Economy in Focus

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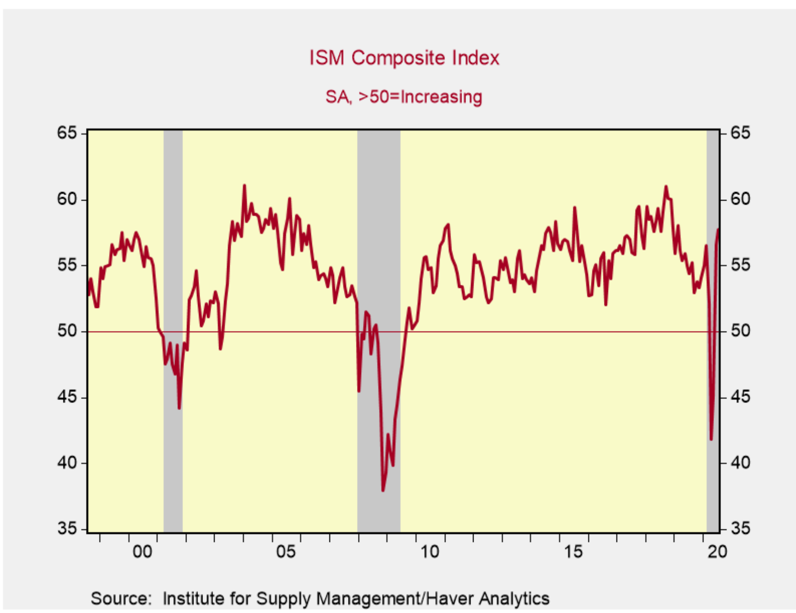
The Economic Outlook

After a sharp 32.9% annualized rate of decline in the second quarter resulting from COVID-19 related economic shutdowns, real GDP growth is forecasted to reemerge strongly in the second half of the year, led by V-like acceleration in the third quarter at a double-digit pace. Monetary policy will likely remain highly accommodative well into 2021 with policy interest rates maintained at historically lows near zero. Fiscal policy under the CARES Act and previous legislation to counter the COVID-19 crisis have been highly supportive of impacted workers and small businesses to date, helping to sustain a strong rebound in consumer spending. If needed, additional fiscal support is likely.

Overall GDP growth for the year is forecasted to decline 4.7% in 2020 and recover 5.6% in 2021, although risks to the forecast are unusually high in both directions, depending on developments in the containment of the virus. Suppressed by the global downturn, inflation is likely to be low in 2020 overall before commencing a gradual but sustained acceleration in 2021, achieving 2.0% in 2021. Labor markets are expected to continue a strong recovery in the second half of the year, although many workers in the travel, leisure, and hospitality industries will not return to those jobs until the COVID-19 crisis is contained, most likely next year with anticipated vaccine successes. The unemployment rate is forecasted to decline from 10.2% in June into the 7%-8% range by year-end, with continual but more gradual declines in 2021. The Federal Reserve will likely maintain the Fed Funds rate target in the 0.0%-0.25% range until the end of 2021. Expanded purchases of bonds in addition to high bond purchases by foreign central banks in Europe and Japan will likely suppress long-term interest rates for the foreseeable future. Rising inflation and economic growth next year are expected to lift the 10-year Treasury yield into the mid 1.0% to 2.0% range next year. (The Economic Forecast is in the Summary Table at the end of this report).

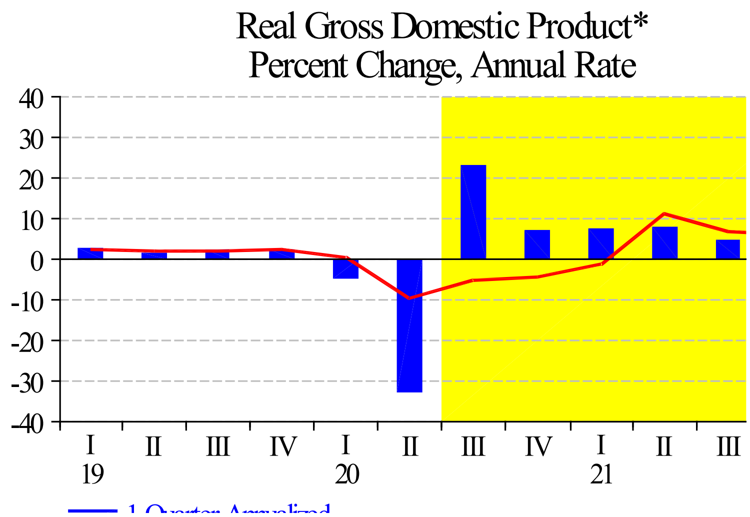
Economic Activity Accelerates to Strongest Growth Since February 2019



GDP Rising Again

Real GDP is forecasted to rebound at a 23% annualized rate in the second quarter after declining at a 33% rate in the second quarter and a 5% rate in the first quarter. In the fourth quarter the recovery is expected to continue at a slower pace until pre-recession GDP is achieved in the second quarter of 2021. On an average annual growth basis, real GDP is forecasted to decline 4.7% in 2020 and rise 5.6% in 2021. Forecast risks are relatively high in both directions around these estimates depending on developments of the virus and other unforeseen events.

Economic Forecasted to Continue Recovery

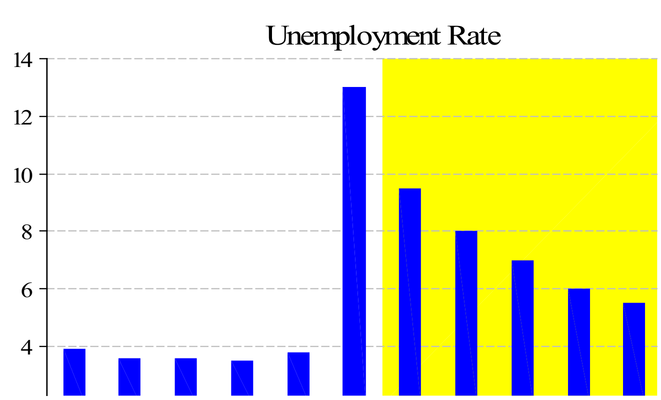


Although COVID-19 will likely continue to pose headwinds to growth, such as through online schooling and periodic resurgences, no further widespread economic closures are expected. The high likelihood of new vaccines and other medical developments by early 2021 to counter the spread and severity of COVID-19 should promote confidence and full economic recovery. Consumers and businesses will likely continue to improve the efficiency of virus avoidance techniques as well, and gradually resume travel and other high social contact activities. Until the time when consumers feel high comfort with social contacts, they will likely continue to shift their high spending capability towards vehicles, home improvements, recreational equipment, and forms of entertainment that require relatively low social contact with the public. Monetary and fiscal stimulus, both current and potential, are extraordinarily supportive even as unemployment compensation is likely to decline.

A Far Way to Go, but Labor Markets Recovering

After spiking to 14.7% in April, the unemployment rate declined to 10.2% in July on the rapid return of millions of workers laid off by the COVID-19 closures. The unemployment rate is expected to continue to decline as workers return to reopening establishments. The unemployment rate is forecasted to decline to 7.5% in December (8% average during Q4) and continue to decline in 2021 to 4.7% at year end, as economic growth raises worker demand. Although employment in sectors of the economy most impacted by the COVID-19 crisis, such as in the hospitality and travel industries, may not fully recover pre-COVID-19 employment by the end of 2021, job growth in other sectors of the economy are expected to offset many of the COVID-19 job losses. High consumer spending on consumer durable goods and housing will likely create new job opportunities. While a hindrance to growth following the Great Recession of 2008/2009, housing markets will likely be a source of growth in the current recovery. Learning from the problems of excessive reliance on foreign suppliers, public and private entities will establish new domestic sources of essential products such as medicines and medical equipment, providing another new source of economic growth. In general, the multi-decade outsourcing trend is expected to end regardless of political leadership in the future.

The Unemployment Rate is forecasted to decline steadily from historically high rates

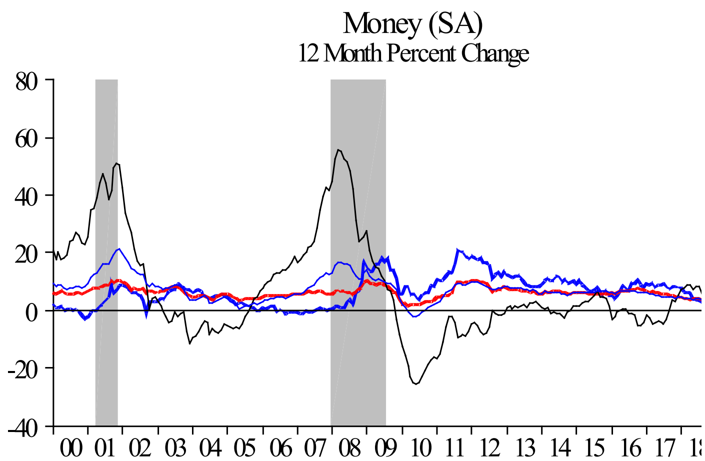


Risks emanating from COVID-19 related medical developments will likely remain high. Future closures will likely be targeted rather than universal as the required medical infrastructure has been put in place. The high probability of vaccines and other life-sustaining medicinal advancements as early as next year should ultimately normalize most social interactions and restore full economic functioning including travel-related spending. However, a resurgence of the virus before the availability of vaccines would likely reduce and limit economic growth. The forecast presumes that most of the public takes appropriate precautions recommended by the CDC such as face coverings, practical social distancing, and attention to hygiene.

Highly Simulative Monetary Policy Providing Potential Stimulus

The Federal Reserve is conducting a highly expansionary monetary policy featuring a Fed Funds rate target in the 0-0.25% range, purchases of Treasury and Mortgage Backed Securities (MBS), and a host of new facilities designed to support credit in private and municipal bond markets. Furthermore, Federal Reserve policymaker projections and other public statements have kept the end of extraordinary monetary policy measures open-ended. These policies have provided high levels of liquidity to financial markets, as reflected by the strong growth in money supply measures since the commencement of the COVID-19 crisis in March. In contrast to the period after the 2008/2009 financial crisis, banks are in a strong position to maintain normal money supply expansion processes. Therefore, money supply growth is expected to continue at a strong pace for the next year. Expansionary monetary policy provides high stimulus to growth in the intermediate term. In the long-term, which can take years rather than months or quarters, high money supply growth leads to increased inflation if left unchecked.

Money Supply Expansion Expected to Remain Strong



The Dollar Declines, but Remains Strong on a Trade-Weighted Basis

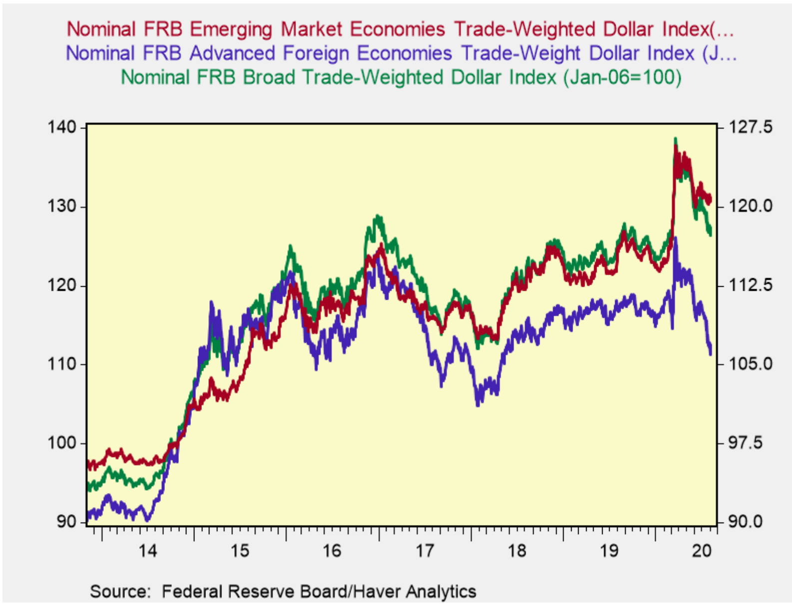
The dollar rose sharply against virtually all currencies in March and the first half of April as the COVID-19 crisis disrupted financial markets and economies worldwide. Investors fled to the safety and quality of the world reserve currency during the early crisis period when COVID-19 spread worldwide. The massive and immediate monetary and fiscal policies implemented in the United States and other economies around the world calmed financial markets by providing the liquidity and stimulus to support economic recovery. As the initial crisis ebbed, the dollar began to lose some of the "flight to safety" gains it acquired during the initial financial crisis period. According to the broad trade-weighted dollar index provided by the Federal Reserve, the dollar declined from its crisis peak of 126.47 on March 23 to 117.34 on August 14. Despite the decline, the dollar has remained above its value of 115.03 on January 2, well before the COVID-19 crisis swept financial markets.

While the dollar has remained strong overall during the economic recovery, its relative performance has been stronger relative to the currencies of emerging market economies over those of advanced economies. The dollar has been especially weak against the euro, with the exchange rate going from 1.08 dollars/euro on May 14 to 118.33 on August 14. In comparing the 2 economic monoliths, both had severe GDP declines in the second quarter. GDP declined at a 33% annual rate in the United States and at a 40% rate in the EU 27. Both implemented highly expansionary monetary policies. Europe may have been more successful in containing the spread of COVID-19 during the early summer months, although some resurgence appears to be occurring in late summer. The major difference may be the expected state of economies after the COVID-19 crisis. The United States implemented significantly larger fiscal stimulus than the EU, bringing long-term United States government debt above 100% of GDP. In contrast, the added monetary and fiscal stimulus in Europe is helping its economy recover not only from the COVID-19 shock, but also from the persistent weakness in the Eurozone prior to the COVID-19 emergence. Increased stimulus makes it increasingly likely that the

European economy will begin to recover from its doldrums of 2019 whereas the United States economy was already strong prior to the COVID-19 crisis. Despite recent declines against the euro, the dollar is currently on par with the 118.2 average exchange during 2018 – a fair value given relative improvements in the European economy.

In the next year, the dollar is forecasted to stabilize overall against currencies of advanced economies as the U.S. economic recovery gains traction. The dollar will likely weaken back to pre-COVID-19 rates against Emerging Market economies as these burgeoning economies begin to recover from the global economic slowdown. The net impact is for a forecasted return of the dollar on a trade-weighted basis to 115.0 at year-end 2020, and a slight upside to 115.5 in 2021 as the United States and global economies exhibit broad-based economic growth and trade.

The Dollar Oscillates in 2020



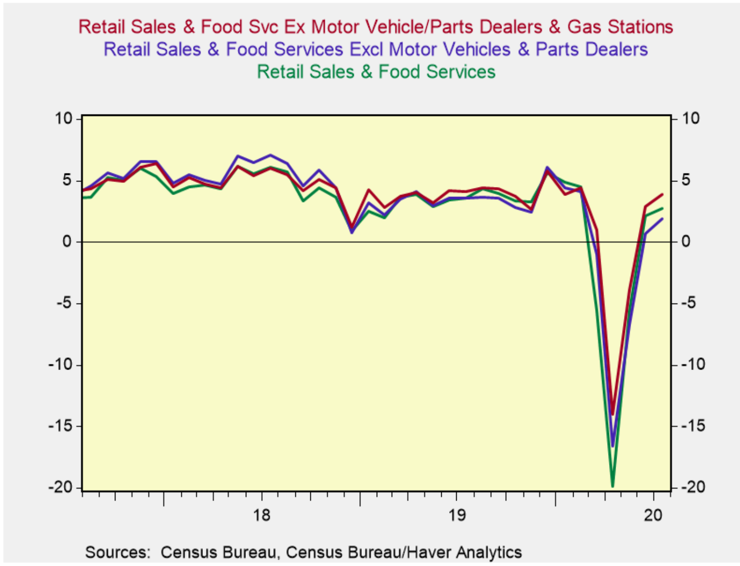
Retail Sales Recover from COVID-19 Shutdowns

Retail Sales surged for a third consecutive month in July, rising 2.7% above retail sales in July 2019. Excluding motor vehicles, MV parts and gasoline station sales, total retail sales were up a strong 4.3% from the same month last year, reflecting a V-like recovery in retail sales. In the new social distancing COVID-19 world, areas of high spending gains revolved around the home, home-related activities, and private transportation. Consumers spent 6.1% more for motor vehicles, 14.8% more for Building Materials and Garden Supplies, 17.8% more for Sporting Goods, Hobbies, Musical Instruments, and Book Stores, and 11.1% more at Food and Beverage Stores. As expected, they spent 24.7% more from online retailers. With a 22.9% increase in June, purchases of electronics and electrical appliances were only 2.8% below July 2019 levels. Spending on furniture was also only 0.7% less than last year.

The retail areas showing annual declines from last July were Gasoline Stations (-15.6%), Clothing and Clothing Accessories stores (-20.9%) and Food Service and Drinking establishments (-18.9%). Department store sales were down 13.4% although total general merchandise stores registered an annual gain of 1.1%. The relatively weak areas were clearly negatively impacted by the COVID-19 related restrictions and consumer precautions. However, even these highly impacted areas by COVID-19 showed exceptional improvements since the government shutdowns began to be eased in May. Furthermore, the July sales gain occurred even as COVID-19 and social unrest likely slowed activity in some states and metro areas. Consumers may be becoming more efficient in their shopping. They are also buying more large ticket items such as vehicles and items for home improvement. Lower interest rates, strong pent-up demand, and increased time spent at home as a result of social distancing requirements are certainly adding to the burgeoning spending impulse. Government support has also boosted spending by the large number of unemployed in July. Workers who are not reemployed in the coming months will likely reduce their contribution to the retail spending improvements, but some continued Federal government support for the unemployed in the near term is expected through executive actions by the President. Congress will likely continue to work towards enacting another stimulus bill that extends support to the unemployed.

Retail Sales Make a V-like Recovery as Consumers Shift Spending Patterns

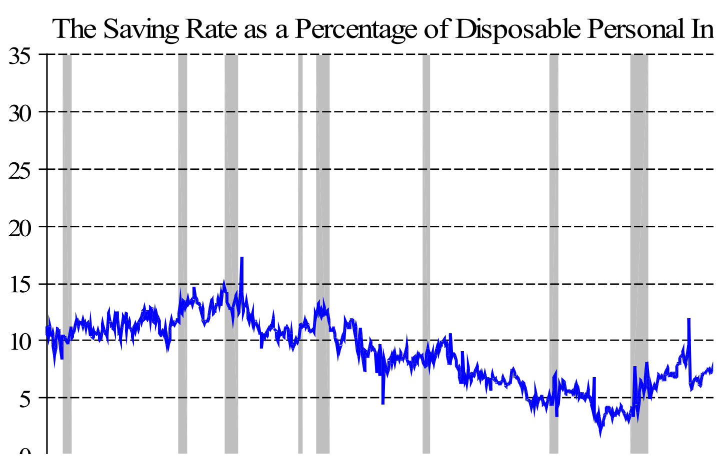
12-Month Percent Change (SA, Millions of Dollars)



The Consumer Returns

Consumers have the potential to continue to spend solidly in the months ahead. The consumer entered the COVID-19 period with strong fundamentals fostered by the longest economic recovery in history. The comprehensive Household Financial Obligations ratio was at its lowest on record in 2019, going back to the Federal Reserve's commencement of the series in 1980. Consumer debt service has been rising, but mortgage debt service has remained near record lows. Total Household Debt relative to GDP has been on a declining trend. Equity market wealth has been volatile, but pensions and 401Ks have been supported by a long bull run in stocks and the beginnings of a rebound in financial asset values. The American personal saving rate has been on a rising trend that has been bolstered further by stimulus payments provided through the CARES Act. Overall stimulus raised incomes and the saving rate temporarily but dramatically in the second quarter. Although a large segment of workers was tragically hurt by job losses, most consumers have retained employment. Those that did lose employment were supported by disbursements authorized by the CARES Act. Consumers will likely spend or invest the proceeds in the coming months.

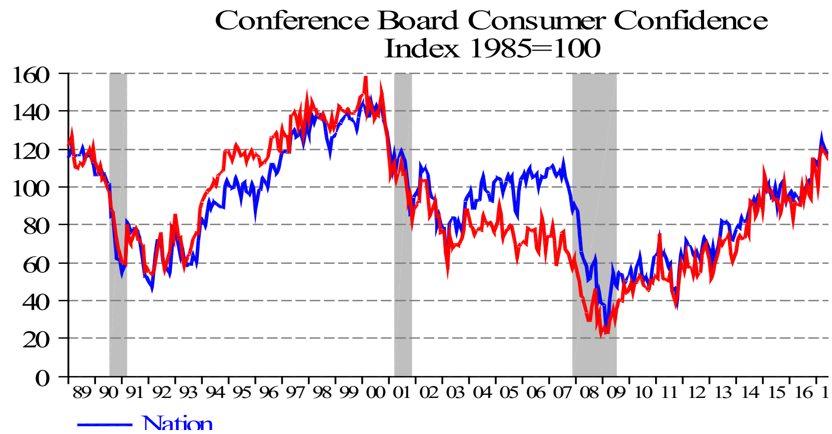
Savings rise sharply as Consumers receive support from the CARES Act in the Second Quarter



Economy in Focus

Consumer confidence has been rising since bottoming in April. Consumer confidence in the East North Central Region of the country, the area that comprises Ohio, Michigan, Indiana, Illinois, and Wisconsin, declined in July with increased concerns regarding the resurgence of COVID-19 during the summer, but regional confidence has remained above the national average. While East North Central confidence dipped below the high levels of 2017 through 2019, it remained on par with the highest levels in the regions in nearly 2 decades. The Huntington footprint regional economy that also includes Pennsylvania, Kentucky, and West Virginia has benefitted from diversification and strong economic growth in recent years. The manufacturing industry has become technologically driven and produces world-class products. The budding recovery in durable goods will support the region's large manufacturing sector, the region's large auto industry and its many local suppliers as they ramp up production in the coming months, albeit with new COVID-19 safety guidelines. Finally, the growing realization that reliable domestic suppliers are necessary for economic, defense, and medical security raises the likelihood that the wider regional economy will play an increasingly important role in the future of the economies in the United States and global economy.

Consumer Confidence Declines in July, but Remains Above Recent Lows

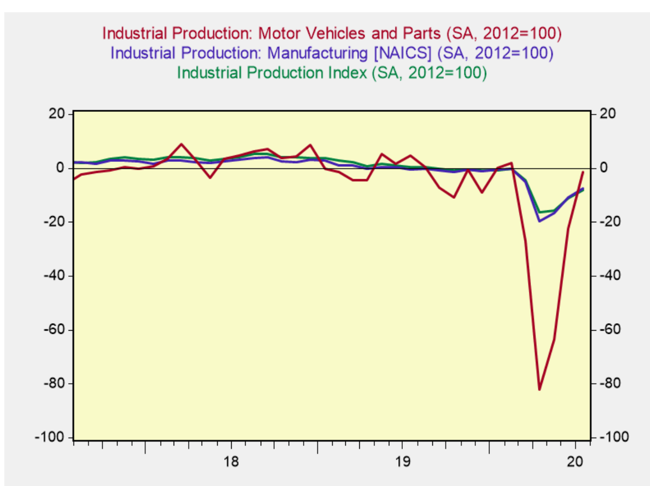


Recovery in Manufacturing Begins

The restart of the economy has been reflected in most sectors of the economy, and especially in the cyclically sensitive manufacturing sector. Manufacturing production picked up sharply in July as motor vehicle assembly plants began to respond to a sharp rebound in consumer demand for vehicles. Motor Vehicle and Parts production reversed from an 82.0% annual decline in April to being only 1.4% below July 2019 production. Automobile products in Consumer Durable Goods were 1.4% higher in July than in July 2019.

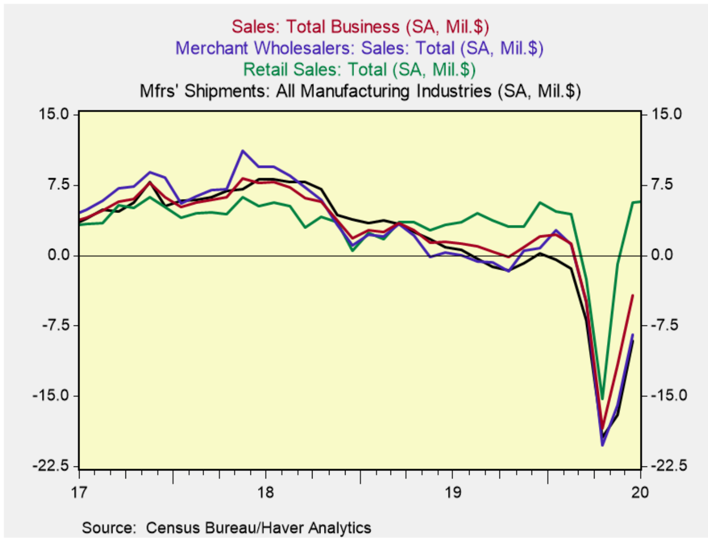
Motor Vehicle Production Leads Industrial Sector Recovery

12-Month Percent Change



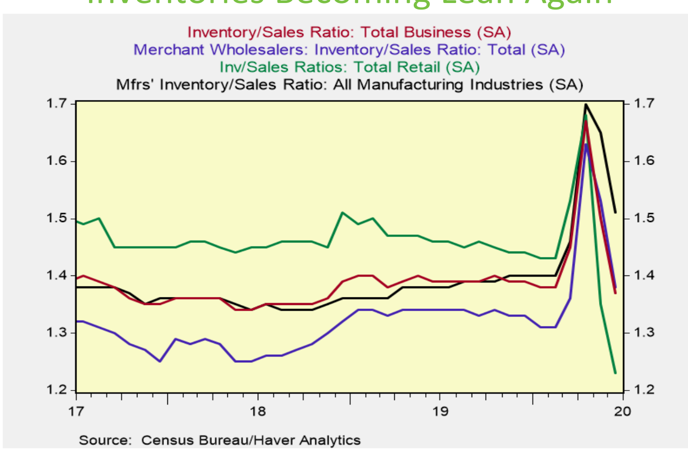
The general revival of consumer demand has begun to spur growth in wholesale and business sectors that is forecasted to continue. As firms ramp up production in response to rising sales, they will likely employ more workers. They also will begin to reconsider capital expenditures that may have been temporarily tabled as COVID-19 uncertainties gripped business decision makers earlier this year. As employment and investment return, the overall economic recovery will gradually broaden and gain momentum, especially in the goods producing regions of the country.

Retail Sales Lead other Business Sales Upward



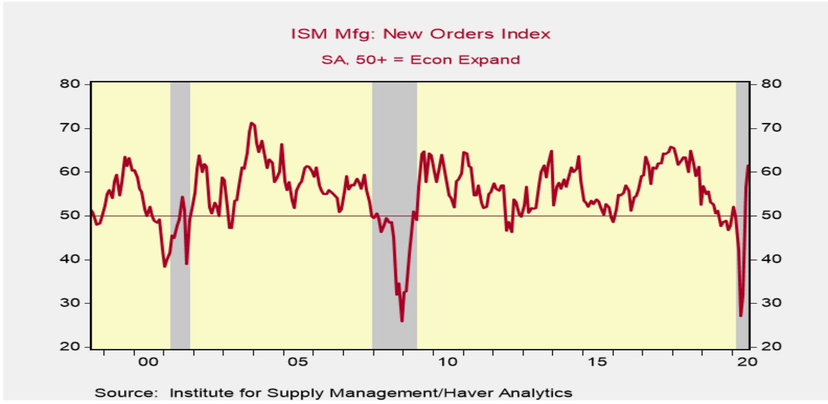
The COVID-19 economic shutdowns bloated inventory levels in all goods sectors. However, increased sales have reduced inventory, and low inventory will increase manufacturing production. Inventory-to-sales ratios declined sharply in May and June, especially for retail goods, where inventory shortages occurred for high demand products such as motor vehicles. The Inventory-to-Sales ratios for the Wholesale sector and the overall Business sector have returned close to pre-COVID-19 ranges. The Manufacturing Shipments-to-Inventory ratio was on a declining trend that is expected to continue.

Inventories Becoming Lean Again



According to the Institute for Supply Management Survey of Manufacturers, new orders were rising strongly in July. The overall index showed growth in the manufacturing sector for the second consecutive month, with especially strong production growth as well as new orders increases. The index is expected to continue to reflect strong and broadening growth in the manufacturing sector in the coming months.

Accelerating New Orders Predict Strong Overall Manufacturing Growth

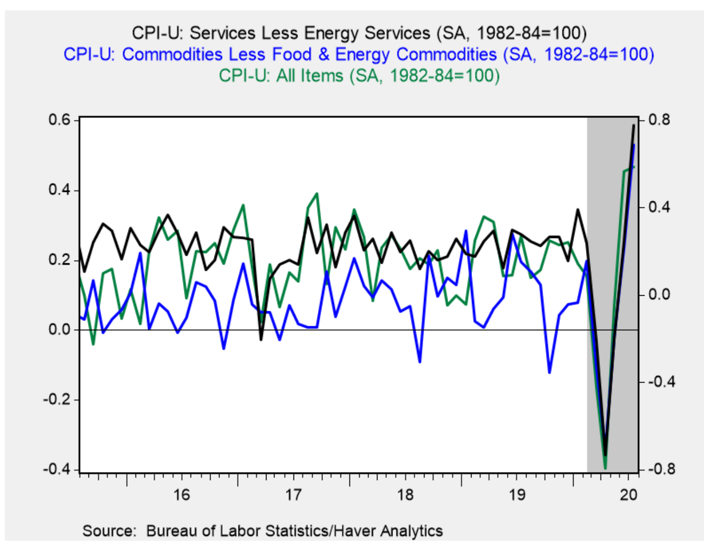


Inflation Returns with Economic Recovery

After declining sharply with COVID-19 related shutdowns in March through May, inflation rebounded sharply in June and July, with 0.6% increases in the Consumer Price Index in both months. Energy prices rebounded 5.1% in June and 2.5% in July, but price increases were broad-based in goods and services. New vehicle prices rose 0.8% while used vehicle prices rose 2.3%. Transportation Services rose 3.6% as Airline fares increased 5.4% from depressed levels. In one of the areas of highest inflation in recent years, Medical Care rose 0.5%. On the soft side of the inflation report — Food, alcohol, and tobacco showed price weakening after above average increases in the second quarter. Total shelter costs rose a modest 0.2% as COVID-19 shutdowns likely had a disproportionately negative impact on renters and low-income households. The high magnitude of the summer price increases is partially the result of the economic 'restart,' that is not likely to repeat. However, overall inflation is expected to continue a gradually rising trend that extends through 2021 and potentially beyond. Average annual inflation is forecasted at 1.0% in 2020 and 2.0% in 2021, with forecast risks titled to the upside, especially as the economic recovery gains traction.

Inflation Returns in June and July

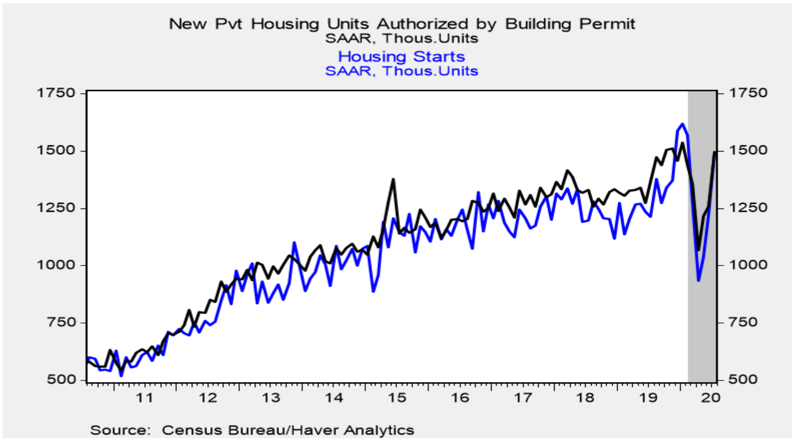
Monthly Percent Change



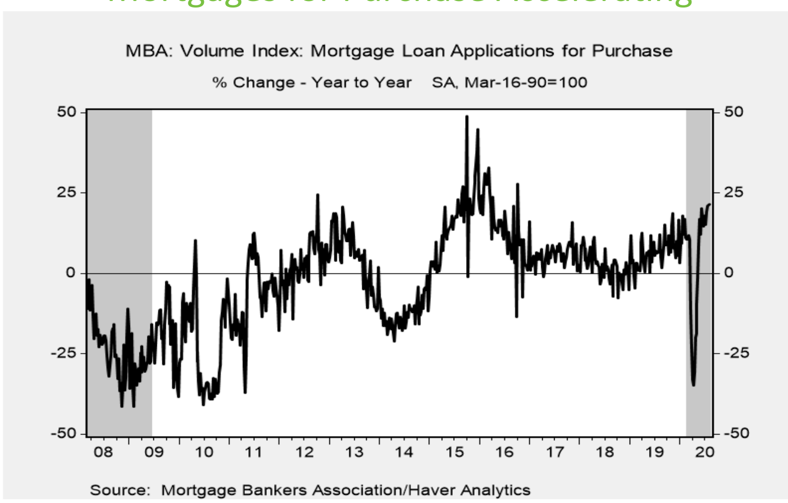
Recovery in Housing Resumes

Housing Markets are picking up where they left off early this year – strong and accelerating. In a V-like recovery, Housing Starts rose 22.6% to 1.496 million units in July, closing in on the recent high of 1.617 million units in January of this year. Building permits at 1.495 million units were just shy of the January high of 1.536 million units. The COVID-19 crisis temporarily froze much of the housing market, as it did to most other parts of the economy, but the revival has been strong. The Home Builders' Housing Market Index rose to its highest level in August since December 1998. The expansion will likely include existing homes as well. The Mortgage Bankers Association Mortgage Loan Applications for Purchases is rising at an accelerating rate. Increased unemployment has hurt large segments of consumer and rental markets, but historically low mortgage rates, healthy affordability in many markets, and solid fundamentals for most consumers are contributing to housing market strength. Adjustments to the post-COVID-19 world will need to be made in real estate, but it is likely that housing will regain its preeminence in the economy in the second half of 2020 and be a major driver of overall economic growth in the current economic expansion.

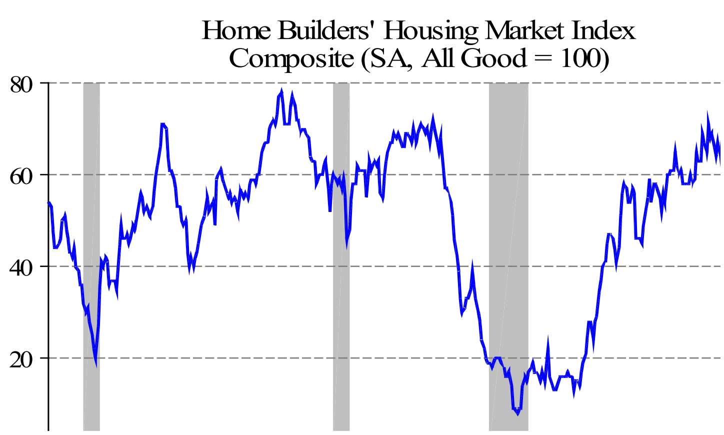
V-Like Recovery in Housing Starts and Permits



Mortgages for Purchase Accelerating



Home Builder Confidence Highest since December 1998



Summary Table

Key Economic Indicators

August 14, 2020

	2018	2019	2020*	2021*
Total Real GDP Annual Growth Rates 2012 Chained Dollars	2.9%	2.3%	-4.7%	5.6%
Consumption	3.0%	2.6%	-5.7%	5.4%
Non-Residential Fixed Investment	6.4%	2.1%	-6.2%	2.8%
Residential Fixed Investment	-1.5%	-1.5%	-1.0%	8.2%
Exports	3.0%	0.0%	-16.6%	0.3%
Imports	4.4%	1.0%	-16.7%	0.5%
Government Purchases	1.7%	2.3%	2.0%	1.8%
Change in Private Inventories (Billions 2012 Chained Dollars)	$48.1	$67.0	$-93.0	$36.3
Trade-Weighted Dollar Index (Jan. 2006 = 100)	115.6	114.7	115.0	115.5
Nominal GDP Current dollars	5.4%	4.1%	-3.8%	7.4%
Consumer Price Index for Urban Consumers (CPI-U) - Annual Rate	2.4%	1.8%	1.0%	2.0%
Federal Funds Rate Target Year-end range	2.25% to 2.50%	1.50% to 1.75%	0.00% to 0.25%	0.00% to 0.25%
10-year Treasury Note Year-end interest rate yield	2.69%	1.92%	1.00%	1.60%
National Income Pre-tax Corporate Profits Average annual growth rate	3.4%	0.0%	-15.4%	6.3%
Net New Average Monthly Non-Farm Payrolls (Thousands of Workers)	193K	178K	-400K	+350K
Unemployment Rate -- Annual Average	3.9%	3.7%	8.6%	5.9%

- Data Sources: Haver Analytics, Federal Reserve, 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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