Economy in Focus
November 19, 2020

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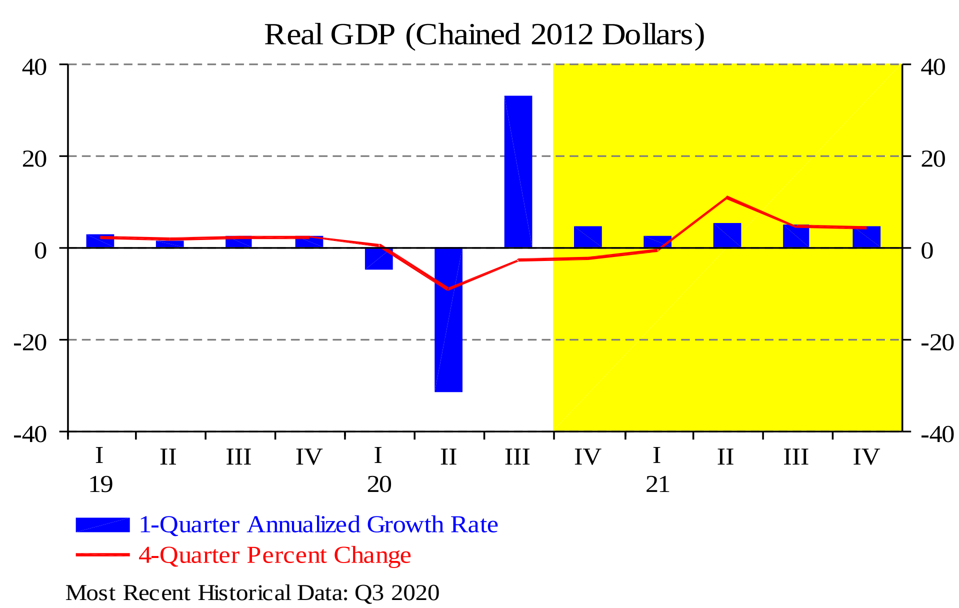
The Economic Outlook

Real GDP sprinted at a 33.1% annualized pace in the third quarter – the fastest growth in American history.

- Consumer spending grew at an eyepopping 40.7% annualized rate, commencing a broad-based recovery in the private sector.
- Capital spending on equipment, residential investment, exports, and inventory provided added support to growth.
- Government spending and non-equipment business investment were the major lagging sectors in the third quarter.

Real GDP growth is forecasted to moderate to 4.7% average annual growth in the fourth quarter and 2021, with full attainment of pre-COVID-19 GDP levels in mid-year 2021. Growth is expected to slow modestly in the winter months, concurrently with the flu season, before reaccelerating again in the second quarter of 2021. Sound consumer and business fundamentals overall, historically high monetary stimulus, reopening momentum, and continued medical advancements countering COVID-19 are expected to sustain a strong economic recovery through next year. Additional fiscal spending for COVID-19 relief, should it occur, would add to the growth projections. **We realize that risks to the forecast remain high in both directions, depending on developments in the containment of the virus. However, overall, we suspect the recovery will likely continue.** Please see Table 1 for the full forecast.

Real GDP Makes V-like Recovery in the Third Quarter



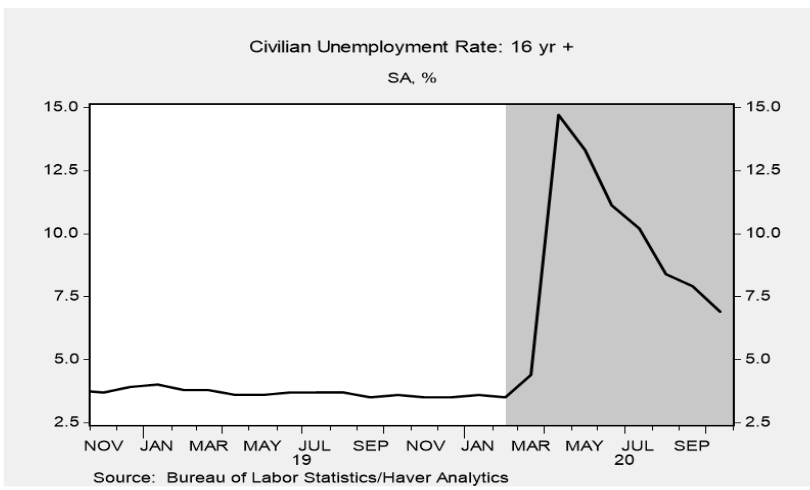
Consumers will likely continue their high spending on retail goods into the upcoming holiday season, even as COVID-19 remains an obstacle in the near term to full recovery in spending on services. Growth momentum going into the fourth quarter is strong and should provide ample cushion to sustain growth, despite COVID-19 related slowing. Additionally, in the goods producing sectors, the supply side of the economy is revving up production activity.

Suppressed by the global downturn, inflation is expected to be low in 2020 overall before commencing a gradual but sustained acceleration in 2021, rising 2.2% in 2021.

Labor markets are expected to continue a strong recovery, although many workers in the travel, leisure, hospitality, and restaurant industries may not return to those jobs until the COVID-19 crisis is contained, most likely next year with anticipated vaccine successes. The unemployment rate is forecast to decline from 6.9% in October to 4.5% by year-end 2021. Labor force participation is expected to rise strongly next year as well.

To support labor market recovery, the Federal Reserve will likely maintain the Fed Funds rate target in the 0.0%-0.25% range until the end of 2021, and potentially beyond. Rising annual inflation and economic growth in the U.S. are expected to lift the 10-year Treasury yield to 1.9% by year end 2021, as the U.S. and global economic recoveries mature post-crisis. **However, expanded central bank purchases of bonds will likely suppress world-wide long-term interest rates for the foreseeable future, keeping long-term interest rates from rising to rates otherwise warranted by improving economic fundamentals.**

The Unemployment Rate has been Declining Sharply after Peaking in April



Labor Markets Continued Recovery in October

The labor market recovery continued in October as Total Payroll Employment grew by 638,000 jobs, and Private Sector jobs grew by 906,000. Jobs growth was broad-based and included many sectors directly impacted by COVID-19 related restrictions and precautions. Service-providing employment rose by 783,000 workers, leading all major categories. Leisure and Hospitality (+271,000 employees), Professional and Business Services (+208,000 employees), Retail Trade (+103,700 employees) and Transportation and Warehousing (+63,200 employees) contributed the most to Service-providing payroll gains. In goods related employment, Construction added 63,200 new employees, while Manufacturing added 380,000 employees, roughly split between durable and non-durable manufacturing.

The one weak area of labor markets in October was government jobs, which shed 268,000 jobs, although 147,000 jobs were temporary census workers that will likely find other employment in the coming months. Education employment was also temporarily suppressed by COVID-19 related cutbacks. Many education-related positions will likely be restored in 2021 once the virus is contained.

The unemployment rate continued to decline sharply to 6.9% in October from 7.9% in September. The unemployment rate has receded from a 14.7% peak in April, as employers have called back many of those unemployed during the spring COVID-19 related closures. The unemployment rate likely understates jobs losses as the labor force participation rate of 61.7% in October is significantly below the 63.4% participation rate in February, before the COVID-19 layoffs occurred. However, the strong surge in GDP in the third quarter, and the multiplier-type momentum in the first part of the fourth quarter, will likely sustain continued employment growth and declines in the unemployment rate in the near term. The ultimate containment of COVID-19 with the high likelihood of life-saving vaccines and medical treatments should continue jobs growth and unemployment rate declines in 2021, with the unemployment rate forecasted at 4.5% at year-end.

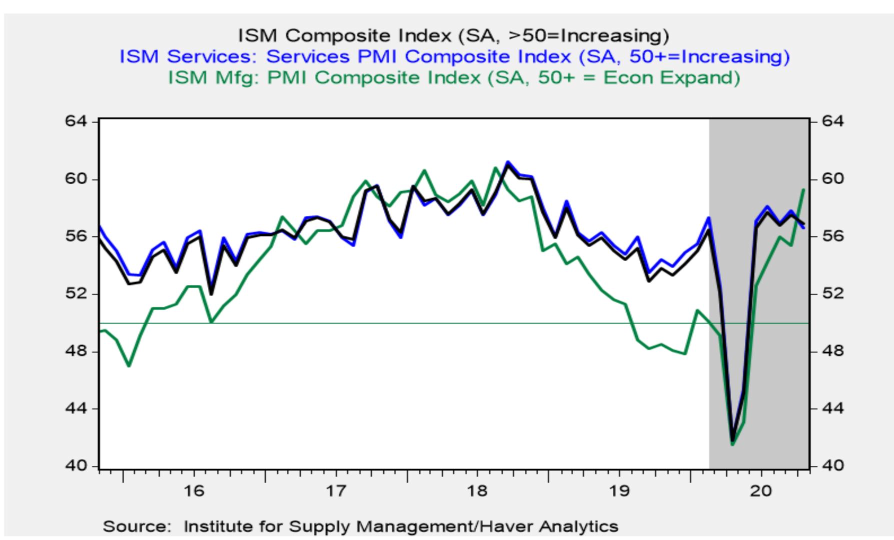
Economic Activity Growing, but Manufacturing Continues to Outperform

Business surveys of the Institute for Supply Management indicate economic activity grew in October at a somewhat slower pace than in September, but in line with solid pre-COVID growth rates the economy experienced during the 2 years prior to the crisis. **However, considerable divergence continues between the Manufacturing and Services areas of the economy.**

Manufacturing continued to rebound strongly in October as new orders for manufactured products rose at the fastest pace since January 2004 (ISM Manufacturing Report on Business). The recovery in manufacturing has been broad-based with most industries ramping up production in the fourth quarter. Industrial production rose 1.1% in October with broad-based growth in consumer products, business equipment, and materials. Strong demand for manufactured products and lean inventories depleted by shutdowns in the first half of the year are spurring a near-term boom in activity in the manufacturing sector, expected to continue into next year.

Slowing somewhat in October, Services growth has generally been slower and steadier than in the Manufacturing sector. Conditions in all services sectors have improved since the spring shutdowns, but the speed of the recovery in services continues to encounter headwinds from travel restrictions, social distancing, and seasonal resurgence of the COVID-19 virus. The overall ISM Composite Index for Manufacturing and Non-Manufacturing industries tracks closely with the Non-Manufacturing Index since service-oriented sectors are a much larger portion of national GDP than Manufacturing's share.

Economic Activity Growing Solidly in the Economy, Accelerating in Manufacturing

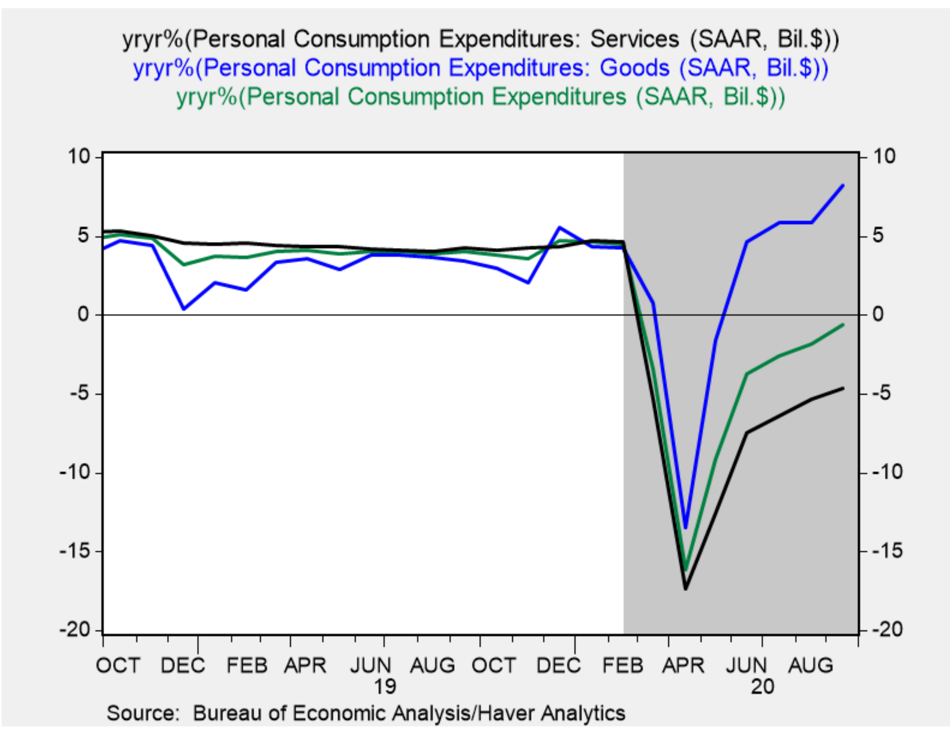


The Consumer Continues to Drive the Economic Recovery

The average American consumer has been the driving force behind the phenomenal economic recovery since the COVID-19 related shutdowns, as predicted in the *Economy in Focus* since the crisis began. Overall consumer spending reversed from declining at a -6.9% annualized rate in the first quarter, and a -33.2% drop in the second quarter, to a rise of 40.7% in the third quarter. Consumer spending increases in the third quarter were broad based but spending on goods has been paramount to the consumer spending recovery. Despite continued headwinds from the pandemic, total inflation-adjusted consumer spending in September was only -0.65% below spending during the same month last year. Although spending on services had declined by -4.6% since September 2019, spending on goods in September increased by 8.2%, thereby offsetting most of the decline in spending on Services. The CARES Act and high monetary stimulus supported this recovery in consumer spending, but ultimately it was the healthy state of most consumers prior to the crisis that was essential to the surge of spending on durable and non-durable goods that spurred the general recovery in the economy from the COVID-19 recession.

Strong retail spending, which is primarily on retail goods, is expected to continue into the upcoming holiday shopping season. The general recovery in financial markets during 2020, strong housing markets, high liquidity built up from reduced spending on services, and pent-up demand from the COVID-19 related restrictions will likely maintain high levels of overall retail spending on goods throughout the holiday season. Sadly, the increased cases of COVID-19 with the onset of the flu season will likely continue to suppress spending on travel, hospitality, entertainment, and in-restaurant dining during the upcoming holiday season. E-commerce and home delivery will also likely continue to be a major means of holiday shopping over in-store shopping. Complete recovery in high social-contact related spending will likely require the coming implementation of vaccines in 2021, where signs of success have been highly hopeful.

A Strong Retail Shopping Season is Expected to Continue the Recovery in Consumer Spending



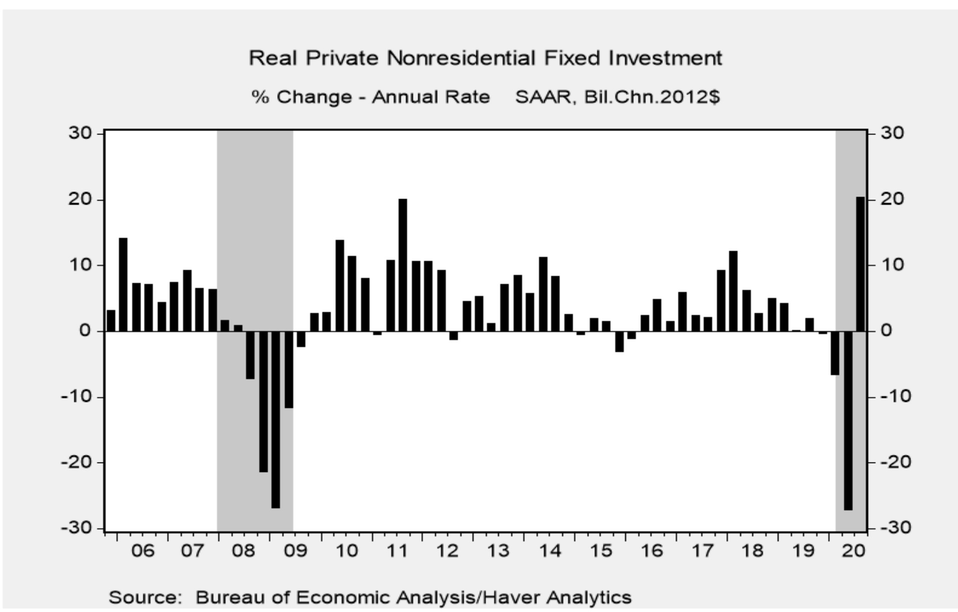
Private-Sector Investment Charged by Information Processing Investment

Non-residential Fixed Investment climbed at a 20.3% annualized rate in the third quarter, reversing declines of -6.7% in the first quarter and -27.7% in the second quarter. However, there was considerable divergence within the major categories of private fixed investment:

- Spurred by purchases of Information Procession Equipment, Purchases of Equipment rose at a 70.1% annualized rate in the third quarter, offsetting continued weakness in most other areas of private non-residential fixed investment. Business Equipment Investment comprised 45.7% of all Non-residential Fixed Investment in 2019.
- Weighed down by the COVID-19 outbreak, Intellectual Property Investment declined at a -1.0% annualized rate in the third quarter, after declining -11.4% in the second quarter. Software rose at a 12.0% annualized rate in third quarter, following a -28.4% annualized rate of decline in the second quarter. Research and Development declined at a -1.8% annualized rate in the third quarter, following -13.1% in the second quarter. Entertainment, Literary, and Artistic Originals declined at a -13.9% annualized rate in the third quarter, following a -26.0% decline in the second quarter. Intellectual Property Investment comprised 34.9% of Non-residential Fixed Investment in 2019.
- Private Non-residential Investment in Structures declined at a -14.6% annualized rate in Q3 2020, following a decline of -33.6% in the second quarter. Private non-residential structure investment weakness was a result of the uncertainty that COVID-19 created on structure demand and the overall economy, supply constraints and COVID-19 related restrictions. Non-residential Investment in Structures comprised 19.7% of Non-residential Fixed Investment in 2019.

With effective vaccines on the way, many of the COVID-19 related uncertainties and supply constraints will likely diminish in 2021, when business investment in all categories is expected to begin solid recoveries.

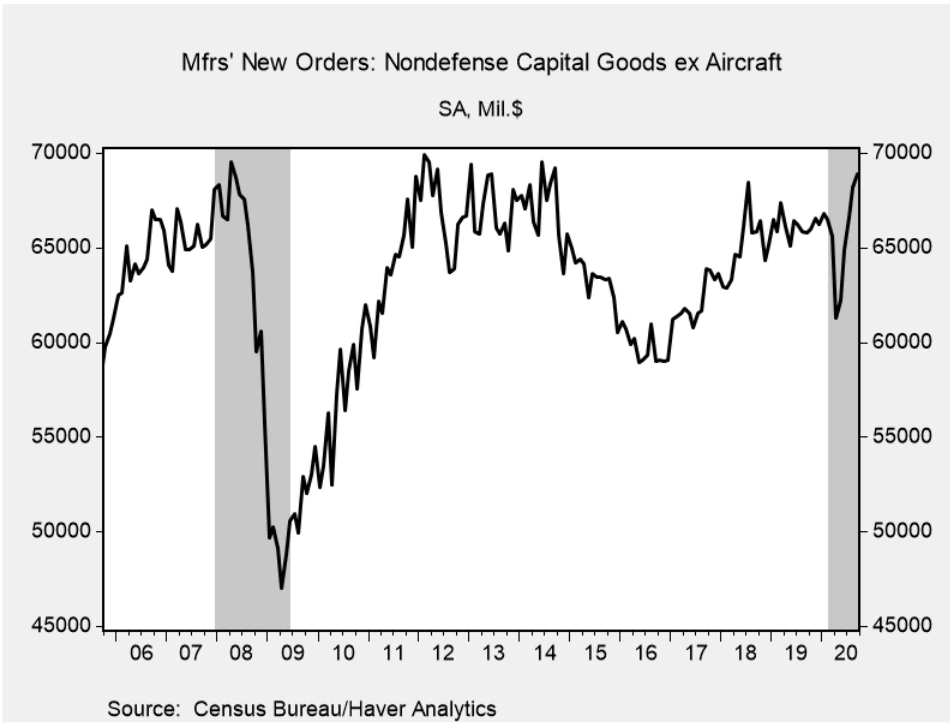
Private Fixed Investment begins Recovery on Strong Equipment Purchases



Strong Business Equipment Investment Expected to Continue

New orders for Business Equipment excluding aircraft bode well for future growth in the fourth quarter and especially in 2021. New Orders of Nondefense Capital Goods excluding Aircraft rose 4.7% in October over the same month last year to the highest level of spending since June 2014. In contrast to the previous strong period of business equipment spending in the last economic expansion, the current business equipment expansion is on information processing equipment in all sectors of the economy rather than on energy extraction related equipment primarily in one sector. Furthermore, new orders for Business Equipment excluding aircraft recovered to pre-recession new order levels in just 4 months, compared to 4 years for the last recession. **The investment in new technologies enabled by business equipment will increase productivity in virtually all areas of the economy, increasing productivity and real wages next year and beyond.**

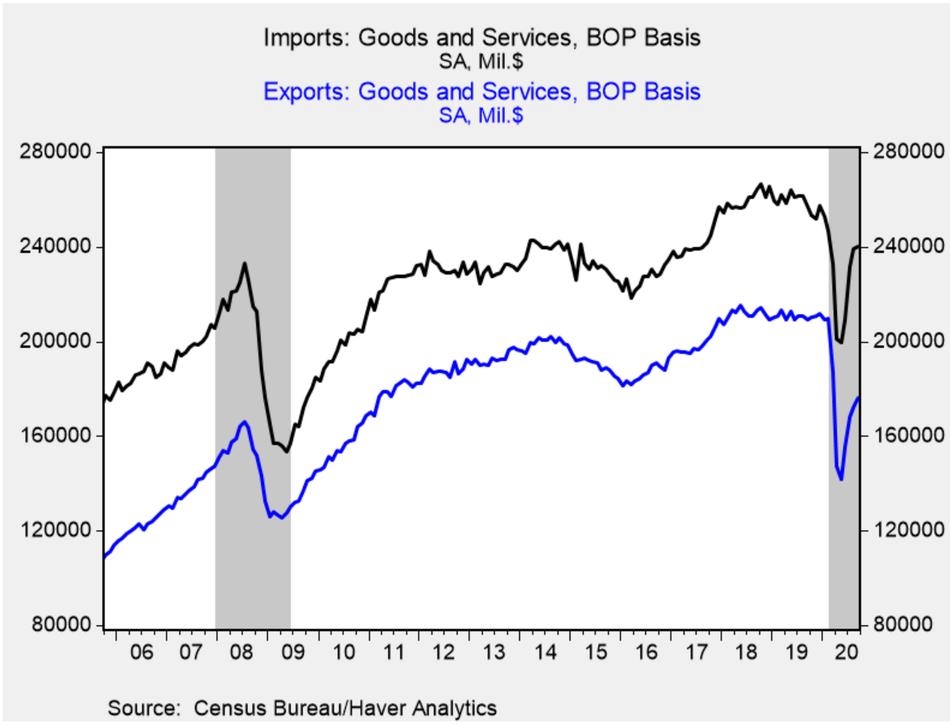
Business Equipment Orders Recovering



International Trade Recovering

International Trade plummeted with COVID-19 shutdowns in the first half of 2020. U.S. exports declined -33.4% in May from the same month last year. Imports declined by -24.4% during the same period. As economies reopened in the summer months, a V-Like recovery commenced, although exports were still down -15.7% Year-over-Year in September, and imports were down a relatively smaller -6.5%. With COVID-19 cases rising across the northern hemisphere during the flu season, export recovery will likely slow to countries grappling with slower growth and shutdowns. In contrast, U.S. Imports will likely remain relatively robust as unusually tight inventories and strong domestic demand are expected to sustain continued growth in imports in the coming months. China and other Asian countries recovering the most from the COVID-19 crisis should exhibit the strongest demand growth for U.S. exports in the near term. The new USMCA is also expected to create new export opportunities for the United States relative to Mexico and Canada in the next year. **As vaccines are expected to become widely distributed across the globe in 2021, a general strengthening of the world economy will likely provide a positive environment for international trade recovery and even expansion in 2021.**

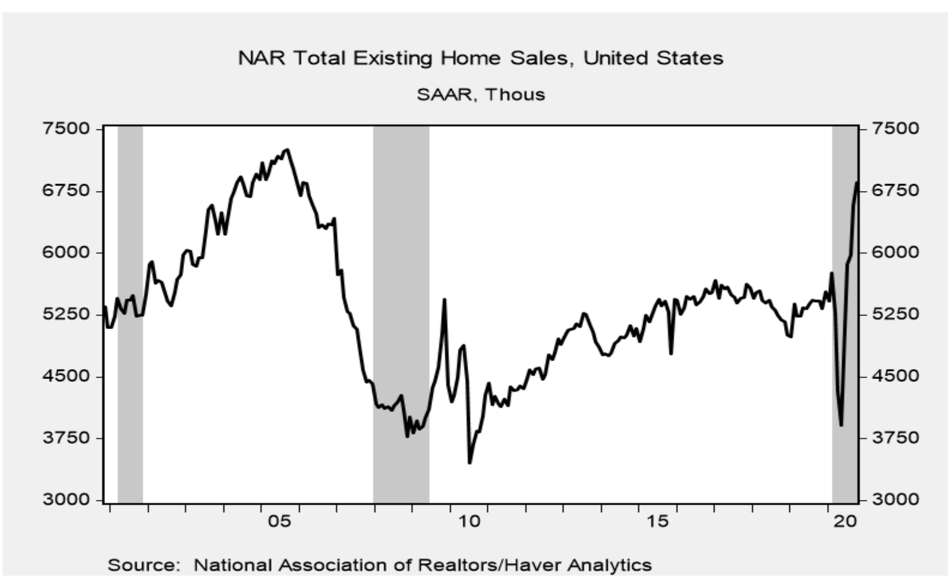
U.S. Exports and Imports make a V-like Recovery, but Levels are Still Low



Housing Becomes Growth Leader Again

Existing Home Sales rose to a 6,850,000 annualized rate in October, for the highest home sales level since February 2006. Home sales growth was broad-based and uniform in the four major regions of the country. Rising median personal incomes, historically low mortgage rates (3.08% at the end of October on 30-year fixed mortgage rates [WSJ]), and increased home dwelling resulting from the COVID-19 reductions in mobility have all been stimulants to existing home sales. New home sales also rose in August to a rate of just under 1 million annualized rate for the strongest sales pace since December 2006.

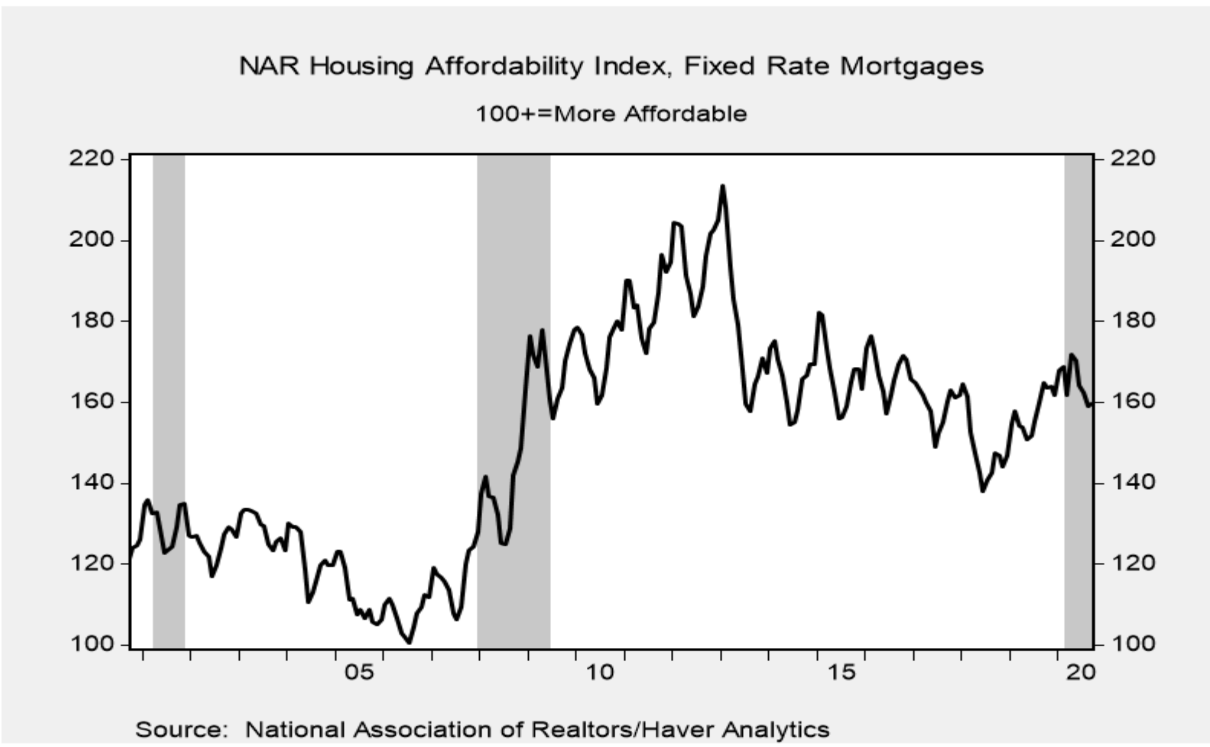
Home Sales Continue to Rise



Not Irrational This Time

While housing market activity comparable to the housing boom era raises questions of market overheating, such fears for housing markets overall are largely unsupported by affordability fundamentals. The National Association of Realtors Affordability Index accounts for household incomes, fixed mortgage rates, and prices in determining home price affordability. According to this index, Home Price Affordability has eased down from its recent high in April but remains well above levels encountered during the housing boom years of the first decade of the new millennium. Homes have become a growth leader again, raising household wealth, spurring home improvements, commencing new residential construction, and generally raising employment in the economy.

Home Affordability Remains High



Summary Table

Key Economic Indicators

November 19, 2020

	2018	2019	2020*	2021*
Total Real GDP Annual Growth Rates 2012 Chained Dollars	2.9%	2.3%	-3.5%	4.7%
Consumption	3.0%	2.6%	-3.7%	5.2%
Non-Residential Fixed Investment	6.4%	2.1%	-4.6%	6.4%
Residential Fixed Investment	-1.5%	-1.5%	4.5%	13.6%
Exports	3.0%	0.0%	-13.3%	6.5%
Imports	4.4%	1.0%	-10.2%	10.3%
Government Purchases	1.7%	2.3%	1.4%	1.3%
Change in Private Inventories (Billions 2012 Chained Dollars)	$48.1	$67.0	$-87.2	$31.3
Trade-Weighted Dollar Index (Jan. 2006 = 100) Year-End Source: Federal Reserve	115.6	114.7	114.0	115.7
Nominal GDP Current dollars	5.4%	4.1%	-2.3%	7.0%
Consumer Price Index for Urban Consumers (CPI-U) - Annual Rate	2.4%	1.8%	1.2%	2.2%
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%	0.95%	1.90%
National Income Pre-tax Corporate Profits Average annual growth rate	3.4%	0.0%	-13.3%	9.9%
Net New Average Monthly Non-Farm Payrolls (Thousands of Workers)	193K	178K	-580K	+380K
Unemployment Rate – Year End	3.9%	3.5%	6.5%	4.5%

- 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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