Economy in Focus

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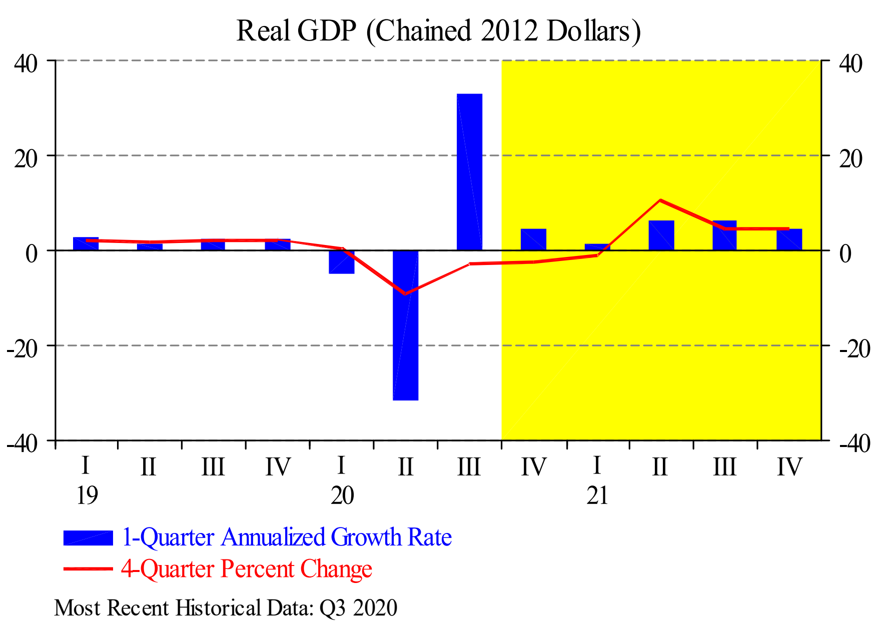
The Economic Outlook

<u>We expect 2021 will be a year of strong economic recovery from the COVID-19 downturn.</u> After a slow first quarter, economic activity is anticipated to accelerate sharply. Real GDP is forecasted to grow at a +4.7% annual rate overall in 2021 after declining -3.5% in 2020. The anticipated distribution of vaccines to the most vulnerable parts of the population, fiscal stimulus from the $908 billion Coronavirus Response and Relief Supplemental Appropriations Act, and monetary stimulus from the ongoing massive Federal Reserve response to COVID-19 are expected to support the overall recovery in the economy that began in the third quarter of 2020. Consumer spending in service industries negatively impacted by the COVID-19 pandemic will likely accelerate broadly in 2021 after the anticipated distribution of vaccines reduces health risks. The recovery in the U.S. economy will likely be replicated in other parts of the world as timely vaccine developments coupled with policy stimulus abroad should create a synchronized international economic recovery, supporting a continued rebound in international trade. Labor markets are expected to be soft in the first quarter before resuming a strong improving trend, with the unemployment rate ending the year at 4.5%. Inflation is expected to remain low in 2021, rising to 2.3% for the year from 1.2% in 2020. However, inflation risks are to the upside. A surge in inflation will likely occur concurrently with an expected acceleration in economic growth, most likely in the second quarter, as the flu season ends and vaccines distribution spreads. Inflation is anticipated to continue a sustained rising trend in 2022.

GDP Expected to Accelerate in 2021 after a Slow Start



The Fed Funds rate target is expected to reside in the 0.0% - 0.25% range throughout this year as the Federal Reserve will likely be cautious not to forestall the recovery. Central bank bond purchases are downward forces on government bond yields, thereby posing a constraint on long-term interest rate increases this year. However, with economic growth and inflation normalizing, the depressed 10-year Treasury yield is forecasted to climb to 1.62% by year-end, returning to its range during the 3-month period prior to the COVID-19 crisis. Interest rates and inflation are likely to push higher in 2022 if highly accommodative monetary and fiscal policies become permanent – a risk that could create unintended consequences.

The forecast only incorporates fiscal policies approved by Congress as of the time of this publication. If further fiscal stimulus measures to counter the COVID-19 crisis are enacted, then the forecasts for GDP, inflation and market interest rates would likely be revised upwards, depending on the specifics of any new legislation.

National Economic Indicator Highlights of the Fourth Quarter 2020

- Consumer retail spending excluding vehicles weakened in November as COVID-19 impacted the holiday shopping season. However, retail sales excluding autos and fuel in December managed to rise 2.6% over December 2019. Consumer spending will likely remain somewhat subdued until spring/summer, when vaccines and Federal stimulus are expected to commence a significant positive lift to spending in high social contact services such as transportation, hospitality and restaurants.
- New Vehicle Sales were at a 16.27 million seasonally adjusted annualized rate in December and a 16.09 million rate for the fourth quarter overall - the highest quarterly sales since the fourth quarter of 2019. Vehicle sales rebounded strongly from 11.28 million in the second quarter and 15.34 million in the third quarter.
- Manufacturing production grew 2.7% in the fourth quarter from the third quarter, continuing the high-powered recovery in the Goods area of the economy that began in the third quarter of last year. Business Equipment, Construction Supplies and Materials led fourth quarter growth.
- Total construction spending rose to a record high in November as strong residential construction more than offset weak non-residential construction.
- Overall economic activity accelerated solidly at year-end in most services sectors (ISM Services Purchasing Managers Composite Index) and especially in manufacturing, even as businesses continued to be challenged by COVID-19. However, activity declined in restaurants, accommodations and other high social contact industries during the typically busy holiday season. Real estate and leasing also slowed in December from high levels.
- Employment declined by -140,000 in December and the unemployment remained at 6.7%. Job gains in professional & business services, retail trade, construction, transportation & warehousing, manufacturing and health care were offset by sharp declines in leisure & hospitality, private education and government. Payrolls grew a strong 850,000 overall in the fourth quarter.
- Inflation rose at a 1.2% annual pace in the fourth quarter, just under the 1.4% rise in Inflation year-over year in December. Consumer energy prices declined at a 9% rate for the second consecutive quarter, while food prices rose 4% for the second consecutive quarter. Declines in transportation costs kept inflation excluding food and energy at a slow 1.6% pace in the fourth quarter, slightly below 1.7% in the third quarter.

The Huntington Footprint Economy is Recovering Faster than the Nation from COVID-19

COVID-19 has tragically impacted millions in all regions of the United States and across the globe, sadly extending its wrath well beyond its economic effects. However, the economy also impacts the lives of all going forward. In this regard the Huntington Footprint States have generally outperformed the nation. In the following, we present key economic indicators and trends in the Huntington Footprint States that point to a strong recovery occurring from COVID-19, and the potential for continued strong economic growth in the future.

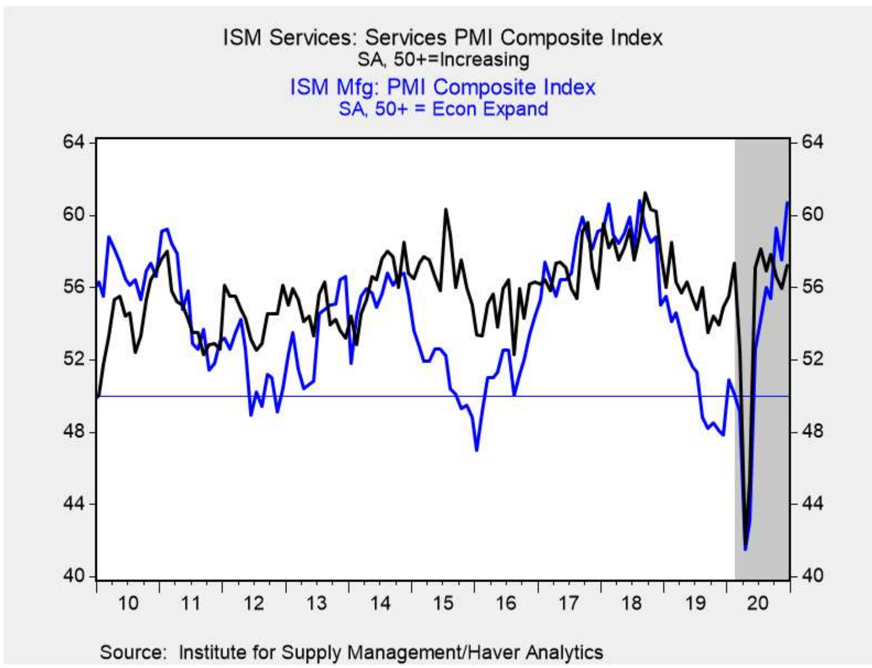
Despite near term headwinds from COVID-19, a strong economic recovery in the Huntington Footprint Regional economy is underway with the Manufacturing sector providing leadership. (The regional economy is wide and generally considered to be the states in which Huntington deposit-taking branches are located). Overall, the recovery has been faster than the nation.

In the Huntington Footprint States:

- Employment recovery in the Huntington Footprint since the April lows has been stronger than the national average. Nearly 2.7 million jobs were created in the seven Huntington Footprint States between April and December. 56.7% of jobs lost during the downturn were recovered in the Huntington Footprint States compared to 55.6% in the nation overall. Payrolls grew 11.4% compared to 9.5% for the nation. The Huntington Footprint States effectively recovered 21.7% of the 12,321,000 jobs returned to payrolls in the country after the spring shutdowns, well above the region's share of the overall economy. The Huntington Footprint States contained 18.6% of total non-farm payrolls in 2019.
- The Huntington Footprint States created 44% of the total new manufacturing jobs in the nation between April and December. Manufacturing payrolls in the seven Huntington Footprint States grew 361,400 workers (13.1% growth) from April to December. Total U.S. manufacturing payrolls grew a solid but significantly slower 7.1% from April.
- The average unemployment rate of the seven states in the Huntington Footprint States was 6.3% in December, below the 6.7% unemployment in the nation. Specifically, in the Huntington Footprint States, the unemployment rates were 4.3% in Indiana, 5.5% in Ohio, 6.0% in Kentucky, 6.3% in West Virginia and 6.7% in Pennsylvania. Illinois and Michigan experienced the highest unemployment rates in December (7.5% and 7.6% respectively) as the Leisure and Hospitality sectors were negatively impacted in those states by the COVID-19 intensification. As the crisis ebbs with increased vaccines and the end of the flu season, the anticipated return of consumers to restaurants and other high social contact activities is expected to quickly bring back many of these Leisure and Hospitality workers.
- According to the FRB of Philadelphia Coincident Economic index, all seven states grew considerably faster than the nation since April. The Huntington Footprint States are benefitting from a stronger acceleration in overall economic activity and labor markets than the national average.
- V-like recovery in manufacturing is providing a continued boost to the regional economy, maintaining outperformance relative to the nation since the second half of 2020. All states in the Huntington Footprint except West Virginia feature higher concentrations of Manufacturing than the nation. Manufacturing as a percent of national GDP in 2019 was 11.4%. In comparison for the Huntington Footprint States, the share of Manufacturing GDP was 27.4% in Indiana, 18.7% in Michigan, 18.4% in Kentucky, 16.8% in Ohio, 12.7% in Illinois, 11.7% in Pennsylvania and 9.6% in West Virginia. While the vehicle sector is a major sector of regional

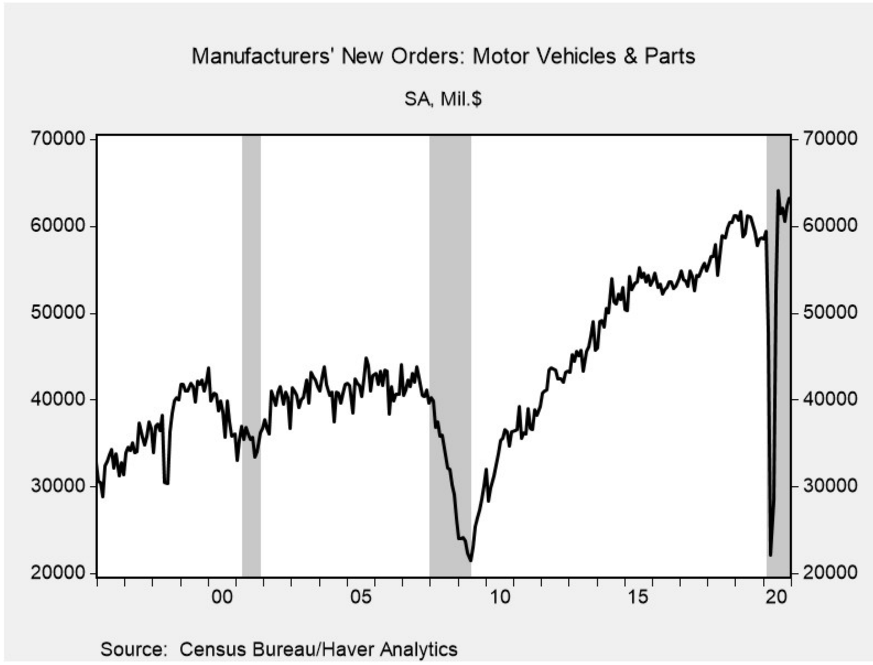
Manufacturing, employment and activity is diverse and includes numerous durable and non-durable goods, and most recently the vaccine against COVID-19. The strong and competitive manufacturing sector in the Huntington Footprint States has benefitted from strong demand for goods in the economic recovery, growing overall in 2020 even as the national economy shrank. While the services sector is expected to join the economic recovery in 2021, the manufacturing sector should continue to benefit as businesses fully reopen and employment is restored.

Manufacturing Growing Faster than Services



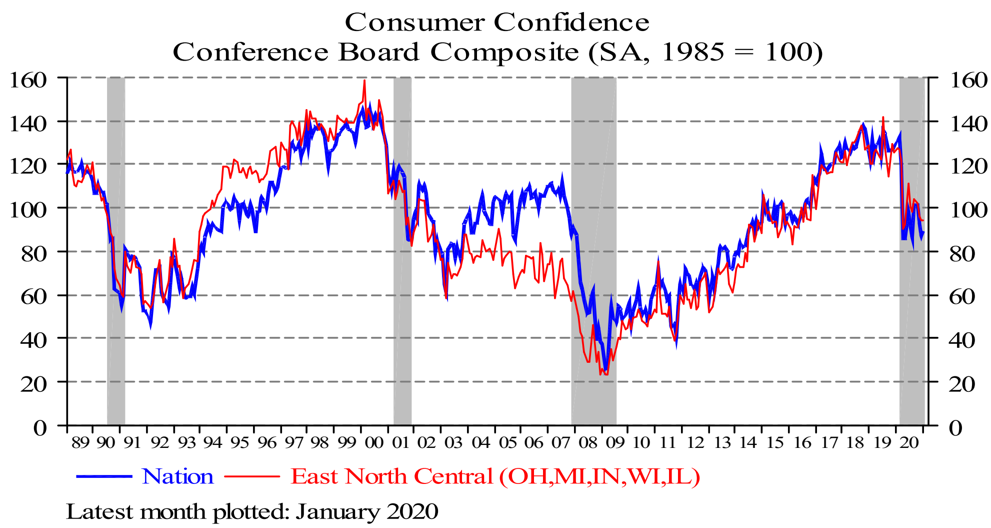
- Strong vehicle sales and tight inventories, created in part by the mandated shutdowns, have elevated new orders for motor vehicles to record levels in the second half of 2020. Business equipment investment has risen to record highs (New orders for Non-defense business equipment excluding aircraft). Other areas of manufacturing are quickly recovering after a relatively mild downturn that has been comparable to slow periods of recent years rather than the Great Recession of 2008-2009. New orders for durable goods excluding the beleaguered civilian aircraft industry have fully recovered since July. What took 6 years and 4 months to achieve in the last economic recovery from the Great Recession was accomplished in just 5 months durable goods excluding civilian aircraft.

V-Like Recovery in Vehicles and Other Manufacturing Areas



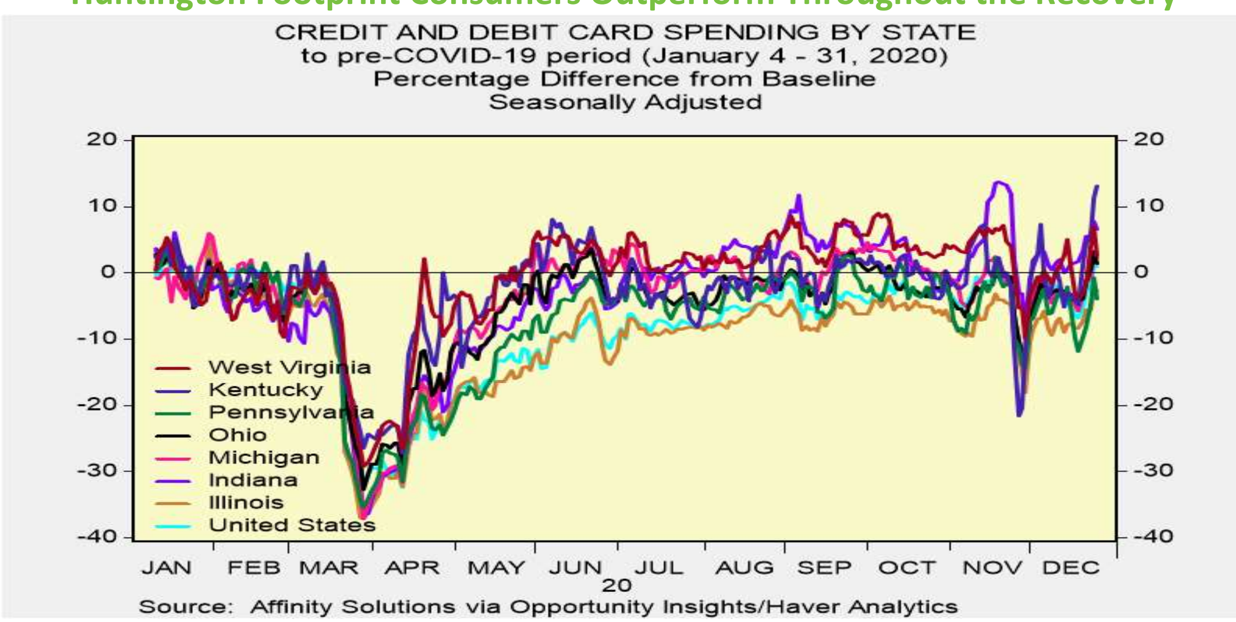
- The Chicago Business Barometer Index (formerly ISM Chicago) in September rose to its highest since December 2018 and continued strong average growth of 59.6 (50%+ = growth) during the fourth quarter. New Orders, Production and Producer Prices are growing rapidly in this regional indicator of both manufacturing and non-manufacturing industries. Employment growth and capital investment are expected to rise in the coming months to meet rising demand.
- Consumers are generally confident about future economic prospects in the Huntington Footprint States. Confidence in the East North Central region (Ohio, Michigan, Indiana, Illinois and Wisconsin) has been on par or above the national average over the last 10 years – a significant upward shift from the previous 10 years. It has also been above the concurrent national Consumer Confidence level since March, closing the year solidly above the national rate.

Strong Regional Consumer Confidence Relative to the Nation



- <u>Consumer retail spending in the Huntington Footprint States has been stronger than in the nation.</u> Quick employment recovery in most sectors, aided by the strong overall recovery in Manufacturing and other goods-oriented industries in such as Trade and Transportation, have boosted regional consumer confidence and spending above the national average in 2020. Debit and Credit Card spending growth has been consistently stronger than the nation in most Huntington Footprint States since the recovery from the pandemic began.

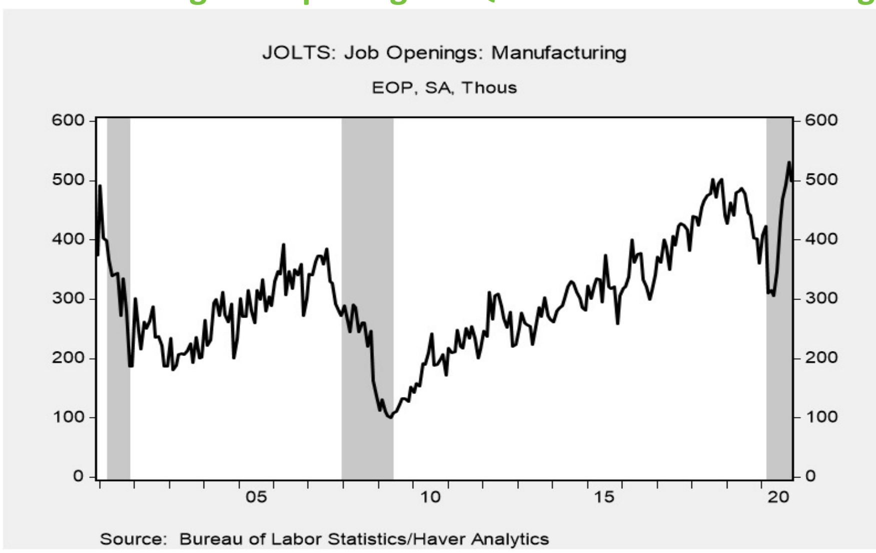
Huntington Footprint Consumers Outperform Throughout the Recovery



Most Recent Data: December 21 – 25, 2020

- Manufacturing Job Openings Achieve Record Highs. The Manufacturing Job Openings Rate in October rose to its highest rate on record going back to Dec. 2000 (commencement of series). Manufacturing job openings declined in November but remained 24.2% higher than in November 2019. For the same period, total Job Openings in the national economy declined -3.9%. High pre-COVID-19 manufacturing labor demand amid an overall shortage of qualified workers was boosted further by annual growth in manufactured product demand and lean inventories. High job openings rates lead hiring and employment. Shortages of qualified labor in manufacturing should also spur capital investment in labor saving technologies. An aging high skilled workforce, with rising retirements in areas of manufacturing such as fabricated metals, increases the incentives to train and develop new workers.

Manufacturing Job Openings in Q4 2020 Reach Record Highs

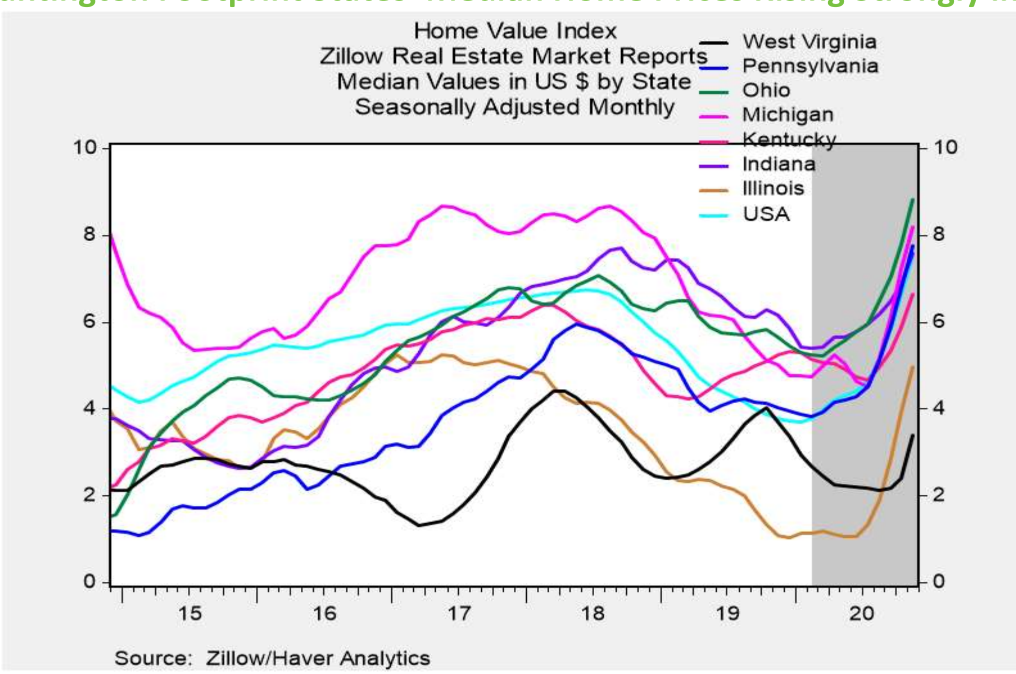


- Although State Job Openings rate overall have not yet fully recovered to pre-COVID-19 levels, the State Job Openings rates have also been outperforming the nation. The total Job Openings rates in the most recently available state reports (September) were higher or equal to the national rate in all Huntington Footprint states except Illinois, which was modestly lower.

- Strong Residential Activity in the Midwest indicates growth ahead in household formation and construction. The Midwest led the nation in new home sales, housing starts and building permits during the third quarter**.** A leading indicator of future residential construction, New Private Housing units authorized for building (Building Permits) in the Midwest rose 15.5% YoY in the third quarter compared to -4.9% for the Northeast, 6.2% in the South, 2.8% in the West and 5.4% for the nation overall. Midwest Building Permits continued to perform strongly with the nation through December as they rose to their highest level since January 2007. The U.S. achieved its highest levels since August 2006 during the same month. The South achieved its highest since July 2006 and the West achieved its highest since June 2006. Building permits in the Northeast have been rising more slowly than the other regions and remained below pre-COVID-19 levels as of year-end. While Building Permits in the Midwest and the nation are still well below the boom era highs, the positive upward trend will likely continue given plentiful policy support, a recovering economy, strong overall housing markets including rising prices, and historically low mortgage rates, even as they will likely rise somewhat over recent lows.

- Most states in the Huntington Footprint have stronger median home price appreciation than the nation. According to the Zillow home value index for November, the national median home price grew 7.5% YoY in November. Within the Huntington Footprint States, Ohio led with 8.8% annual median home price appreciation, followed by Michigan at 8.2%, Pennsylvania at 7.7% and Indiana at 7.6%. Economic recovery and fundamentals were especially strong in these Footprint states.
- All Footprint States had positive home price appreciation. While all were positive, it is worth noting that there were some Footprint States that were below the 7.5% national median, including Kentucky at 6.6%, Illinois at 5.0% and West Virginia at 3.4%. The severe drop in energy prices that slowed West Virginia was largely the result of the global demand shock on commodity prices. High population density made containment of COVID-19 relatively more difficult in Chicago. Illinois and Kentucky encountered fiscal challenges that impacted government employment. Despite these obstacles, all three states incurred positive median home price appreciation exceeding inflation in the last year.

Huntington Footprint States' Median Home Prices Rising Strongly in 2020



- New business development in the Huntington Footprint States was outstanding in the period leading up to the crisis, and initial indications point to continued success. Five of seven states made the Top-10 in total projects in the 2019 *Site Selection Governor's Cup.* Four made the Top 10 per capita basis. Ohio ranked second in the nation in total projects in 2019 and first on a per capita basis. As economic activity gradually returns with the ebbing of the crisis, the region's strong fundamentals in manufacturing, business investment, technology, housing and employment are expected to reassert themselves again. According to *Site Selection* Magazine's 2020 rankings (November 2020), Ohio has the third best business climate in the nation. Kentucky #9, Indiana #12, Michigan #16, West Virginia and Illinois (Tied #25) were the other Huntington Footprint States receiving high business climate rankings. Ohio was #4 in the nation in Year-to-Date Projects and Projects per Capita (Site Selection, 11/11/2020).

- Following the national trend, applications for new businesses have surged to new records across the Huntington Footprint States. In 2020, business applications rose 26.9% in the nation overall. In comparison, business applications grew 48.9% in Illinois, 42.2% in Michigan, 37.1% in Ohio, 31.0% in Indiana, 28.0% in Pennsylvania, 15.4% in Kentucky and 10.8% in West Virginia. Strong increases in new businesses should help to offset small businesses that will close permanently as a result of the crisis. New businesses will be catalysts for regional growth for years to come.
- The COVID-19 crisis will likely accelerate on-shoring of supply chains and production – a trend that favors the Huntington Footprint States and its relatively large manufacturing sector. The COVID-19 crisis has generally increased demand for goods over services (*Economy in Focus*, Oct. 5, 2020). High consumer spending on vehicles, home improvements and personal recreation (RVs, boats, vacation homes, etc.) has boosted demand for manufactured products in the Huntington Footprint States. The crisis has created other new opportunities as companies in the region (e.g. Western Michigan) produce vaccines against COVID-19, highlighting the region's high level of technical expertise and logistical advantages. The civilian aircraft industry, the single industry most negatively impacted by the COVID-19 crisis, does not have a significant presence in our footprint. The resurgence of housing as an economic driver will further increase demand for building materials, equipment and technologies created in the Huntington Footprint.
- Manufacturing is onshoring to the Huntington Footprint States at a faster pace than to the nation overall. In the first 3 quarters of 2020, 24.0% of companies onshoring to the United States located in the seven Huntington Footprint states. High manufacturing onshoring in 2020 follows a similar trend in 2019, when 23.3% of onshoring manufacturing companies to the United States located in the seven Huntington Footprint States. To view these results in context, the seven states comprised 16.7% of real GDP in 2019. Despite the COVID-19 pandemic and recession, Indiana (13), Ohio (11), Pennsylvania (8), Michigan (7), Kentucky (5), Illinois (2) and West Virginia (1) attracted manufacturing companies from around the world in 2020, continuing a 10-year trend of manufacturing on-shoring outperformance. Within the commercial lending footprint, Wisconsin also benefitted from 7 manufacturing relocations in the first 3 quarters of 2020. (Source: "Happy 10th Birthday U.S. Manufacturing Renaissance! Reshoring Gaining Momentum Here in 2020". Cornerstone Macro Economic Research, October 27, 2020)
- The Huntington Footprint States will likely be significant beneficiaries of the new USMCA. The USMCA trade deal went into effect in July 2020 and should strengthen an important source of manufacturing activity in the Huntington Footprint States. Canada was the Top Export Partner of all seven Huntington Footprint States in 2019 according to the International Trade Administration (ITA). Mexico was the second Top Export Partner in all states except West Virginia and Kentucky. The USMCA increases the competitiveness of manufactured goods and other exports of the Huntington Footprint States, providing further stimulus to key growth sectors in the coming years.

To Learn More about the Huntington Footprint Economy, please see *The Huntington Footprint State Economic Reports*, our ongoing publication that provides timely information on the States and large MSAs in the Huntington Footprint.

Summary Table

Key Economic Indicators

January 27, 2021

	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%	-3.8%	5.2%
Non-Residential Fixed Investment	6.4%	2.1%	-4.4%	6.9%
Residential Fixed Investment	-1.5%	-1.5%	4.8%	14.7%
Exports	3.0%	0.0%	-13.1%	7.2%
Imports	4.4%	1.0%	-10.0%	10.9%
Government Purchases	1.7%	2.3%	1.3%	1.0%
Change in Private Inventories (Billions 2012 Chained Dollars)	$48.1	$67.0	$-69.7	$37.5
Trade-Weighted Dollar Index (Jan. 2006 = 100) Year-End Source: Federal Reserve	115.6	114.7	111.65	109.0
Nominal GDP Current dollars	5.4%	4.1%	-2.3%	6.9%
Consumer Price Index for Urban Consumers (CPI-U) - Annual Rate	2.4%	1.8%	1.2%	2.3%
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%	0.93%	1.62%
National Income Pre-tax Corporate Profits Average annual growth rate	3.4%	0.0%	-5.1%	12.6%
Net New Average Monthly Non-Farm Payrolls (Thousands of Workers)	193K	178K	-892K	+625K
Unemployment Rate – Year End	3.9%	3.5%	6.7%	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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