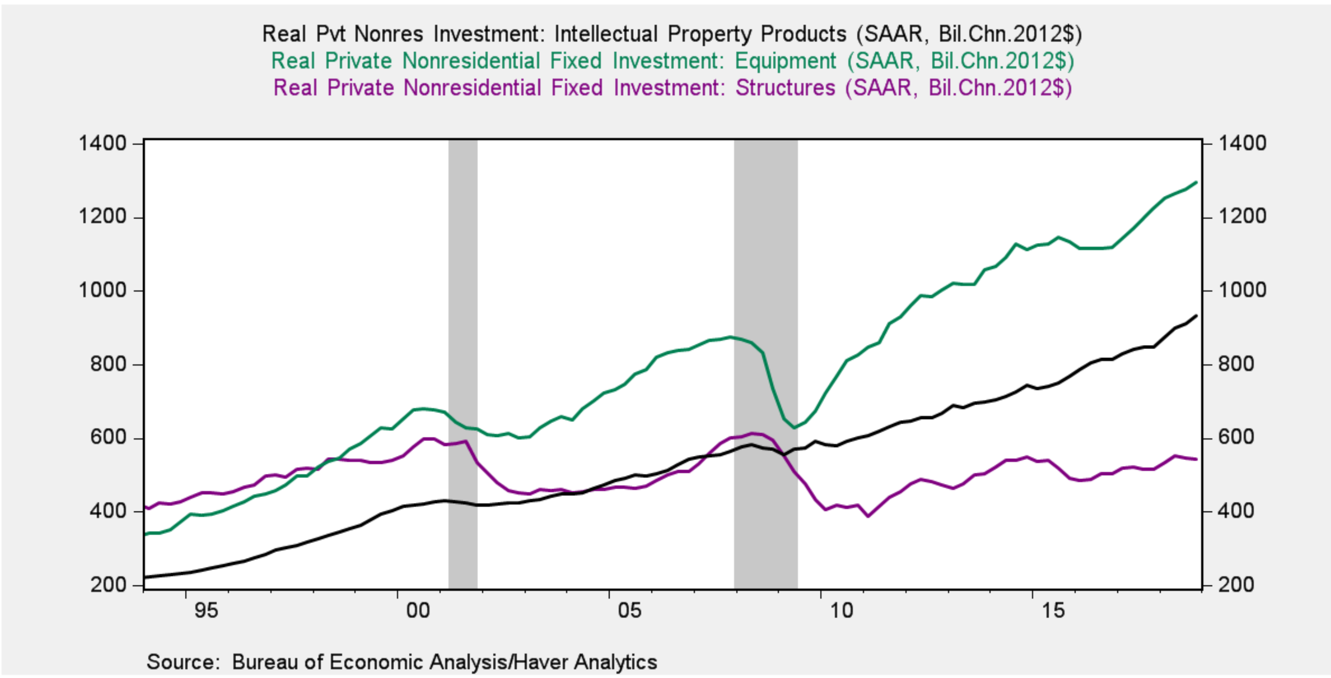


Capital Investment Growing Solidly Overall

- Private Nonresidential Investment in the U.S. is broad-based and growing solidly. The chart below shows the 3 major categories of real private business investment in U.S. real GDP. While investment in structures have still not reached their peak levels of 2008, Investment in Equipment and Intellectual Property Products have been on steady upward trends to new highs. Equipment investment growth has been led by Information Processing Equipment (up 103% between 2009 and 2018) and Transportation and related equipment (up 290% between 2009 and 2018.) Intellectual Property Products have been led by Software (+96.5%), Research and Development (+38.%) and Entertainment, literary and artistic originals (+25.4%).

- Recent tax reforms in the "Tax Cuts and Jobs Act of 2017" were designed to increase incentives for real investments of all types of productivity-enhancing investment utilized by both large and small businesses. As long as the economic expansion continues, growth in these areas of investment will likely continue to rise. Hence, the investment climate in the U.S. is much larger and fuller than reflected in the orders for durable business equipment.

U.S. Business Investment is Rich and Varied

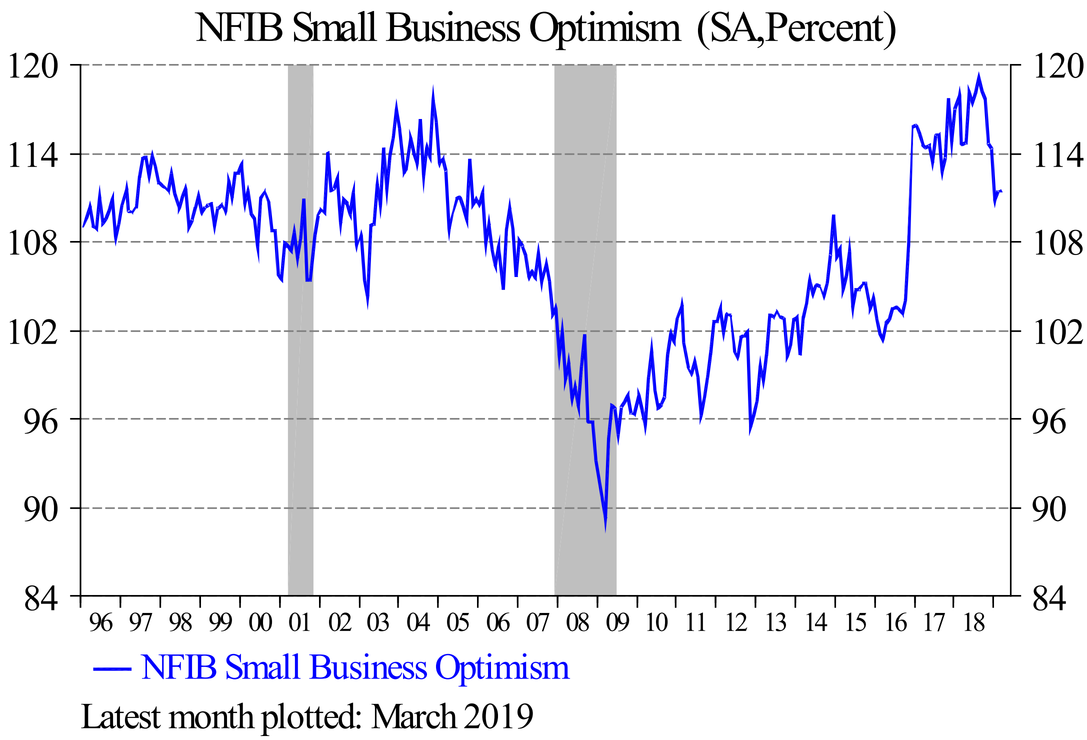


Small Business Confidence "Down, but Not Out" in First Quarter

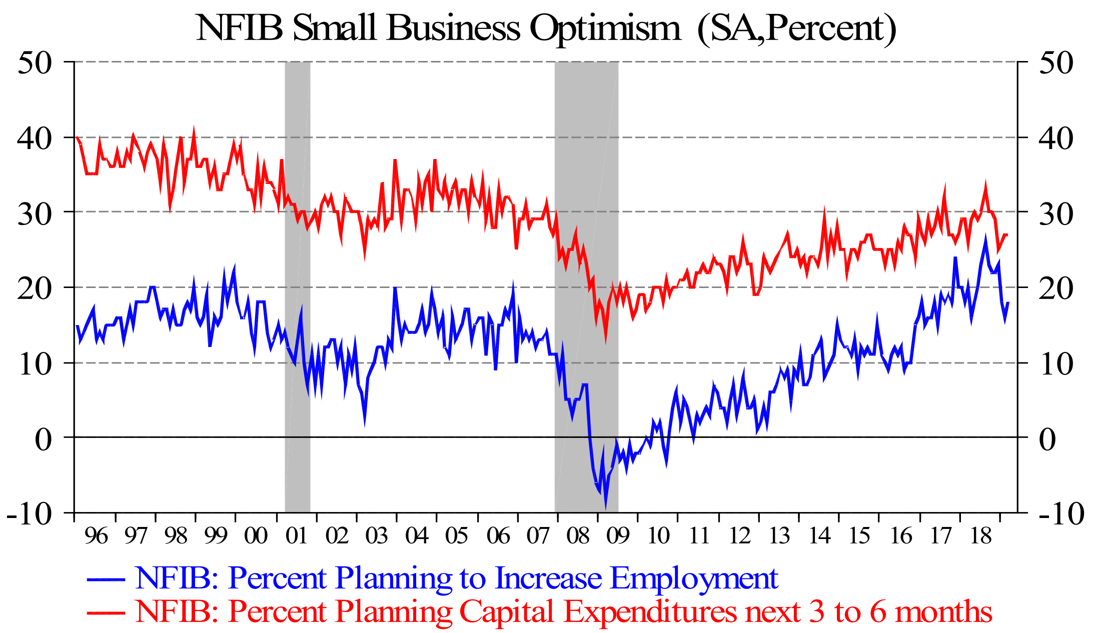
- Small Business Confidence declined from a record high in August to a more cautious level in January 2019. The barrage of negative events during the fourth quarter including financial market volatility, the effects of the Federal government shutdown, concerns about international trade with China and generally slower economic growth all likely contributed to the decline in small business confidence. However, even at this recent low that occurred in January, small business confidence remained higher than in the entire period between March 2006 and November 2016.

- Confidence edged higher in February and March, and small businesses continue to be generally optimistic in their employment and capital spending plans. Although risks in the international economy will likely continue in 2019, a general firming of economic growth as the year progresses should begin to raise small business confidence towards the 114 level again.

Small Business Confidence declines from historically high levels



Small Businesses Plan Expansion, Especially of Employment, but at a somewhat slower pace than last year

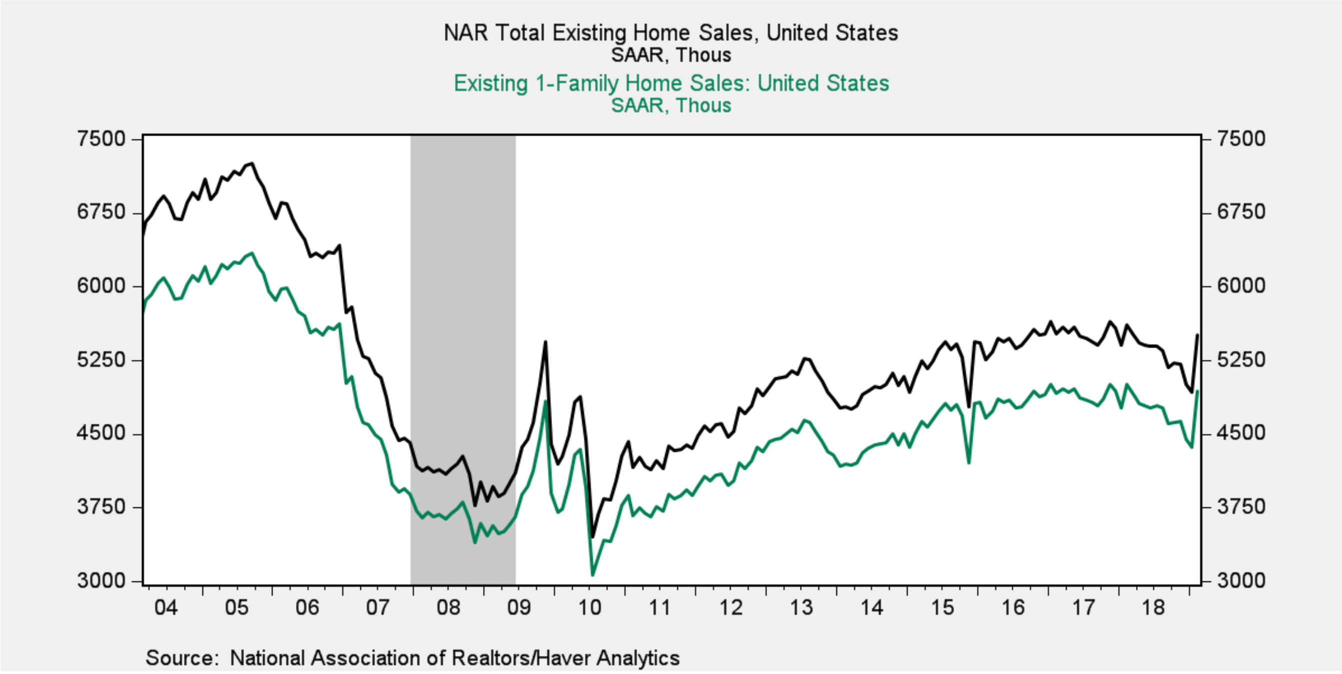


Latest month plotted: March 2019

Housing Markets Show Signs of Bottoming

- Housing sales dipped as much as -10.2% in the 12-months ending December, but both Existing 1-Family Home Sales and Total Existing Home Sales rebounded strongly so far in early 2019. Total Existing Home Sales reached a 5,510,000 Seasonally Adjusted Annual Rate in February for the strongest month for sales since March 2018. At 4,940,000, Existing 1-Family Home Sales were at their highest since February of last year.

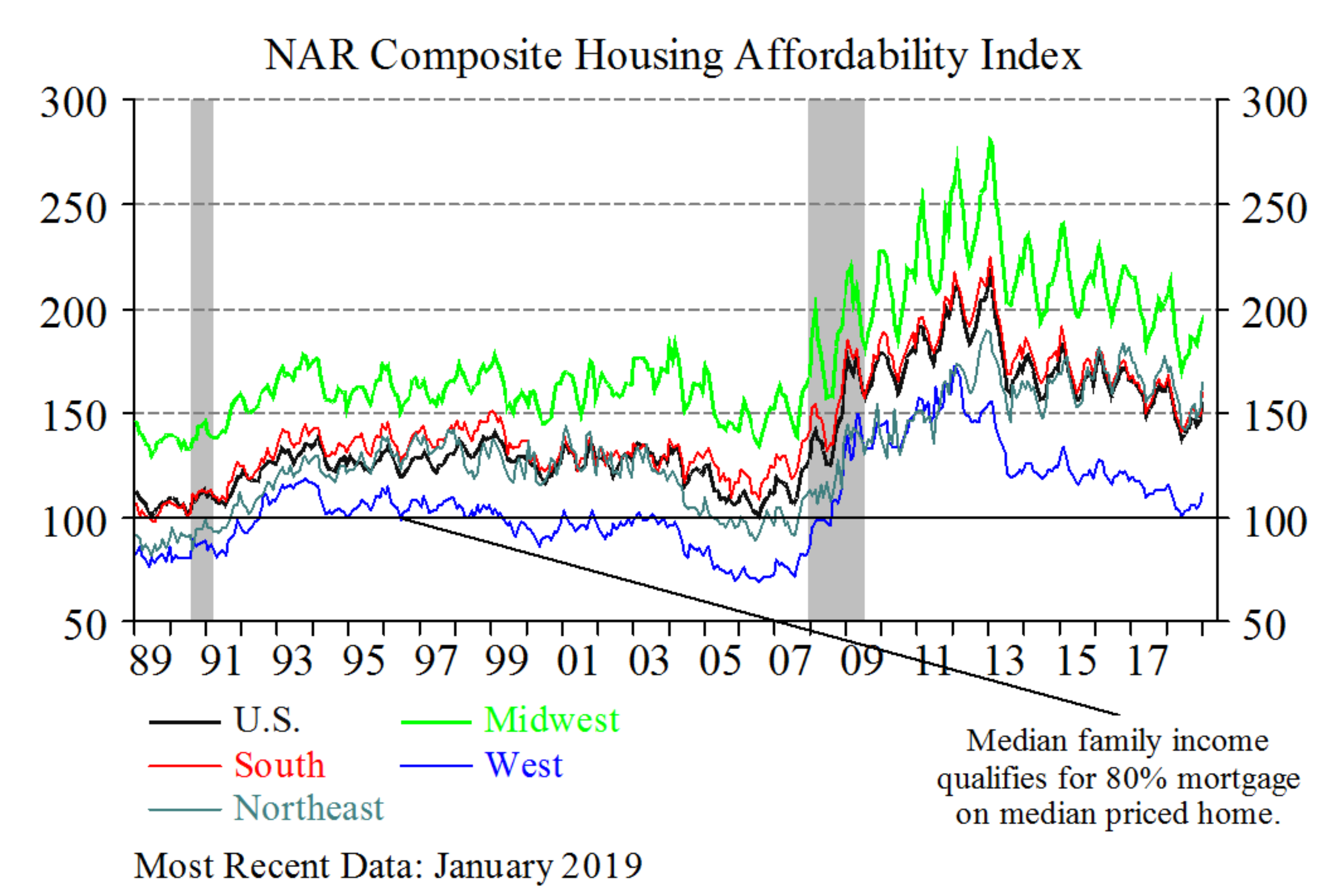
Existing Home Sales Rise Strongly in early 2019



- Housing Purchase prices have been rising steadily and have risen 52.4%% from when they bottomed in May 2011 according to the FHFA House Price Index for Purchases Only. Prices may have become frothy in some markets, such as some Western states. However, personal incomes have also been rising, and strong job markets have increased the capacity of many consumers to buy homes. Affordability is not as high as several years ago, but it remains above average for the nation and most major regions of the country. (Please see the chart below.)

- With an expected moderation in home price growth and mortgage rates in 2019, housing affordability should remain high on average, continuing the housing market growth that began early in the first quarter. According to the National Association of Realtors the Midwest continues to provide the highest affordability in the nation – an attribute that should help it to attract and retain homebuyers.

Led by the Midwest, Housing Affordability Remains Above Average for the Nation Overall



Potential Risks from the International Economy in 2019

The international economy is expected to pose increased risks in 2019. Downward pressures could develop on global long-term interest rates in the worst-case scenario of a hard Brexit and no US/China trade deal, should they occur. However, these are risks rather than a forecast. The primary influence of the international economy on the U.S. in 2019 will likely be slower export growth and generally slower international business sales and profit growth than in 2017 and 2018.

- Brexit has become the largest area of international economic risk. The U.K has obtained an extension from the EU until October 31st to obtain a parliamentary agreement on a post-Brexit economic relationship with the EU, such as a possible customs union that would allow relatively free trade in goods and mitigate some of the most difficult border issues. However, the Labour Party opposition was not close to any agreement with Prime Minister May at the time the extension from the EU was obtained in early April. The ongoing challenges within the U.K. to obtain a post Brexit blueprint that can pass Parliament underscores the arduous political process and policy uncertainty that could continue.

- China's economy is somewhat uncertain as the country grapples with its transition to a major economy and international trade conflicts. Fiscal and monetary stimulus will likely be significant in the coming year, and preliminary manufacturing surveys indicate a pick-up in activity this spring. Exports have been rising, although imports lagged in the first quarter.

- Labor markets have firmed significantly in the developed economies in Europe and Japan, creating strong consumer demand potential, a possible offset to declining exports, soft business confidence and weakening overall real GDP growth. Offsetting these gains are a scheduled increase in the VAT (Value Added Tax) in Japan in late 2019 and no significant pro-growth fiscal changes in most European countries, particularly in the eurozone.

- Monetary policy in Europe and Japan is shifting from further tightening to the potential for an increasingly accommodative stance in 2019 should economic growth deteriorate further. The ECB has already announced that it will keep its discount window open to EU banks that come under stress, should they require assistance. They have also signaled that they will likely maintain their Main Refinancing Rate at 0% throughout 2019.

- Tensions in international trade are creating general uncertainties in the world economy. As a result, the International Monetary Fund recently revised its world economic outlook down in 2019 for the third time to 3.3% -- its slowest global real GDP forecast since the 2009 crisis.

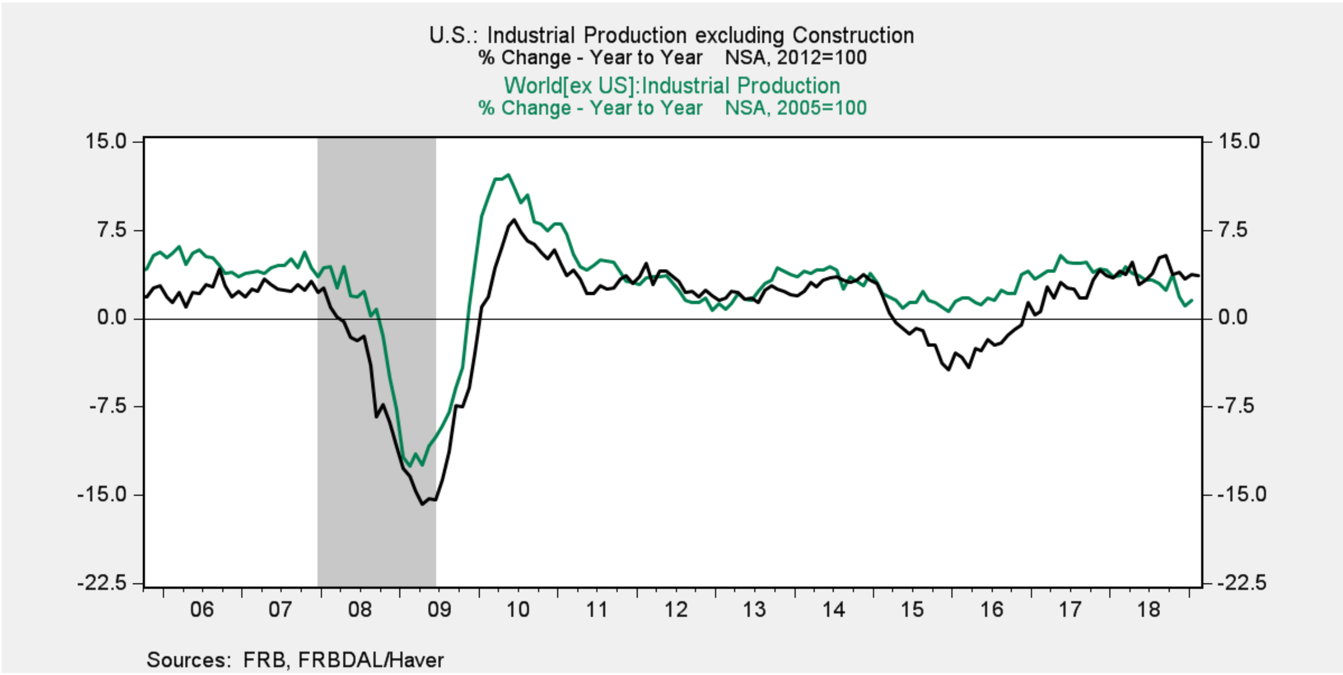
In contrast to earlier revisions, the most recent downward revision was broad-based across countries and regions.

- Trade surpluses with the United States in places such as Germany are expected to obtain increased attention from the U.S. administration in the coming year. Subsidies to aircraft producers in Europe are the most recent focus of the Administration. International trade tensions can have a near term negative impact on the economy as trade tensions could raise business uncertainty and reduce capital investment, as a result.

- Europe will likely continue to grapple with internal problems. Italy, Spain, France and other countries across the continent remain challenged by high debt and/or internal political tensions including a rising wave of anti-EU sentiment.

- Turkey remains a key emerging market economy undergoing financial stresses largely related to political instability. President Erdogan refused to concede his party's defeat even after a recount supported the initial election result. As a result, the Turkish lira has come under renewed pressure, putting renewed pressure on Turkey's dollar and euro denominated debt.

U.S. Industrial Production Growing Faster than the rest of the World



These data are published by the Dallas Fed's Globalization and Monetary Policy Institute as part of the Database of Global and Economic Indicators. A detailed description of the sources and methodology can be found in "Database of Global Economic Indicators (DGEI): A

Methodological Note" (Valerie Grossman, Adrienne Mack and Enrique Martinez-Garcia). The authors acknowledge use dataset described in Grossman, Mack and Martinez-Garcia (2014).

Yield Curve Inversion Does Not Necessarily Result in Recession

- The interest rate spread between the 10-year Treasury interest rate and the Fed Funds rate target became negative or inverted during brief periods in March. Financial markets became concerned that a general slowdown in the world economy, continued high uncertainties regarding the fate of Brexit, and the first quarter slowdown in the U.S. economy signaled slower economic growth. When this economically sensitive spread became negative for a sustained period, as it did prior to the 2 most recent recessions, then the probability of recession occurring became elevated. The yield curve spread has likely lost some of its predictive power in recent years as long-term bond yields in the world economy have declined to unusually low levels for reasons independent of the expected growth of the economy by market participants. Global demand for bonds in portfolios has been unusually high and steady, while the largest central banks including the Federal Reserve have been actively purchasing bonds to suppress long-term interest rates with the objective of stimulating the economy. Despite these factors, long-term interest rates have remained sensitive to changes in economic conditions, and financial markets continue to view the yield spread as a key indicator even as some of the technical reasons for maintaining this view are subject to debate.

- Even a negative yield curve, should it develop this year, is not necessarily a sign that a recession is on the way. A recession did not result after yield curve inversions during 2 periods since 1954. The first yield curve inversion occurred between March 23, 1966 – April 6, 1967. The second inversion period was between Jan. 6, 1998 and Jan. 29, 1999.

- In both historical cases the economy was functioning fundamentally well at mid-cycle, as is the case currently.
  - In the 1960s period, the Federal Reserve was tightening monetary policy to counter inflation and had raised the Effective Federal Funds rate to the point at which the economy had begun to slow and inflation risks were easing. It subsequently cut the effective Fed Funds rate to successfully avert recession.
  - In 1998, negative international developments from the 'Asian contagion' crisis weighed on financial market confidence and long-term interest rates. A 'flight to quality' emerged in which high demand for U.S. Treasury bonds suppressed long-term yields in the U.S. to levels below the Fed Funds rate target. The crisis ultimately engulfed many of the strongest

emerging market economies, thereby weighing on the entire international economy. The collapse of Long-Term Capital Management was a further omen of the potential unknown financial market repercussions of continued stress on financial markets. The crisis intensified in the summer of 1998 and threatened to slow the U.S. economic expansion.

- The Federal Reserve ultimately responded by cutting the Federal Funds rate target by 75 basis points in 3 actions. The easing of monetary conditions helped to avert a widening and spreading of the Asian contagion to financial markets and the developed economies. Normalcy gradually returned to bond markets, the economy and the yield curve spread.

- As was the case in 1998, the current domestic economy is fundamentally sound, but international factors are weighing on the global economic landscape and financial markets. Unknowns surrounding Brexit, the strength of the EU economy and China have raised market concerns that a wider world economic slowdown could develop. Trade conflicts have probably added to the uncertainties regarding the robustness of the international economy. As was the case in 1998, U.S. long-term interest rates have been declining to the point that they are on par with the Fed funds rate target. (In the first 5 months of 1998 the Fed Funds rate target and 10-year Treasury were sufficiently close to generate 3 short periods of no more than 9 days when the yield spread became negative. A sustained yield curve inversion did not commence until June.)

- If events deteriorate significantly in the world economy to the point that contagion-type risks in trade and financial markets develop, the Federal Reserve will likely cut the Fed funds rate target rate analogously to the 2 historical periods. In the Minutes of the Federal Open Market Committee meeting of March 19 and 20, the Federal Reserve identified the state of the international economy as a potential risk to their forecast for the U.S. economy, which has positive implications for their intentions to respond proactively in case international economic performance deteriorates.

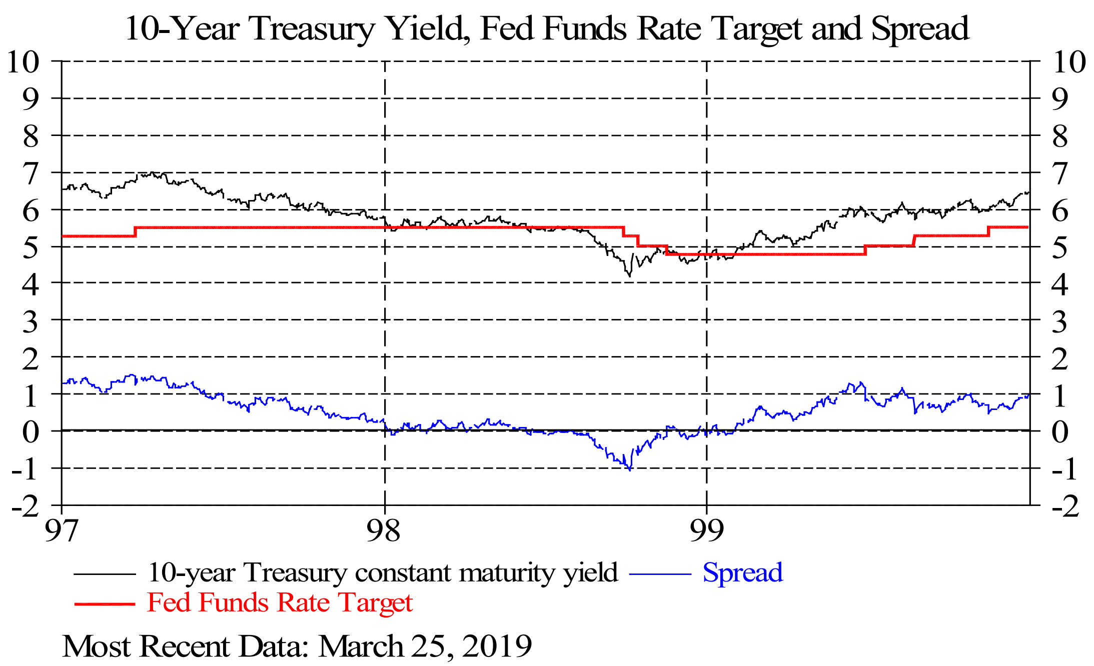
  - Furthermore, the Federal Reserve identified inflation as unusually low given the overall strength of the U.S. economy and labor markets. Low inflation risks provide latitude for significant cuts in the Fed Funds rate target. Reductions in the Fed Funds rate target would promote increased economic growth and simultaneously raise long-term interest rates through raising market expectations for higher growth and inflation.

- In sum, if the yield curve inverts as it did in the 2 historical precedents, the Federal Reserve would likely respond in similar fashion by cutting the Fed Funds rate target significantly. In today's environment, the Federal Reserve might augment rate cuts with purchases of short-term U.S.

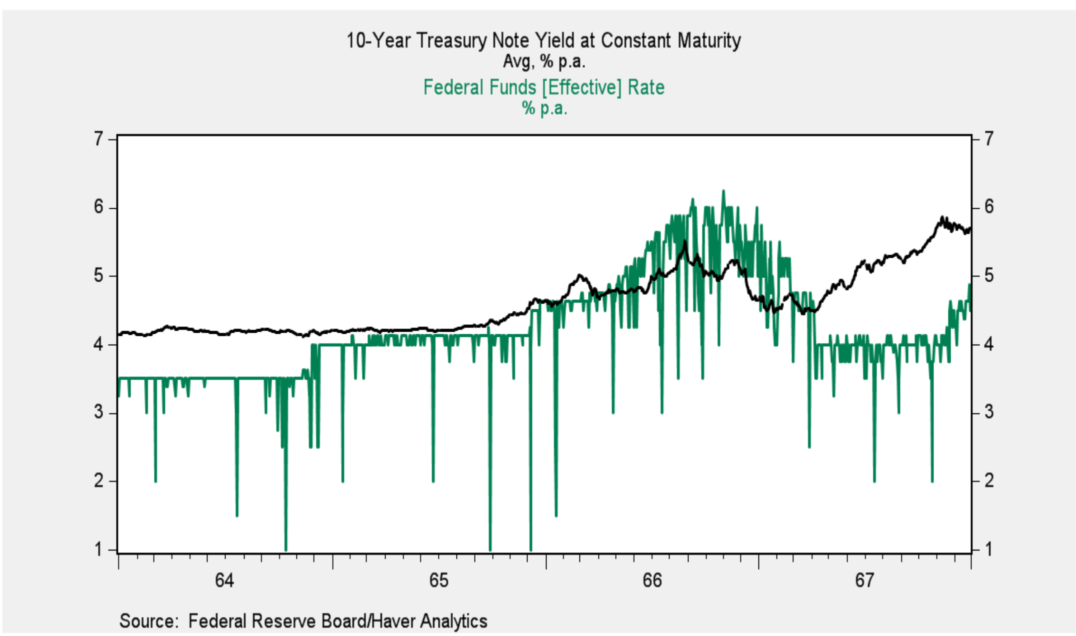
Treasury bonds to further support the return of a positive yield curve. However, like 1998 and 1966, the Federal Reserve would probably not begin to cut the Fed funds rate target until evidence was clear and mounting that the economy needed the lowered Fed funds rate target. The historical yield curve precedent for the commencement of policy rate cuts in both periods is approximately -1%.

- While a deterioration in the international economy and the yield curve slope is a risk, it is not the forecast. The first quarter performance of the U.S. economy was relatively weak, which is likely creating an additional near-term suppressant on long-term interest rates. However, most of the factors that caused the first quarter slowdown have been significantly reduced or ended. The change in Federal Reserve policy towards accommodation and patience, the end of the government shutdown, and an increasingly positive and conciliatory tone in the U.S/China trade negotiations have reduced macro uncertainties and have been gradually restoring consumer and business confidence. One negative factor remains – the overall state of the international economy. It will likely be a key determining factor in the yield curve's slope in 2019.

The Fed Funds Rate Target decline of 75 basis points was the major catalyst in restoring a positive slope to the yield curve in 1998/1999



Significant reductions of the Federal Funds Effective Rate restored a positive slope to the yield curve in 1966-1967



Note: The Effective Fed Funds rate during the 1960a had considerable volatility. The Downward Spikes in the graph reflect settlement dates when the Effective Fed Funds rate dropped as low as 1%.

Summary Table

Key Economic Indicators
April 23, 2019

	2016	2017	2018*	2019*
Real GDP Annual Growth Rates 2012 Chained Dollars				
Consumption	2.7%	2.5%	2.6%	2.5%
Non-Residential Fixed Investment	0.5%	5.3%	6.9%	4.8%
Residential Fixed Investment	6.5%	3.4%	-0.3%	-1.6%
Exports	-0.1%	3.0%	4.0%	1.8%
Imports	1.9%	4.6%	4.0%	2.8%
Government Purchases	1.4%	-0.1%	1.5%	1.4%
Change in Private Inventories (Billions 2012 Chained Dollars)	$23.4	$22.5	$45.0	$50.0
Total Real GDP	1.6%	2.2%	2.9%	2.1%
Nominal GDP Current dollars	2.7%	4.2%	5.2%	4.4%
Consumer Price Index for Urban Consumers (CPI-U) - Annual Rate	1.3%	2.1%	2.4%	1.9%
Federal Funds Rate Target Year-end range	0.50% to 0.75%	1.25% to 1.50%	2.25% to 2.50%	2.25% to 2.50%
10-year Treasury Note Year-end interest rate yield	2.45%	2.40%	2.69%	2.60%
National Income Corporate Profits Average annual growth rate	-1.1%	3.2%	7.8%	4.4%
Net New Average Monthly Non-Farm Payrolls (Thousands of Workers)	193K	179K	223K	140K
Unemployment Rate -- Annual Average	4.9%	4.4%	3.9%	3.6%

Data Sources: Haver Analytics, Factset Inc., and other sources noted in text.

*Forecasts: Huntington Investment Management of the Private Bank, Division of Huntington National Bank

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Bonds are affected by a number of risks, including fluctuations in interest rates, credit risks, and prepayment risk. In general, as prevailing interest rates rise, fixed income securities prices will fall. Bonds face credit risk if a decline in an issuer's credit rating or credit worthiness, causes a bond's price to decline.