The Economy in 2015: Presentation to the Construction Financial Management Association of Central Ohio

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Economy Trends

- Modest acceleration in economic growth as long as fiscal headwinds, euro zone crisis and geopolitical stresses remain contained.
- Highly accommodative monetary policy expected to provide plentiful support worldwide.
- U.S. consumer gradually improving on stronger finances and job growth. Business balance sheets are healthy, but risk appetite is cautious.
- Housing recovery expected to continue. Exports likely to pick up.
- Inflation and market interest rates expected to trend upwards but volatility likely to remain high.
Factors driving the economy

Positives:
- Low interest rates / plentiful liquidity + QE3
- Improving consumer finances help release pent-up demand
- Export growth this year and in long-term
- Business spending on equipment strong during cycle
  - Solid aggregate profits and cash flows
- Inventory levels lean
- Strong manufacturing resurgence in long-term
- Recovering housing markets
- Energy Boom

Negatives:
- U.S. federal debt concerns and fiscal uncertainties
- Higher taxes & regulation
- Euro-zone sovereign debt danger
- Slow real disposable personal income growth
- State and local fiscal woes
- Risks in global economies
- Long-term inflation risks
- Geo-political risks
- Prices for energy and other commodities

Swing:
- Confidence
Gradually accelerating growth forecast: 2.1% in 2014, 2.7% in 2015

Real Gross Domestic Product*
Percent Change, Annual Rate

* In chained 2009 prices

Historical Data Source: Haver Analytics, Inc. Recessions shown in gray.
Slow growth relative to previous economic cycles

Historical Data Source: Haver Analytics, Inc. Recessions shown in gray.
Economic policy uncertainty has probably weighed on economic growth, but has declined in the last year.

The monthly economic policy uncertainty index is made up of three components which measure economic policy uncertainty:
1. the frequency of references to economic uncertainty and policy in the Google news media catalog,
2. the number of Federal tax code provisions set to expire in future years, and
3. the extent of disagreement among economic forecasters over future Federal government purchases and the future CPI price level.

Historical Data Source: Haver Analytics, Inc. Recessions shown in gray.
Economic activity highest since 2005 according to ISM survey of businesses

ISM Composite Index -- (Manufacturing + Non-Manufacturing)
(Greater than 50 = Growth)

Most Recent Data: July 2014

Historical Data Source: Haver Analytics, Inc. Recessions shown in gray.
Consumer Confidence has been low, but on a gradually rising trend
Consumer fundamentals have steadily improved:

- Full time jobs grew 2.0% in last year, total payrolls rose 1.8%. Job growth expected to continue at steady pace through 2015
- Wages and Salaries in aggregate rose 5.3% in the last year. Private wages and salaries rose 6.0%. Compensation is expected to reach more consumers in the coming year
- Lower commodity prices giving consumer purchasing power an added boost this year
- Low long-term and short-term interest rates expected to reduce borrowing costs and support housing markets
- Consumer balance sheets are expected to continue to improve from rising wealth, debt repayments and higher savings
Employment is forecasted to gradually increase with economic growth

Despite underwhelming GDP growth, employment has exceeded pre-recession high and is expected to climb higher

Historical Data Source: Haver Analytics, Inc. Recessions shown in gray.
Unemployment rate is forecasted to decline gradually

Higher long-term structural unemployment remains a risk.

Historical Data Source: Haver Analytics, Inc. Recessions shown in gray.
Labor Force Participation on Declining Trend

Civilian Participation Rate: 16 yr +
SA, %

Source: Bureau of Labor Statistics /Haver Analytics

Historical Data Source: Haver Analytics, Inc. Recessions shown in gray.
Financial obligations have fallen to the lowest rate since the early 1980s

Debt levels are still high, but financial obligations have fallen for the time being on historically low interest rates.

*Financial Obligations Ratio (FOR) is an estimate of the ratio of financial obligations payments to disposable personal income. It’s a broader measure than the debt service ratio and includes automobile lease payments, rental payments on tenant-occupied property, homeowners’ insurance and property tax payments.

Historical Data Source: Haver Analytics, Inc. Recessions shown in gray.
Federal Reserve policy rates likely to remain low relative to history

However, first Fed Funds rate target increase forecasted in the second quarter of 2015

Historical Data Source: Haver Analytics, Inc.
Job openings have increased to their highest in the recovery

Source: Bureau of Labor Statistics /Haver Analytics

Recessions shown in gray.
Construction job openings have been rising, but still below pre-recession peaks

Recessions shown in gray.
Vehicle Sales return to pre-recession levels

Historical Data Source: Haver Analytics, Inc.
Business investment expected to continue to rise steadily

Non-Defense Capital Goods Excluding Aircraft
SA - Billions of Dollars

Historical Data Source: Haver Analytics, Inc.
New Technologies spur likely beginnings of revolution in energy production

Industrial Production: Energy Materials
SA, 2007=100

Source: Federal Reserve Board /Haver Analytics

Historical Data Source: Haver Analytics, Inc. Recessions shown in gray.
Rising domestic energy production reduces need for petroleum imports

Imports: Energy-Related Petroleum Products: Quantity

Historical Data Source: Haver Analytics, Inc. Recessions shown in gray.
Current Account Deficit contained under 3% of GDP by trade balance improvements

Balance on Current Account as a % of GDP
SAAR, %

Historical Data Source: Haver Analytics, Inc. Recessions shown in gray.
Commercial Real Estate Prices expected to continue recovery

Recessions shown in gray.

Source: Federal Reserve Board /Haver Analytics
Private Non-Residential Construction on the Rise Again; should continue and broaden in 2015

Recessions shown in gray.
Columbus office vacancy rate has declined towards national rate as office markets improve

Office Vacancy Rates: Metropolitan Areas

Most Recent Data: Q2 2014

Historical Data Source: Haver Analytics, Inc.  Recessions shown in gray.
Columbus MSA industrial vacancy rate dropped to its lowest since 2000

Industrial Vacancy Rates: Metropolitan Areas

Most Recent Data: Q2 2014

Historical Data Source: Haver Analytics, Inc.  Recessions shown in gray.
U.S. home price appreciation has probably returned to long-term trend growth in line with disposable personal income growth.

Housing Prices Compared with Per Capita Disposable Personal Income
January 2000 = 100

Historical Data Source: Haver Analytics, Inc.
Homeowner Vacancy Rates decline to rates just above long-term averages

Source: Census Bureau /Haver Analytics

Historical Data Source: Haver Analytics, Inc.
Rental Vacancy Rates declined to their lowest in nearly 2 decades as more householders chose to rent their homes.

Historical Data Source: Haver Analytics, Inc.
Housing affordability high, but past peak

Rising home prices temper affordability

NAR Housing Affordability Index

Median family income qualifies for 80% mortgage on median priced home.

Most Recent Data: July 2014

Historical Data Source: Haver Analytics, Inc. Recessions shown in gray.
Residential investment, overall home prices and sales forecasted to rise

Residential Investment (Chained 2009 Dollars)
Percent Change, Annual Rate

Historical Data Source: Haver Analytics, Inc.  Recessions shown in gray.
Employment growth in the Columbus MSA outperforms the nation and state during the economic recovery.

Percent Growth in Non-farm Payrolls since End of Recession (June 2009)

Most Recent Data: July 2014 -- Seasonally Adjusted Data

Historical Data Source: Haver Analytics, Inc.
Inflation forecasted to rise gradually next year

After near-term slowdown, inflation is forecasted to accelerate gradually in 2015. Rising prices for rents, commodities in short supply, skilled workers and services in general are forecasted to put upward pressures on producer prices and consumer prices. However, strength of international economy next year could be key to overall inflation performance.

Historical Data Source: Haver Analytics, Inc.  Recessions shown in gray.
Long-term interest rates forecasted to rise

Long-term interest rates have been suppressed by QE in the U.S., a weak international economy, geopolitical uncertainties, China’s strong Treasury bond demand and activist central bank policies by Japan, the U.K., and most recently the European Central Bank. However, strengthening economic U.S. economic growth and coinciding inflationary pressures are expected to move long-term interest rates in a sustained upward trend in 2015.

Historical Data Source: Haver Analytics, Inc.  Recessions shown in gray.
Government debt has been stabilizing at high levels

US: General Government Debt Outstanding as a % of SAAR GDP

Historical Data Source: Haver Analytics, Inc. Recessions shown in gray.
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*Data Sources: Haver Analytics*

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