

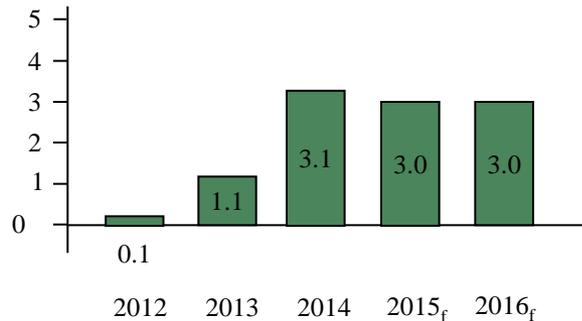
Babson Capital/UNC Charlotte Economic Forecast March 3, 2016



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 February 11th, 2016. 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



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

- All fifteen of the state's economic sectors are forecast to experience output increases during 2015. The sectors with the strongest expected growth are information with a projected real increase of 8.9 percent, business and professional services with a projected real increase of 7.8 percent, hospitality and leisure services with a projected real increase of 5.8 percent, agriculture with a projected real increase of 5.0 percent, and construction with a projected real increase of 5.0 percent.

- For 2015, NORTH CAROLINA establishments added 86,800 net additional jobs, an increase of 2.1 percent.

- For 2016, NORTH CAROLINA real GSP is forecast to increase by 3.0 percent over the 2015 level.

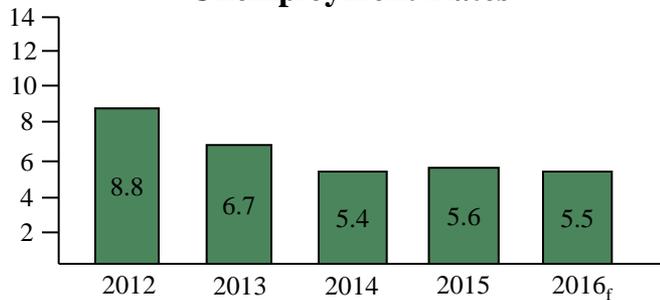
Thirteen of the state's fifteen economic sectors are forecast to experience output increases during 2016. The sectors with the strongest expected growth are business and professional services with a projected real increase of 7.0 percent, information with a projected real increase of 7.0 percent, hospitality and leisure services with a projected real increase of 4.4 percent, construction with a projected real increase of 3.7 percent, and educational and health services with a projected real increase of 3.1 percent.

- For 2016, NORTH CAROLINA establishments are forecast to add 78,500 net additional jobs, an increase of 1.8 percent.

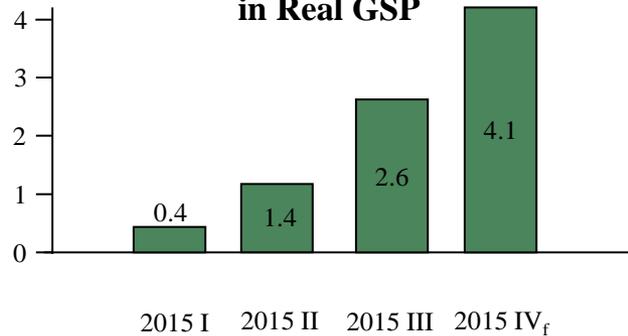
- By December of 2016, the North Carolina unemployment rate is expected to be around 5.3 percent.

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



Quarterly Growth Rates in Real GSP



2015 Highlights

	2015 *	Percent Change
Current Dollars		
Total Gross Product	501,851.0	4.2
Constant (2009 Dollars)		
Total Gross Product	453,467.0	3.0
Agricultural	4,194.1	5.0
Mining	1,568.9	4.0
Construction	16,392.7	5.0
Manufacturing	91,341.0	1.7
Durable Goods	38,475.1	4.0
Nondurable Goods	52,865.9	0.2
TWU	17,691.4	4.4
Wholesale Trade	26,281.1	4.0
Retail Trade	24,296.4	2.9
Information	16,703.4	8.9
FIRE	83,337.8	0.7
B & P	53,444.7	7.8
E & H	35,440.3	3.3
H & L	15,533.7	5.8
Services	8,741.2	2.6
Government	58,500.3	0.2

* millions of dollars

2015 GSP

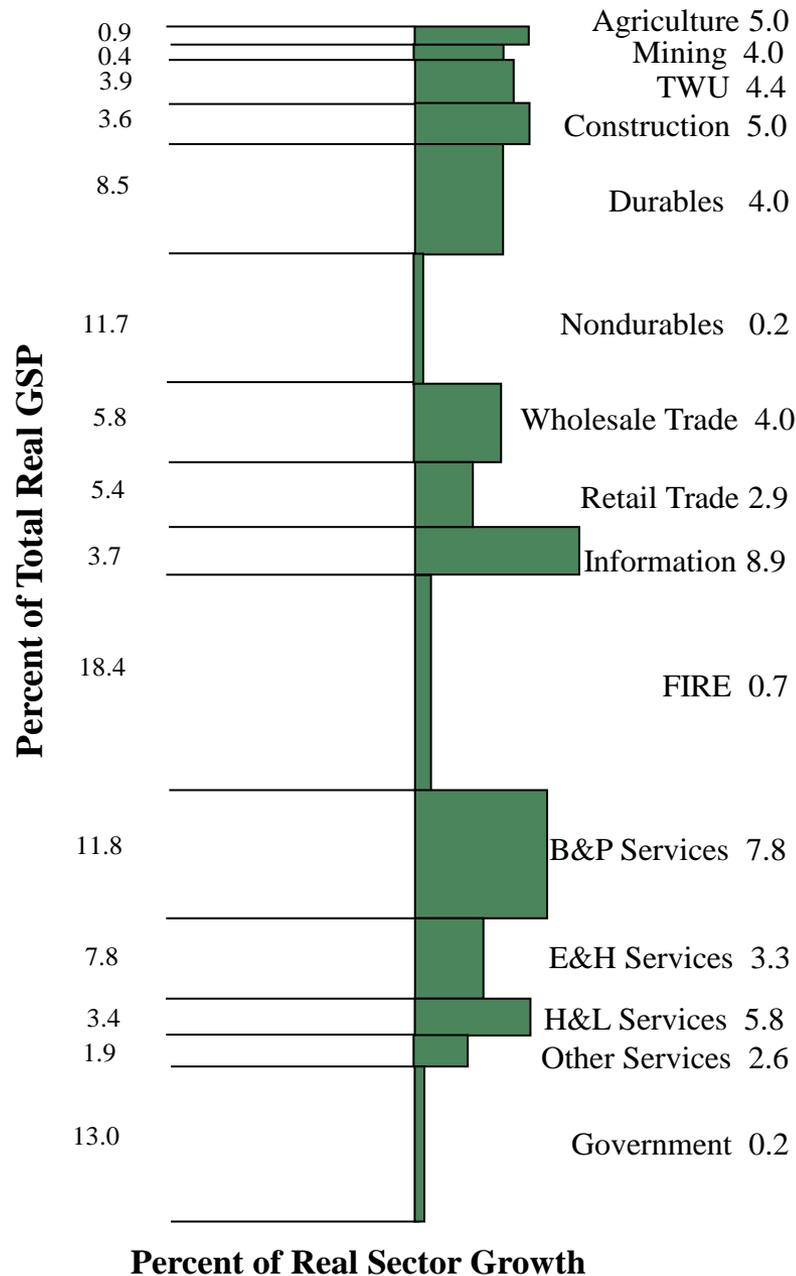
Gross State Product (GSP) is expected to reach a level of \$501,851.0 million in 2015. Real (inflation-adjusted) GSP is expected to increase by 3.0 percent over the 2014 level. This growth in 2015 would follow a 3.1 percent real GSP growth rate in North Carolina during 2014. These two years together represent the strongest growth period experienced by the North Carolina economy since the recovery began in late 2009.

For 2015, first quarter GSP increased by an annualized real rate of just 0.4 percent. During the second quarter, GSP increased by an annualized real rate of 1.4 percent. In the third quarter, GSP picked-up and recorded an annualized real growth rate of 2.6 percent. In the fourth quarter of 2015, GSP is expected to grow by an annualized real rate of 4.1 percent.

Several diverse factors are coming together and have caused both the U.S. and North Carolina economies to generate stronger growth during the second half of 2015. First, the “Fed” continued to keep interest rates low during 2015. Second, was the continuation of low oil prices. Gas prices for regular blend peaked in early June at around \$2.74 per gallon. By the end of December, the average had dropped to \$1.95. This \$0.79 decline since June put an additional \$225 billion of discretionary income into consumer’s pocketbooks on an annual basis. This increase in consumer discretionary income during the second half of 2015 was a significant factor in increasing the growth rates during the third and fourth quarters.

On the negative side, we saw a decline in consumer confidence over the last few months. There was a slight decline in October to 99.1 followed by a much larger decline in November to 90.4 and then a slight increase in December to 96.3. Some of this decline could be a result of the terrorist attacks in Paris and the uncertainty created in the days following the attacks. Going forward we need to keep a close eye on this important measure of consumer attitudes to see what the 2016 economy will look like.

2015 Total Real GSP Growth 3.0%



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.

All fifteen of the state's economic sectors are forecast to experience output increases during 2015. The sectors with the strongest expected growth are information with a projected real increase of 8.9 percent; business and professional services with a projected real increase of 7.8 percent; hospitality and leisure services with a projected real increase of 5.8 percent; agriculture with a projected real increase of 5.0 percent; construction with a projected real increase of 5.0 percent; transportation, warehousing, and utilities (TWU) with a projected real increase of 4.4 percent; durable goods manufacturing with a projected real increase of 4.0 percent; wholesale trade with a projected real increase of 4.0 percent; mining with a projected real increase of 4.0 percent; and educational and health services with a projected real increase of 3.3 percent.

Five other sectors are expected to experience growth, but at levels below the overall 3.0 percent GSP real growth rate. These sectors are, retail trade with a projected real increase of 2.9 percent; other services with a projected real increase of 2.6 percent; finance, insurance, and real estate (FIRE) with a projected real increase of 0.7 percent; nondurable goods manufacturing with a projected real increase of 0.2 percent; and government with a projected real increase of 0.2 percent.

2016 GSP

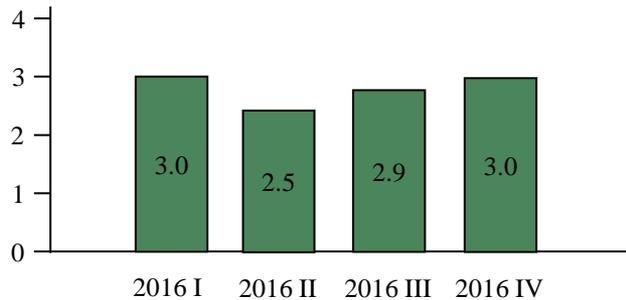
Gross State Product (GSP) is expected to reach a level of \$524,493.5 million in 2016. Real (inflation-adjusted) GSP is expected to increase by 3.0 percent over the 2015 level. This growth in 2016 would follow two years of 3.0 percent real growth in North Carolina GSP. The growth expected in 2016 is the same increase expected in 2015.

For 2016, first quarter GSP is expected to increase by an annualized real rate of 3.0 percent. During the second quarter, GSP is expected to increase by an annualized real rate of 2.5 percent. In the third quarter, GSP is expected to increase by an annualized real rate of 2.9 percent. In the fourth quarter of 2016, GSP is expected to increase by an annualized real rate of 3.0 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 was somewhat lacking in the early years. In fact, for most of the 21st Century, both the U.S. and North Carolina economies have been unable to achieve an average 3.0 percent real GDP growth rate that had been fairly consistent since WW II. The 3.0 percent real growth rate experienced over the 2014-2016 period signals a potential change in this pattern.

Despite this recent growth spurt, there are several long-term trends now emerging, that should require us to recalibrate our sense of what level of long-term real GDP growth we can expect. First, is the aging of the labor force. Baby boomers are reaching retirement age and as 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 as the age cohorts entering the labor force are smaller. This reduces potential GDP and lowers economic growth. Finally, labor productivity has averaged only 1.3 percent growth per year since 2007. This is down considerably compared to the 2000 to 2007 average of 2.6 percent. Together these factors suggest a challenge for long-term GDP growth above a 2.5 to 3.0 percent range.

Quarterly Growth Rates in Forecasted Real GSP

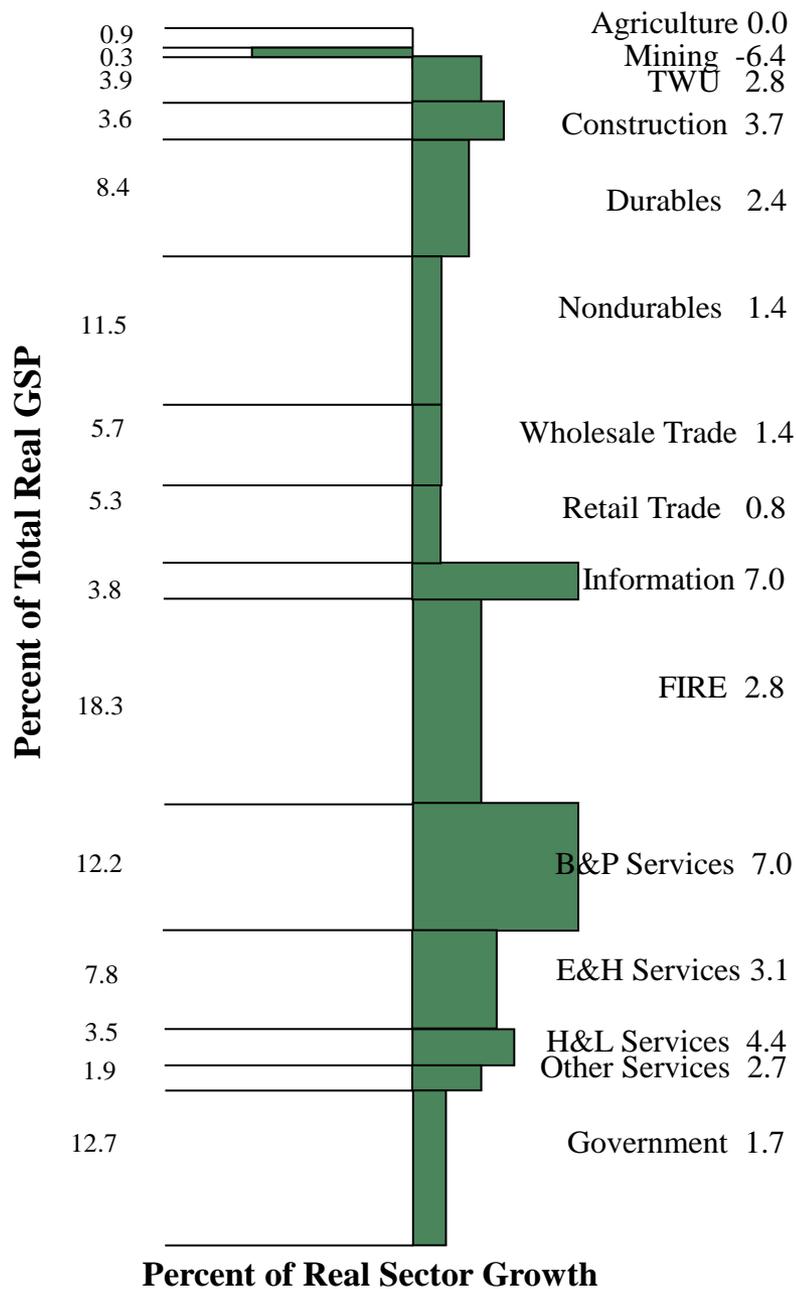


2016 Highlights

	2016 *	Percent Change
Current Dollars		
Total Gross Product	524,493.5	4.5
Constant (2009 Dollars)		
Total Gross Product	466,906.5	3.0
Agricultural	4,191.1	0.0
Mining	1,468.0	-6.4
Construction	16,995.8	3.7
Manufacturing	93,017.9	1.8
Durable Goods	39,398.9	2.4
Nondurable Goods	53,619.0	1.4
TWU	18,191.2	2.8
Wholesale Trade	26,654.3	1.4
Retail Trade	24,498.8	0.8
Information	17,879.5	7.0
FIRE	85,627.9	2.8
B & P	57,160.1	7.0
E & H	36,544.8	3.1
H & L	16,217.6	4.4
Services	8,973.2	2.7
Government	59,486.5	1.7

* millions of dollars

2016 Total Real GSP Growth 3.0%



2016 GSP SECTOR ANALYSIS

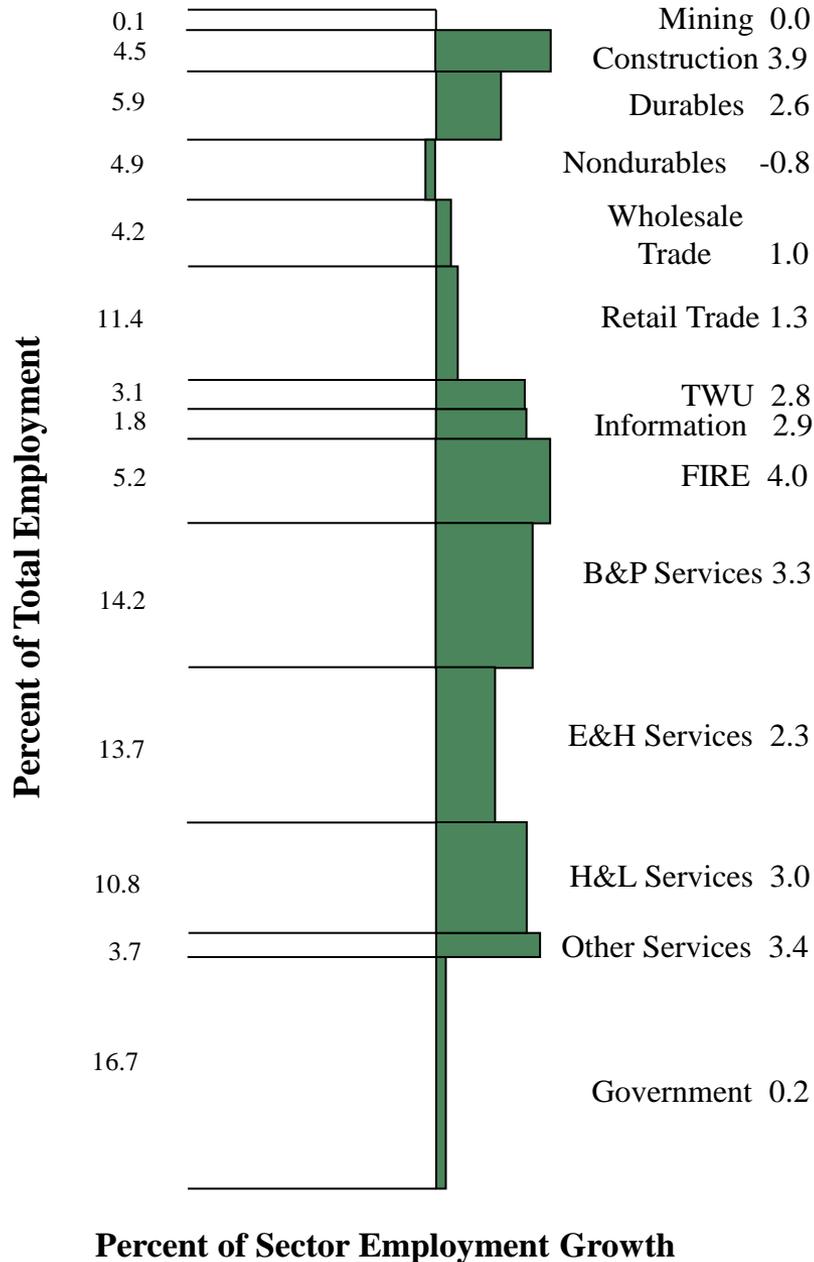
The chart to the left presents the projected contributions of each major economic sector to North Carolina's Gross State Product (GSP). The real (inflation-adjusted) growth rate for 2016 is forecast to increase by 3.0 percent. Projected real growth rates for each sector (displayed in black type) are 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 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.

Thirteen 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 increase of 7.0 percent, information with a projected real increase of 7.0 percent, hospitality and leisure services with a projected real increase of 4.4 percent, construction with a projected real increase of 3.7 percent, and educational and health services with a projected real increase of 3.1 percent.

Eight other sectors are expected to experience growth rates, but at levels below the overall 3.0 percent GSP real growth rate. These sectors are finance, insurance, and real estate with a projected real increase of 2.8 percent; transportation, warehousing, and utilities (TWU) with a projected real increase of 2.8 percent; other services with a projected real increase of 2.7 percent; durable goods manufacturing with a projected real increase of 2.4 percent; government with a projected real increase of 1.7 percent; nondurable goods manufacturing with a projected real increase of 1.4 percent; wholesale trade with a projected real increase of 1.4 percent; and retail trade with a projected real increase of 0.8 percent.

Agriculture is expected to be flat and mining is expected to decline by 6.4 percent during 2016.

2015 Year-End Employment Trends



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 reached 4,289,900 persons in December 2015, an increase of 2.1 percent over the employment level in December 2014. The state gained 86,800 net jobs during the year.

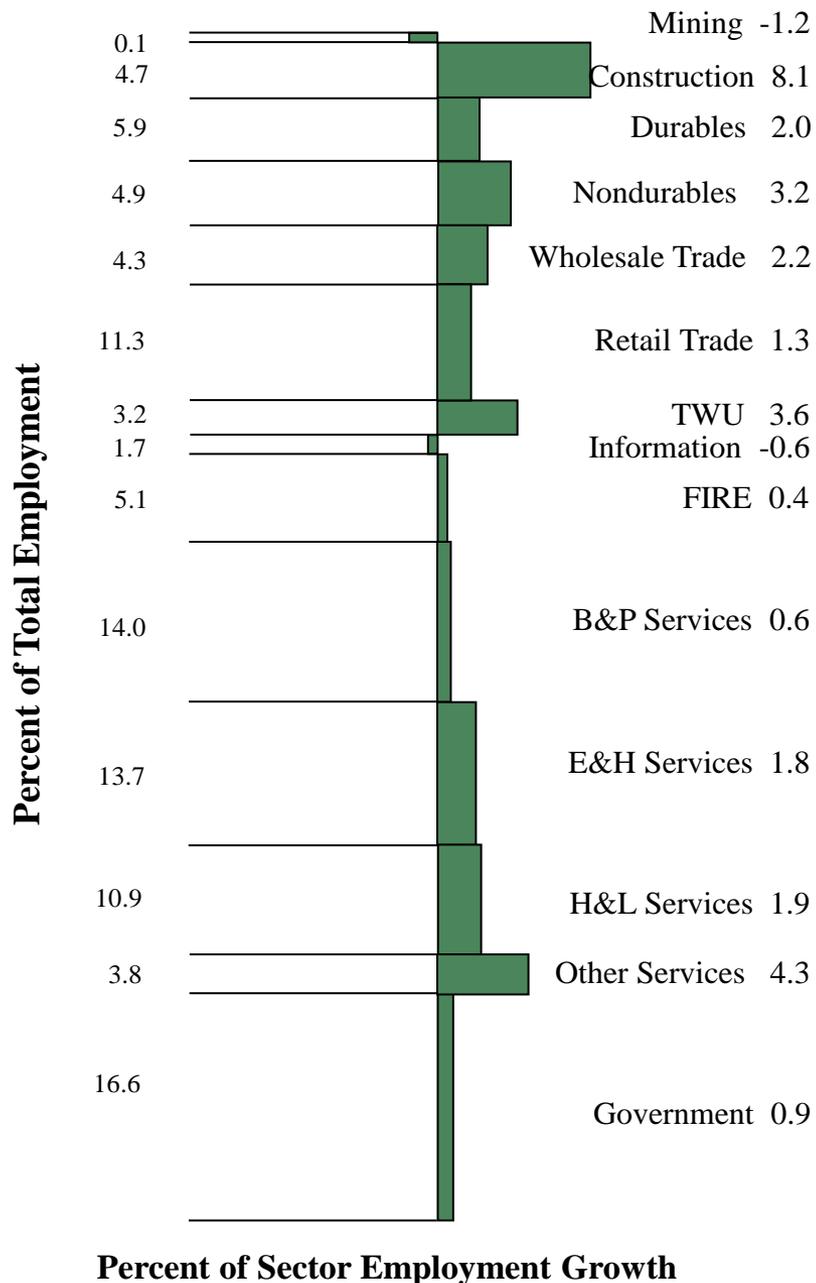
Twelve of the state's fourteen nonagricultural sectors of the economy experienced employment increases during 2015. The sectors with the strongest employment increases in 2015 were FIRE at 4.0 percent, construction at 3.9 percent and other services at 3.4 percent.

2015 Employment Highlights

	Year-End*	Percent Change
Total Establishment		
Employment	4,289.9	2.1
Mining	5.6	0.0
Construction	191.5	3.9
Manufacturing	459.9	-0.5
Durable Goods	251.7	2.6
Nondurable Goods	208.2	-0.8
Wholesale Trade	181.9	1.0
Retail Trade	486.8	1.3
TWU	133.2	2.8
Information	75.9	2.9
FIRE	222.4	4.0
B&P Services	607.0	3.3
E&H Services	585.7	2.3
H&L Services	465.1	3.0
Other Services	157.8	3.4
Government	717.1	0.2

*thousands of persons

2016 Year-End Employment Trends



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 4,368,400 persons in December 2016, an increase of 1.8 percent over the employment level in December 2015. The state is expected to gain 78,500 net jobs during the year.

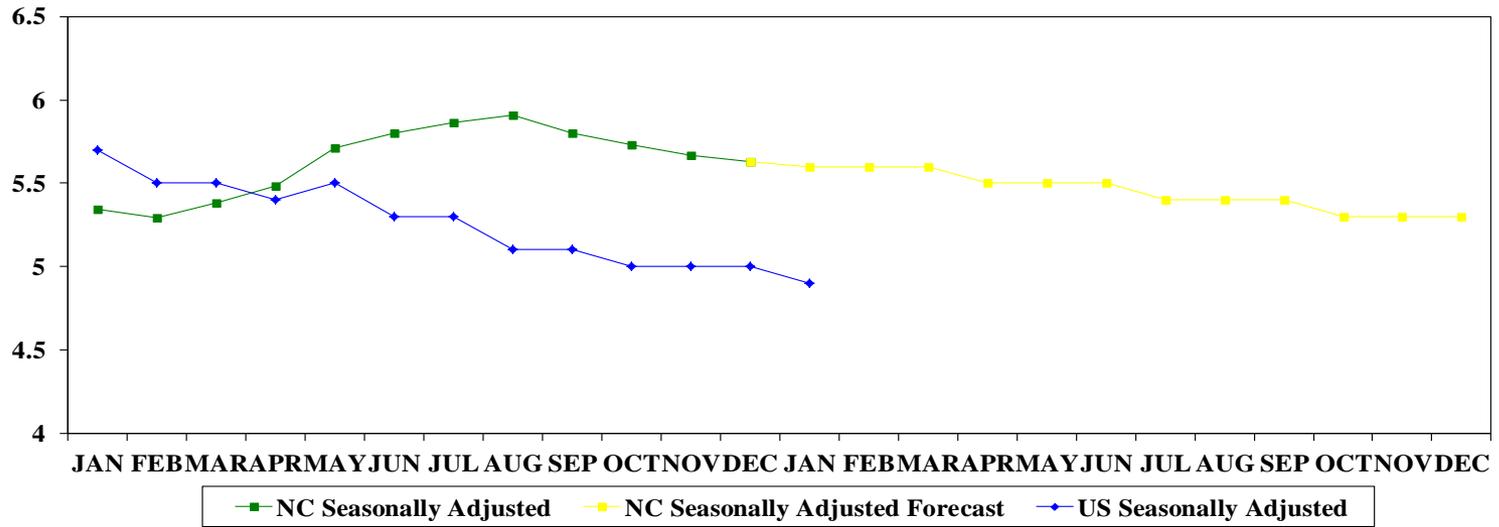
Twelve of the state's fourteen nonagricultural sectors of the economy are expected to experience employment increases during 2016. The sectors with the strongest employment increases in 2016 are construction at 8.1 percent, other services at 4.3 percent, and TWU at 3.6 percent.

2016 Employment Highlights

	Year-End*	Percent Change
Total Establishment		
Employment	4,368.4	1.8
Mining	5.5	-1.2
Construction	206.9	8.1
Manufacturing	471.5	2.5
Durable Goods	256.7	2.0
Nondurable Goods	214.8	3.2
Wholesale Trade	185.9	2.2
Retail Trade	493.3	1.3
TWU	138.0	3.6
Information	75.4	-0.6
FIRE	223.3	0.4
B&P Services	610.4	0.6
E&H Services	596.4	1.8
H&L Services	473.9	1.9
Other Services	164.6	4.3
Government	723.2	0.9

*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 5.3 percent, while the United States rate was 5.7 percent. By December of 2015 the North Carolina rate was 5.6 percent, while the United States rate had fallen to 5.0 percent. Both the U.S. and North Carolina unemployment rates are expected to continue a downward trend throughout 2016, and by December the North Carolina unemployment rate is expected to be around 5.3 percent.