The Investment Policy Committee

2011 ECONOMIC FORECAST

George Mokrzan, Ph.D.
Vice President & Director of Economics
The Huntington National Bank

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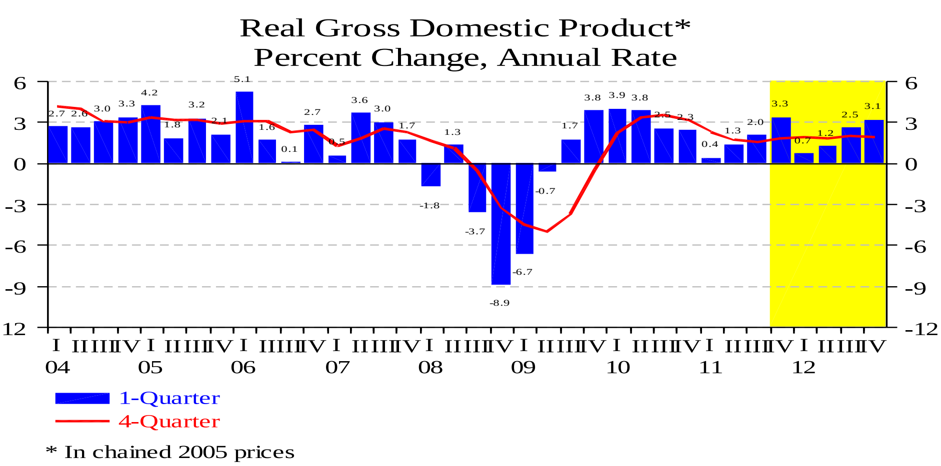
Extraordinary Economic Times Will Likely Continue in 2012.

A modest slow economic forecast of 1.9% for 2012 (Q4 2011 to Q4 2012) belies the potential for big surprises next year, both on the downside and the upside. Worries abound in financial markets about another credit contagion, yet policy makers here and abroad have the power and ability to steer clear of dangers, as long as there is political will. Recession risks are elevated, yet opportunities are opening across the globe as emerging economies increasingly share the fruits enjoyed for decades by the developed economies –- absent the debt. Interest rates are the lowest in generations, yet the potential for upward surprises is high. Finally, inflation has been relatively stable, but the risks of rising inflation are viewed as elevated in the long-term. In summary, uncertainty remains unusually high concerning the entire economic landscape entering 2012.

The launch pad for next year is actually quite firm as overall momentum in U.S. economic activity has picked up in the second half of 2011.

After dismal GDP growth in first half of 2011 that was downwardly revised by an unusually severe mid-year adjustment by Commerce Dept. accountants in August, real (inflation-adjusted) GDP expanded at a relatively solid pace of 2.0% in the third quarter, and is forecasted to grow a healthy 3.3% in the fourth. Plagued by the triple Japanese earthquake/tsunami/nuclear disaster, a sharp spike in energy and other commodity prices, state and local government retrenchment, a step-back in the housing recovery and the continuing euro-zone sovereign debt concerns, the economy had sagged significantly by mid-year. However, despite continued headwinds from government debt woes both here and especially abroad, consumer spending revived in the second half of the year from the first half of the year. Business spending and export growth also remained solid. Highly stimulative monetary policy, centered on a historically low Fed Funds rate target, is likely to continue to support economic expansion. Furthermore, with record aggregate profits, corporations are well positioned for further increases in capital expenditures and payrolls. Despite disappointingly slow estimated GDP growth in 2011 of 1.7% (Q4 2010 to Q4 2011), the private non-farm sector is expected to create over 1.8 million private sector jobs this year alone. More job creation is on the way in 2012 as long as the European sovereign debt crisis is contained. Businesses have kept inventory levels lean, so rising demand should translate immediately into increased production. Finally on the plus-side ledger of the economy, manufacturing's V-like recovery should continue to benefit from a rebound in consumer spending on vehicles and other durable goods even as non-consumer goods demand is expected to soften.



Unfortunately, the list of negative forces in the economy is also extensive.

The relentless climb of energy and other commodity prices may be taking a temporary rest, but the climb is expected to resume in 2012 presuming headwinds from the European crisis ease as the year progresses. Rising energy and commodity prices have spearheaded inflation nearing 4% at times in 2011, weakening consumer spending and many small businesses. A repeat performance and possibly worse is expected in 2012. Geopolitical uncertainties will likely continue to put upward pressure on energy prices. Other lingering weak areas of the economy that should show improvement next year include housing markets, where corrective forces are fully in place, and state and local government finances, which are experiencing improved tax revenue flows with the growing economy. Japan is fortunately online and growing again. However, the European sovereign debt crisis, which has spilled into the euro-zone's banks and economies, will likely continue to be the greatest threat to the U.S. and world expansions. In the worst case scenario, a European sovereign debt default could lead to a credit contagion crisis should fear of counterparty risk freeze normal credit extension internationally. However, such a crisis would likely have cataclysmic results for the EU economy and the euro, undoing a structure that has largely benefitted the strongest economies in Europe as well as the weakest. Hence, EU leaders will likely continue to forge ahead with the development of counter measures to a sovereign debt crisis while simultaneously enforcing stronger fiscal discipline among its members in the future. Despite strong incentives for the EU to prevent the worst case scenario, Europe's overall economy will likely remain very weak in 2012, and potentially dip into a mild recession that could have a slowing overall impact on export growth worldwide.

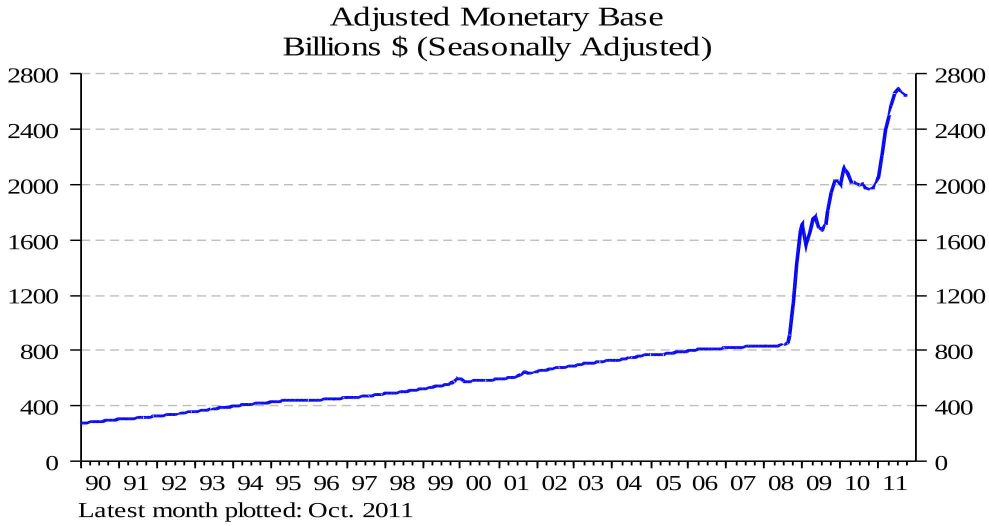
Of course, the U.S. is not without its own fiscal problems.

With federal government debt rising sharply and strong political differences on how to manage the federal budget in Washington, overall fiscal policy will likely tighten in 2012. Temporary tax reductions such as the payroll tax holidays and generous business equipment expensing are at risk. Federal spending is also slowing. However, the biggest impeding force may be the uncertainty of future tax policy overall, as the tax cuts of 2001 and 2003 (the so-called Bush tax cuts) are slated to expire at the end of 2012. Uncertainty over long-term tax obligations inhibits risk taking and investment. Furthermore, cuts of $1 trillion in the defense budget alone over the next 10 years will likely have a slowing impact on economic growth if sustained, as defense spending typically has relatively high multiplier effects on the economy.

Extraordinarily Stimulative Monetary Policy Should Fuel U.S. Expansion in 2012

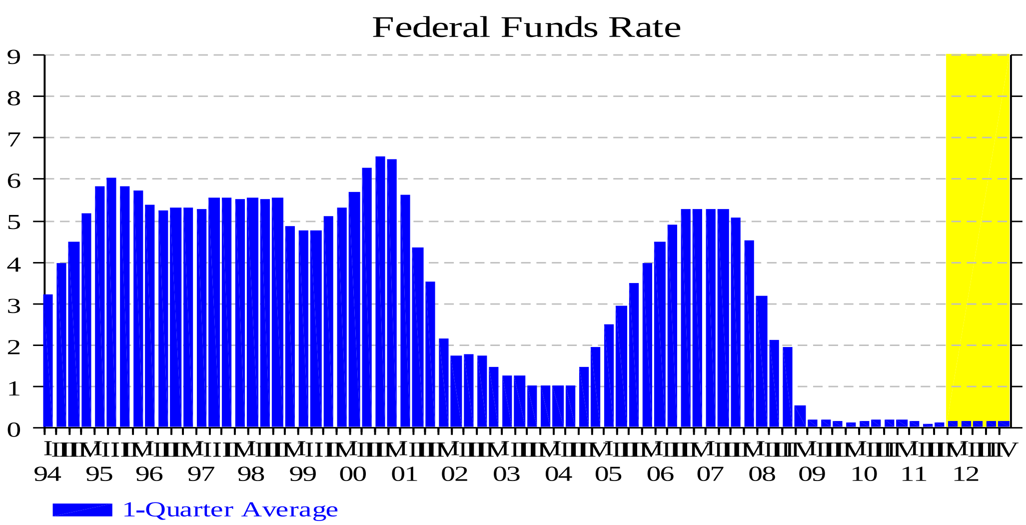
Plentiful liquidity is available to support the economy and the banking system.

The monetary base – the total of reserves and currency in circulation – has more than tripled since the Federal Reserve began its Large Scale Asset Purchase programs in response to the credit crisis of fall 2008. Even after assets were acquired onto the Federal Reserve's balance sheet, with the resultant increase in its liabilities (reserves held by member commercial banks), the Federal Reserve has continued to reinvest principal re-payments on its many securities, re-injecting liquidity back into the system. Most recently, the Federal Reserve has been performing another novel asset purchase program by buying long-term Treasury bonds with the proceeds from the sales of short-term Treasuries, although the net effect of these open market operations on the monetary base is neutral.



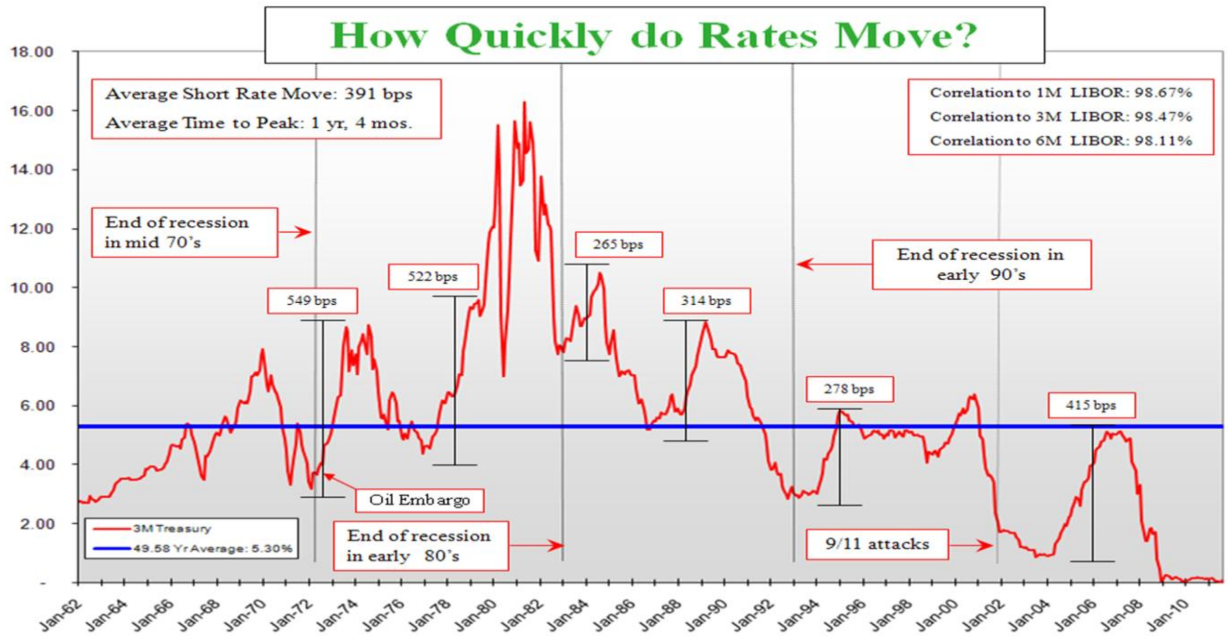
Policy rates to remain historically low in 2012.

In its remarkable elaboration of policy intent this past summer, the Federal Reserve Open Market Committee (FOMC) defined the “extended period” for holding the Fed Funds rate target near zero as the period through mid-2013 at the earliest. Hence, short and intermediate market interest rates should also remain extremely low throughout 2012, supporting low financing costs throughout the economy. However, the Federal Reserve’s generous guidance regarding the Fed Funds rate target is still contingent on the Federal Reserve’s own forecasts for relatively modest economic growth and low inflation. If economic growth and/or inflation begin to surprise to the upside on a sustained basis, then the Federal Reserve would likely begin to adjust its forecasts for policy interest rates also, with the first increase in the Fed funds target coming sooner than a year and a half from now.



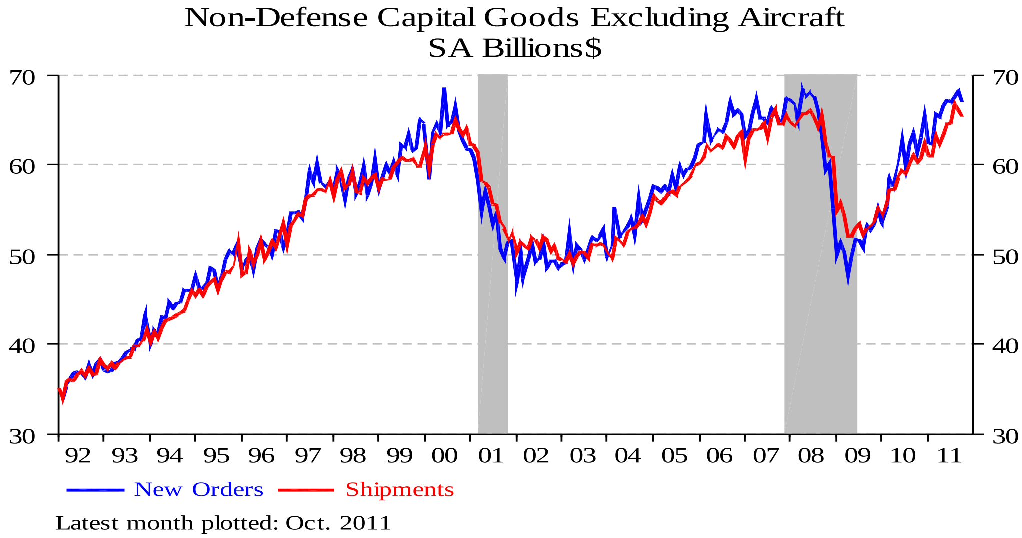
How Quickly Do Rates Move?

Even if the first increase in the Fed Funds rate target comes close to the Federal Reserve's projected start date after mid-2013, the magnitude and speed with which the Fed fund rate target is likely to rise will probably not be out of line with the long-term record of such moves as summarized in the following chart with data provided by Bloomberg. The average short rate move since the early 1960s has been 391 basis points accomplished over just 1 year and 4 months. Even if the next interest rate move is not this sharp, the relative interest rate increases should still be substantive given the enormous levels of liquidity in the economy.



Much of Economy Is Performing Well – Capital Goods at Full Recovery

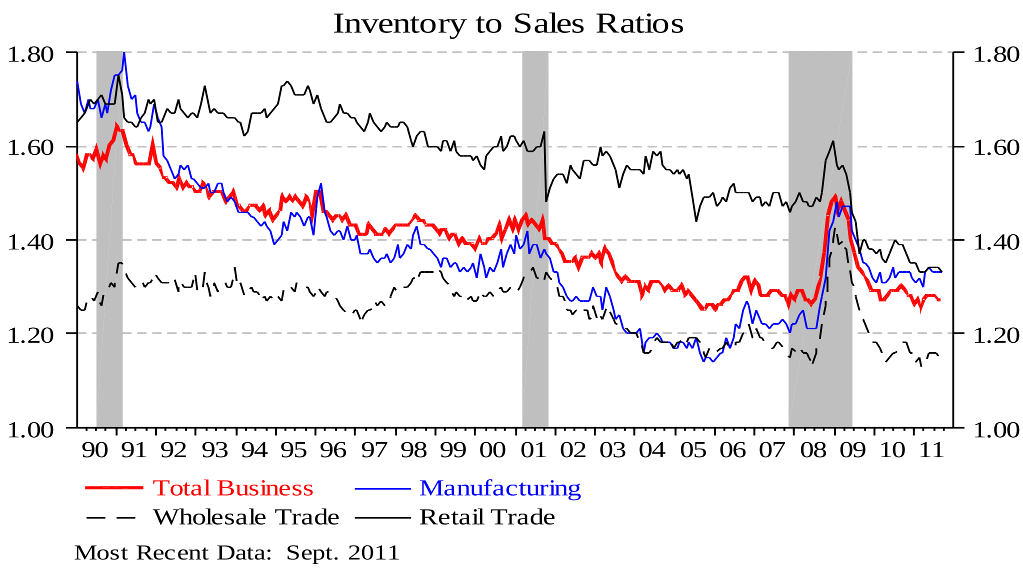
Business equipment spending has been one of the bright spots of the economic recovery since the recession ended in June 2009. New order and shipments recently reached the highs last experienced before the "Great Recession" plummet in orders. However, at least part of the strong surge in business equipment spending in 2011 is probably timed to take advantage of temporary accelerated depreciation allowances that are set to decline from 100% to 50% at the end of the year. Hence, business equipment spending will likely encounter a soft-patch in early 2012 as tax benefits of capital spending are not likely to be renewed given concerns over impacts on the federal budget.



Inventory to Sales – LOW

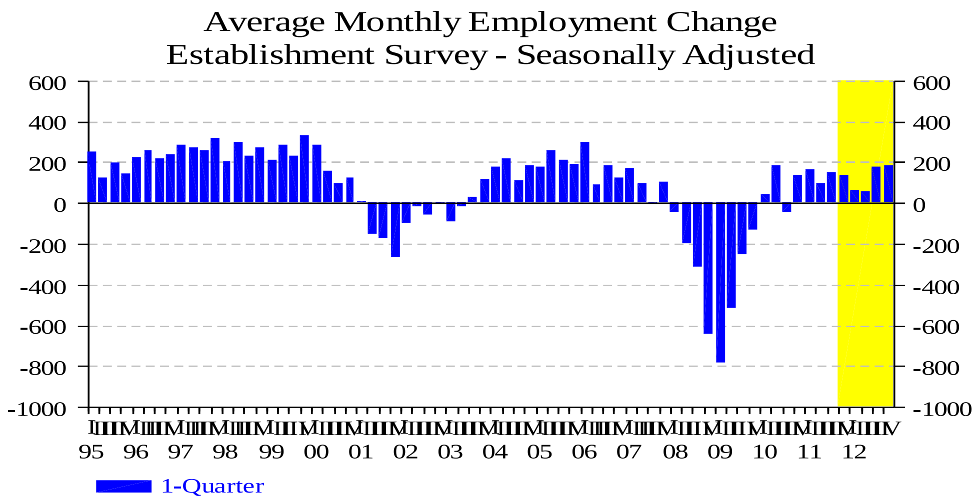
Business inventory to sales ratios have been near historic lows.

Manufacturing ratios have been somewhat elevated on rising commodity prices, but wholesale and retail inventories have been sparse. Low retail inventories could result in some selection disappointment during the holiday shopping season. However, low inventories overall are generally positive for economic growth, as suppliers will likely need to boost production and hiring to meet rising demand in the coming months.



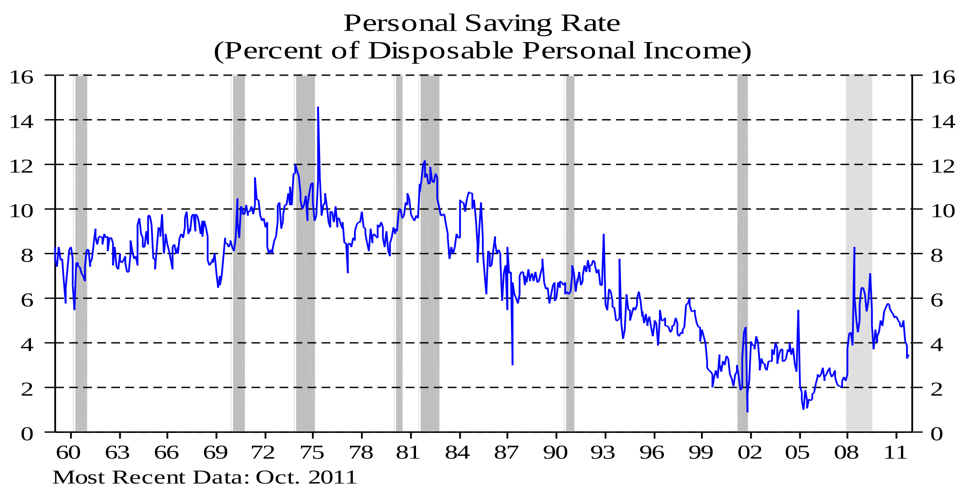
Payroll growth is expected to continue increasing with GDP growth.

Job creation has been solid relative to the low level of aggregate economic growth. Despite abysmally slow GDP growth in the first half of the year, and subpar GDP growth overall for 2011, 1.7 million net private sector jobs were created YTD through November. Job losses in the public sector are expected to decline in 2012 as tax revenues are expected to remain on an improving trend. However, most of the overall job growth is forecasted for the second half of the year, as the economy has the highest probability of strong growth during that period. The second half of the year will likely be the best for declines in the unemployment rate also, but the overall rate is not expected to drop below 8% in 2012.



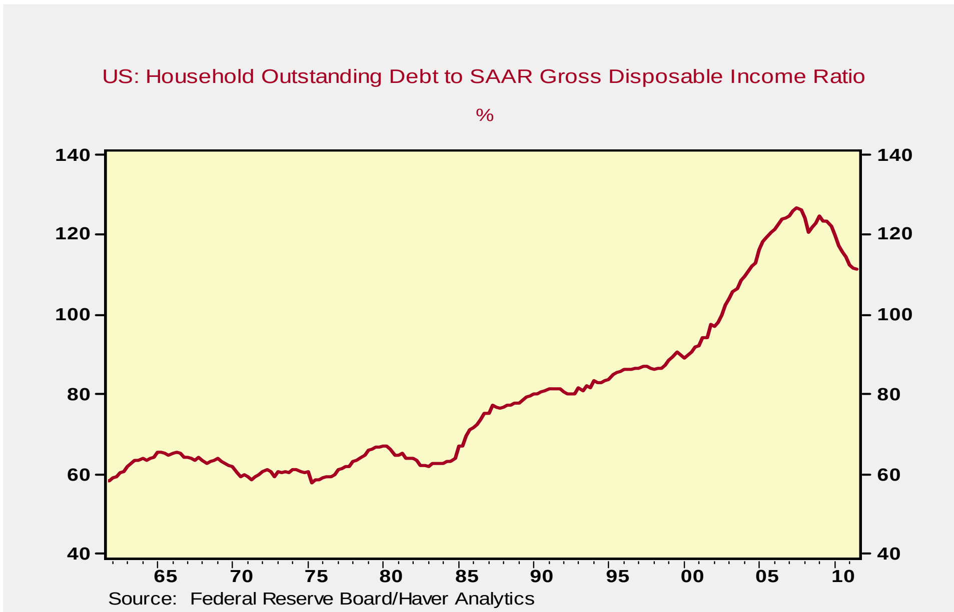
Consumers have been saving more of personal income since the recession.

More funds have been deployed for investments and paying down of debt, especially debt requiring high interest rates. Greater expected expenditures on large ticket items such as cars will likely keep the saving rate from rising significantly in 2012 from recent levels.



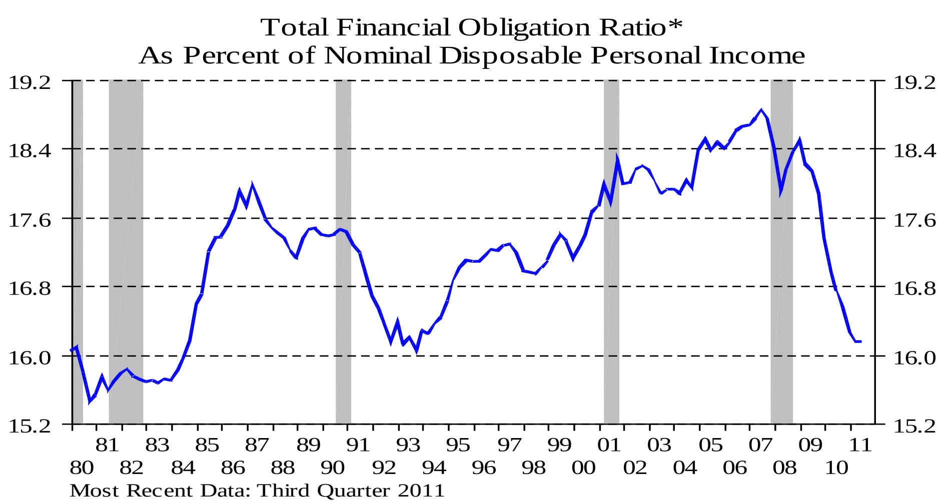
Household debt has been coming down overall, but the process is slow given high levels of mortgage debt.

Consumers in boom/bust housing markets, such as those in some southern and western states, are the most likely to be impacted by high mortgage debt overhang.



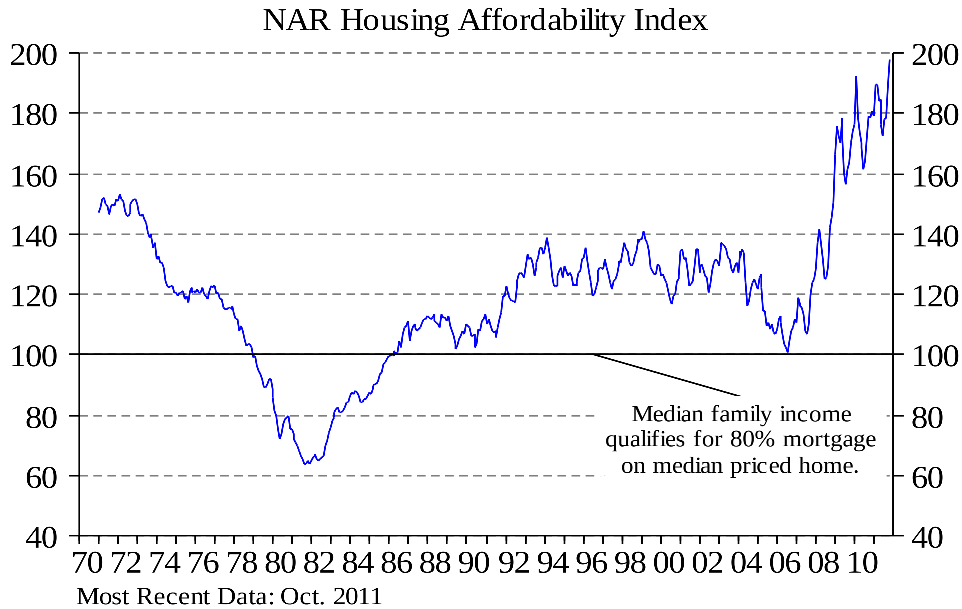
Debt levels are still near historic peaks but financial obligations have fallen to the lowest rate since Q4 1993 on historically low interest rates.

High interest rate debt has declined, and consumers have taken advantage of historically low interest rates. Low interest rates are primarily the result of aggressive Federal Reserve monetary policy, which is expected to continue throughout 2012. [The *Financial Obligations Ratio* 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.]*



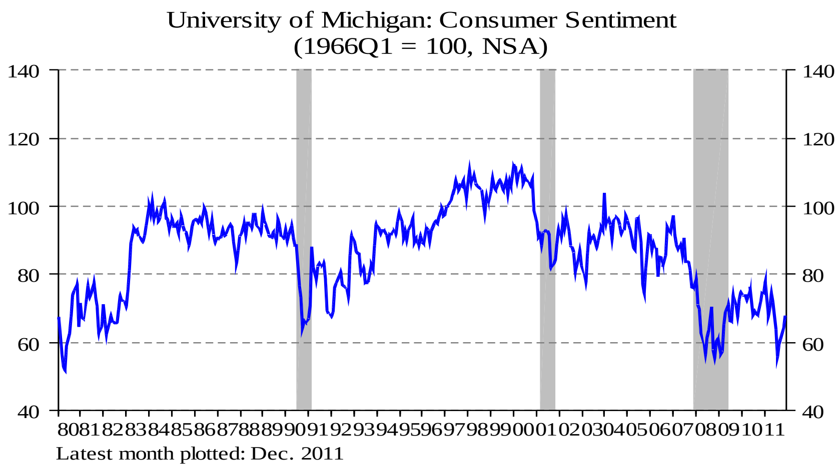
Sharp corrections in housing prices and the lowest mortgage rates in decades make housing affordability the best on record according to the National Association of Realtors (NAR) Housing Affordability Index.

30-year conventional mortgage rates recently fell below 4.0%. Home inventory levels have been elevated, and consumer confidence in housing investment has been weak, but the housing recovery is expected to gain modest traction in 2012 on improving fundamentals, including rising employment.



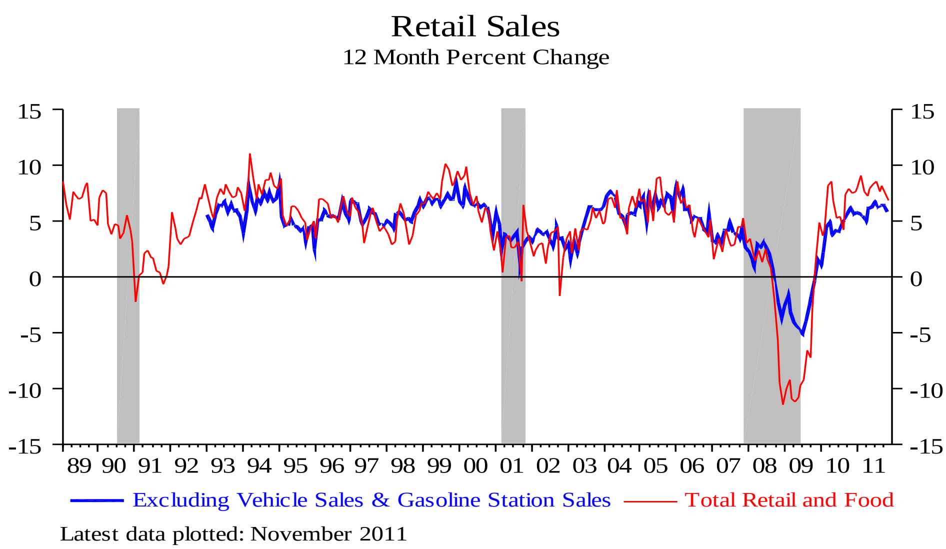
Consumer confidence drops to lowest level since last recession.

A result of bad fiscal news both home and abroad, the danger is that consumers cut back and make recession self-fulfilling.



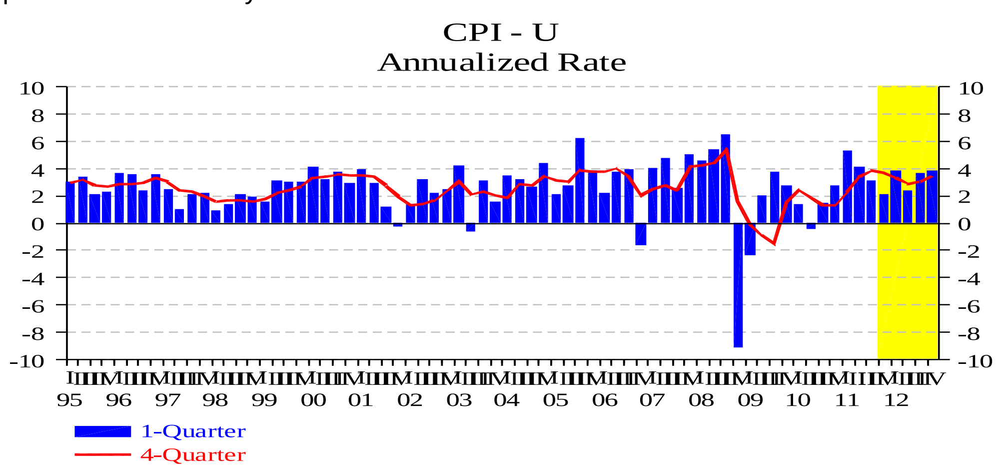
But so far, the American consumer keeps on spending.

Retail sales growth in 2011 has been on par with the highest spending growth periods of the last 2 decades. Historically low interest rates, gradually improving labor and housing markets, and the release of pent-up demand from severe cutbacks during the recession are expected to maintain consumer spending growth overall in 2012.



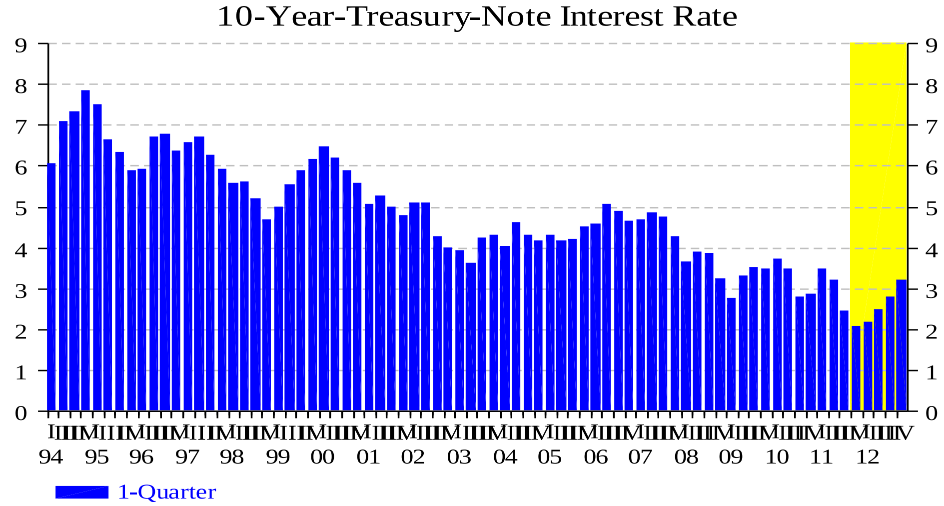
Inflation momentum is expected to continue.

Inflation as measured by the Consumer Price Index for Urban Consumers is projected to rise 3.3% in 2012 (Q4 2011 to Q4 2012) following 3.6% in 2011, but risks remain to the upside, especially in the second half of the year and in 2013. Historically expansionary monetary policy is positive for real economic growth, but it ultimately is expected to raise inflationary pressures. Broad-based upward pressure on prices, including producer prices, consumer prices and commodity prices, are forecasted to reemerge after a near-term period of relative softness in price pressures in the early months of 2012.



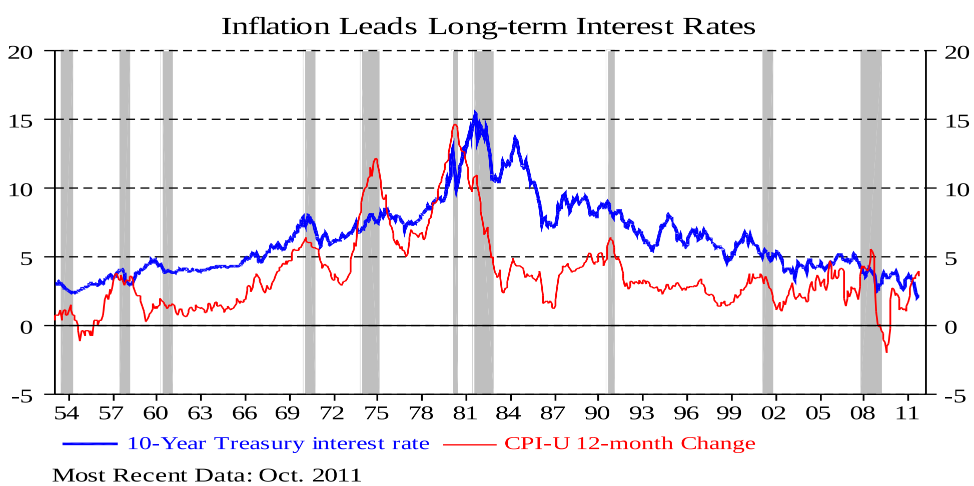
Long-term interest rates should rise.

Once the euro-zone sovereign debt crisis eases, long-term interest rates should rise on a sustained basis to reflect higher inflation and economic growth. After 2012, rising market supply of Treasuries, less risk aversion and higher returns abroad are likely to push up long-term interest rates. High foreign holding of U.S. Treasury bonds could make U.S. interest rates especially vulnerable to real return opportunities in the emerging market economies in the coming years.



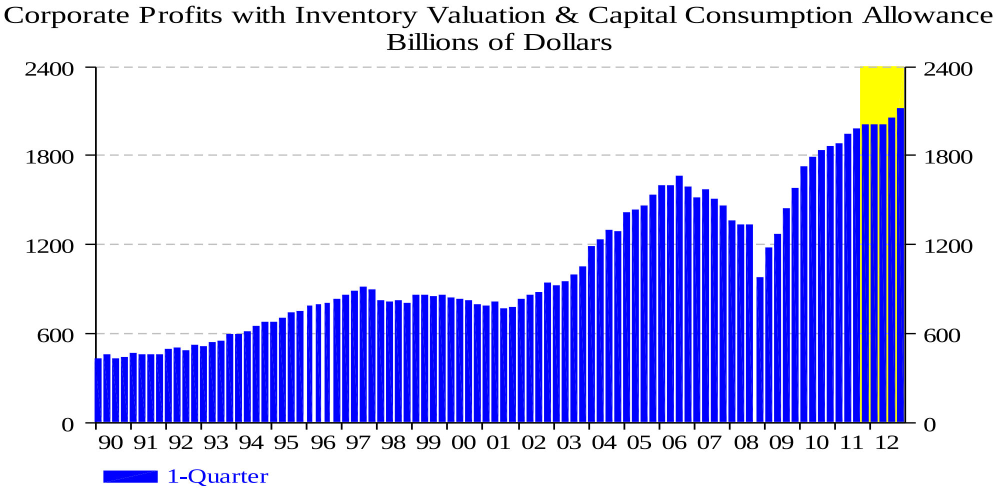
Negative real interest rates are not likely to last long.

Over the long-term, unadjusted inflation, including energy and food, sets the trend for long-term interest rates, as evident in the chart below for the last half century. Note the sharp increases in long-term Treasury interest rates after periods when inflation exceeded the interest rate. Similarly, declines in inflation in the 1980s led long-term interest rates downwards. Real interest rates are negative again. Even in the best case scenario where the Federal Reserve is successful in keeping interest rates around 2%, current interest rate levels are probably not sustainable.



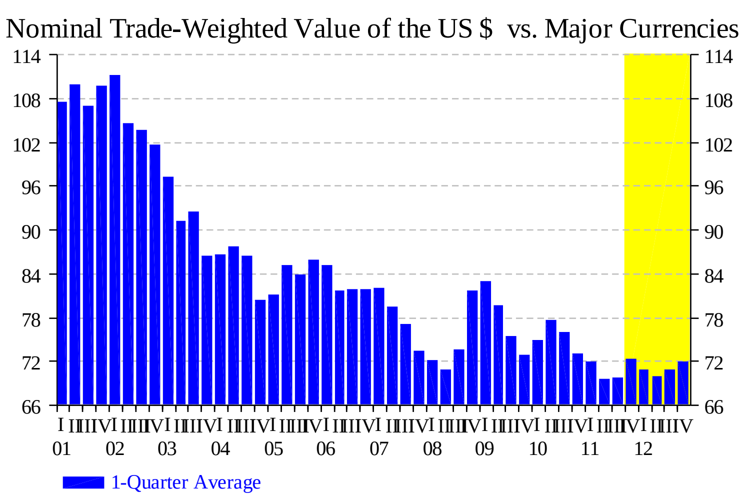
Corporate profits have soared at record levels.

Buoyed by rising prices and lower unit labor costs, the business sector is generally healthy and well positioned for expansion of capital spending and payrolls in 2012. However, profit growth will likely slow in 2012 as it will increasingly depend on revenue expansion over cost cuts. The projected slowdown in the European and world economies will likely pose a particular challenge to exporters and firms with high overseas sales. Average annual profit growth is forecasted to slow from 8.3% in 2011 to 4.9% in 2012, but forecast risks for profits are slanted towards the downside next year.



The dollar will likely incur cross currents in both directions next year.

The greenback should continue to rise against the euro, as the European Central Bank is expected to cut its policy interest rate, weakening the euro overall relative to other currencies. However, extremely low policy interest rates in the U.S. will likely keep the dollar from rising significantly against other currencies until the Federal Reserve begins to signal an end to its rock-bottom interest rate policy. This is most likely to occur in the second half of 2012, when our expectations rise for both U.S. economic growth and inflation.



Economic Forecast

Economic Forecast
December 14, 2011

	11-II	11-III	11-IV	12-I	12-II	12-III	12-IV	2010	2011	2012
Annualized Real Growth Rates (bln Chained 2005 Dollars)										
GROSS DOMESTIC PRODUCT (bln $)	15013.1	15181.1	15401.5	15533.8	15686.4	15896.1	16135.4	14526.5	15116.0	15812.9
% change	4.0	4.6	5.9	3.5	4.0	5.5	6.2	4.2	4.1	4.6
IMPLICIT PRICE DEFLATOR	113.1	113.8	114.5	115.3	116.1	116.9	117.8	111.0	113.5	116.5
% change	2.6	2.5	2.5	2.8	2.7	2.8	2.9	1.1	2.2	2.7
GROSS DOMESTIC PRODUCT (bln 2005$	13271.8	13337.8	13446.7	13469.5	13510.8	13595.7	13700.9	13088.0	13321.0	13569.2
GROSS DOMESTIC PRODUCT	1.3	2.0	**3.3**	**0.7**	**1.2**	**2.5**	**3.1**	**3.0**	**1.8**	**1.9**
CONSUMPTION	0.7	2.3	2.5	0.3	1.8	2.7	2.7	2.0	2.3	1.7
GROSS PRIV. DOM. INVESTMENT	6.4	-0.9	10.9	5.8	2.9	8.2	7.2	17.9	3.9	5.8
FIXED INVESTMENT	9.2	12.3	8.4	2.3	4.3	7.2	6.8	2.6	6.9	1.9
NON-RESIDENTIAL STRUCTURES	22.6	12.6	4.4	6.0	1.5	2.3	4.0	-15.8	4.7	6.0
EQUIPMENT	6.3	15.6	7.1	-0.5	3.9	7.8	6.9	14.6	10.3	5.6
RESIDENTIAL STRUCTURES	4.2	1.6	12.3	8.5	8.1	9.6	9.1	-4.3	-1.3	8.2
CHANGE IN INVENTORIES	39.1	-8.5	2.1	18.2	12.8	17.5	19.5	58.8	20.5	17.0
NET EXPORTS	-416.4	-400.7	-393.9	-388.3	-399.0	-412.3	-403.6	-421.8	-408.9	-400.8
EXPORTS	3.6	4.3	4.8	1.1	0.9	3.2	7.6	11.3	6.8	3.0
IMPORTS	1.4	0.5	2.7	-0.1	2.7	5.1	4.6	12.5	4.8	2.1
GOVERNMENT PURCHASES	-0.9	-0.1	-0.3	-2.4	-0.5	-0.4	-0.3	0.7	-1.9	-0.9
FEDERAL	1.9	1.9	-2.2	-4.5	-1.0	-1.0	-1.4	4.5	-1.7	-1.6
STATE & LOCAL	-2.8	-1.4	-0.7	-0.8	-0.2	0.0	0.5	-1.8	-2.1	-0.7

Note: Data and percent changes are expressed at seasonally adjusted annual rates.

	11-II	11-III	11-IV	12-I	12-II	12-III	12-IV	2010	2011	2012
KEY ECONOMIC INDICATORS										
Gross Domestic Product (bln $) *	4.0	4.6	5.9	3.5	4.0	5.5	6.2	4.2	4.1	0.0
Implicit GDP Price Deflator *	2.6	2.5	2.5	2.8	2.7	2.8	2.9	1.1	2.2	2.7
Consumer Price Index -- CPI-U *	4.1	3.1	2.1	3.8	2.3	3.6	3.8	1.6	3.2	3.1
FEDERAL FUNDS RATE	0.09	0.08	0.13	0.13	0.13	0.13	0.13	0.18	0.12	0.13
10-YEAR T-NOTE	3.21	2.43	2.08	2.17	2.47	2.80	3.20	3.22	2.80	2.66
U.S. DOLLAR (FRB Index)	69.6	69.8	72.3	70.7	69.9	70.8	72.0	75.4	70.9	70.8
AVERAGE MONTHLY CHANGE (Thous.)	97	147	136	60	55	177	182	78	136	119
UNEMPLOYMENT RATE (%)	9.1	9.1	8.7	8.7	8.9	8.9	8.8	9.6	9.0	8.8
CORPORATE PROFITS (Bil. of $)	1937.6	1977.4	2006.2	2004.0	2006.7	2052.7	2114.4	1800.1	1949.4	2044.5
% change *	13.7	8.5	5.9	-0.4	0.5	9.5	12.6	32.2	8.3	4.9
Adjusted, National Income Definition										
(Profits generated through U.S. GDP)										

* Annualized Growth Rates

Red -- First Period Forecasted

The Investment Policy Committee is the governing committee that determines philosophy, strategy and advice for Huntington's fiduciary investment services and accounts. The committee is comprised of members with various investment responsibilities within Huntington Bancshares Incorporated and includes Dr. George Mokrzan.

Data Sources: Haver Analytics, Bloomberg.com, Financial Times