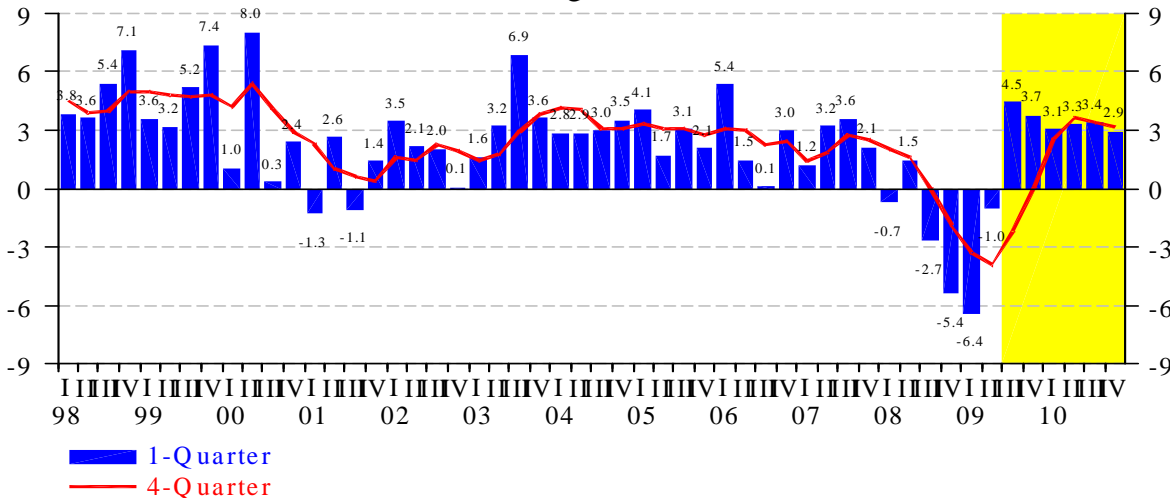


The long and deep recession that began in Dec. 2007 is probably near the end, if not already ended.

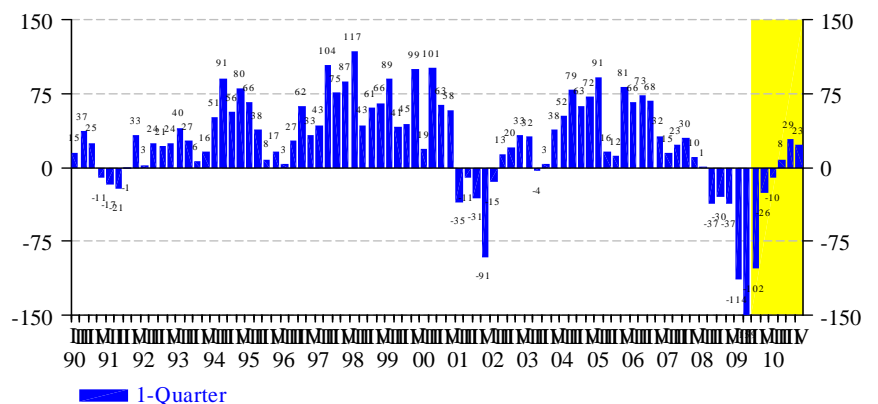
Real GDP is forecasted to rise at a 4.5% annualized growth rate in Q309, followed by 3.8% in Q409. Real GDP growth is forecasted to slow to 3.2% (Q409-Q410), but forecast risks are tilted to the upside in 2010 given the enormous level of fiscal and monetary stimulus that is expected to work its way into the economy next year. In model simulations of the economy under average conditions, real GDP growth in 2010 would approach 6% given the level of monetary stimulus alone. The consumer backdrop is still below average, but upward potential exists.

Real Gross Domestic Product
Percent Change, Annual Rate



High federal government spending, growing exports from a recovering world economy and inventory replenishment after an unusually sharp inventory correction will likely be the main drivers of growth in the second half of 2009. Officials of the G20 have promised to keep stimulus packages in place until signs of recovery are certain. (Note: smaller inventory declines add 1.9% to the GDP growth rate in Q3 2009.)

Inventory Change
(Billion Chained 2005 Dollars SAAR)

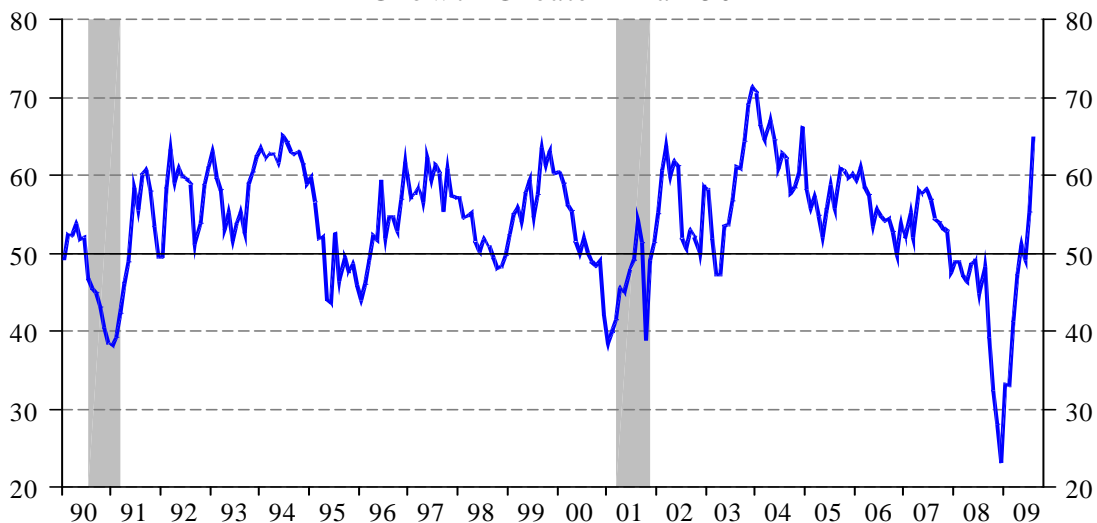


George Mokrzan, Ph.D.
Vice President, Senior Economist
614-480-3729

The manufacturing sector is probably out of recession. Non-manufacturing is weak, but improving.

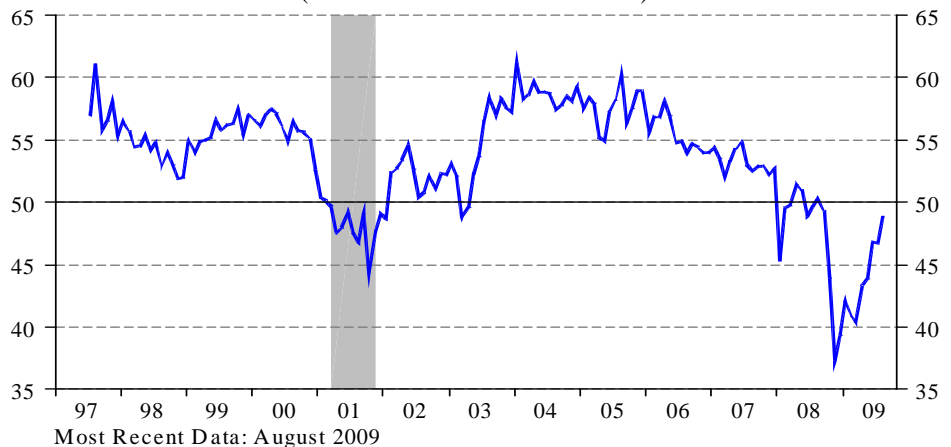
The August ISM report on manufacturing confirms government reports of broad-based growth in orders and production. New export orders have also increased, although international orders for machinery, transportation equipment, plastics, primary metals and furniture decreased in August. However, exports are expected to improve in the coming months as a global recovery takes shape.

ISM New Orders Index -- Manufacturing
Growth Greater Than 50



The non-manufacturing sector declined modestly in August, but was on an improving trend and is expected to grow in September or October. Real estate, health care, information, retail trade and wholesale were among the major sectors showing increases in new orders. The financial and construction sectors were major sectors with declining orders in August. Construction has been rising for residential buildings, but declining for private non-residential building. However, the expected pick-up in stimulus related projects should provide added support to the construction sector in the next year.

ISM Composite Index -- (Manufacturing + Non-Manufacturing)
(Greater than 50 = Growth)

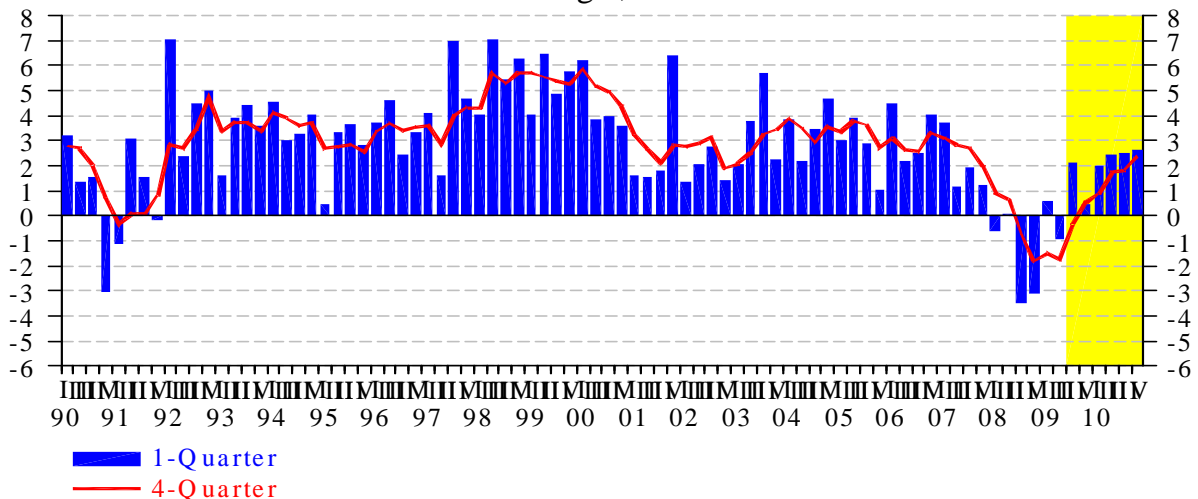


George Mokrzan, Ph.D.
Vice President, Senior Economist
614-480-3729

Consumer spending probably won't pick up significantly until early 2010.

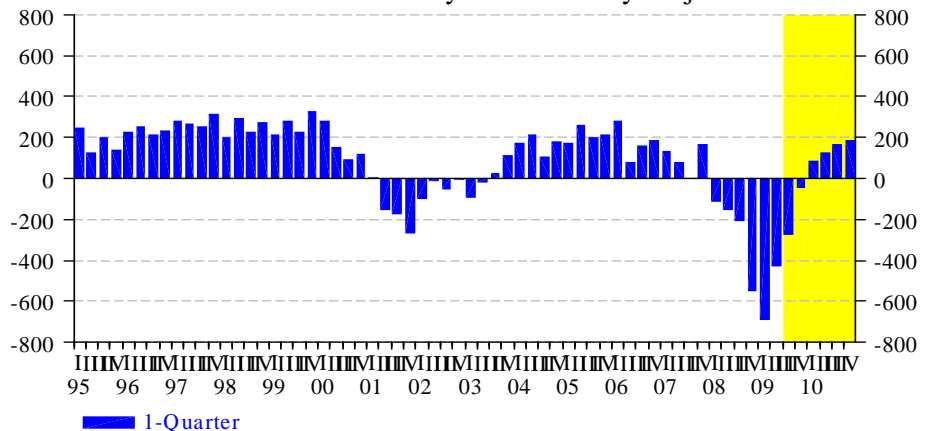
Modest growth in consumer spending, residential investment and business investment should ultimately make the recovery broad-based. Strains on disposable personal income growth, and the high likelihood of continued efforts by consumers to reduce debt and rebuild wealth will probably make consumers 'followers in recovery' rather than leaders. However, the cyclical rebound in equity markets should provide a boost to consumers not excessively exposed to housing market losses and debt. (Most housing market strains are in the boom-bust states of the Southwest and Southeast.) Net employment growth is also expected to commence in the first quarter as the sharp correction in labor markets ran its course unusually quickly. Finally, in all likelihood, the sharp retrenchment in consumer spending in the last 2 years has increased pent-up demand that will begin to be released once recovery firms.

Total Consumption
Percent Change, Annual Rate



Many cautious consumers are probably awaiting further signs of labor market stabilization before they make large discretionary purchases. Although the unemployment rate will likely push above 10.0% in the fourth quarter, labor market conditions are expected to remain on an improving trend throughout the forecast period.

Average Monthly Employment Change
Establishment Survey - Seasonally Adjusted

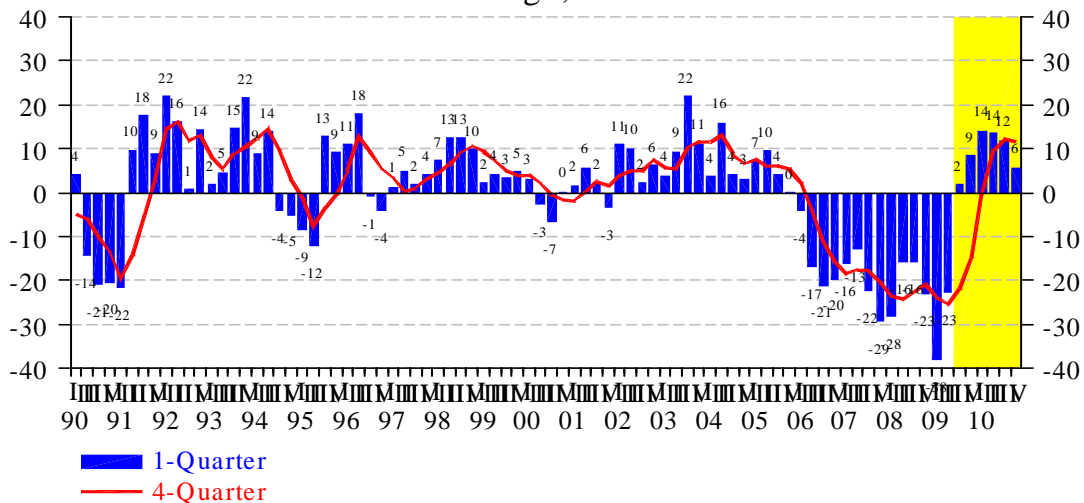


George Mokrzan, Ph.D.
Vice President, Senior Economist
614-480-3729

Housing markets have commenced recovery.

Aggregate new and existing home sales have begun to rise. Improvements in affordability coupled with Federal Reserve purchases of mortgage-backed securities should continue to support the housing market recovery through 2010. Lower price segments should show the first improvements. As middle-market sellers receive higher sales prices, a growing pipeline of buyers of higher priced homes should gradually emerge. The first time homebuyer tax credit has helped to stabilize housing markets. Its possible phase-out would likely slow, but not stop the housing recovery. The price of housing has become affordable for many even without the tax credit.

Residential Investment (Chained 2005 Dollars)
Percent Change, Annual Rate



Existing home sales have begun to recover, and are expected to rise further in 2010. Sales can be volatile from month to month, but activity has clearly risen above the six-month average, which is also rising.

Existing Single-Family Home Sales
Millions of Units at Seasonally Adjusted Annual Rate



Latest month plotted: August 2009

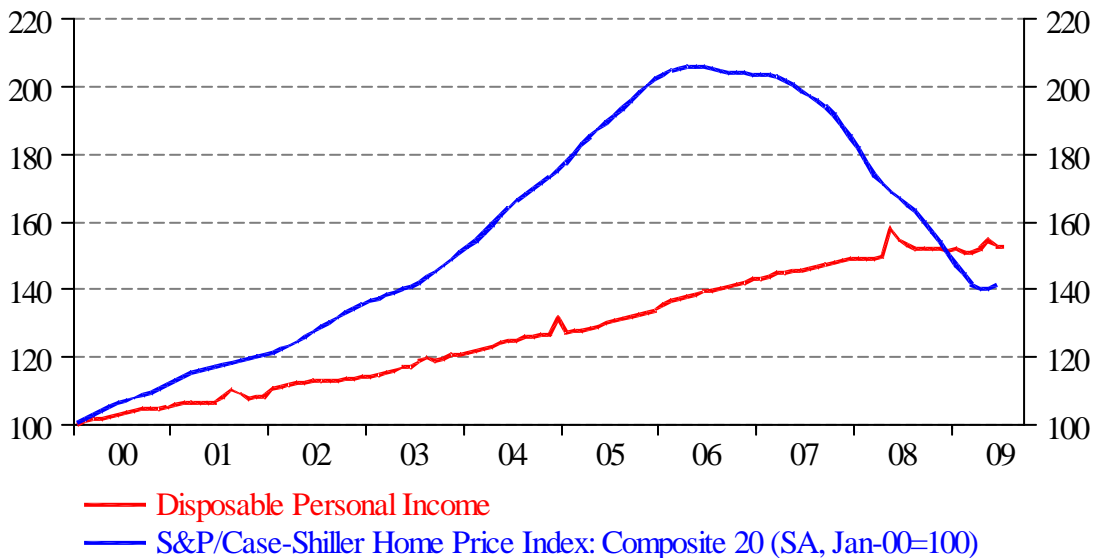
George Mokrzan, Ph.D.
Vice President, Senior Economist
614-480-3729

Improved affordability is key to the housing turn-around.

U.S. housing markets disconnected from underlying economic fundamentals in the early years of the decade, leading to the recent housing market boom. The S&P/Case-Shiller Home Price Index of 20 large metro areas, the home price composite indicator reflecting all market segments, spiraled above sustainable growth as exemplified by disposable personal income in the chart below. Home prices dropped sharply beginning in June 2006, contributing to the severity of the economic downturn and credit market crisis. However, as a result of home price declines and plentiful mortgages at historically low rates, housing prices bottomed this past April and May, and rose 0.75% in June for the first time since May 2006. The increase was also the largest monthly gain since December 2005. The housing bust was severe, but markets have restored affordability to the point where housing has become attractive again in many areas. Another housing boom on the scale of the most recent one is not likely anytime soon. However, housing sales and prices are forecasted to enter a steady moderate rising trend that should reduce overall inventories and return stability to U.S. housing once more. Inventories relative to sales have been declining this year, already.

A leader in housing price gains: the Cleveland metropolitan area registered home price growth of 6.9% in the second quarter.

Housing Prices Adjust to Disposable Personal Income
January 2000 = 100

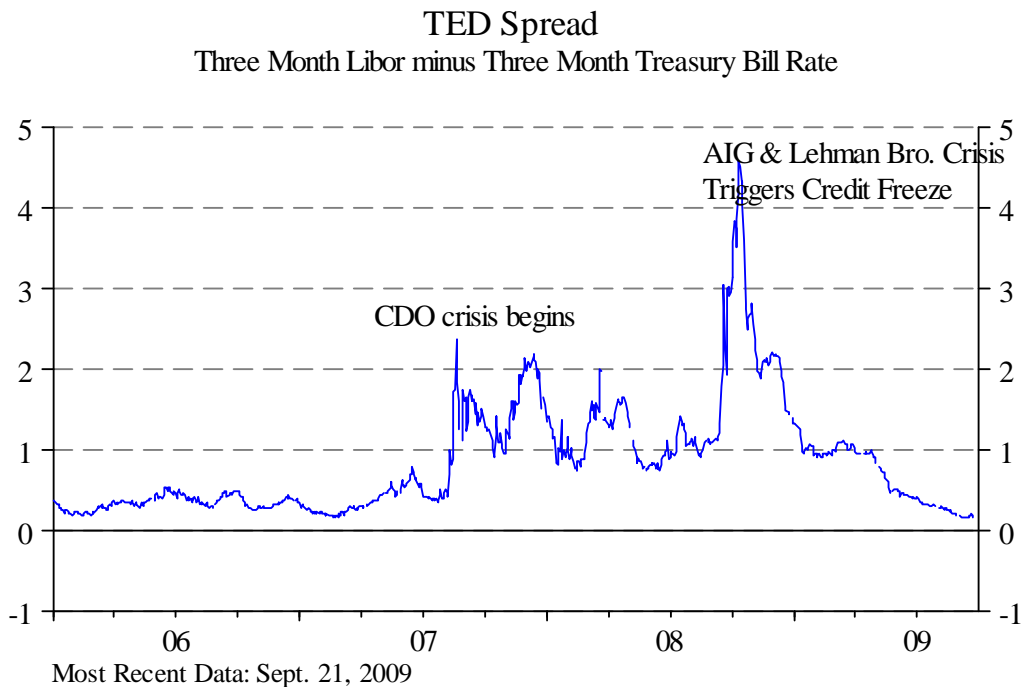


Latest month plotted: June 2009.

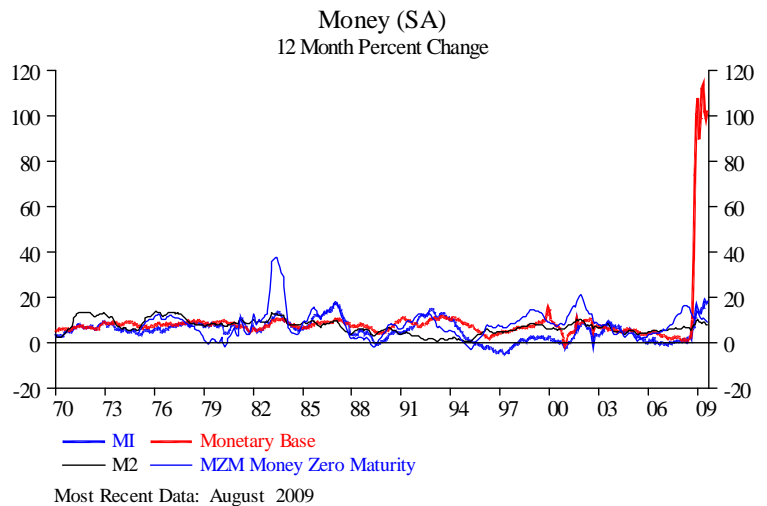
George Mokrzan, Ph.D.
Vice President, Senior Economist
614-480-3729

Credit markets have continued to improve, reducing the biggest obstacle to economic growth.

Credit market conditions have improved substantially in recent months as reflected by narrowing risk spreads and increased volumes across a broad spectrum of securities, lessening the greatest constraint to economic recovery. Credit availability to consumers will probably not return to pre-recession levels during the new economic expansion, but credit extension is expected to pick-up with the end of the recession and gradually improving labor market conditions. In the chart below, the Libor rate, the wholesale cost of funds that banks lend to each other, has finally dropped to spreads above U.S. Treasury bills not incurred since before the subprime mortgage-backed CDO crisis began in July 2007.



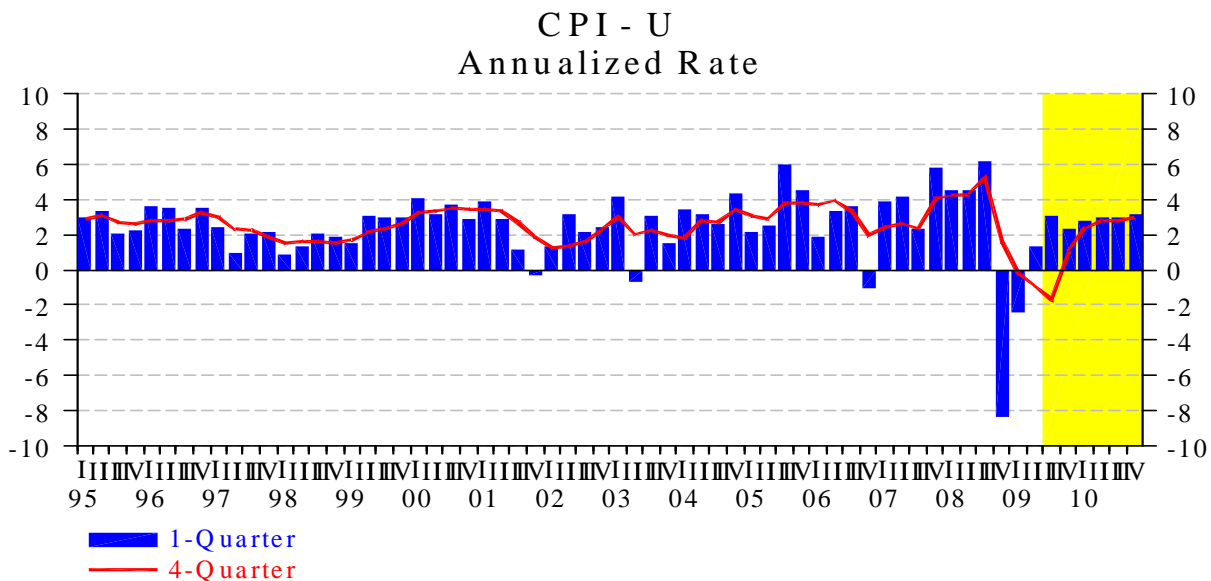
With credit markets expected to continue to improve, historically high injections of reserves into the monetary base should ultimately accelerate money supply growth, thereby underpinning the projected economic expansion.



George Mokrzan, Ph.D.
Vice President, Senior Economist
614-480-3729

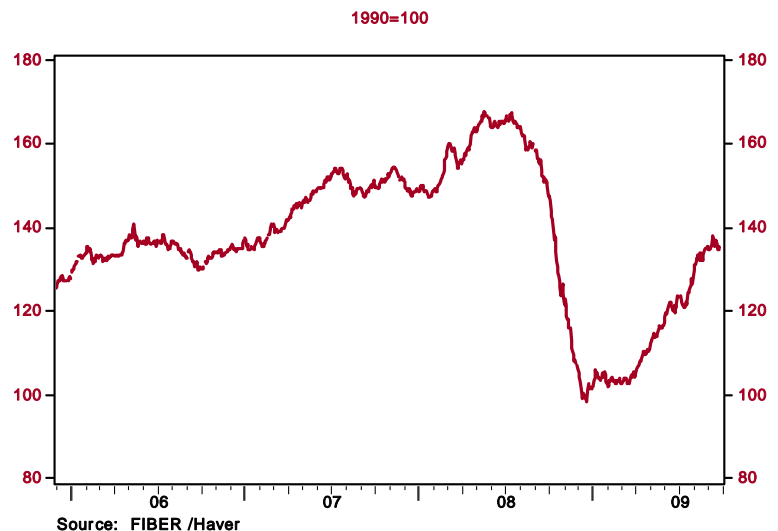
The forecast is for moderate inflation, but inflationary pressures are expected to rise quickly with increasing economic growth.

The Consumer price index (CPI-U) is forecasted to increase moderately by 3.0% (Q409-Q410), on volatile but upward trending energy prices that are forecasted to reach \$100 per barrel by year-end 2010. However, inflation risks are to the upside once the economic recovery gains traction. If real GDP exceeds the 3.2% forecast for 2010, the inflation forecast would advance upwards quickly. Core prices excluding food and energy are forecasted to remain low for the remainder of the year, but also commence a rising trend as the economy gains traction in the first half of 2010. Deflation would only become a concern if real GDP grew around 2% or less in Q209-Q210, but this range appears increasingly unlikely given the early signs of recovery.



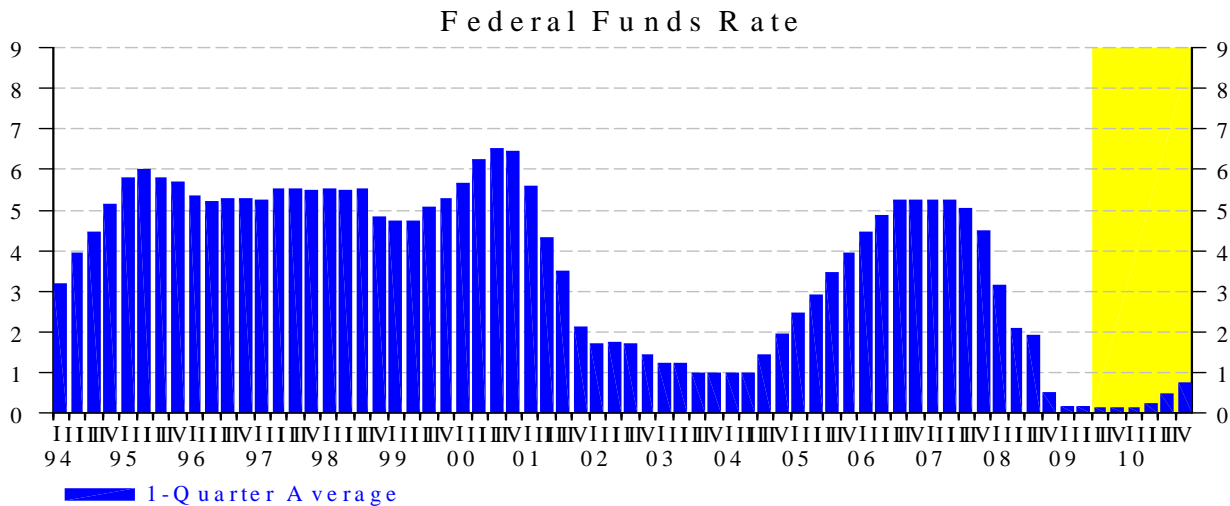
Excess liquidity has flowed to commodities in 2009. The FIBER composite index of industrial materials prices has recovered half of its peak to trough decline incurred between May 20 and Dec. 18 of last year. Broad-based increases in energy, metals and other industrial commodities raise costs to consumers and many businesses. The commodity price increases also indicate the potential for future inflationary pressures.

FIBER Industrial Materials Price Index: All Items

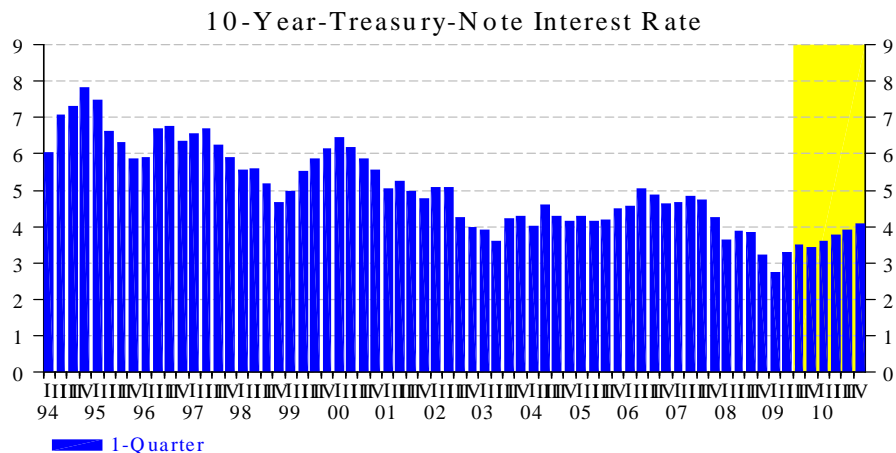


George Mokrzan, Ph.D.
Vice President, Senior Economist
614-480-3729

Monetary policy will likely remain highly accommodative until solid economic growth and inflation return -- probably not before the second half of 2010. According to the Federal Reserve FOMC statement of Sept. 23, programs to purchase \$1.25 trillion in mortgage-backed securities and \$200 billion in housing agency securities will be gradually completed by the end of the first quarter of 2010. The purchase of \$300 billion in U.S. Treasury bonds will be completed by October. Other programs designed to improve credit market functioning will likely be ended as market usage volumes wane. The forecast contains two quarter-point increases in the Fed Funds rate target in the second half of 2010. Real GDP contracted 3.9% in the four quarters through Q209 -- the largest four quarter drop in real GDP in the post-WWII era. Furthermore, credit markets will likely remain in a state of repair in the next year, even with significant recent improvements. However, once economic recovery gains traction next year, forecast risks for the Fed Funds rate target are expected to swing immediately to the upside. A more rigorous ratcheting up of the Fed Funds rate target is especially likely if GDP growth expands 4% or higher in 2010 – a pace that would likely correspond to quickly accelerating inflation.



Long-term Treasury yields will likely remain on an upward path as a result of historic increases in debt supply, increasing economic growth and upside inflation. The dollar will also likely remain under downward pressure until monetary policy changes course, although interest rate spreads between the U.S. and many large developed economies are not expected to change significantly in the forecast period. The U.S. current account deficit has narrowed sharply in the last year, but rising and unsustainable federal government deficits pose a long-term risk to interest rates and the currency.



The U.S. current account deficit has narrowed sharply in the last year, but rising and unsustainable federal government deficits pose a long-term risk to interest rates and the currency.

George Mokrzan, Ph.D.
Vice President, Senior Economist
614-480-3729

Consumer debt service is declining, but federal debt is skyrocketing.

The consumer debt obligation ratio (consumer debt service as a percent of disposable personal income) has come down from 6.85% at its peak in 2006 to 6.0% in the first quarter. Consumers have been successful in paring back non-mortgage debt this decade, and the trend is continuing in 2009.

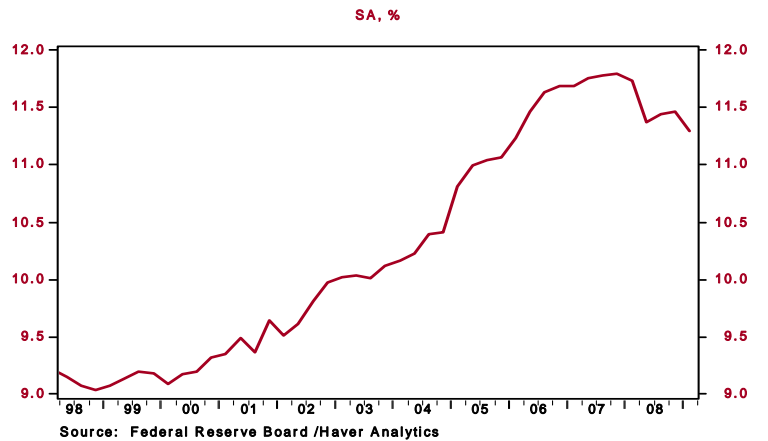
Rising mortgage debt has been the driver of overall household obligations in recent years. With the housing meltdown, it has been contracting, and should decline somewhat further in the next year as many homeowners de-leverage.

According to the Office of Management and Budget, federal debt held by the public is forecasted to rise from 36.9% of GDP in fiscal year 2007 to 70.0% of GDP in 2011. Furthermore, federal debt rises to 76.5% by 2019. Therefore, the U.S. will likely continue to depend on foreign capital to finance government spending. If foreign capital begins to leave U.S. Treasuries for other assets, then long-term interest rates would probably undergo upward pressure, and the U.S. dollar would likely fall.

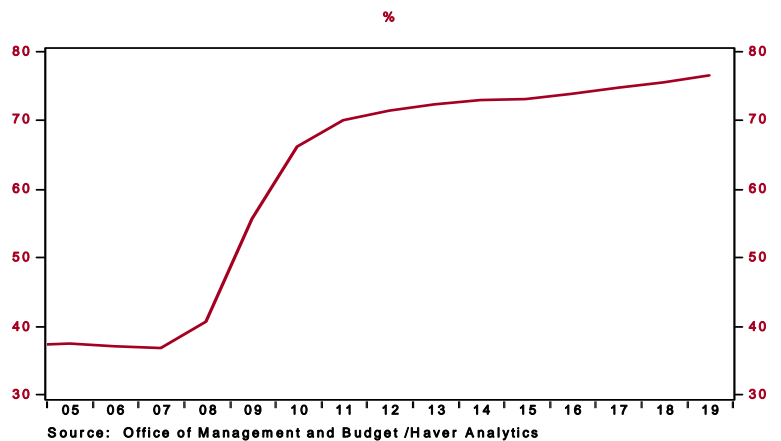
Homeowning Households Consumer Financial Obligation Ratio



Homeowning Households Mortgage Financial Obligation Ratio



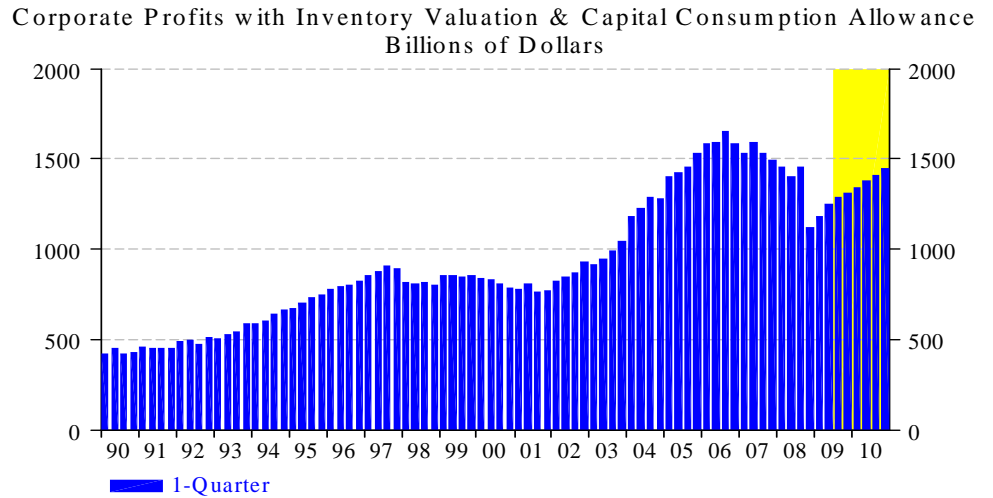
Federal Debt Held by Public as a Percentage of GDP



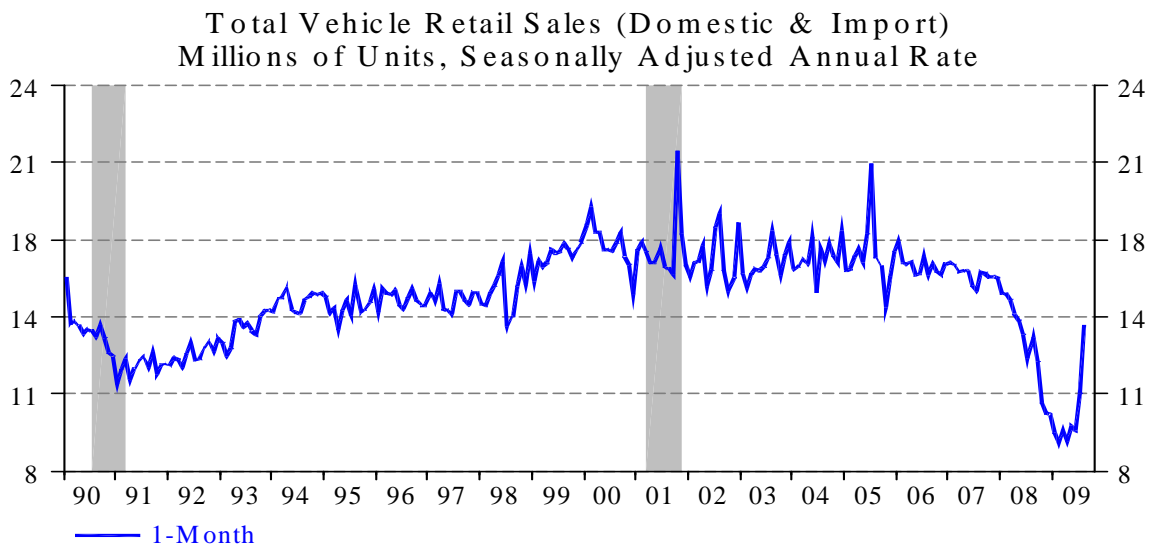
George Mokrzan, Ph.D.
Vice President, Senior Economist
614-480-3729

Non-financial corporate business is fundamentally sound, overall. The most beleaguered industries should especially benefit from rising product and service demand in the next year.

After bottoming in Q4 2008, aggregate profits in the economy have increased 11.3% through the second quarter. Debt in the non-financial corporate sector is generally low compared to recent decades. Labor productivity growth surged at a 6.6% annual rate in the second quarter, the highest rate since Q2 2001. Non-financial corporations are generally strong and positioned for growth. Total economic profits are forecasted to grow 17% in Q408-Q409, and 10.5% in Q409-Q410.



Vehicle sales received a boost from the “Cash for Clunkers” program this summer. Vehicle sales will likely fall back in the fourth quarter as auto companies build up inventory. With expected improvements in consumer balance sheets and employment conditions, vehicle sales are forecasted to climb back over 14 million in 2010. However, the heydays of 16 million sales per year are probably over for now as consumers attempt to raise savings and decrease debt.



Latest month plotted: Aug. 2009

George Mokrzan, Ph.D.
Vice President, Senior Economist
614-480-3729

Economic Forecast September 25, 2009

	09-I	09-II	09-III	09-IV	10-I	10-II	10-III	10-IV	2008	2009	2010
Annualized Real Growth Rates (bln Chained 2005 Dollars)											
GROSS DOMESTIC PRODUCT	-6.4	-1.0	4.5	3.7	3.1	3.3	3.4	2.9	0.4	-2.3	3.2
CONSUMPTION	0.6	-1.0	2.1	0.4	2.0	2.4	2.5	2.6	-0.2	-0.8	1.7
GROSS PRIV. DOM. INVESTMENT	-50.5	-24.4	18.0	20.6	8.2	10.5	13.4	6.8	-7.3	-23.2	10.1
FIXED INVESTMENT	-39.0	-13.5	0.6	-0.9	3.7	5.5	8.0	8.1	-5.1	-18.6	2.4
NON-RESIDENTIAL STRUCTURES	-43.6	-15.1	-11.3	-17.8	-6.0	-5.0	0.1	2.6	10.3	-18.6	-8.2
EQUIPMENT	-36.4	-8.4	4.3	3.5	3.9	6.9	9.7	11.5	-2.6	-17.7	4.8
RESIDENTIAL STRUCTURES	-38.2	-22.8	2.0	8.6	14.2	13.6	12.0	5.8	-22.9	-21.7	7.9
CHANGE IN INVENTORIES	-113.9	-159.2	-102.0	-26.3	-10.1	8.3	28.5	23.1	-25.9	-100.4	12.5
NET EXPORTS	-386.5	-331.8	-325.3	-331.3	-343.7	-365.5	-385.7	-400.9	-494.3	-343.7	-373.9
EXPORTS	-29.9	-5.0	5.4	2.2	4.2	5.4	6.4	7.4	5.4	-12.1	4.1
IMPORTS	-36.4	-15.0	2.8	3.2	6.3	9.4	9.7	9.2	-3.2	-16.4	5.0
GOVERNMENT PURCHASES	-2.6	6.4	4.0	6.8	5.4	4.9	3.2	3.4	4.7	2.5	5.0
FEDERAL	-4.3	10.9	11.0	15.8	14.7	12.3	8.6	9.1	9.6	6.5	12.6
STATE & LOCAL	-1.6	3.6	-1.2	1.0	-0.8	-0.2	-0.8	-0.8	1.9	-0.1	-0.1

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

**Table II.
Key Economic Indicators
Sept. 25, 2009**

	09-I	09-II	09-III	09-IV	10-I	10-II	10-III	10-IV	2008	2009	2010
KEY ECONOMIC INDICATORS											
Gross Domestic Product (bln \$) *	-4.6	-1.0	6.2	5.7	5.1	4.6	5.4	5.4	2.6	-0.9	4.9
Implicit GDP Price Deflator *	1.9	0.0	1.7	1.9	1.9	1.2	2.0	2.4	2.1	1.5	1.7
Consumer Price Index -- CPI-U *	-2.4	1.3	3.1	2.3	2.8	3.0	3.0	3.1	3.8	-0.4	2.7
FEDERAL FUNDS RATE	0.18	0.18	0.13	0.13	0.13	0.25	0.50	0.75	1.93	0.16	0.41
10-YEAR T-NOTE	2.74	3.31	3.50	3.45	3.62	3.80	3.93	4.09	3.67	3.25	3.86
U.S. DOLLAR (FRB Index)	82.7	79.4	75.5	73.9	73.3	72.8	72.5	72.3	74.4	77.9	72.7
AVERAGE MONTHLY CHANGE (Thous.)	-691	-428	-276	-48	87	128	166	187	-257	-361	142
UNEMPLOYMENT RATE (%)	8.1	9.3	9.6	10.2	9.7	9.3	8.9	8.7	5.8	9.3	9.1
CORPORATE PROFITS (Bil. of \$)	1182.7	1250.3	1287.5	1314.5	1346.6	1378.5	1412.5	1453.1	1360.4	1258.8	1397.7
% change *	22.8	24.9	12.5	8.6	10.2	9.8	10.2	12.0	-11.8	-7.5	11.0
Adjusted, National Income Definition (Profits generated through U.S. GDP)											

* Annualized Growth Rates

Red -- First Period Forecasted

George Mokrzan, Ph.D.
Vice President, Senior Economist
614-480-3729

Data Sources: Haver Analytics

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George Mokrzan, Ph.D.
Vice President, Senior Economist
614-480-3729

12