

Babson Capital/UNC Charlotte

Economic Forecast

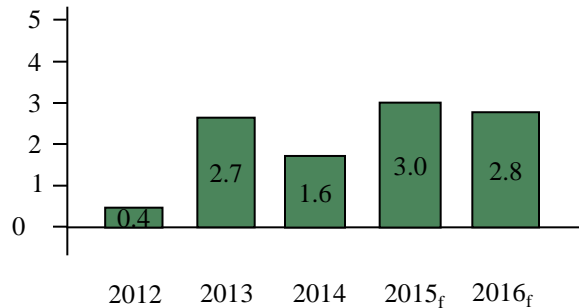
September 9, 2015



The data used in this report comes from the websites for the U.S. Department of Commerce's Bureau of Economic Analysis (www.bea.gov) and the North Carolina Employment Security Commission (www.ncesc.com) as of August 26, 2015. The opinions expressed in this Forecast by Professor Connaughton (the Babson Capital Professor of Economics at the Belk College of Business) and UNC Charlotte do not necessarily represent the views of Babson Capital Management LLC or its affiliates.

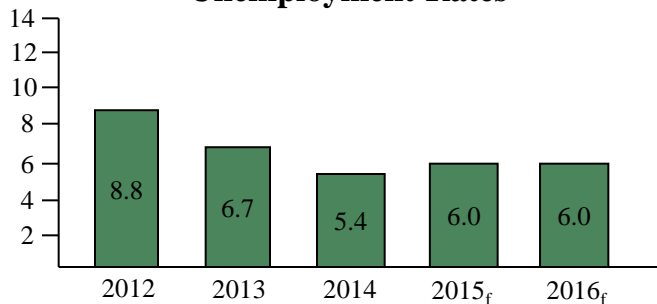
FORECAST HIGHLIGHTS

Annual Growth Rates In Real GSP



GSP/Gross State Product is a yardstick that measures the total output of a state's economy for a given year. It is analogous to the U.S. Gross Domestic Product (GDP).

Year-End Seasonally Adjusted North Carolina Unemployment Rates



- For 2015, NORTH CAROLINA real GSP is expected to increase by 3.0 percent over the 2014 level.

- Fourteen of the state's fifteen economic sectors are forecast to experience output increases during 2015. The sectors with the strongest expected growth are business and professional services with a projected real increase of 6.6 percent; educational and health services with a projected real increase of 5.3 percent; information with a projected real increase of 5.0 percent; and hospitality and leisure services with a projected real increase of 4.6 percent.

- For 2015, NORTH CAROLINA establishments added 89,900 net additional jobs, an increase of 2.1 percent.

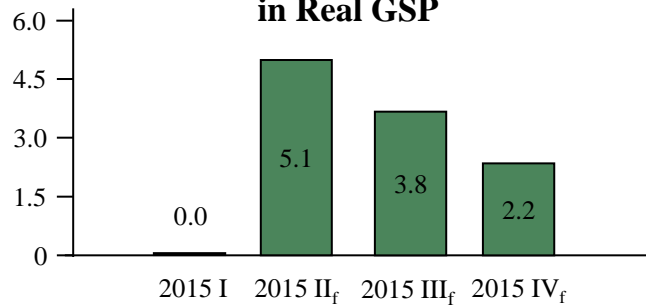
- For 2016, NORTH CAROLINA real GSP is forecast to increase by 2.8 percent over the 2015 level.

- Fourteen of the state's fifteen economic sectors are forecast to experience output increases during 2016. The sectors with the strongest expected growth are business and professional services with a projected real growth rate of 6.0 percent; agriculture with a projected real growth rate of 4.8 percent; construction with a projected real increase of 3.5 percent; finance, insurance, and real estate with a projected real increase of 3.4 percent; and educational and health services with a projected real growth rate of 3.3 percent.

- For 2016, NORTH CAROLINA establishments are forecast to add 115,200 net jobs, an increase of 2.7 percent.

- By December of 2015, the North Carolina unemployment rate is expected to be around 6.0 percent.

Quarterly Growth Rates in Real GSP



2015 Highlights

	2015 *	Percent Change
Current Dollars		
Total Gross Product	503,355.5	4.2
Constant (2009 Dollars)		
Total Gross Product	456,046.7	3.0
Agricultural	3,342.4	1.8
Mining	1,412.5	-1.8
Construction	15,713.1	3.9
Manufacturing	90,613.7	2.2
Durable Goods	37,966.9	3.5
Nondurable Goods	52,646.7	1.4
TWU	17,996.0	3.9
Wholesale Trade	25,386.5	4.0
Retail Trade	24,314.9	3.4
Information	15,470.1	5.0
FIRE	88,827.1	1.0
B & P	53,467.0	6.6
E & H	35,594.0	5.3
H & L	15,184.2	4.6
Services	8,675.0	3.1
Government	60,050.5	0.6

* millions of dollars

2015 GSP

Gross State Product (GSP) is expected to reach a level of \$503,355.5 million in 2015. Real (inflation-adjusted) GSP is expected to increase by 3.0 percent over the 2014 level. This growth in 2015 would follow three years of modest growth in North Carolina GSP. The growth expected in 2015 is almost double the 1.6 percent increase in 2014 and in line with the 2.7 percent increase in 2013.

For 2015, first quarter GSP was flat with an annualized real growth rate of 0.0 percent. During the second quarter, GSP is expected to increase at an annualized real rate of 5.1 percent. In the third quarter, GSP is expected to increase at an annualized real growth rate of 3.8 percent. In the fourth quarter of 2015, GSP is expected to increase at an annualized real rate of 2.2 percent.

2015 is proving to be a very volatile year for the U.S. economy, with several important economic factors trending in very uncertain ways. Starting back in 2014, oil prices have experienced a dramatic decline. In June of 2014 the average price of regular gasoline in the U.S. was \$3.77. By December regular gasoline had fallen to \$2.86 and today it is \$2.41. While this has had a positive impact on consumer confidence and spending, it has been problematic for the energy sector, and several counties that rely on oil exports. Second, the Chinese economy has slowed and their stock market seems to be undergoing a significant correction. While China's economic slowdown should have little direct impact on U.S. exports to China, it is likely to cause an overall slowing of world GDP growth going forward. The cumulative effect could spread to reduce U.S. exports. Third, the recent strength of the U.S. dollar will reduce our exports to two of our largest trading partners, the EU and Canada. Finally, the "Fed" is eventually going to raise interest rates. The "Fed" needs policy room to be able to combat the next U.S. slowdown, but right now the slowing world GDP and the strong U.S. dollar make that prospect of reducing rates risky during the next several months.

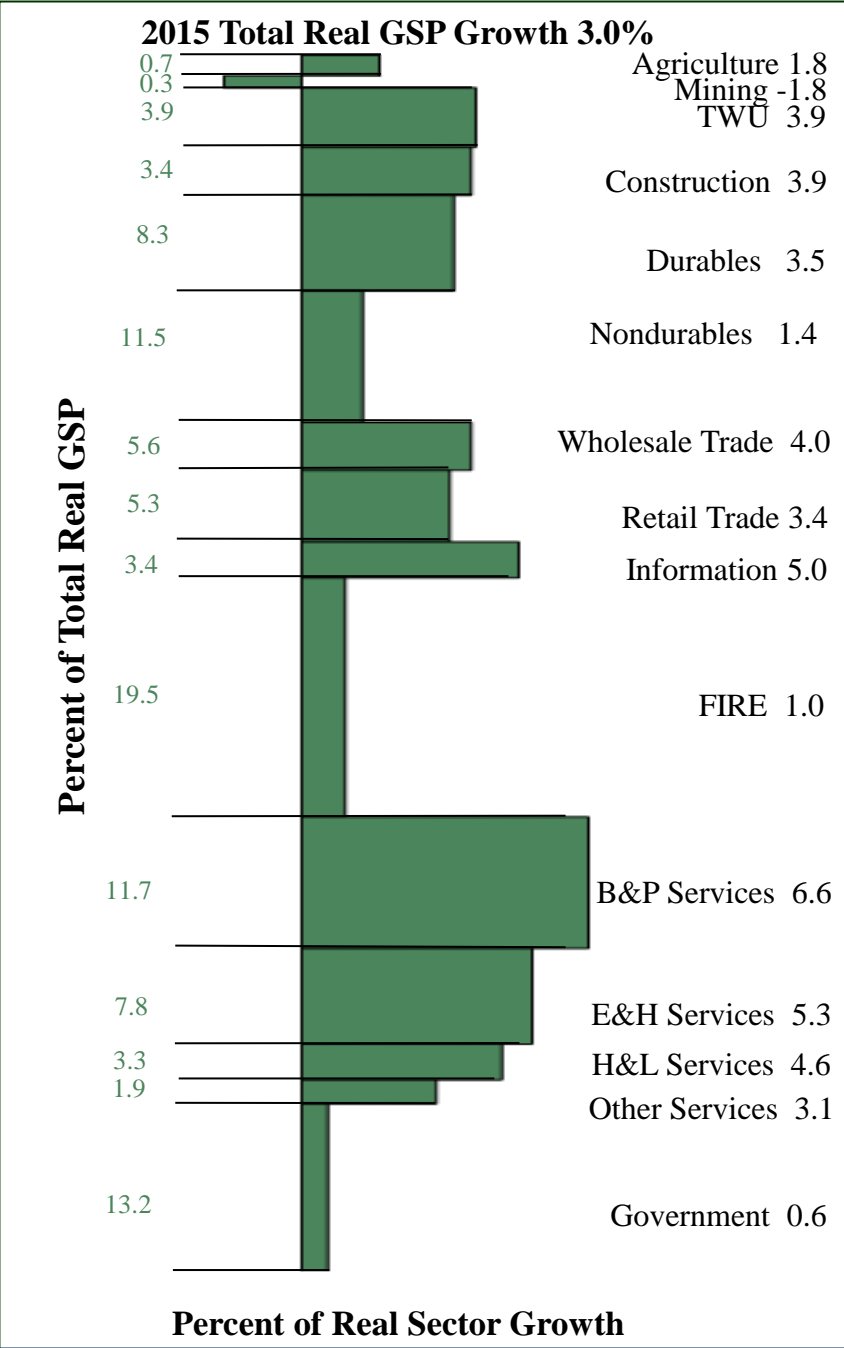
2015 GSP SECTOR ANALYSIS

The chart to the left presents the projected contributions of each major economic sector to North Carolina's Gross State Product (GSP). The real (inflation-adjusted) growth rate for 2015 is forecast to increase by 3.0 percent. Projected real growth rates for each sector (displayed in black type) are plotted on the horizontal axis. Projected percentages of GSP contributed by each sector (displayed in green type) are plotted on the vertical axis. The resulting rectangles show the expected weighted importance of each sector's growth during 2015. All of the sector information presented in the table to the left is based on the new North American Industry Classification System (NAICS) definitions.

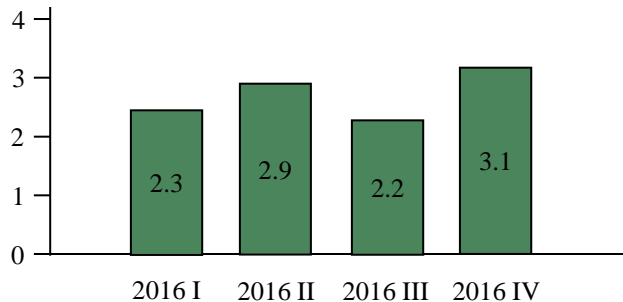
Fourteen of the state's fifteen economic sectors are forecast to experience output increases during 2015. The sectors with the strongest expected growth are business and professional services with a projected real increase of 6.6 percent; educational and health services with a projected real increase of 5.3 percent; information with a projected real increase of 5.0 percent; hospitality and leisure services with a projected real increase of 4.6 percent; wholesale trade with a projected real increase of 4.0 percent; transportation, warehousing, and utilities (TWU) with a projected real increase of 3.9 percent; construction with a projected real increase of 3.9 percent; durable goods manufacturing with a projected real increase of 3.5 percent; retail trade with a projected real increase of 3.4 percent; and other services with a projected real increase of 3.1 percent.

Four other sectors are expected to experience growth rates, but at levels below the overall 3.0 percent real GSP growth rate. These sectors are, agriculture with a projected real increase of 1.8 percent; nondurable goods manufacturing with a projected real increase of 1.4 percent; finance, insurance, and real estate with a projected real increase of 1.0 percent; and government with a projected real increase of 0.6 percent.

Only mining is expected to experience an output decline during 2015.



Quarterly Growth Rates in Forecasted Real GSP



2016 Highlights

	2016 *	Percent Change
Current Dollars		
Total Gross Product	527,473.9	4.8
Constant (2009 Dollars)		
Total Gross Product	468,771.4	2.8
Agricultural	3,511.8	4.8
Mining	1,283.1	-9.2
Construction	16,268.4	3.5
Manufacturing	92,130.6	1.7
Durable Goods	38,682.0	1.9
Nondurable Goods	53,448.7	1.5
TWU	18,400.1	2.3
Wholesale Trade	26,002.4	2.4
Retail Trade	24,592.7	1.1
Information	15,910.4	2.9
FIRE	91,823.1	3.4
B & P	56,664.0	6.0
E & H	36,778.4	3.3
H & L	15,641.0	3.0
Services	8,916.2	2.8
Government	60,849.1	1.3

* millions of dollars

2016 GSP

Gross State Product (GSP) is expected to reach a level of \$527,473.9 million in 2016. Real (inflation-adjusted) GSP is expected to increase by 2.8 percent over the 2015 level. This growth expected in 2016 is slightly slower than the expected 3.0 percent growth expected in 2015

For 2016, first quarter GSP is expected to increase at an annualized real rate of 2.3 percent. During the second quarter, GSP is expected to increase at an annualized real rate of 2.9 percent. In the third quarter, GSP is expected to record an annualized real growth rate of 2.2 percent. In the fourth quarter of 2016, GSP is expected to grow at an annualized real rate of 3.1 percent.

Positive economic growth in 2016 would represent the seventh consecutive year of economic growth for the North Carolina economy. While this is an impressive string of growth, the size of that economic growth has been somewhat lacking. The average GSP growth during the seven year period would only be slightly higher than 2.0 percent. Since 2000, both the U.S. and North Carolina economies have been unable to achieve an average 3.0 percent GDP growth rate that had been fairly consistent during the second half of the 20th century.

Because of several long-term trends that are now emerging, we need to recalibrate our sense of what level of real GDP growth we should expect. There are several factors responsible for slowing down the potential long term growth rate. First, is the aging of the labor force. Baby boomers are reaching retirement age and when they retire, they reduce their level of purchases, thus reducing overall consumption and lowering economic growth. Second, when baby boomers retire, there is a reduction in the absolute size of the labor force, thus reducing potential GDP and lowering economic growth. This second factor is most critical in slowing the growth of potential GDP. The most troubling aspect is that we are at the beginning stages of this problem and it will be with us for several decades.

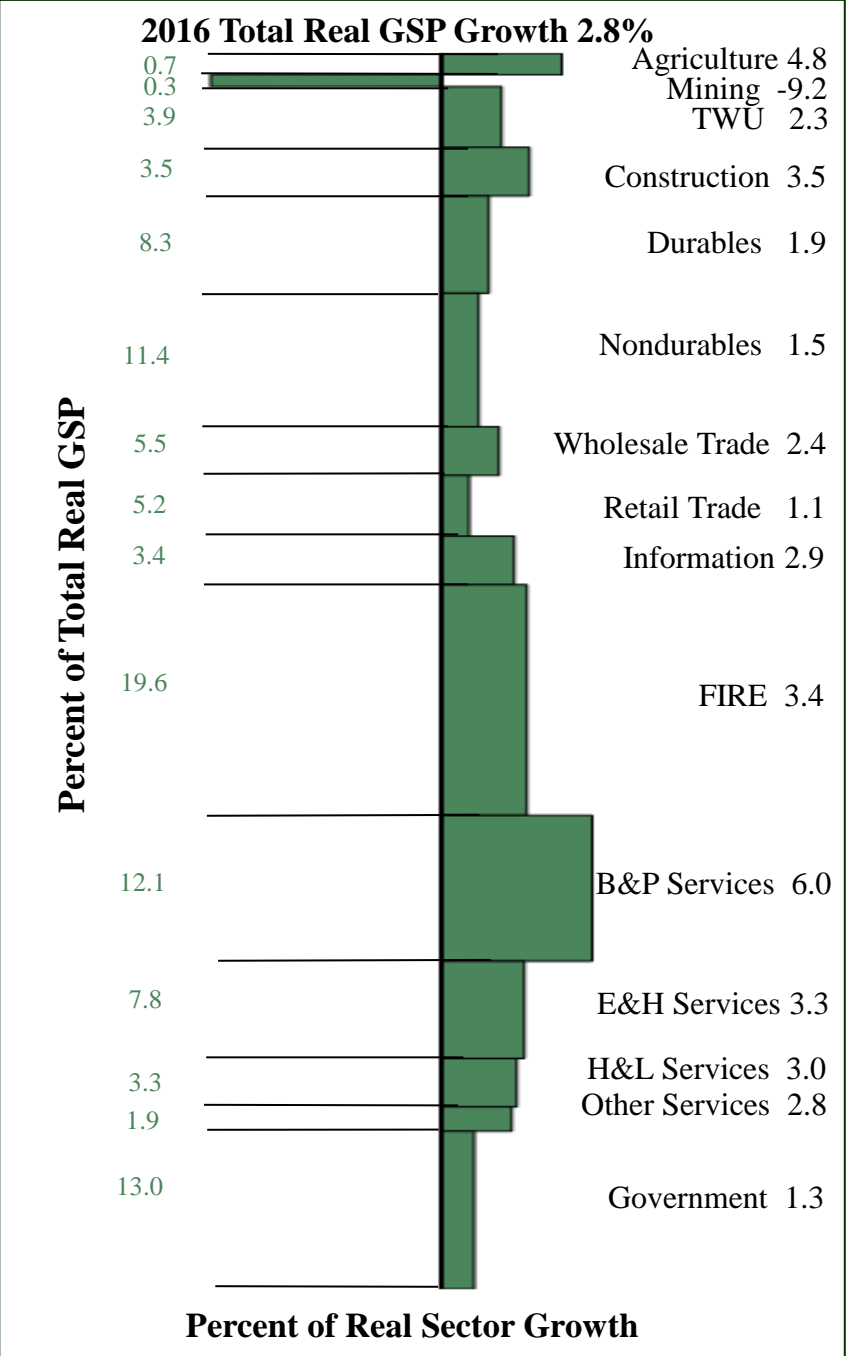
2016 GSP SECTOR ANALYSIS

The chart to the left presents the projected contributions of each major economic sector to North Carolina's Gross State Product (GSP). The real (inflation-adjusted) growth rate for 2016 is forecast to increase by 2.8 percent. Projected real growth rates for each sector (displayed in black type) are plotted on the horizontal axis. Projected percentages of GSP contributed by each sector (displayed in green type) are plotted on the vertical axis. The resulting rectangles show the expected weighted importance of each sector's growth during 2016. All of the sector information presented in the table to the left is based on the new North American Industry Classification System (NAICS) definitions.

Fourteen of the state's fifteen economic sectors are forecast to experience output increases during 2016. The sectors with the strongest expected growth are business and professional services with a projected real growth rate of 6.0 percent; agriculture with a projected real growth rate of 4.8 percent; construction with a projected real increase of 3.5 percent; finance, insurance, and real estate with a projected real increase of 3.4 percent; educational and health services with a projected real growth rate of 3.3 percent; hospitality and leisure services with a projected real growth rate of 3.0 percent; information with a projected real increase of 2.9 percent; and other services with a projected real increase of 2.8 percent.

Six other sectors are expected to experience growth, but at levels below the overall 2.8 percent real GSP growth rate. These sectors are wholesale trade with a projected real increase of 2.4 percent; transportation, warehousing, and utilities (TWU) with a projected real increase of 2.3 percent; durable goods manufacturing with a projected real increase of 1.9 percent; nondurable goods manufacturing with a projected real increase of 1.5 percent; government with a projected real increase of 1.3 percent; and retail trade with a projected real increase of 1.1 percent.

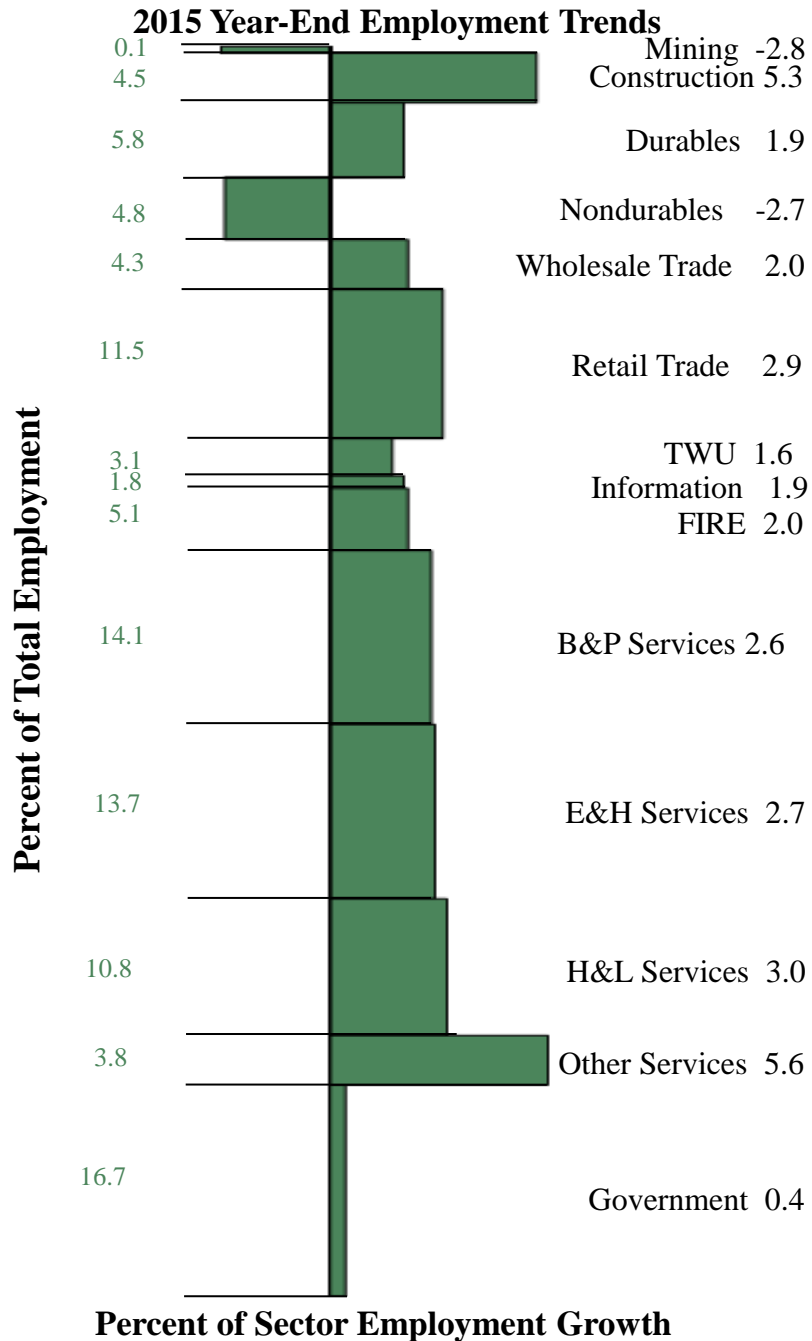
Only mining is expected to experience an output decline during 2016.



2015 EMPLOYMENT SECTOR ANALYSIS

The sector employment analysis presented on this page is based on the new North American Industrial Classification System (NAICS). Seasonally adjusted nonagricultural employment in North Carolina is expected to reach 4,292,900 persons in December 2015, an increase of 2.1 percent over the employment level in December 2014. The state is expected to gain 89,900 net jobs during 2015.

Twelve of the state's fourteen nonagricultural sectors of the economy are expected to experience employment increases during 2015. The sectors with the strongest expected employment increases in 2015 are other services at 5.6 percent, construction at 5.3 percent, and hospitality and leisure services at 3.0 percent.



2015 Employment Highlights

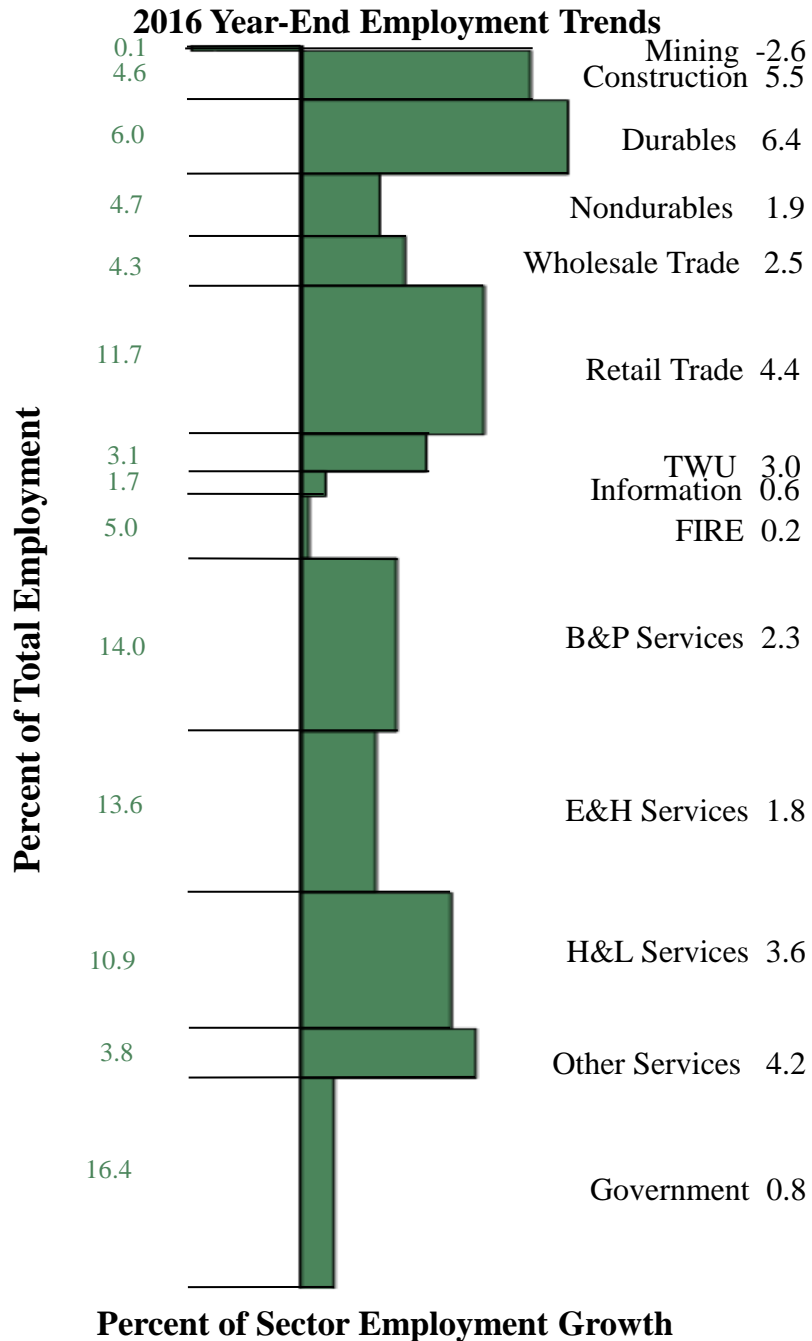
	Year-End*	Percent Change
Total Establishment		
Employment	4,292.9	2.1
Mining	5.4	-2.8
Construction	194.2	5.3
Manufacturing	454.2	-0.2
Durable Goods	250.0	1.9
Nondurable Goods	204.2	-2.7
Wholesale Trade	183.8	2.0
Retail Trade	494.5	2.9
TWU	131.7	1.6
Information	75.2	1.9
FIRE	218.1	2.0
B&P Services	603.2	2.6
E&H Services	588.0	2.7
H&L Services	465.1	3.0
Other Services	161.1	5.6
Government	718.6	0.4

*thousands of persons

2016 EMPLOYMENT SECTOR ANALYSIS

The sector employment analysis presented on this page is based on the new North American Industrial Classification System (NAICS). Seasonally adjusted nonagricultural employment in North Carolina is expected to reach 4,408,100 persons in December 2016, an increase of 2.7 percent over the employment level in December 2015. The state is expected to gain 115,200 net jobs during the year.

Thirteen of the state's fourteen nonagricultural sectors of the economy are expected to experience employment increases during 2016. The sectors with the strongest employment increases in 2016 are durable goods manufacturing at 6.4 percent, construction at 5.5 percent, and retail trade at 4.4 percent.

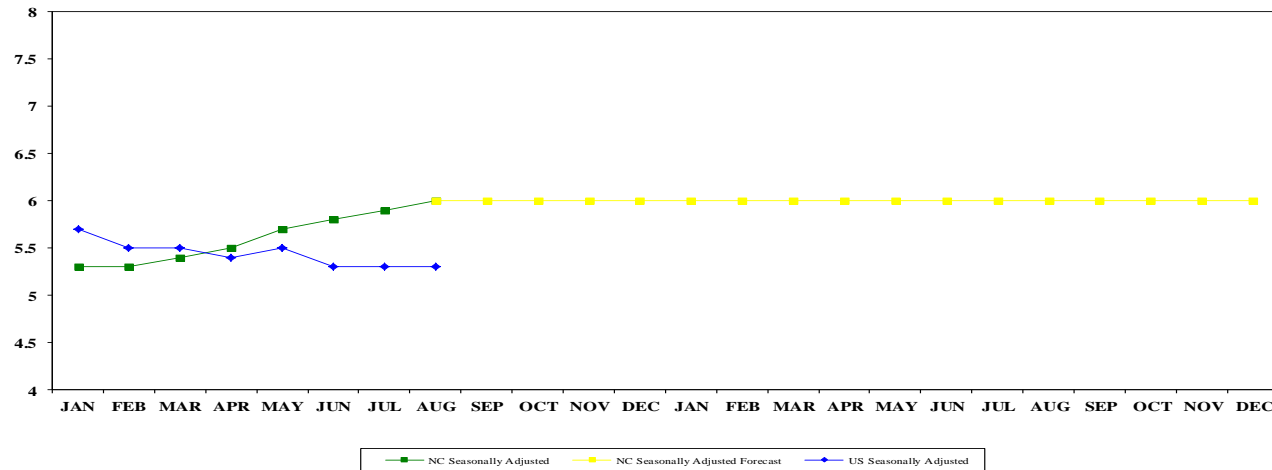


2016 Employment Highlights

	Year-End*	Percent Change
Total Establishment		
Employment	4,408.1	2.7
Mining	5.3	-2.6
Construction	204.9	5.5
Manufacturing	474.0	4.2
Durable Goods	266.0	6.4
Nondurable Goods	208.0	1.9
Wholesale Trade	188.4	2.5
Retail Trade	516.4	4.4
TWU	135.7	3.0
Information	75.7	0.6
FIRE	218.4	0.2
B&P Services	617.4	2.3
E&H Services	598.4	1.8
H&L Services	481.8	3.6
Other Services	167.8	4.2
Government	724.0	0.8

*thousands of persons

2015-2016 NORTH CAROLINA UNEMPLOYMENT RATE



FORECAST reports historical seasonally adjusted monthly unemployment rates for North Carolina and the United States and forecasts the seasonally adjusted monthly unemployment rate for North Carolina. The seasonal adjustment accounts for variations in labor market conditions that cause regular fluctuations in the unemployment level each month.

The graph at the top of this page provides a summary of the monthly unemployment rates for 2015 and 2016. The solid green line represents the North Carolina seasonally adjusted historic unemployment rate. The seasonally adjusted unemployment rate for the United States is represented by the solid blue line. The North Carolina seasonally adjusted unemployment rate forecast is represented by the solid yellow line. The seasonally adjusted rates for the United States and North Carolina can be compared directly and provide more reliable estimates than the unadjusted rates.

The North Carolina seasonally adjusted unemployment rate began 2015 at 5.4 percent, while the United States rate was 5.6 percent. By May the North Carolina rate had fallen to 5.7 percent, while the United States rate had fallen to 5.5 percent. By July the North Carolina rate had risen to 5.9 percent while the U.S. remained stable at 5.3 percent. Both the U.S. and North Carolina unemployment rates are expected to remain stable through 2015, and by December 2015 the North Carolina unemployment rate is expected to be around 6.0 percent.