

Babson Capital/UNC Charlotte Economic Forecast

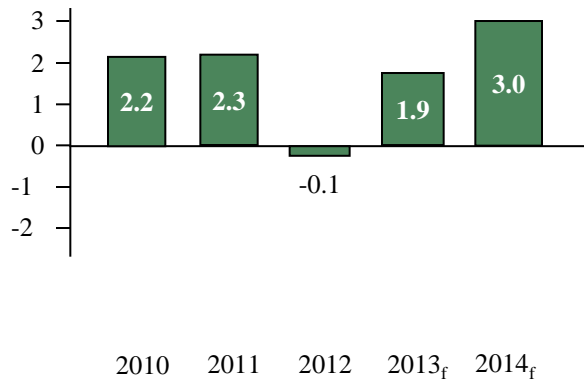
June 4, 2013



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, 2013. 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.

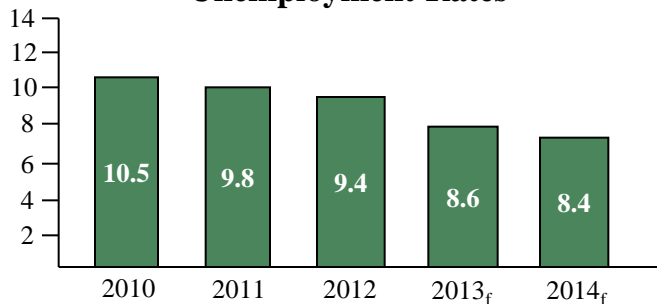
FORECAST HIGHLIGHTS

Annual Growth Rates In Real GSP



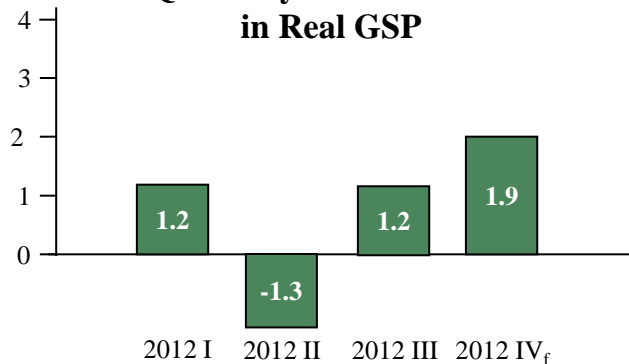
GSP (Gross State Product) is a yardstick that measures the total output of a state's economy for a given year. It is analogous to the U.S. Gross Domestic Product (GDP).

Year-End Seasonally Adjusted North Carolina Unemployment Rates



- For 2012, North Carolina real GSP decreased by 0.1 percent over the 2011 level.
- Eight of the state's 15 economic sectors experienced modest output increases during 2012. The sectors with the strongest growth were Business and Professional Services with a real increase of 4.0 percent; Construction with a real increase of 2.7 percent; Information with a real increase of 2.4 percent; Mining with a real increase of 2.4 percent; and Transportation, Warehousing and Utilities (TWU) with a real increase of 1.7 percent.
- For 2012, North Carolina establishments added 89,900 net additional jobs, an increase of 2.2 percent.
- For 2013, North Carolina real GSP is forecast to increase by 1.9 percent over the 2012 level.
- Thirteen of the state's 15 economic sectors are forecast to experience output increases during 2013. The sectors with the strongest expected growth are Business and Professional Services with a projected real increase of 5.8 percent; Mining with a projected real increase of 3.2 percent; Transportation, Warehousing and Utilities (TWU) with a projected real increase of 3.1 percent; and Other Services with a projected real increase of 3.0 percent.
- For 2013, North Carolina establishments are forecast to add 62,200 net additional jobs, an increase of 1.5 percent.
- For 2014, North Carolina real GSP is forecast to increase by 3.0 percent over the 2013 level.
- For 2014, North Carolina establishments are forecast to add 90,500 net additional jobs, an increase of 2.2 percent.

Quarterly Growth Rates in Real GSP



2012 Highlights

	2012 *	Percent Change
Current Dollars		
Total Gross Product	446,095.5	1.4
Constant (2000 Dollars)		
Total Gross Product	387,080.0	-0.1
Agricultural	3,185.6	-10.3
Mining	132.2	2.4
Construction	12,689.6	2.7
Manufacturing	77,966.9	-3.0
Durable Goods	37,358.5	-2.3
Nondurable Goods	40,608.4	-3.7
TWU	12,973.9	1.7
Wholesale Trade	19,132.3	0.3
Retail Trade	23,286.0	0.0
Information	13,853.7	2.4
FIRE	81,810.2	0.4
B & P	41,576.8	4.0
E & H	28,766.0	-0.1
H & L	12,001.1	1.6
Services	7,549.4	-0.1
Government	52,156.3	-1.2

* millions of dollars

2012 GSP

North Carolina Gross State Product (GSP) reached a level of \$446,095.5 million in 2012. Real (inflation-adjusted) GSP decreased by 0.1 percent over the 2011 level. This decline in 2012 followed very modest growth in 2011 and results in three years of slow growth since the recovery began.

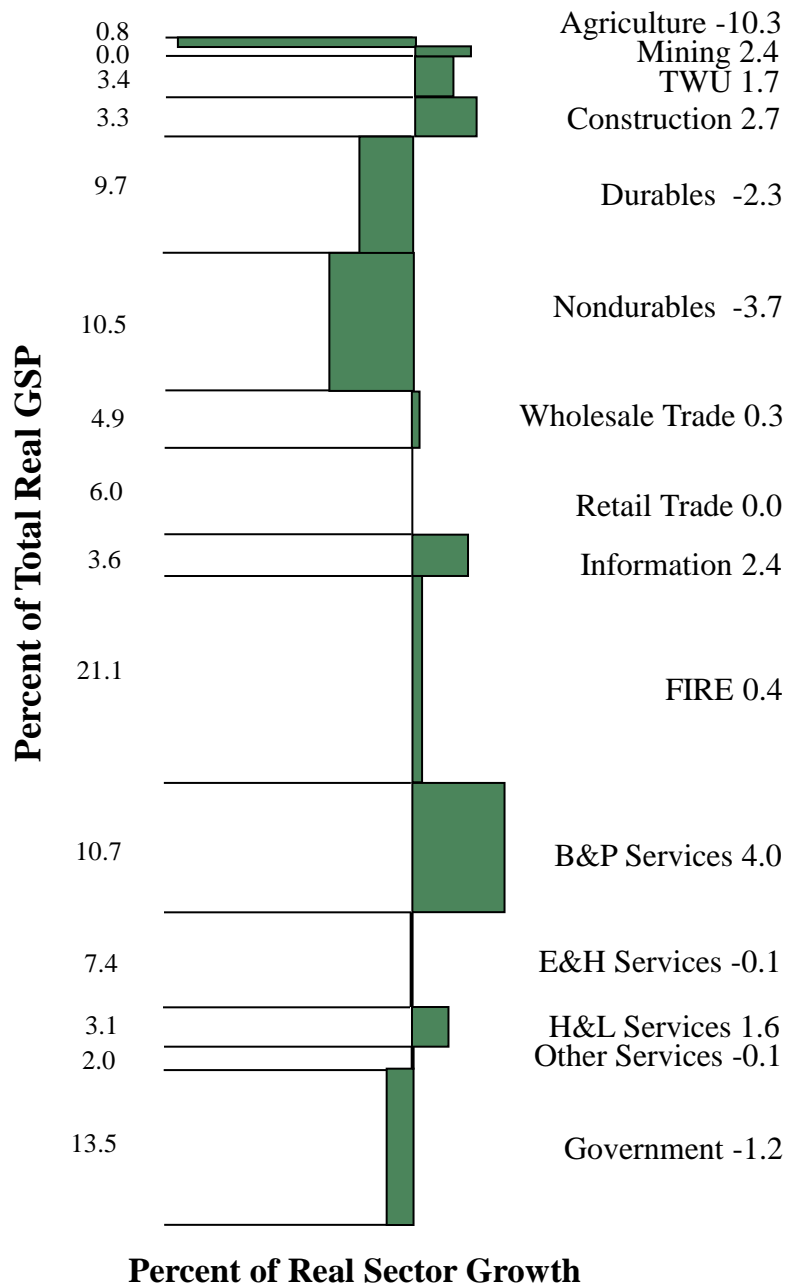
For 2012, first quarter GSP increased at an annualized real rate of 1.2 percent. During the second quarter, GSP decreased at an annualized real rate of 1.3 percent. In the third quarter, GSP rebounded and increased at an annualized real rate of 1.2 percent. In the fourth quarter of 2012, GSP picked up and recorded an annualized real growth rate of 1.9 percent.

While both the U.S. and state recoveries began in July of 2009, for North Carolina it has been a weak recovery. For 2012, the U.S. economy recorded slow real GDP growth of 2.2 percent and was able to avoid a double-dip recession. However for North Carolina 2012 turned out to be much weaker than the U.S. The good news is that the strongest growth quarter was the fourth quarter of the year and this could lead to increased growth in 2013.

Despite the weak GDP growth in 2012, the state was able to add a respectable number of jobs during the year. The new benchmarked data that came out in March indicated that the state added 89,900 jobs during the year, the best job growth year since 2006 and the second best since 1998. By the end of 2012 the state had replaced 192,100 of the 334,600 jobs lost during the recession. That means that 57.4 percent of the total jobs lost have been replaced over the last three years. Over the same period the U.S. economy has replaced 61.6 percent of the 8,722,000 jobs lost.

Despite the job growth in 2012, North Carolina continues to have one of the highest unemployment rates in the country.

2012 Total Real GSP Growth -0.1%



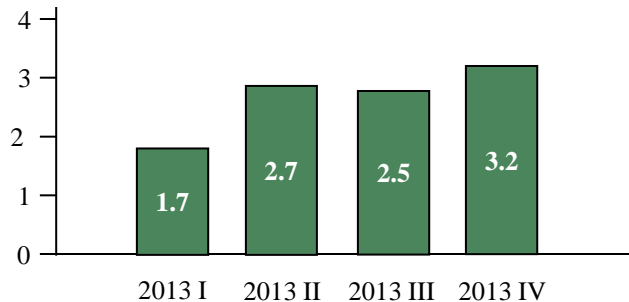
2012 GSP SECTOR ANALYSIS

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 2012 decreased by 0.1 percent. 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 weighted importance of each sector's growth during 2012. All of the sector information presented in the table to the left is based on the new North American Industry Classification System (NAICS) definitions.

Eight of the state's 15 economic sectors experienced modest output increases during 2012. The sectors with the strongest growth were Business and Professional Services with a real increase of 4.0 percent; Construction with a real increase of 2.7 percent; Information with a real increase of 2.4 percent; Mining with a real increase of 2.4 percent; Transportation, Warehousing and Utilities (TWU) with a real increase of 1.7 percent; Hospitality and Leisure Services with a real increase of 1.6 percent; Finance, Insurance, and Real Estate (FIRE) with a real increase of 0.4 percent; and Wholesale Trade with a real increase of 0.3 percent. Retail Trade output was flat in 2012.

Six sectors experienced output declines during 2012. These sectors were Agriculture with a decline of 10.3 percent; Nondurable Goods Manufacturing with a decline of 3.7 percent, Durable Goods Manufacturing with a decline of 2.3 percent, Government with a decline of 1.2 percent, Education and Health Services with a decline of 0.1 percent, and Other Services with a decline of 0.1 percent.

Quarterly Growth Rates in Forecasted Real GSP



2013 Highlights

	2013 *	Percent Change
Current Dollars		
Total Gross Product	461,921.8	3.6
Constant (2000 Dollars)		
Total Gross Product	394,307.3	1.9
Agricultural	3,170.2	-0.5
Mining	136.4	3.2
Construction	12,809.3	0.9
Manufacturing	78,717.7	1.0
Durable Goods	37,786.2	1.1
Nondurable Goods	40,931.5	0.8
TWU	13,372.7	3.1
Wholesale Trade	19,599.1	2.4
Retail Trade	23,710.6	1.8
Information	14,145.3	2.1
FIRE	83,020.5	1.5
B & P	43,971.7	5.8
E & H	29,582.2	2.8
H & L	12,286.0	2.2
Services	7,775.1	3.0
Government	52,028.4	-0.2

* millions of dollars

2013 GSP

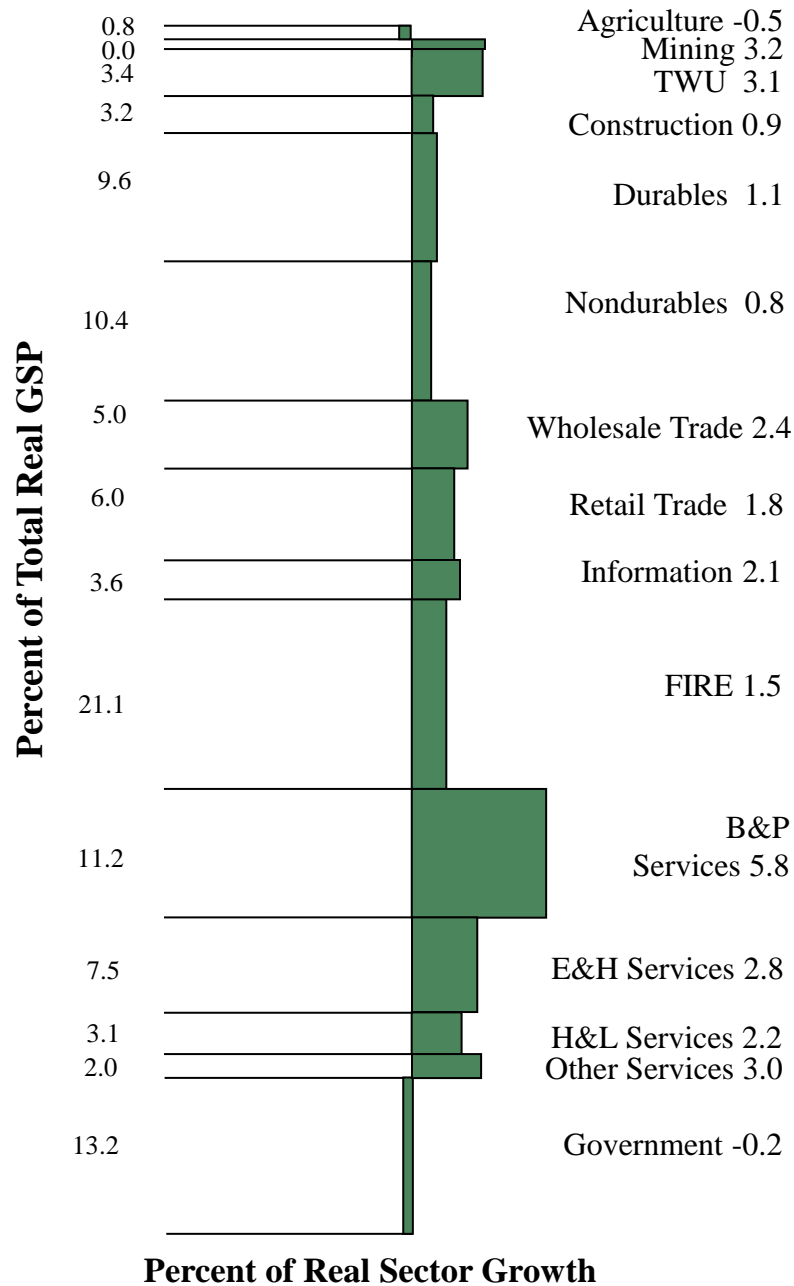
North Carolina Gross State Product (GSP) is expected to reach a level of \$461,921.8 million in 2013. Real (inflation-adjusted) GSP is expected to increase by 1.9 percent over the 2012 level. This growth in 2013 would follow a modest decline in 2012 GSP and turn around a weak North Carolina economy.

For 2013 first quarter GSP is expected to increase at an annualized real rate of 1.7 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 growth rate of 2.5 percent. In the fourth quarter of 2013, GSP is expected to grow at an annualized real rate of 3.2 percent.

After a disappointing 2012, the state's economy showed signs of life in the fourth quarter. In addition, several recent factors suggest that 2013 could be a breakout year for the North Carolina economy. First, we avoided going over the "fiscal cliff" on January 1, 2013. While we did not avoid a tax increase the impact was much less than had we gone over the cliff. The compromise reached by the Congress and the President resulted in tax increases on U.S. households of \$160 billion in 2013 and sequestration spending cuts of another \$85 billion. This is about half the impact that going over the cliff would have caused.

Second, and most important, for the first time in five years we are seeing sustained increases in housing prices. The Case-Shiller Home Price Index increased by 9.3 percent from February of 2012 to February 2013 for the 20 City Composite. Consistent increases in housing prices will change consumer psychology toward home purchases and result in increased demand over the next year. If residential construction picks up as expected the second half of 2013 could be the first time this recovery actually feels like a recovery.

2013 Total Real GSP Growth 1.9%



2013 GSP SECTOR ANALYSIS

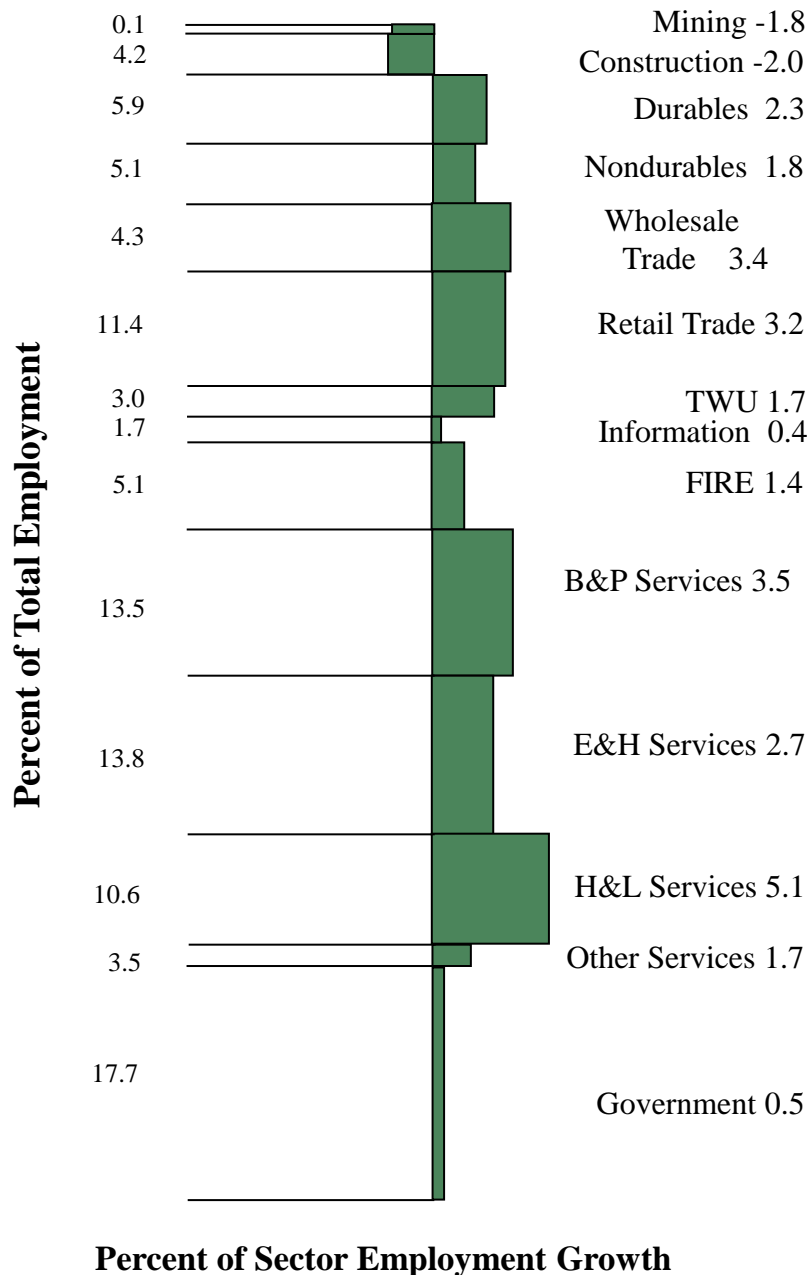
The chart to the left presents the projected contributions of each major economic sector to North Carolina's Gross State Product (GSP). The real (inflation-adjusted) growth rate for 2013 is forecast to increase by 1.9 percent. Projected real growth rates for each sector (displayed in black type) are 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 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.

Thirteen of the state's 15 economic sectors are forecast to experience output increases during 2013. The sectors with the strongest expected growth are Business and Professional Services with a projected real increase of 5.8 percent; Mining with a projected real increase of 3.2 percent; Transportation, Warehousing and Utilities (TWU) with a projected real increase of 3.1 percent; Other Services with a projected real increase of 3.0 percent; Educational and Health Services with a projected real increase of 2.8 percent; Wholesale Trade with a projected real increase of 2.4 percent; Hospitality and Leisure Services with a projected real increase of 2.2 percent; and Information with a projected real increase of 2.1 percent.

Five sectors are also expected to record increases in 2013 at rates less than the overall state growth of 1.9 percent. These sectors are Retail Trade; Finance, Insurance and Real Estate (FIRE); Durable Goods Manufacturing; Construction; and Nondurable Goods Manufacturing.

Two sectors – Government and Agriculture – are expected to decline in 2013.

2012 Year-End Employment Trends



2012 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 4,032,300 persons by December 2012, an increase of 2.3 percent over the employment level in December 2011. The state gained 89,900 net jobs during the year.

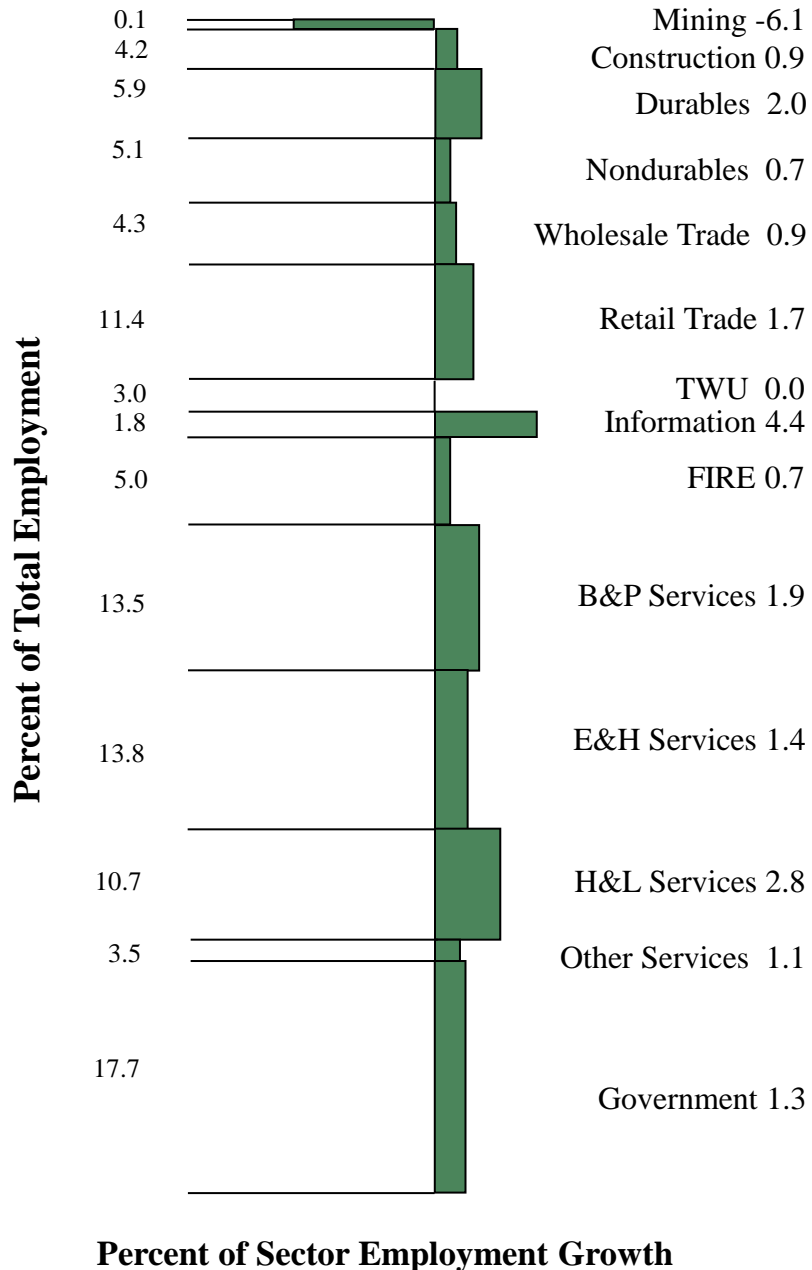
Twelve of the state's 14 nonagricultural sectors of the economy experienced employment increases during 2012. The sectors with the strongest employment increases in 2012 were Hospitality and Leisure Services at 5.1 percent; Business and Professional Services at 3.5 percent; and Wholesale Trade at 3.4 percent.

2012 Employment Highlights

	Year-End*	Percent Change
Total Establishment Employment	4,032.3	2.3
Mining	5.5	-1.8
Construction	170.1	-2.0
Manufacturing	442.9	2.1
Durable Goods	235.9	2.3
Nondurable Goods	207.0	1.8
Wholesale Trade	174.7	3.4
Retail Trade	458.4	3.2
TWU	122.5	1.7
Information	69.4	0.4
FIRE	204.0	1.4
B&P Services	542.8	3.5
E&H Services	557.6	2.7
H&L Services	426.7	5.1
Other Services	143.0	1.7
Government	714.7	0.5

*thousands of persons

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 is expected to reach 4,094,500 persons in December 2013, an increase of 1.5 percent over the employment level in December 2012. The state is expected to gain 62,200 net jobs during the year.

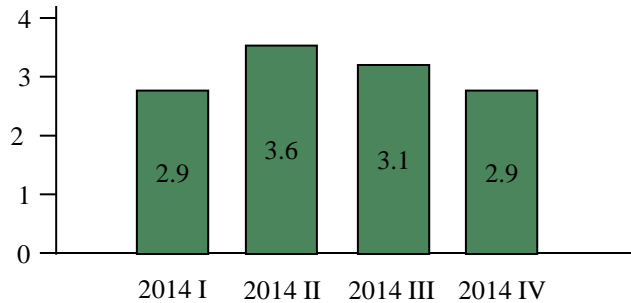
Twelve of the state's 14 nonagricultural sectors of the economy are expected to experience employment increases during 2013. The sectors with the strongest employment increases in 2013 are Information at 4.4 percent; Hospitality and Leisure Services at 2.8 percent; and Business and Professional Services at 1.9 percent.

2013 Employment Highlights

	Year-End*	Percent Change
Total Establishment		
Employment	4,094.5	1.5
Mining	5.2	-6.1
Construction	171.6	0.9
Manufacturing	449.1	1.4
Durable Goods	240.6	2.0
Nondurable Goods	208.5	0.7
Wholesale Trade	176.4	0.9
Retail Trade	466.1	1.7
TWU	122.5	0.0
Information	72.5	4.4
FIRE	205.4	0.7
B&P Services	553.1	1.9
E&H Services	565.3	1.4
H&L Services	438.7	2.8
Other Services	144.6	1.1
Government	724.2	1.3

*thousands of persons

2014 Quarterly Growth Rates in Forecasted Real GSP



2014 GSP Highlights

	2014 *	Percent Change
Current Dollars		
Total Gross Product	485,548.5	5.1
Constant (2000 Dollars)		
Total Gross Product	406,324.4	3.0
Agricultural	3,225.8	1.8
Mining	137.0	0.4
Construction	13,358.4	4.3
Manufacturing	80,610.5	2.4
Durable Goods	38,832.0	2.8
Nondurable Goods	41,778.5	2.1
TWU	13,754.0	2.9
Wholesale Trade	20,194.3	3.0
Retail Trade	24,388.0	2.9
Information	14,430.7	2.0
FIRE	85,146.0	2.6
B & P	47,097.5	7.1
E & H	30,829.2	4.2
H & L	12,738.3	3.8
Services	8,190.8	5.3
Government	52,223.9	0.4

* millions of dollars

2014 OUTLOOK

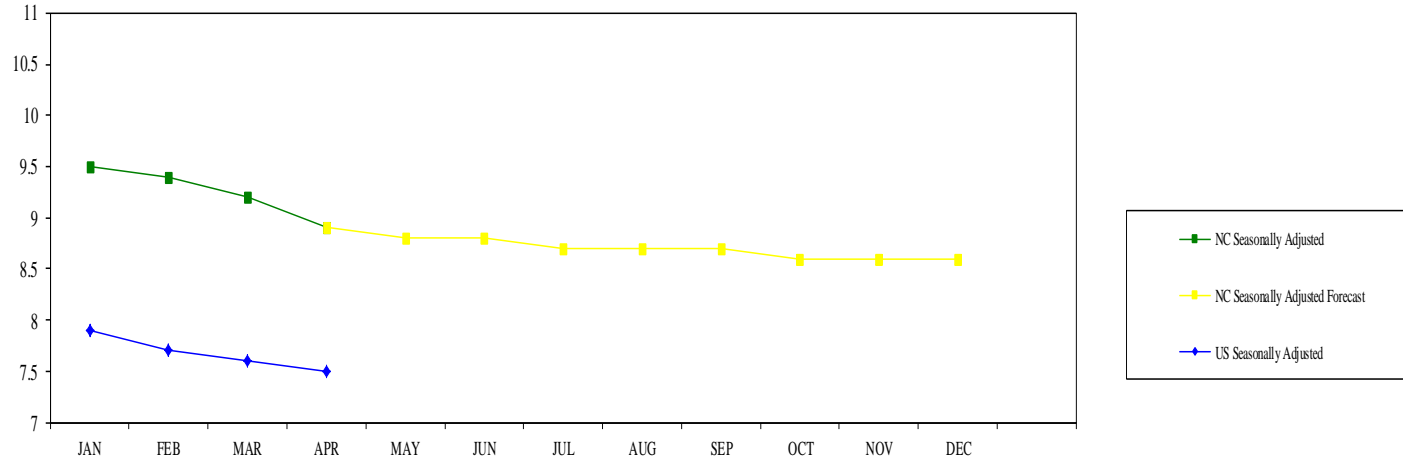
Gross State Product (GSP) is expected to reach a level of 485,548.5 million in 2014. Real (inflation adjusted) GSP is expected to increase by 3.0 percent over the 2012 level. This growth in 2014 would follow 1.9 percent growth in 2013 and result in two years of substantial economic growth for the North Carolina economy. The North Carolina economy is expected to add 90,500 job in 2014, which should surpass the state's previous highest employment level, recorded in February of 2008.

2014 Employment Highlights

	Year-End*	Percent Change
Total Establishment		
Employment	4,185.0	2.2
Mining	4.8	-7.2
Construction	178.6	4.1
Manufacturing	466.1	3.8
Durable Goods	249.0	3.5
Nondurable Goods	217.2	4.1
Wholesale Trade	181.2	2.8
Retail Trade	480.7	3.1
TWU	123.0	0.4
Information	73.0	0.7
FIRE	205.7	0.2
B&P Services	562.5	1.7
E&H Services	573.6	1.5
H&L Services	451.9	3.0
Other Services	148.4	2.7
Government	735.4	1.5

*thousands of persons

2013 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. 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 the year at 9.5 percent, while the United States rate was 7.9 percent. By April the North Carolina rate had fallen to 8.9 percent, while the United States rate had fallen to 7.5 percent. Both the U.S. and North Carolina unemployment rates are expected to decline throughout 2013, and by December the North Carolina unemployment rate is expected to be around 8.6 percent.