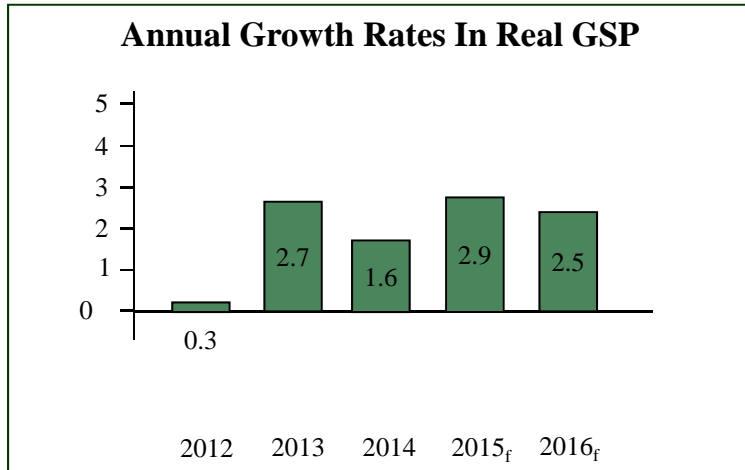


Babson Capital/UNC Charlotte Economic Forecast December 8, 2015

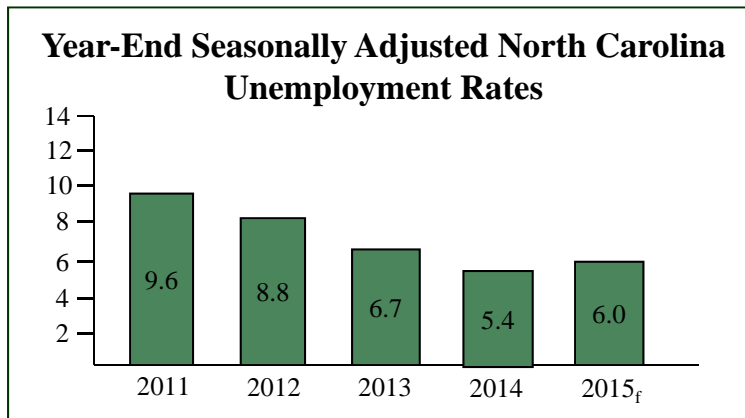


The data used in this report comes from the websites for the U.S. Department of Commerce's Bureau of Economic Analysis (www.bea.gov) and the North Carolina Employment Security Commission (www.ncesc.com) as of November 18, 2015. The opinions expressed in this Forecast by Professor Connaughton (the Babson 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



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).



- For 2015, NORTH CAROLINA real GDP is expected to increase by 2.9 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 agriculture with a projected real increase of 7.3 percent; information with a projected real increase of 7.2 percent; business and professional services with a projected real rate of 6.8 percent; hospitality and leisure services with a projected real increase of 5.7 percent; and construction with a projected real increase of 5.0 percent.

- For 2015, NORTH CAROLINA establishments are expected to add 86,900 net additional jobs, an increase of 2.1 percent.

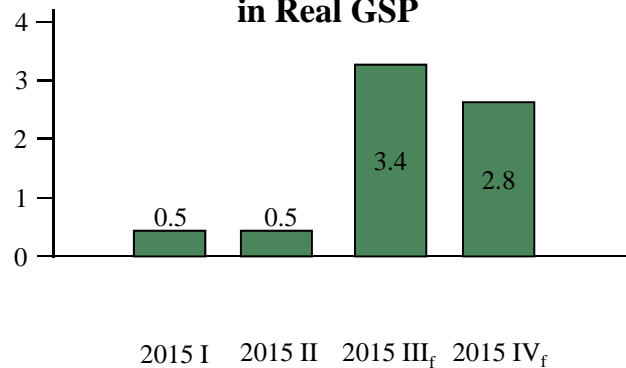
- For 2016, NORTH CAROLINA real GDP is forecast to increase by 2.5 percent over the 2015 level.

- 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 growth rate of 4.5 percent; information with a projected real increase of 3.7 percent; construction with a projected real increase of 3.4 percent; finance, insurance, and real estate with a projected real increase of 3.4 percent; and hospitality and leisure services with a projected real increase of 3.4 percent.

- For 2016, NORTH CAROLINA establishments are forecast to add 111,200 net additional jobs, an increase of 2.5 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	502,673.2	3.9
Constant (2009 Dollars)		
Total Gross Product	455,488.0	2.9
Agricultural	3,538.3	7.3
Mining	1,417.0	-0.4
Construction	15,814.8	5.0
Manufacturing	90,689.6	2.3
Durable Goods	38,313.9	4.4
Nondurable Goods	52,375.7	0.9
TWU	17,960.3	4.0
Wholesale Trade	25,178.2	3.4
Retail Trade	24,103.3	2.7
Information	15,834.3	7.2
FIRE	88,289.3	0.5
B & P	53,551.4	6.8
E & H	34,979.3	3.6
H & L	15,328.3	5.7
Services	8,663.5	3.0
Government	60,140.5	0.7

* millions of dollars

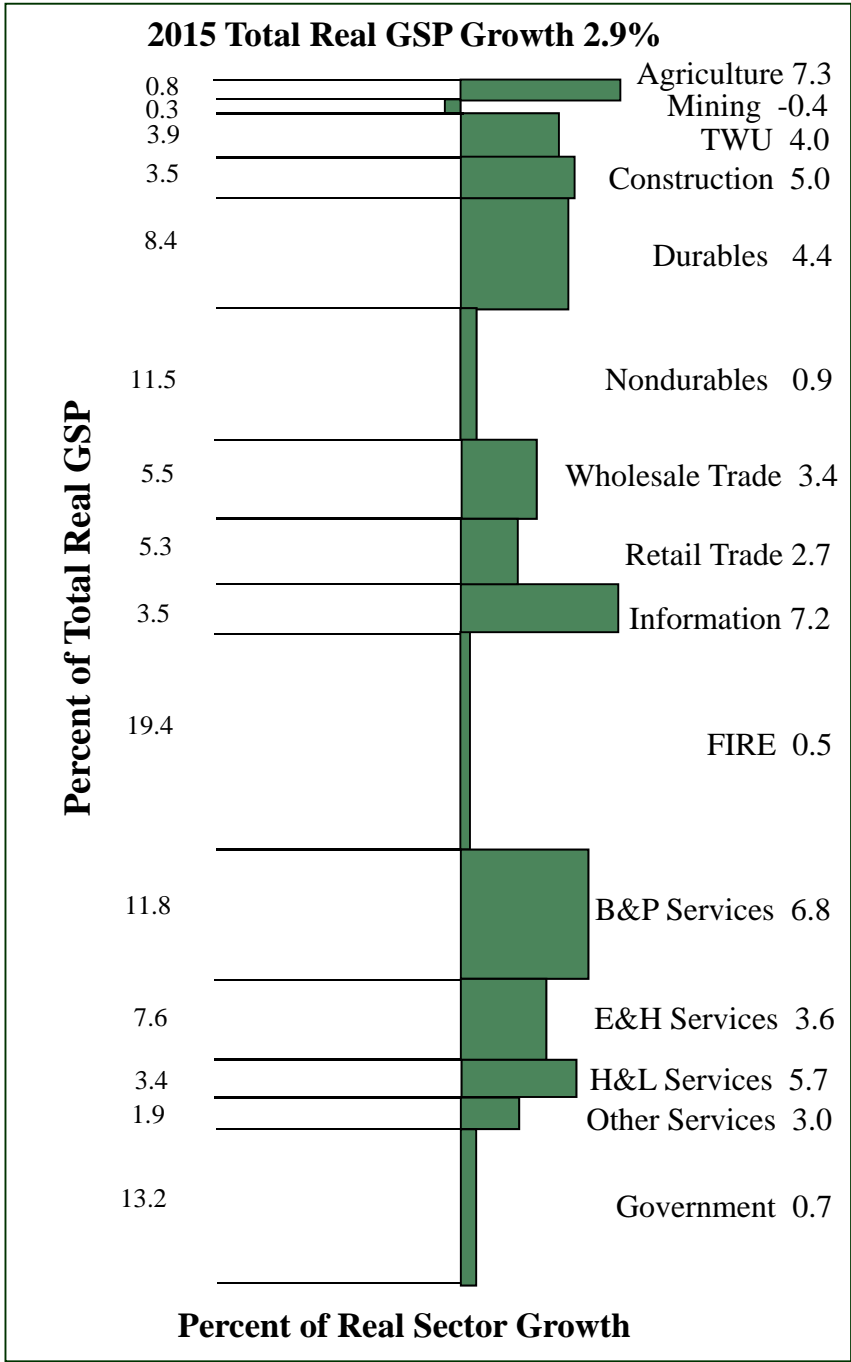
2015 GSP

Gross State Product (GSP) is expected to reach a level of \$502,673.2 million in 2015. Real (inflation-adjusted) GSP is expected to increase by 2.9 percent over the 2014 level. This growth in 2015 would follow two years of modest growth in North Carolina GSP. The growth expected in 2015 is the strongest growth rate 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 0.5 percent. During the second quarter, GSP increased again at an annualized real rate of 0.5 percent. In the third quarter, GSP is expected to record an annualized real growth rate of 3.4 percent. In the fourth quarter of 2015, GSP is expected to grow at an annualized real rate of 2.8 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” has continued to keep interest rates low during 2015. Second, is 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 November the average had dropped to \$1.97. This \$0.77 decline since June puts an additional \$225 billion of discretionary income into consumer’s pocketbooks on an annual basis. This increase in consumer discretionary income should help ensure a good Christmas shopping season

On the negative side, we have seen a decline in consumer confidence in the last month. There was a slight decline in October to 99.1 followed by a much larger decline in November to 90.4. Some of this recent decline could be a result of the terrorist attacks in Paris and the uncertainty created in the days following the attacks. We will have to wait for the December survey to see if consumer confidence is a potential problem going forward.



2015 GSP SECTOR ANALYSIS

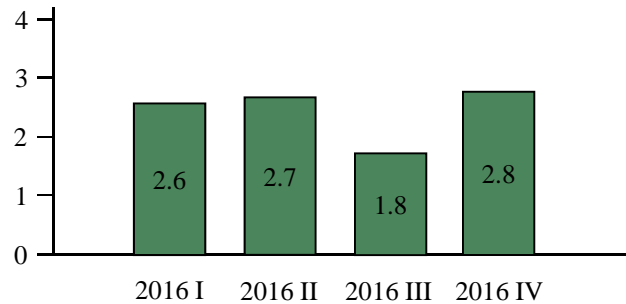
The chart to the left presents the projected contributions of each major economic sector to North Carolina's Gross State Product (GSP). The real (inflation-adjusted) growth rate for 2015 is forecast to increase by 2.9 percent. Projected real growth rates for each sector (displayed in black type) are 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 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 agriculture with a projected real increase of 7.3 percent; information with a projected real increase of 7.2 percent; business and professional services with a projected real increase of 6.8 percent; hospitality and leisure services with a projected real increase of 5.7 percent; construction with a projected real increase of 5.0 percent; durable goods manufacturing with a projected real increase of 4.4 percent; transportation, warehousing, and utilities (TWU) with a projected real increase of 4.0 percent; educational and health services with a projected real increase of 3.6 percent; wholesale trade with a projected real increase of 3.4 percent; and other services with a projected real increase of 3.0 percent.

Four other sectors are expected to experience growth, but at levels equal to or below the overall 2.9 percent GSP growth rate. These sectors are, retail trade with a projected real increase of 2.7 percent; nondurable goods manufacturing with a projected real increase of 0.9 percent; government with a projected real increase of 0.7 percent; and finance, insurance, and real estate (FIRE) with a projected real increase of 0.5 percent.

Only the mining sector is expected to decline in output during 2015.

Quarterly Growth Rates in Forecasted Real GSP



2016 Highlights

	2016 *	Percent Change
Current Dollars		
Total Gross Product	524,788.0	4.2
Constant (2009 Dollars)		
Total Gross Product	467,068.4	2.5
Agricultural	3,517.4	-0.6
Mining	1,289.7	-9.0
Construction	16,349.2	3.4
Manufacturing	92,409.3	1.9
Durable Goods	39,240.7	2.4
Nondurable Goods	53,168.7	1.5
TWU	18,312.4	2.0
Wholesale Trade	25,363.5	0.7
Retail Trade	24,222.4	0.5
Information	16,419.0	3.7
FIRE	91,284.9	3.4
B & P	55,974.5	4.5
E & H	35,920.9	2.7
H & L	15,850.3	3.4
Services	8,852.5	2.2
Government	61,302.6	1.9

* millions of dollars

2016 GSP

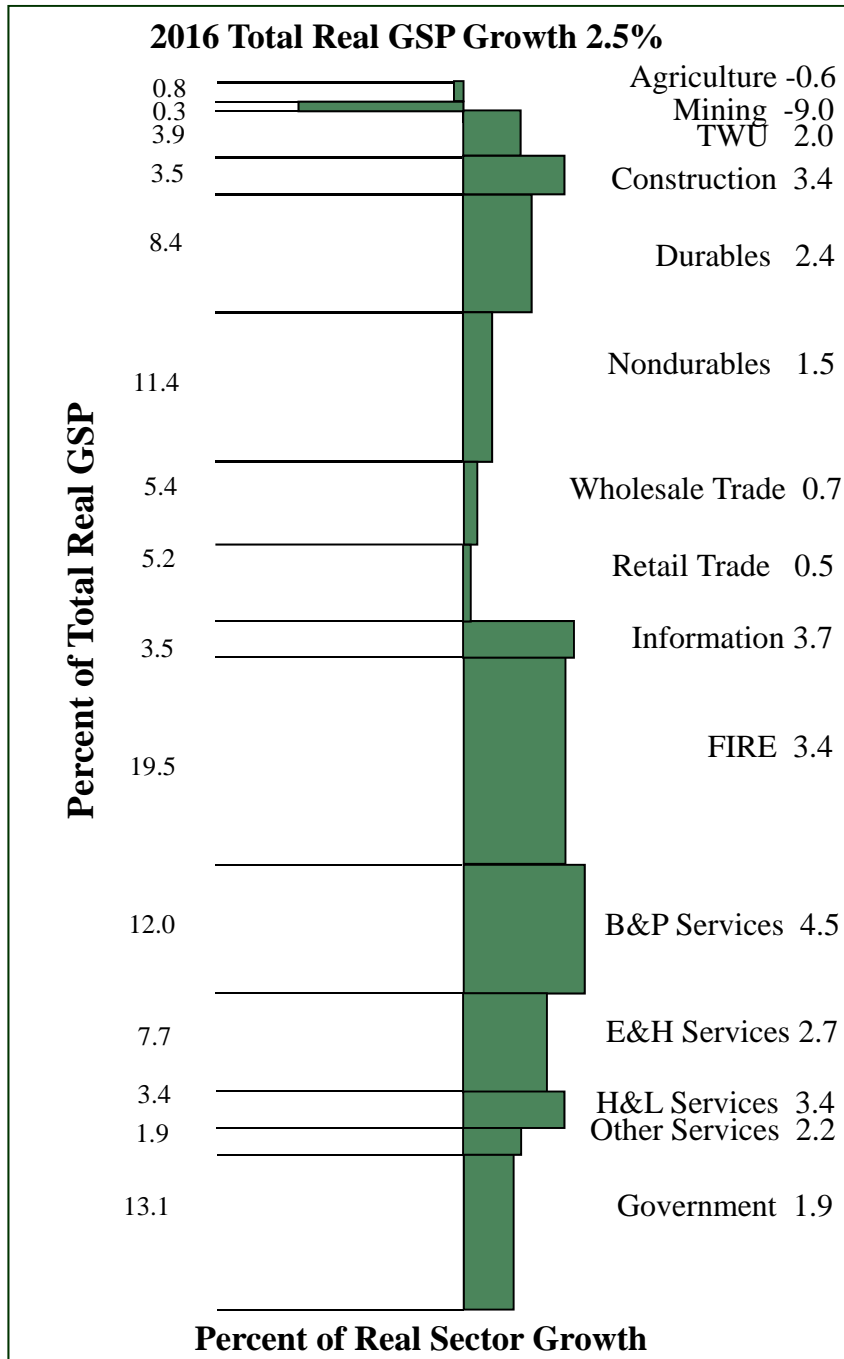
Gross State Product (GSP) is expected to reach a level of \$524,788.0 million in 2016. Real (inflation-adjusted) GSP is expected to increase by 2.5 percent over the 2015 level. This growth in 2016 would follow three years of modest growth in North Carolina GSP. The growth expected in 2016 is slightly slower than the 2.9 percent increase expected in 2015.

For 2016, first quarter GSP is expected to increase at an annualized real rate of 2.6 percent. During the second quarter, GSP is expected to increase at an annualized real rate of 2.7 percent. In the third quarter, GSP is expected to record an annualized real rate of 1.8 percent. In the fourth quarter of 2016, GSP is expected to increase at an annualized real rate of 2.8 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. Average real GSP growth during the seven year period would only be 1.8 percent. Since 2000, both the U.S. and North Carolina economies have been unable to achieve an average 3.0 GDP growth rate that had been fairly consistent since WW II.

Because of several long-term trends that are now emerging, we need to recalibrate our sense of what level of real GDP growth we can expect. There are a number of 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. Third, is 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. The most troubling aspect is that we are at the beginning stages of this trends and they 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 2.5 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 4.5 percent; information with a projected real increase of 3.7 percent; construction with a projected real increase of 3.4 percent; finance, insurance, and real estate with a projected real increase of 3.4 percent; hospitality and leisure services with a projected real increase of 3.4 percent; and educational and health services with a projected real increase of 2.7 percent.

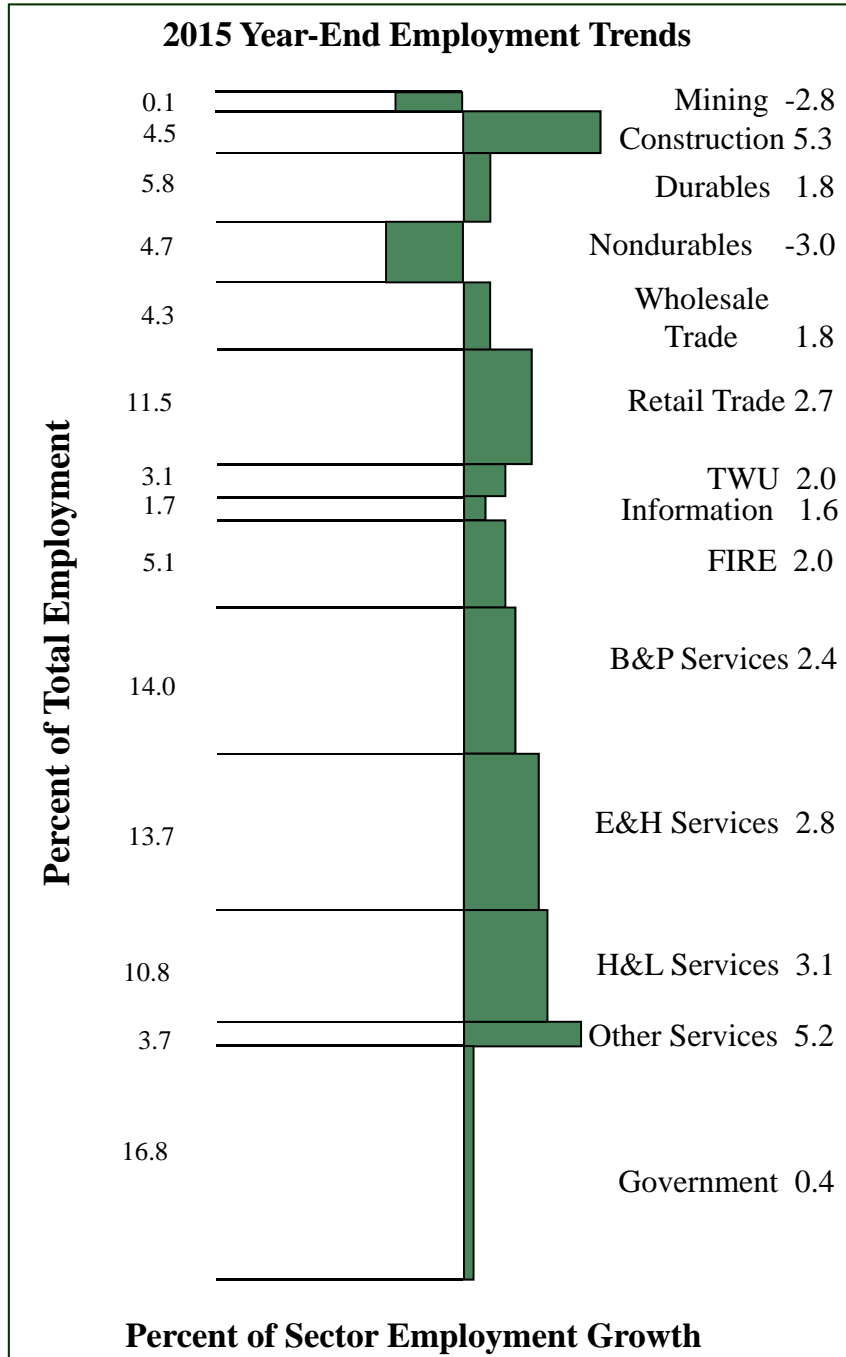
Seven other sectors are expected to experience growth rates, but at levels below the overall 2.5 percent GSP real growth rate. These sectors are durable goods manufacturing with a projected real increase of 2.4 percent; other services with a projected real increase of 2.2 percent; transportation, warehousing, and utilities (TWU) with a projected real increase of 2.0 percent; government with a projected real increase of 1.9 percent; and nondurable goods manufacturing with a projected real increase of 1.5 percent; wholesale trade with a projected real increase of 0.7 percent; and retail trade with a projected real increase of 0.5 percent.

Both agriculture and mining are expected to decline in output 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 4,290,000 persons in December 2015, an increase of 2.1 percent over the employment level in December 2013. The state is expected to gain 86,900 net jobs during the year.

Twelve of the state's fourteen nonagricultural sectors of the economy are expected to experience employment increases during 2015. The sectors with the strongest employment increases in 2015 are construction at 5.3 percent, other services at 5.2 percent, and hospitality and leisure services at 3.1 percent.



2015 Employment Highlights

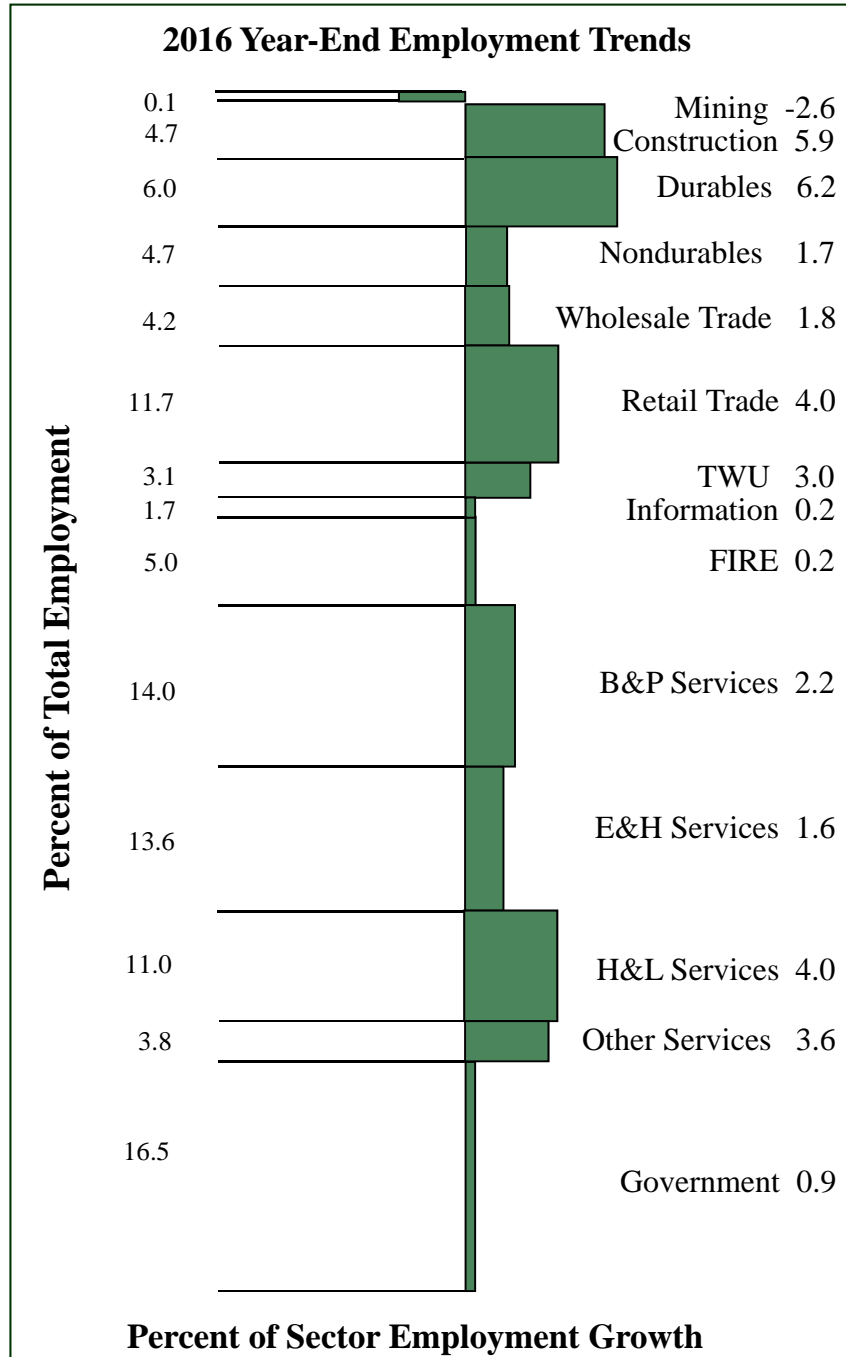
	Year-End*	Percent Change
Total Establishment		
Employment	4,290.0	2.1
Mining	5.4	-2.8
Construction	194.2	5.3
Manufacturing	453.3	-0.4
Durable Goods	249.7	1.8
Nondurable Goods	203.6	-3.0
Wholesale Trade	183.3	1.8
Retail Trade	493.4	2.7
TWU	132.2	2.0
Information	75.0	1.6
FIRE	218.3	2.0
B&P Services	601.8	2.4
E&H Services	588.5	2.8
H&L Services	465.4	3.1
Other Services	160.6	5.2
Government	718.7	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 4,401,200 persons in December 2016, an increase of 2.5 percent over the employment level in December 2015. The state is expected to gain 111,200 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 6.2 percent, construction at 5.9 and retail trade and hospitality and leisure services at 4.0 percent.

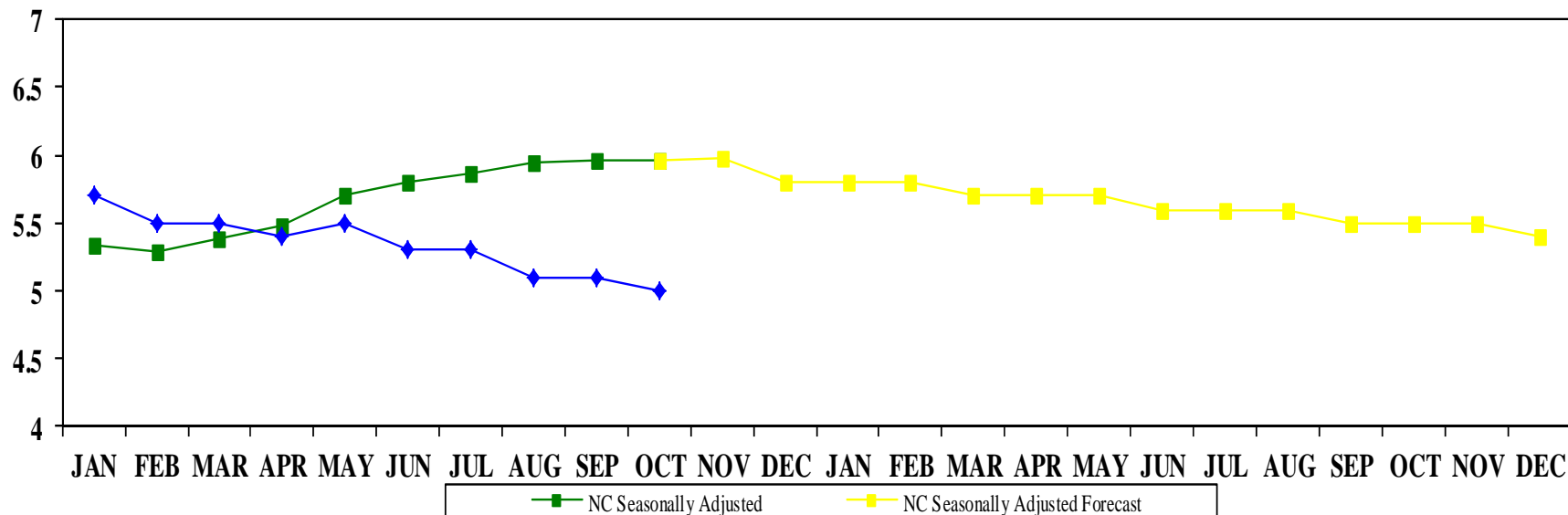


2016 Employment Highlights

	Year-End*	Percent Change
Total Establishment		
Employment	4,401.2	2.5
Mining	5.3	-2.6
Construction	205.5	5.9
Manufacturing	472.3	4.0
Durable Goods	265.2	6.2
Nondurable Goods	207.1	1.7
Wholesale Trade	186.5	1.8
Retail Trade	512.9	4.0
TWU	136.2	3.0
Information	75.1	0.2
FIRE	218.6	0.2
B&P Services	615.3	2.2
E&H Services	597.9	1.6
H&L Services	483.9	4.0
Other Services	166.4	3.6
Government	725.2	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 October the North Carolina rate had risen to 6.0 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 5.5 percent.