

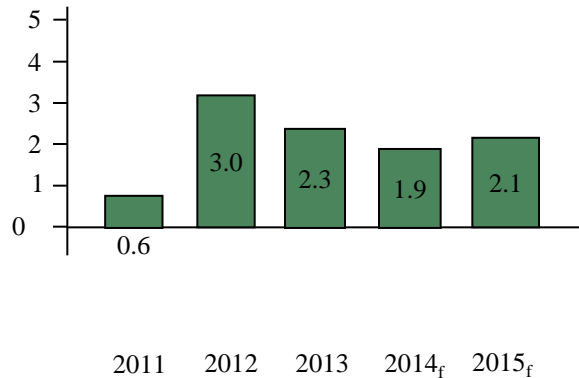
Babson Capital/UNC Charlotte Economic Forecast June 3, 2014



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 April 30, 2014. 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.

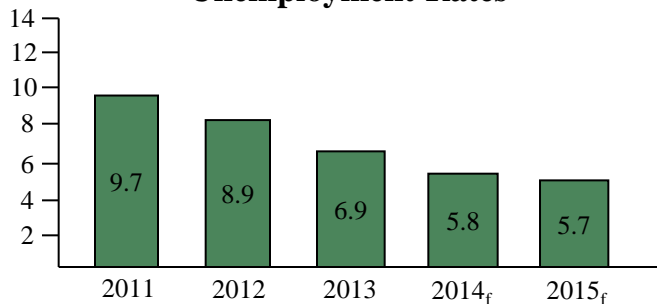
FORECAST HIGHLIGHTS

Annual Growth Rates In Real GSP



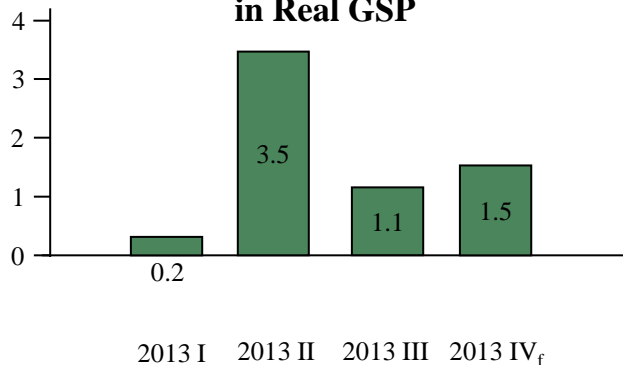
GSP/Gross State Product is a yardstick that measures the total output of a state's economy for a given year. It is analogous to the U.S. Gross Domestic Product (GDP).

Year-End Seasonally Adjusted North Carolina Unemployment Rates



- For 2013, NORTH CAROLINA real GSP increased by 2.3 percent over the 2012 level.
- Fourteen of the state's fifteen economic sectors experienced output increases during 2013. The sectors with the strongest growth were agriculture with a real increase of 21.6 percent; educational and health services with a real increase of 5.2 percent; transportation, warehousing, and utilities (TWU) with a real increase of 4.3 percent; business and professional services with a real increase of 4.0 percent.
- For 2013, NORTH CAROLINA establishments added 85,600 net additional jobs, an increase of 1.8 percent.
- For 2014, NORTH CAROLINA real GSP is forecast to increase by 1.9 percent over the 2013 level.
- All fifteen of the state's economic sectors are forecast to experience output increases during 2014. The sectors with the strongest expected growth are agriculture with a projected real increase of 10.9 percent; mining with a projected real increase of 9.4 percent; transportation, warehousing, and utilities (TWU) with a projected real increase of 3.3 percent; hospitality and leisure services with a projected real increase of 3.3 percent.
- For 2014, NORTH CAROLINA establishments are forecast to add 59,700 net additional jobs, an increase of 1.5 percent.
- By December of 2014, the North Carolina unemployment rate is expected to be around 5.8 percent.
- For 2015, the North Carolina economy should record its fifth year of growth with an increase in real GSP of 2.1 percent over the 2014 level.

Quarterly Growth Rates in Real GSP



2013 Highlights

	2013 *	Percent Change
Current Dollars		
Total Gross Product	473,614.7	3.9
Constant (2000 Dollars)		
Total Gross Product	404,503.3	2.3
Agricultural	3,303.5	21.6
Mining	116.3	3.7
Construction	12,788.2	0.7
Manufacturing	80,180.5	-0.4
Durable Goods	36,913.1	0.5
Nondurable Goods	43,267.4	-1.1
TWU	15,053.9	4.3
Wholesale Trade	20,281.5	3.4
Retail Trade	23,302.0	1.3
Information	14,495.7	1.9
FIRE	87,756.0	2.6
B & P	42,820.0	4.0
E & H	29,624.8	5.2
H & L	12,842.6	2.3
Services	7,889.1	2.7
Government	54,049.2	1.9

* millions of dollars

2013 GSP

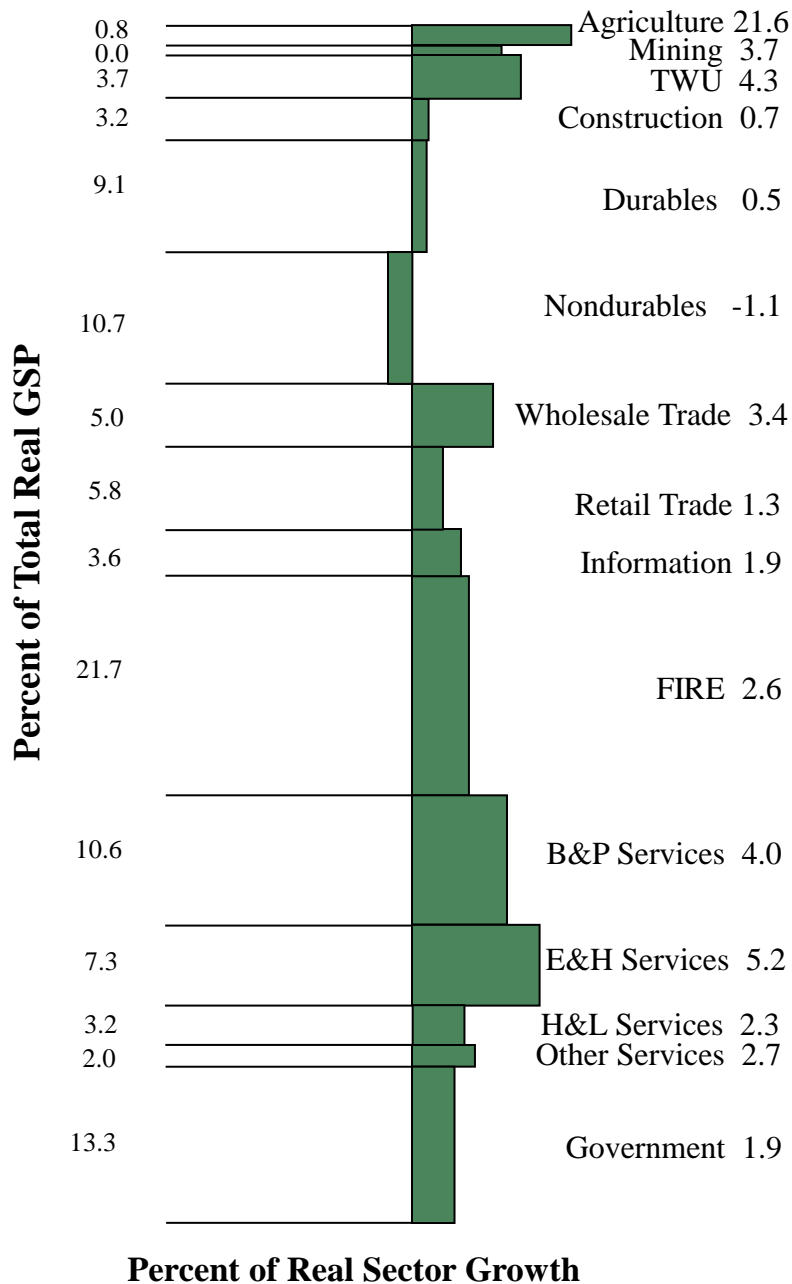
Gross State Product (GSP) reached a level of \$473,614.7 million in 2013. Real (inflation-adjusted) GSP increased by 2.3 percent over the 2012 level. GDP growth in 2013 followed a moderate GSP increase of 3.0 percent in 2012.

For 2013, first quarter GSP increased slightly by an annualized real rate of 0.2 percent. During the second quarter, GSP growth increased substantially to an annualized real rate of 3.5 percent. In the third quarter, GSP growth slowed and recorded an annualized real growth rate of 1.1 percent. In the fourth quarter of 2013, the sluggish growth continued with an annualized real rate of 1.5 percent.

After a disappointing 2011, the state's economy showed signs of life in 2012 with a 3.0 percent GSP increase. However, 2013 has turned out to be a mixed year. During the first quarter of 2013, this moderate growth pattern slowed dramatically as a result of the fiscal measures put into place the first of the year. After the first quarter sluggish start, real GSP growth soared to 3.5 percent during the second quarter. This growth spurt gave rise to stronger growth during the second half of 2013. However, despite rising consumer confidence and continued Federal Reserve Bank quantitative easing, the second half of 2013 proved to be disappointing.

At the national level, US GDP growth was significantly stronger than North Carolina GSP growth during the second half of 2013. Despite this slower than expected growth the North Carolina economy was able to add jobs during the second half of 2013 and through a combination of factors, the state's unemployment rate dropped dramatically during the last six months of the year. In July the North Carolina unemployment rate was 1.5 percentage points higher than the US rate. By December, the North Carolina rate closed to within 0.2 percentage points of the US rate. By March of 2014, the state's unemployment rate was below the US rate for the first time since December of 2007.

2013 Total Real GSP Growth 2.3%



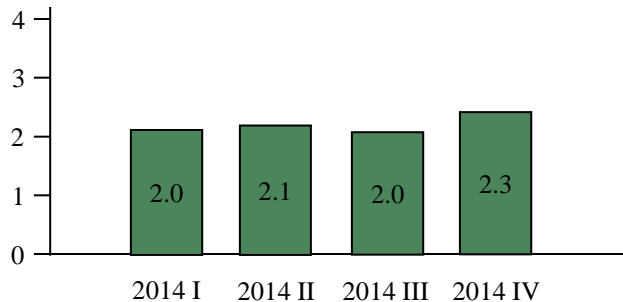
2013 GSP SECTOR ANALYSIS

The chart to the left presents the contributions of each major economic sector to North Carolina's Gross State Product (GSP). The real (inflation-adjusted) growth rate for 2013 increased by 2.3 percent. Real growth rates for each sector (displayed in black type) are plotted on the horizontal axis. Percentages of GSP contributed by each sector (displayed in green type) are plotted on the vertical axis. The resulting rectangles show the weighted importance of each sector's growth during 2013. 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 2013. The sectors with the strongest growth are agriculture with a real increase of 21.6 percent; educational and health services with a real increase of 5.2 percent; transportation, warehousing, and utilities (TWU) with a real increase of 4.3 percent; business and professional services with a real increase of 4.0 percent; mining with a real increase of 3.7 percent; wholesale trade with a real increase of 3.4 percent; other services with a real increase of 2.7 percent; finance, insurance, and real estate with a real increase of 2.6 percent; and hospitality and leisure services with a real increase of 2.3 percent.

Five other sectors are also recorded increases in 2013, but at rates less than the overall state growth rate of 2.3 percent. These sectors are information with a real increase of 1.9 percent, government with a real increase of 1.9 percent, retail trade with a real increase of 1.3 percent, construction with a real increase of 0.7 percent, and durable goods manufacturing with a real increase of 0.5 percent. Only nondurable goods manufacturing experienced a decline in output during 2013, decreasing by 1.1 percent.

Quarterly Growth Rates in Forecasted Real GSP



2014 Highlights

	2014 *	Percent Change
Current Dollars		
Total Gross Product	491,564.6	3.8
Constant (2000 Dollars)		
Total Gross Product	412,240.8	1.9
Agricultural	3,664.6	10.9
Mining	127.3	9.4
Construction	13,139.8	2.8
Manufacturing	80,856.2	0.8
Durable Goods	37,266.8	1.0
Nondurable Goods	43,589.4	0.7
TWU	15,556.8	3.3
Wholesale Trade	20,746.5	2.3
Retail Trade	23,452.5	0.6
Information	14,766.1	1.9
FIRE	89,414.7	1.9
B & P	43,909.5	2.5
E & H	30,235.9	2.1
H & L	13,260.9	3.3
Services	8,144.6	3.2
Government	54,965.6	1.7

* millions of dollars

2014 GSP

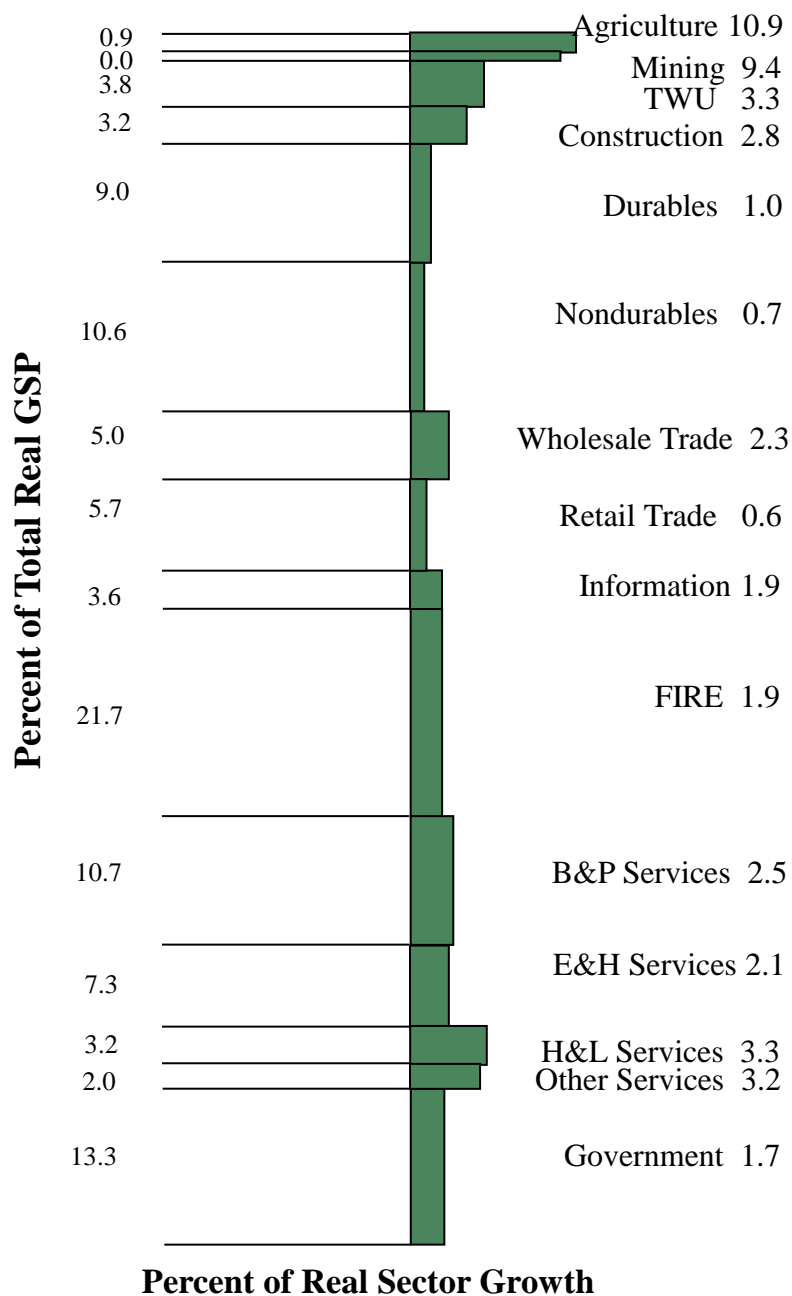
Gross State Product (GSP) is expected to reach a level of \$491,564.6 million in 2014. Real (inflation-adjusted) GSP is expected to increase by 1.9 percent over the 2013 level. This growth in 2014 would follow two years of modest growth in North Carolina GSP. The growth expected in 2014 is less than previously forecast and less than the 3.0 percent increase in 2012 and the 2.3 percent increase in 2013.

For 2014, first quarter GSP is expected to increase at an annualized real rate of 2.0 percent. During the second quarter, GSP is expected to increase at an annualized real rate of 2.1 percent. In the third quarter, GSP is expected to record an annualized real growth rate of 2.0 percent. In the fourth quarter of 2014, GSP is expected to grow at an annualized real rate of 2.3 percent.

Several diverse factors are coming together and are likely to slow the US and North Carolina economies during 2014. First, the “Fed” is continuing to taper its quantitative easing program. Since September of 2012, the “Fed” has been purchasing \$85 billion in mortgage back securities and US Treasury bonds per month. Beginning in January of this year, the “Fed” began to “taper” its purchases and is now buying only \$45 billion a month. This “tapering” has had an effect on mortgage rates, just as the residential real estate market was beginning to show signs of life. This has slowed home sales and home prices during the last two months.

Second, is the aging of the labor force. We have known for some time that the labor force participation rate has been falling, but many have attributed this to discouraged workers dropping out of the labor market. However, it appears the issue is more complex. Baby boomers are reaching retirement age and when they retire they are leaving the labor force and creating two significant problems for the economy. Upon retirement they reduce their level of purchases, thus reducing overall consumption. Also when they retire it also reduces the absolute size of the labor force thus reducing potential GDP and lowering economic growth. This phenomenon is the beginning of a problem that will be with us for several decades.

2014 Total Real GSP Growth 1.9%



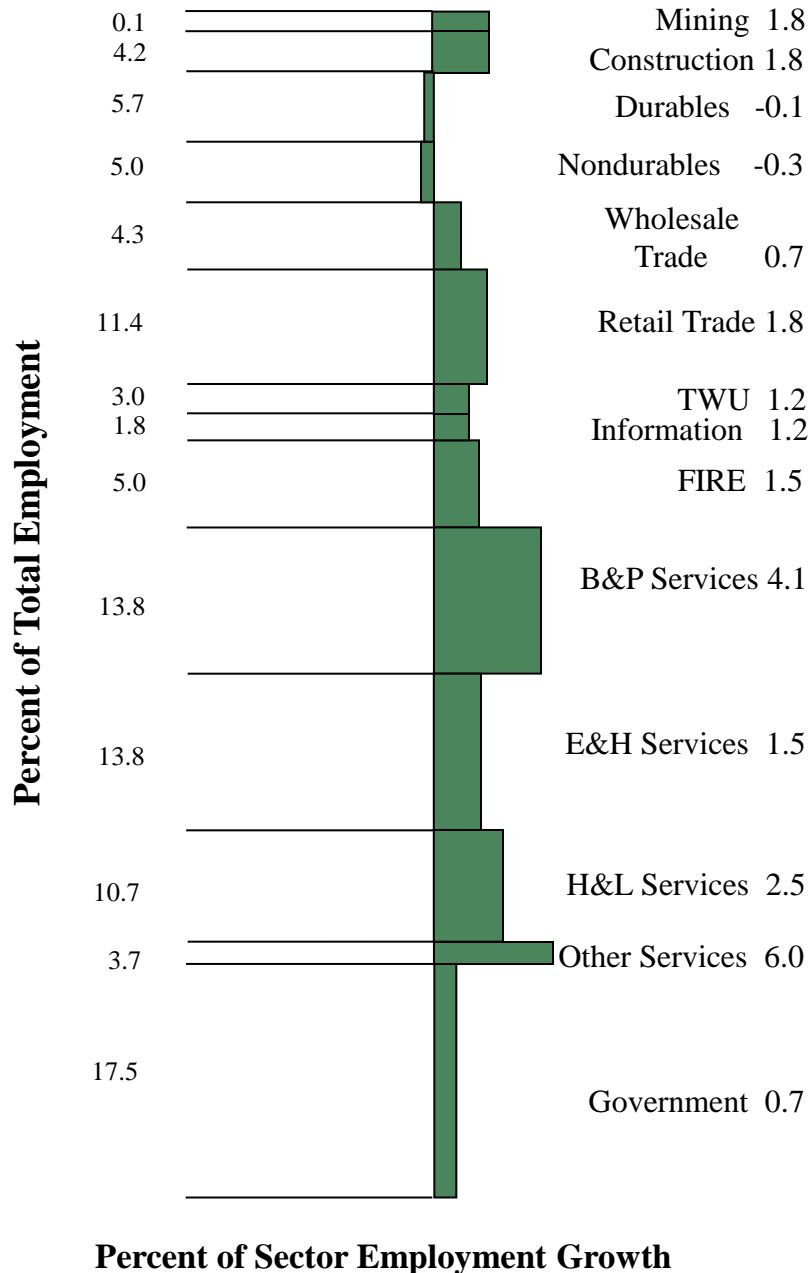
2014 GSP SECTOR ANALYSIS

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 2014 is forecast to increase by 1.9 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 2014. 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 2014. The sectors with the strongest expected growth are agriculture with a projected real increase of 10.9 percent; mining with a projected real increase of 9.4 percent; transportation, warehousing, and utilities (TWU) with a projected real increase of 3.3 percent; hospitality and leisure services with a projected real increase of 3.3 percent; other services with a projected real increase of 3.2 percent; construction with a projected real increase of 2.8 percent; business and professional services with a projected real growth rate of 2.5 percent; wholesale trade with a projected real increase of 2.3 percent; and educational and health services with a projected real increase of 2.1 percent.

Six other sectors are expected to experience growth rates, but at levels equal to or below the overall 1.9 percent GSP growth rate. These sectors are finance, insurance, and real estate with a projected real increase of 1.9 percent; information with a projected real increase of 1.9 percent; government with a projected real increase of 1.7 percent; durable goods manufacturing with a projected real increase of 1.0 percent; nondurable goods manufacturing with a projected real increase of 0.7 percent; and retail trade with a projected real increase of 0.6 percent.

2013 Year-End Employment Trends



2013 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 4,104,200 persons in December 2013, an increase of 1.8 percent over the employment level in December 2012. The state gained 85,600 net jobs during the year.

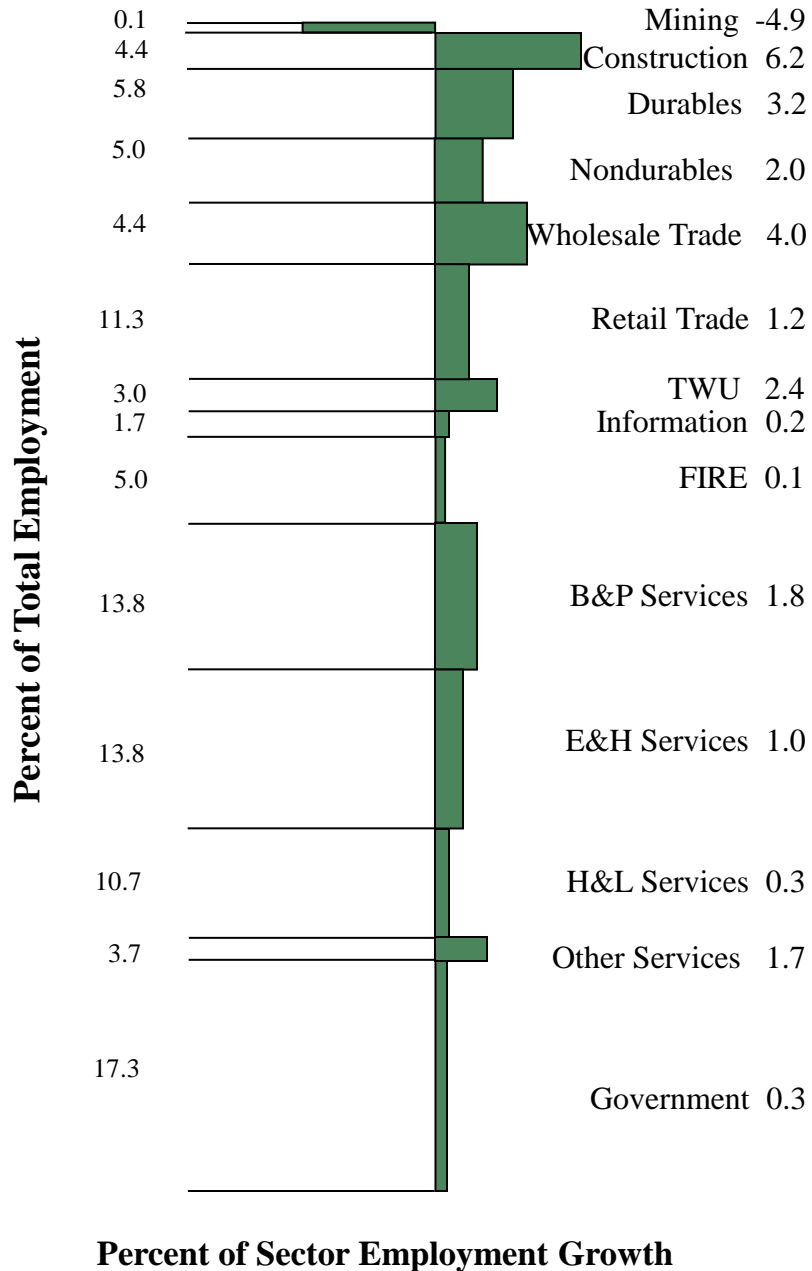
Twelve of the state's fourteen nonagricultural sectors of the economy experienced employment increases during 2013. The sectors with the strongest employment increases in 2013 were other services at 6.0 percent, business and professional services at 4.1 percent, and hospitality and leisure services at 2.5 percent.

2013 Employment Highlights

	Year-End*	Percent Change
Total Establishment		
Employment	4,104.2	1.8
Mining	5.6	1.8
Construction	173.2	1.8
Manufacturing	444.2	-0.2
Durable Goods	235.7	-0.1
Nondurable Goods	206.4	-0.3
Wholesale Trade	176.0	0.7
Retail Trade	466.6	1.8
TWU	124.0	1.2
Information	70.2	1.2
FIRE	207.1	1.5
B&P Services	565.1	4.1
E&H Services	565.7	1.5
H&L Services	437.3	2.5
Other Services	151.6	6.0
Government	719.7	0.7

*thousands of persons

2014 Year-End Employment Trends



2014 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 4,163,900 persons in December 2014, an increase of 1.5 percent over the employment level in December 2013. The state is expected to gain 59,700 net jobs during the year.

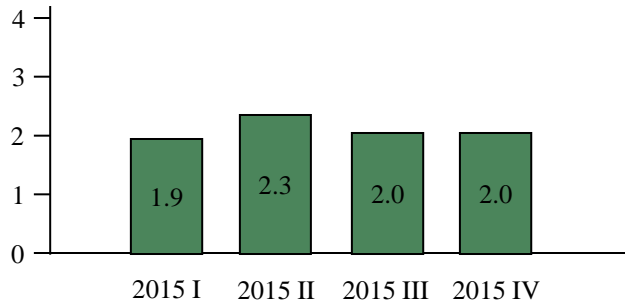
Thirteen of the state's fourteen nonagricultural sectors of the economy are expected to experience employment increases during 2014. The sectors with the strongest employment increases in 2014 are construction at 6.2 percent, wholesale trade at 4.0 percent, and durable goods manufacturing at 3.2 percent.

2014 Employment Highlights

	Year-End*	Percent Change
Total Establishment		
Employment	4,163.9	1.5
Mining	5.3	-4.9
Construction	183.9	6.2
Manufacturing	453.8	2.6
Durable Goods	243.3	3.2
Nondurable Goods	210.5	2.0
Wholesale Trade	183.1	4.0
Retail Trade	472.4	1.2
TWU	127.0	2.4
Information	70.3	0.2
FIRE	207.4	0.1
B&P Services	575.3	1.8
E&H Services	571.1	1.0
H&L Services	438.4	0.3
Other Services	154.2	1.7
Government	721.8	0.3

*thousands of persons

2015 Quarterly Growth Rates in Forecasted Real GSP



2015 OUTLOOK

Gross State Product (GSP) is expected to reach a level of 511,905.4 million in 2015. Real (inflation adjusted) GSP is expected to increase by 2.1 percent over the 2014 level. This growth in 2015 would follow 1.9 percent growth in 2014 and result in five years of modest, but sustained economic growth for the North Carolina economy. The North Carolina economy is expected to add 101,500 jobs in 2015, reducing the unemployment rate to just above 5.0 percent by December.

2015 GSP Highlights

	2015 *	Percent Change
Current Dollars		
Total Gross Product	511,905.4	4.1
Constant (2000 Dollars)		
Total Gross Product	420,868.0	2.1
Agricultural	3,741.7	2.1
Mining	126.4	-0.7
Construction	13,561.6	3.2
Manufacturing	81,914.3	1.4
Durable Goods	37,847.3	1.6
Nondurable Goods	44,067.0	1.1
TWU	15,957.6	2.6
Wholesale Trade	21,326.5	2.8
Retail Trade	24,026.8	2.4
Information	15,069.6	2.1
FIRE	91,357.2	2.2
B & P	44,894.1	2.2
E & H	30,835.9	2.0
H & L	13,708.9	3.4
Services	8,534.6	4.8
Government	55,812.9	1.5

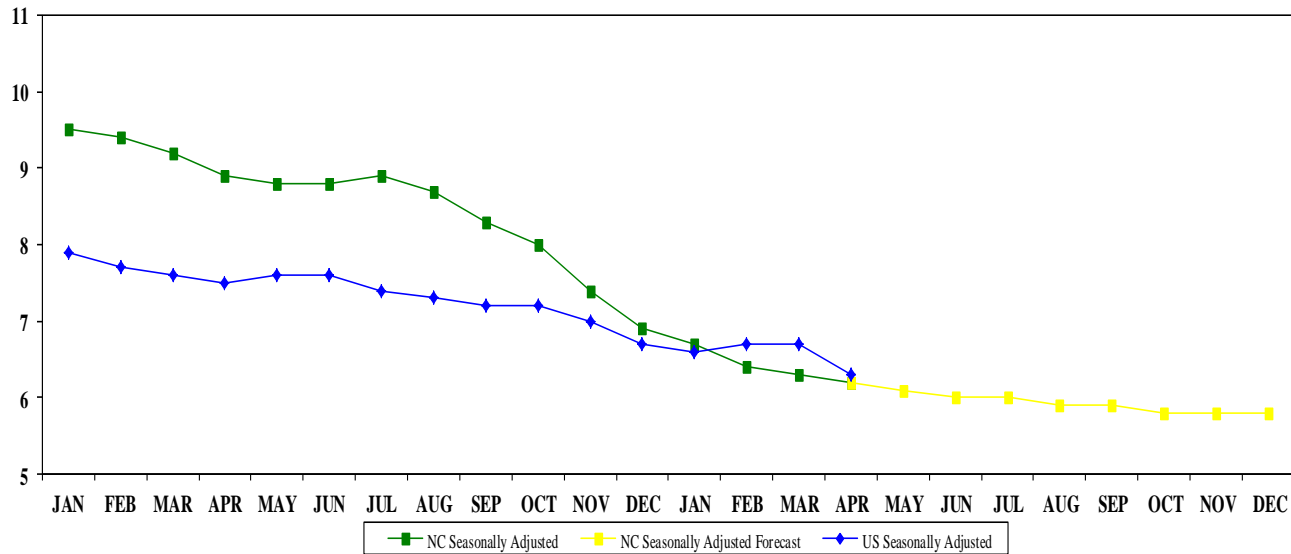
* millions of dollars

2015 Employment Highlights

	Year-End*	Percent Change
Total Establishment		
Employment	4,265.4	2.4
Mining	5.1	-4.5
Construction	193.2	5.1
Manufacturing	477.1	5.1
Durable Goods	256.5	5.4
Nondurable Goods	220.6	4.8
Wholesale Trade	188.9	3.2
Retail Trade	486.0	2.9
TWU	130.2	2.5
Information	70.3	-0.1
FIRE	207.5	0.1
B&P Services	585.2	1.7
E&H Services	580.2	1.6
H&L Services	452.1	3.1
Other Services	159.8	3.7
Government	729.8	1.1

*thousands of persons

2013-2014 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 2013 and 2014. 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 2013 at 9.5 percent, while the United States rate was 7.9 percent. By December the North Carolina rate had fallen to 6.9 percent, while the United States rate had fallen to 6.7 percent. In January of 2014, the North Carolina unemployment rate fell below the US rate for the first time since December of 2007. Both the U.S. and North Carolina unemployment rates are expected to continue the same downward trend throughout 2014, and by December the North Carolina unemployment rate is expected to be around 5.8 percent.