



**The Economy in 2013
A Period of Heightened Risks
& Opportunities**

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Economy Trends

- Modest economic growth with heightened risks, especially from fiscal headwinds and the euro zone crisis
- Highly accommodative monetary policy expected to provide plentiful support worldwide
- U.S. consumer gradually improving on stronger finances and job growth. Business balance sheets are healthy, but risk appetite is cautious.
- Housing recovery expected to gain upward momentum. Exports likely to pick up next year.
- Inflation and market interest rate likely to trend upwards after slow near-term period

Factors driving the economy

Pluses:

- Low interest rates / plentiful liquidity + QE3
- Improving consumer finances help release pent-up demand
- Export growth in long-term
- Business spending on equipment strong during cycle
 - Solid aggregate profits and cash flows
- Inventory levels lean
- Strong manufacturing resurgence in long-term
- Recovering housing markets
- Natural gas development

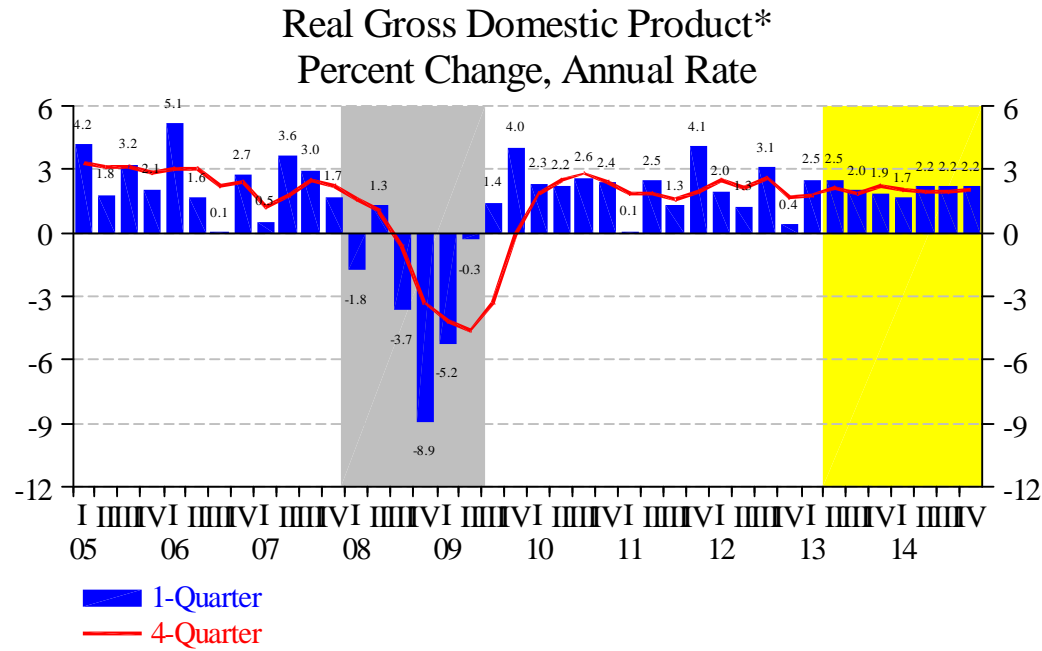
Negatives:

- U.S. federal debt concerns and fiscal uncertainties.
- Higher taxes & regulation
- Euro-zone sovereign debt danger
- Slow real disposable personal income growth
- State and local fiscal woes
- Slower worldwide economic growth
- Long-term inflation risks
- Geo-political risks
- Prices for energy and other commodities

Swing:

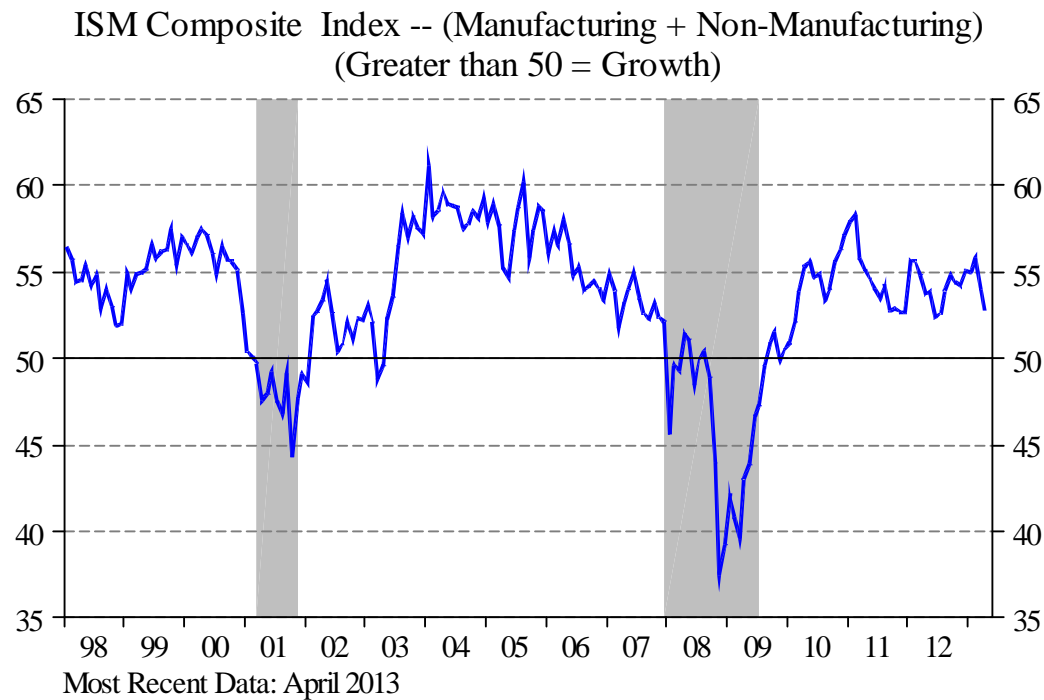
- Confidence

Modest annual growth of around 2%, but with heightened risks & opportunities

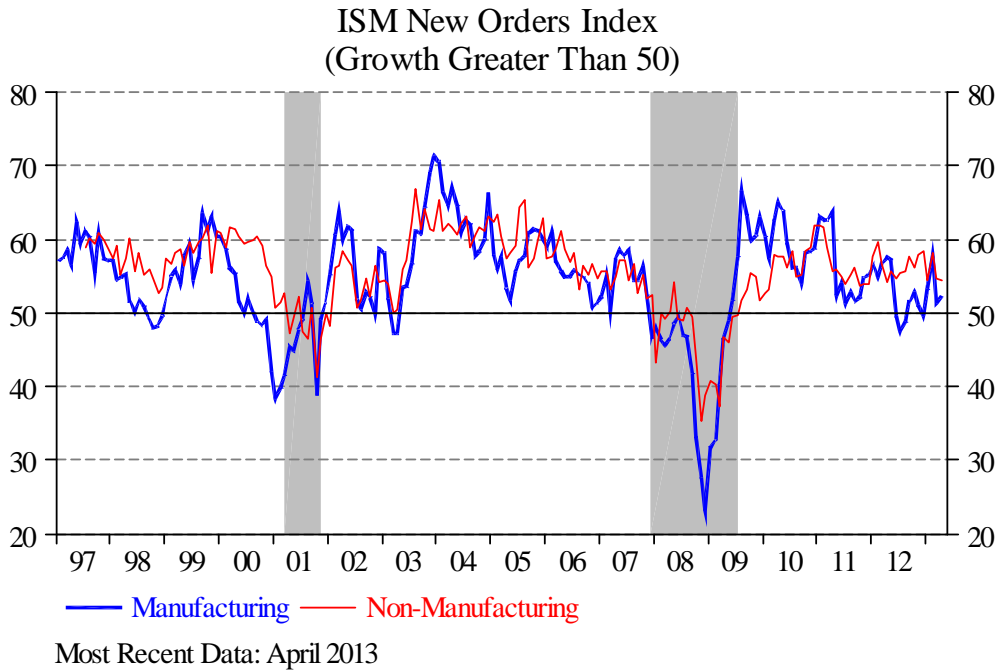


* In chained 2005 prices

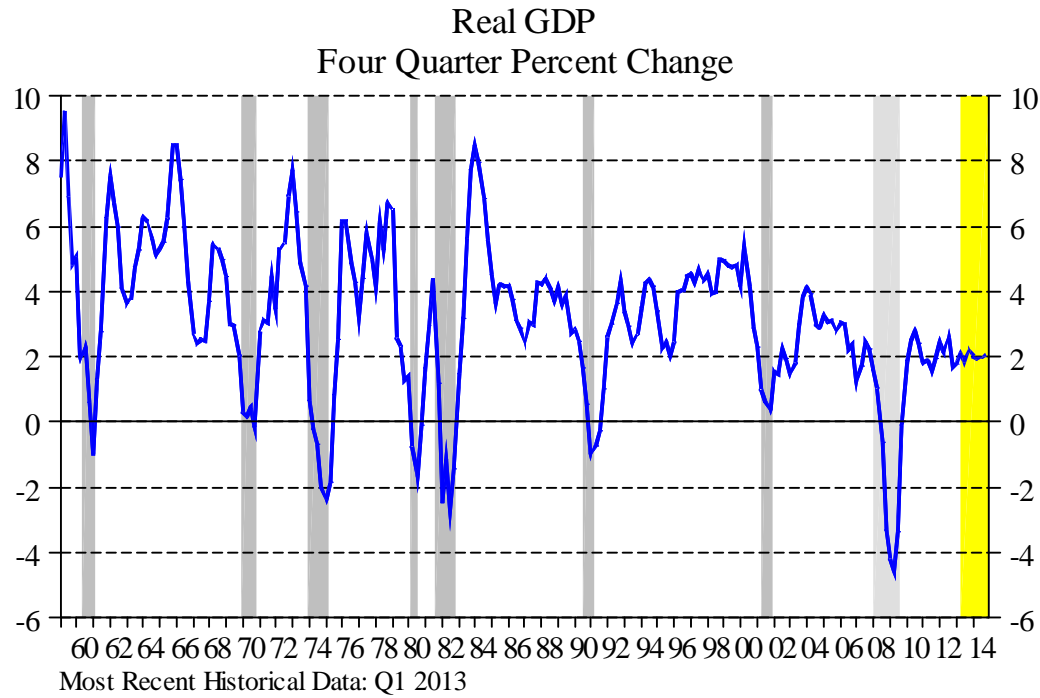
Solid growth momentum in early 2013, but hindered in spring by fiscal tightening and slow world economy



New orders growing, but manufacturing still weak

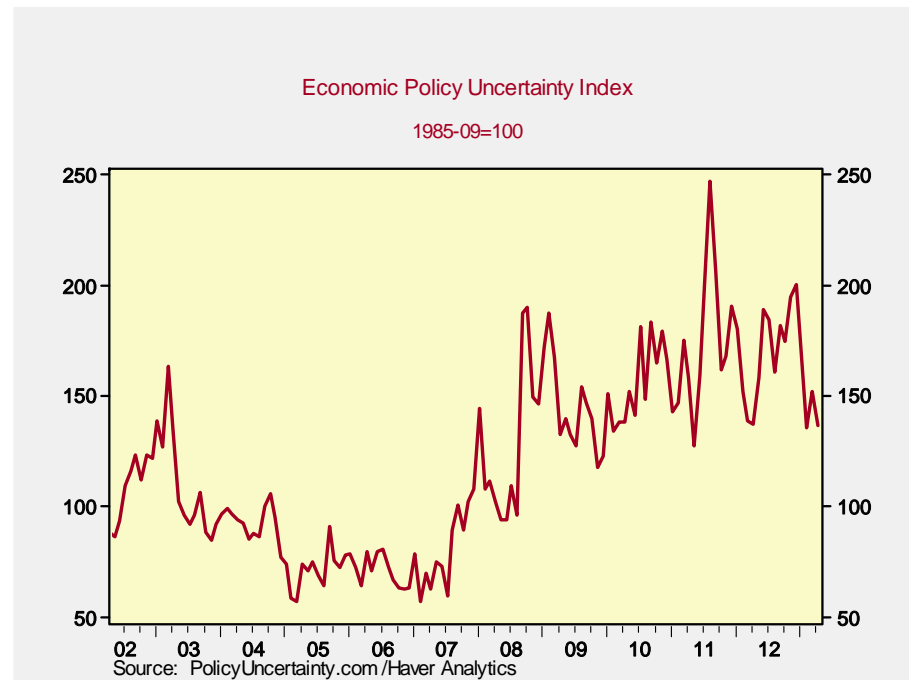


Slow growth relative to previous economic cycles

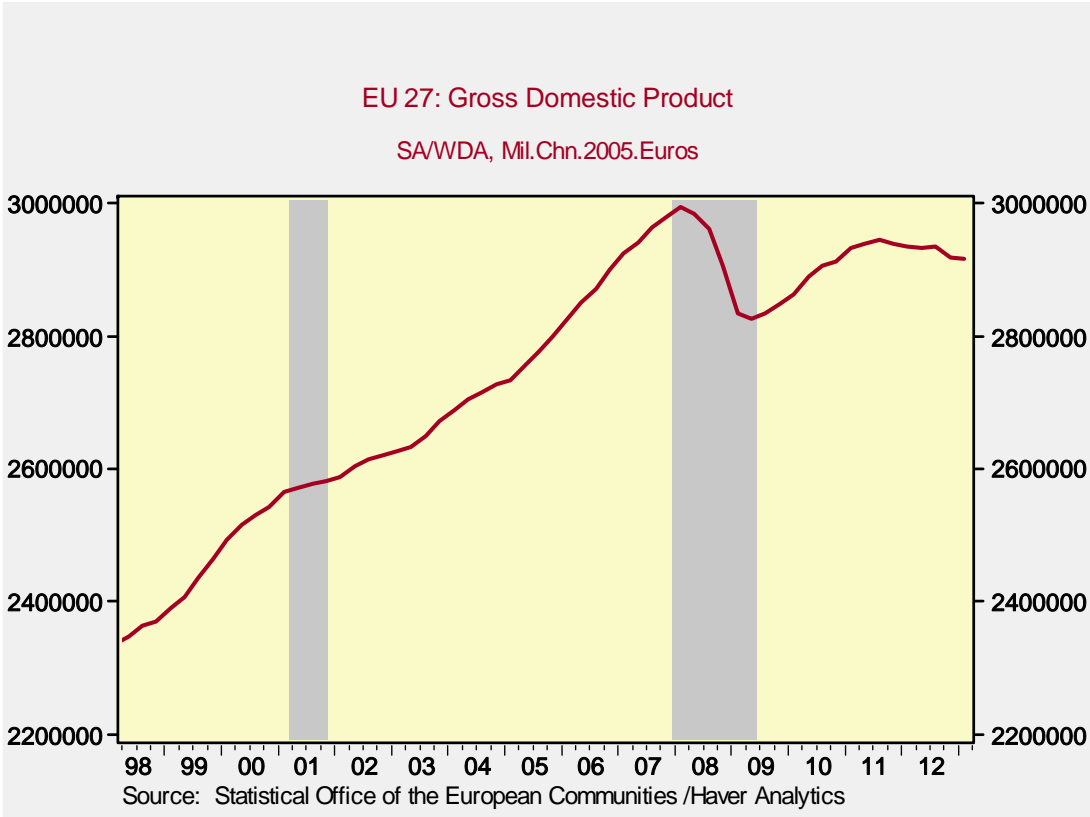


Economic policy uncertainty is high, and is likely weighing on economic growth

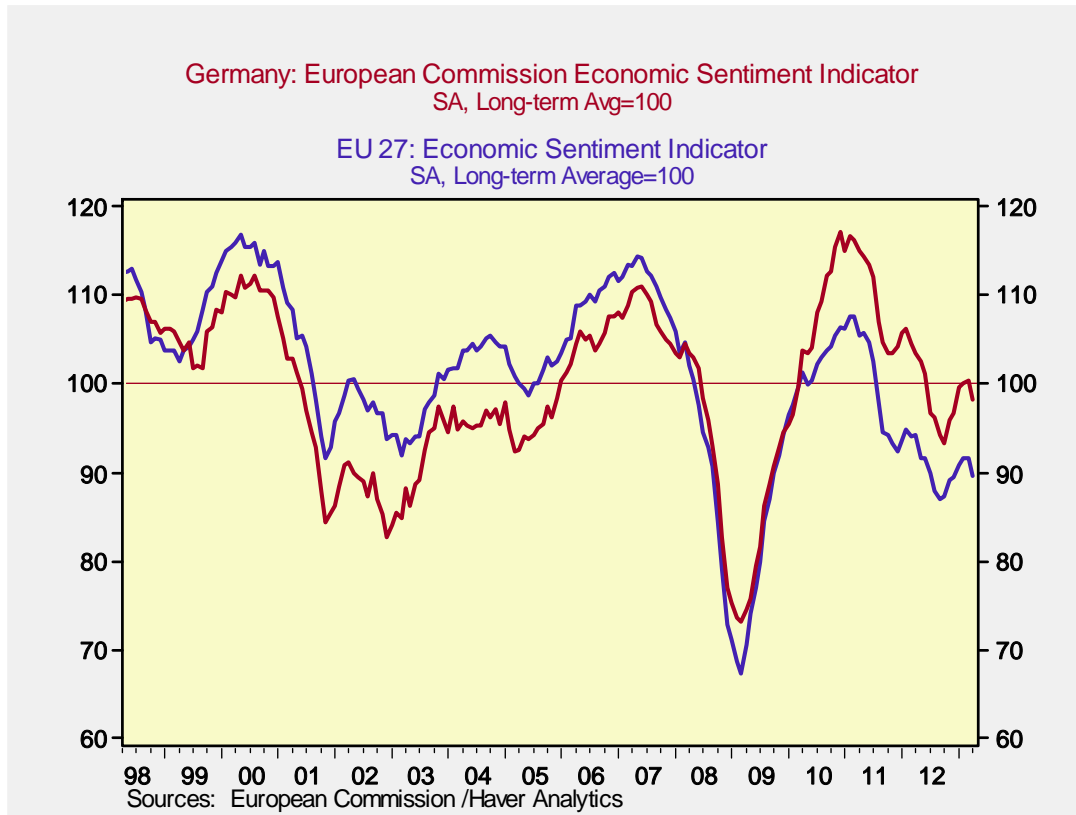
The monthly economic policy uncertainty index is made up of three components which measure economic policy uncertainty: 1) the frequency of references to economic uncertainty and policy in the Google news media catalog, 2) the number of Federal tax code provisions set to expire in future years, and 3) the extent of disagreement among economic forecasters over future Federal government purchases and the future CPI price level.



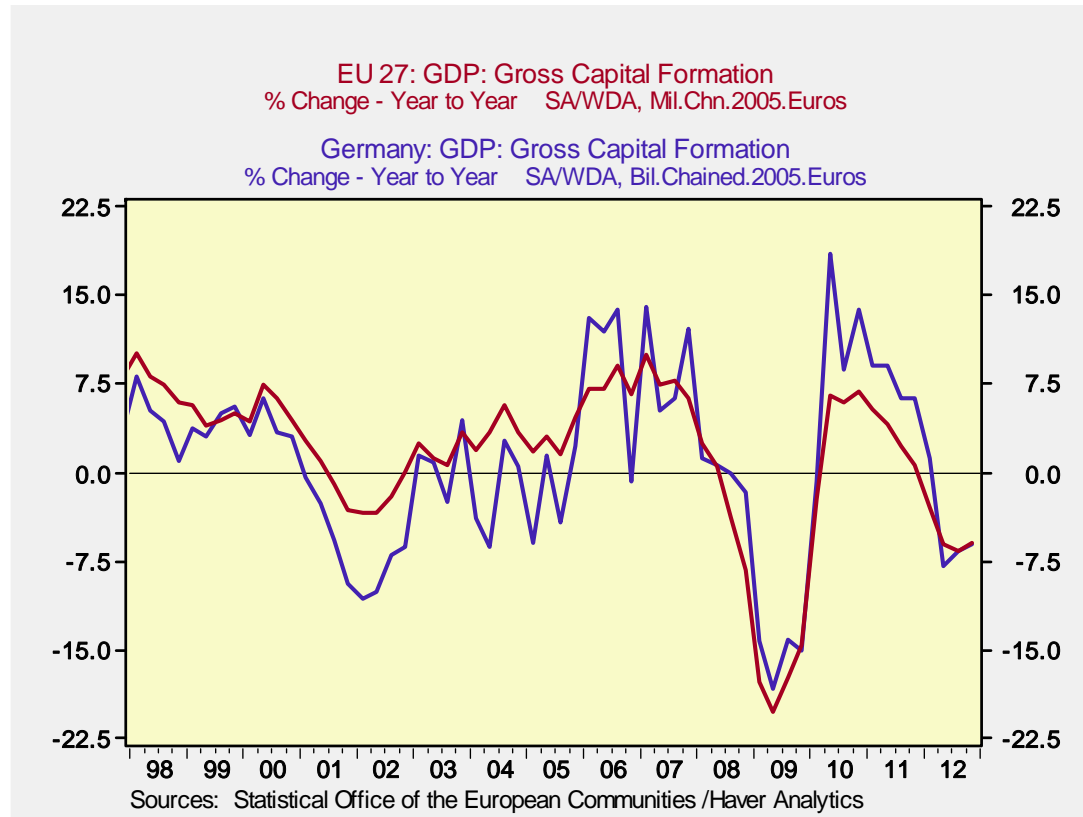
The EU 27 is in recession for 6 consecutive quarters



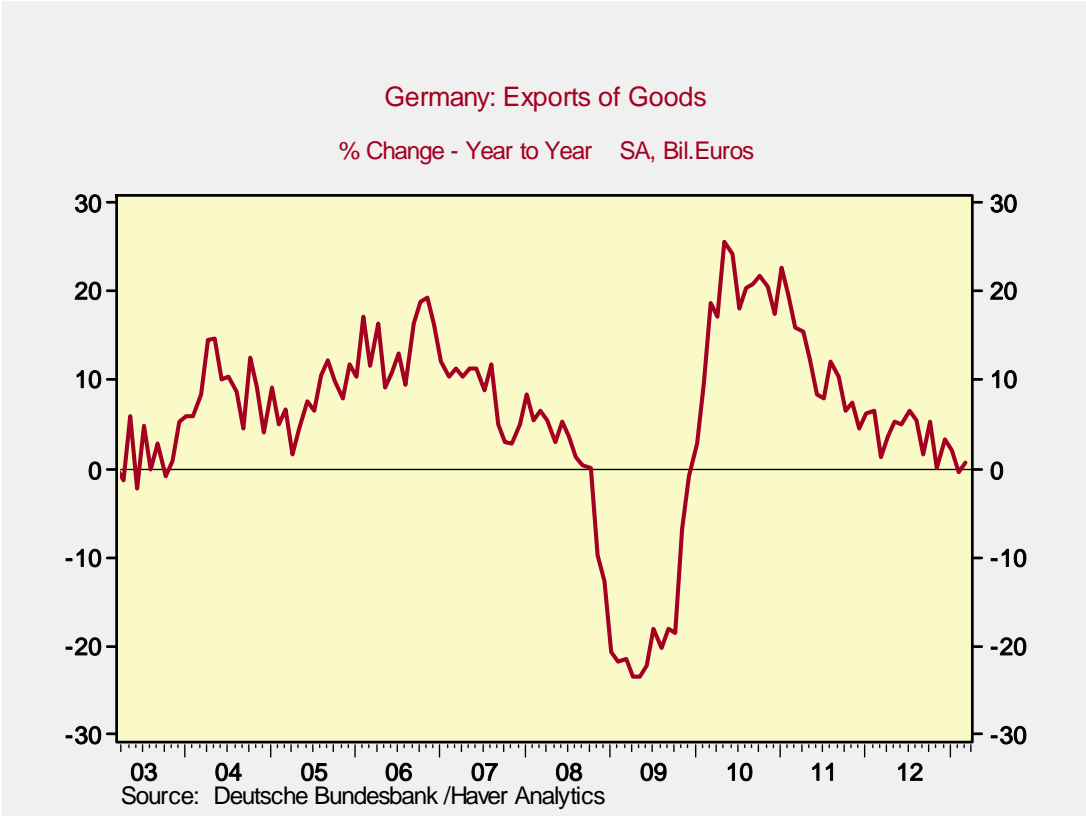
Germany outperforms Europe since the 2008-2009 recession



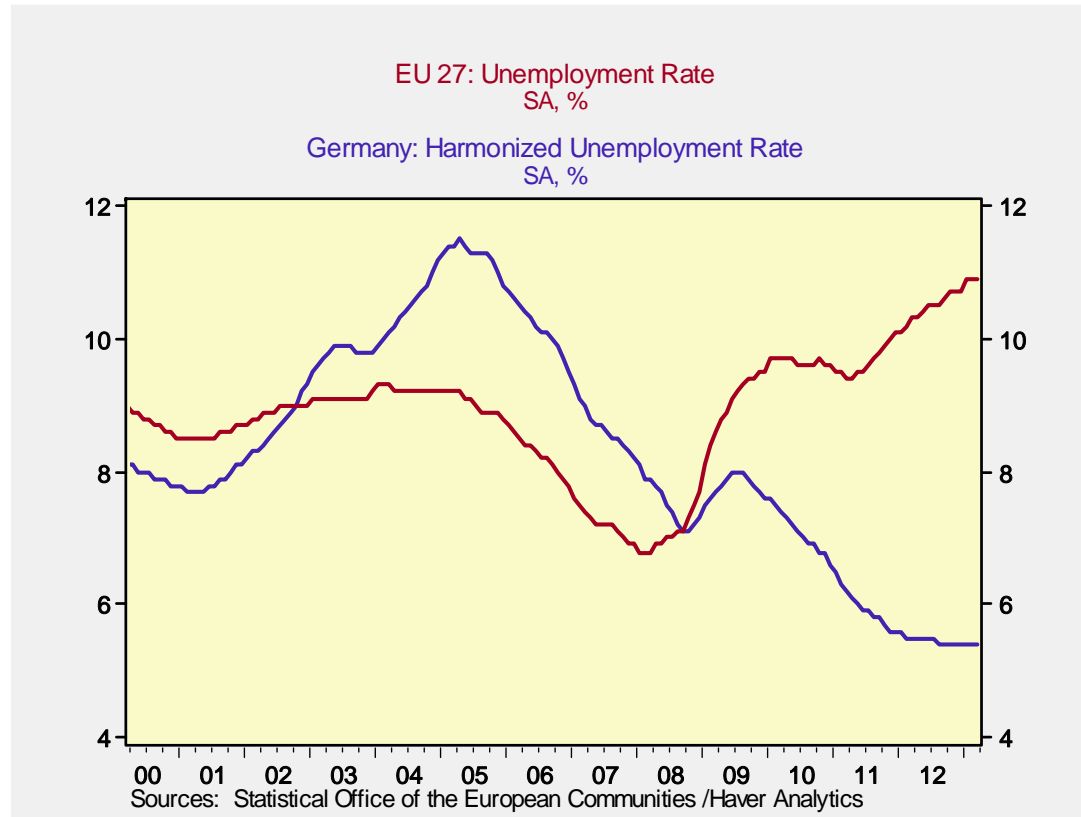
However, Germany is impacted by Europe



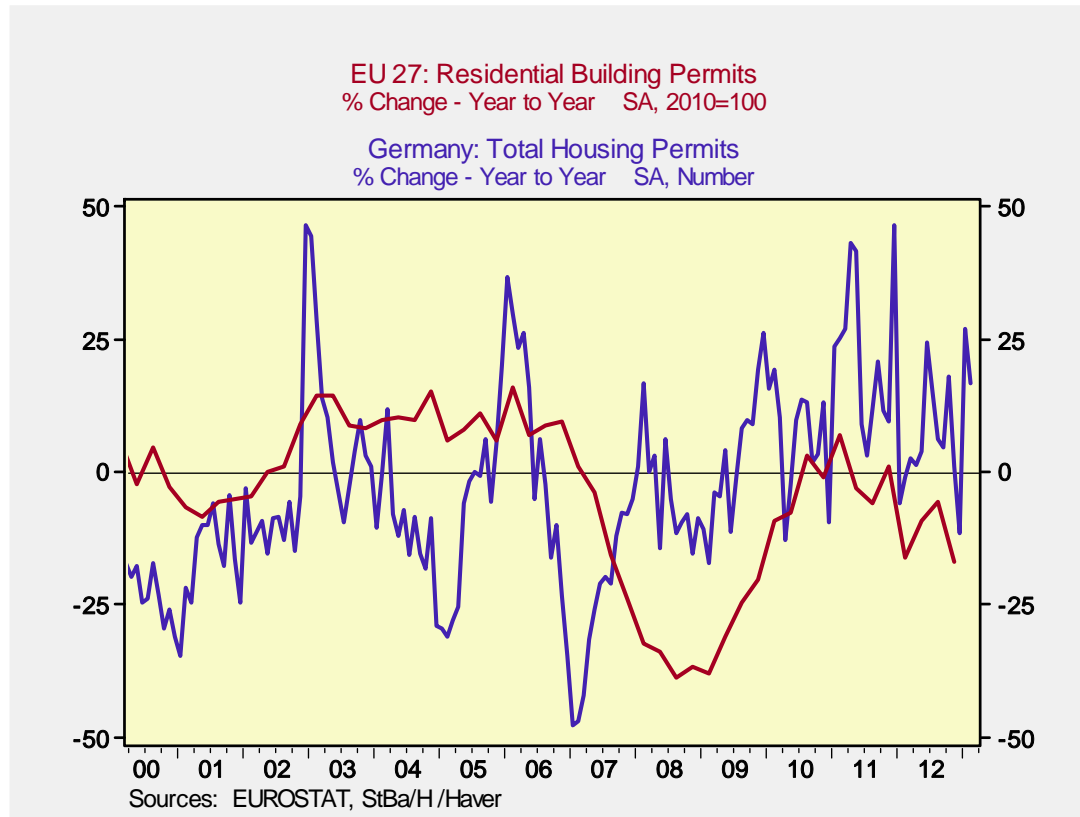
Germany's export growth slows



Germany Outperforms in Reducing Unemployment

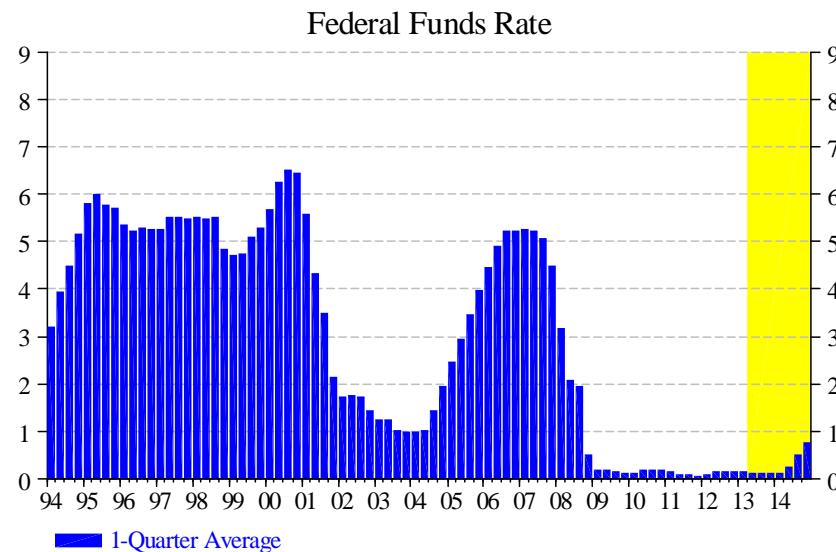


Strong Labor Markets Lead to Strong Housing Markets in Germany

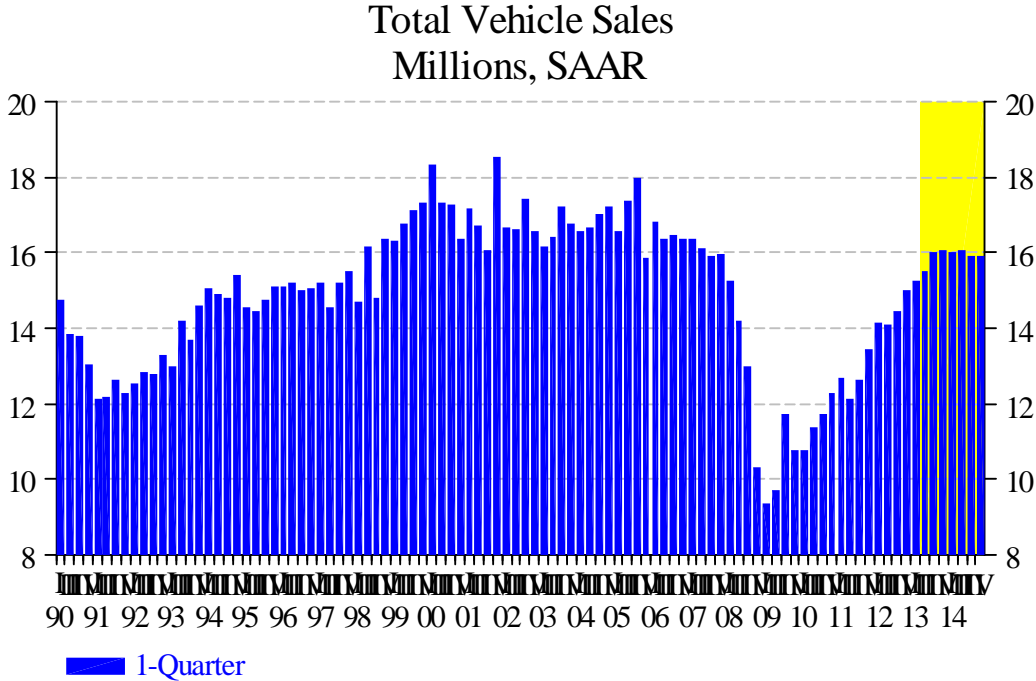


Federal Reserve guiding extremely low policy interest rates through 2015

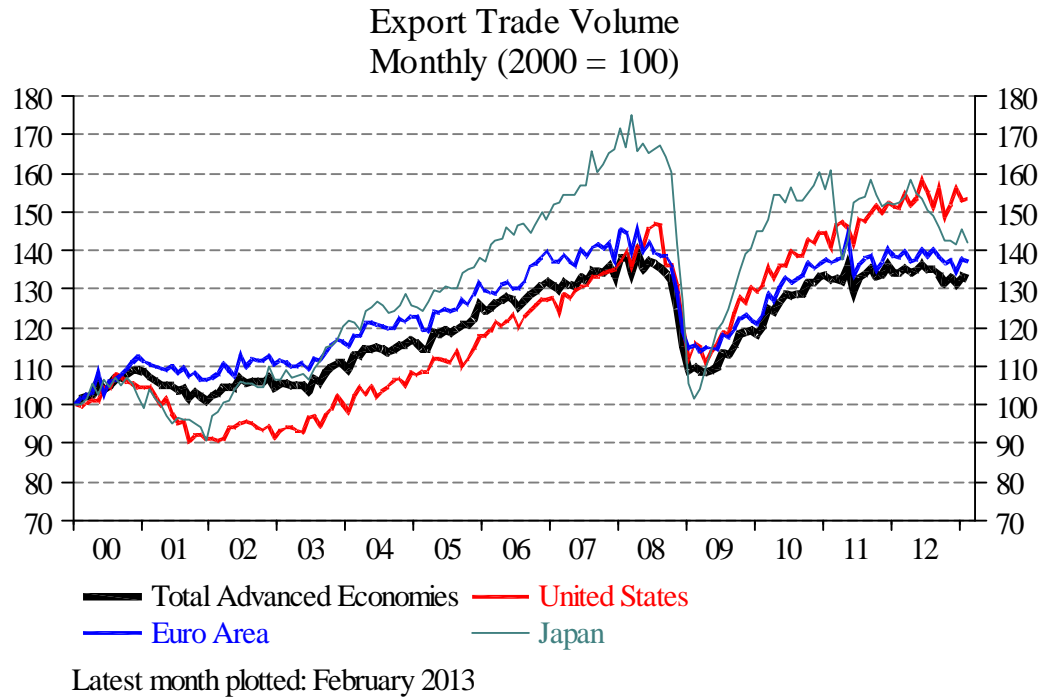
However, risks are strongly to the upside if economic growth accelerates and inflation rises.



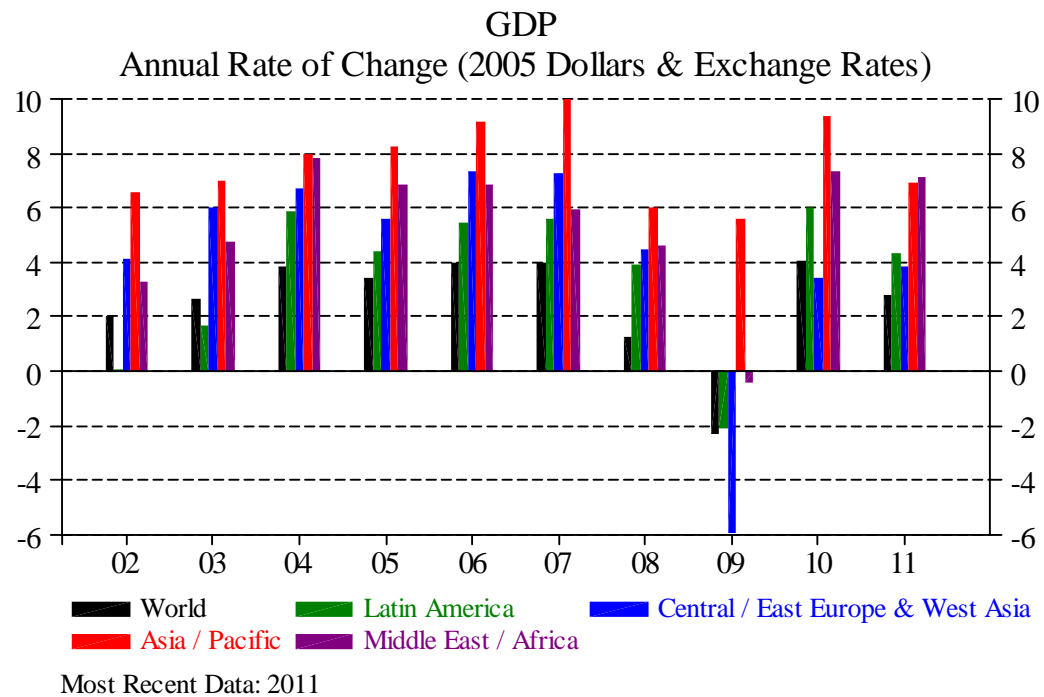
Vehicle Sales surpass 15 million & likely to remain a driver of growth



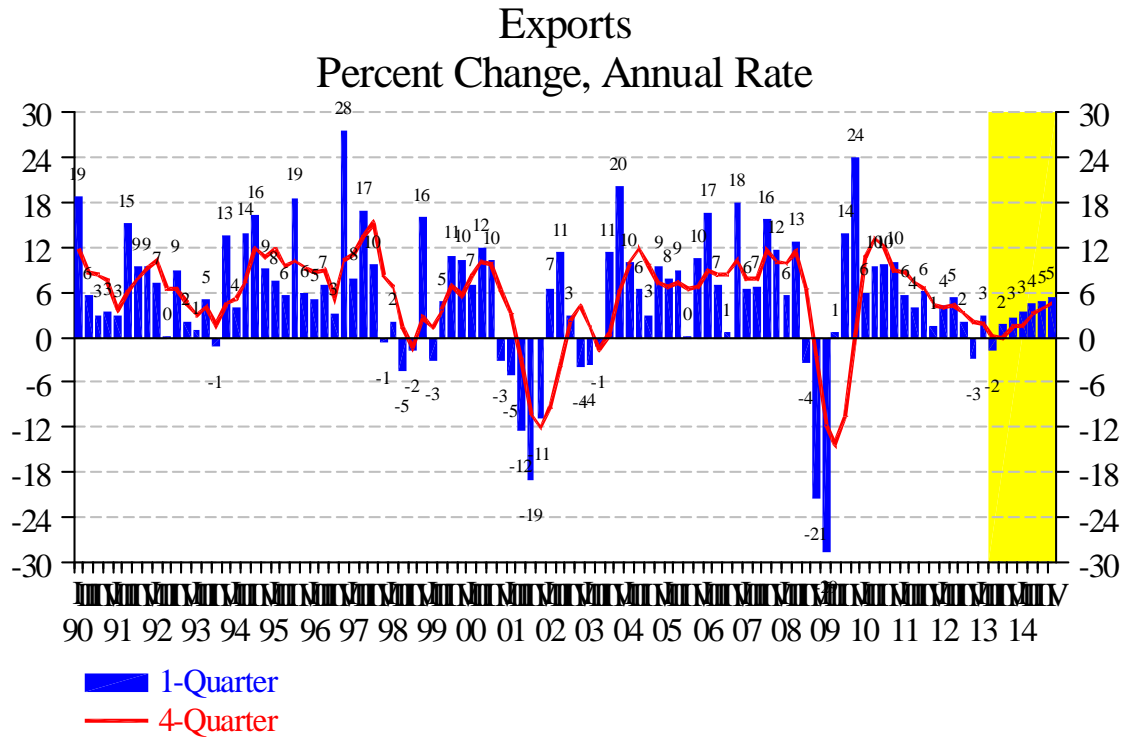
World exports slowing, but long-term prospects strong for U.S.



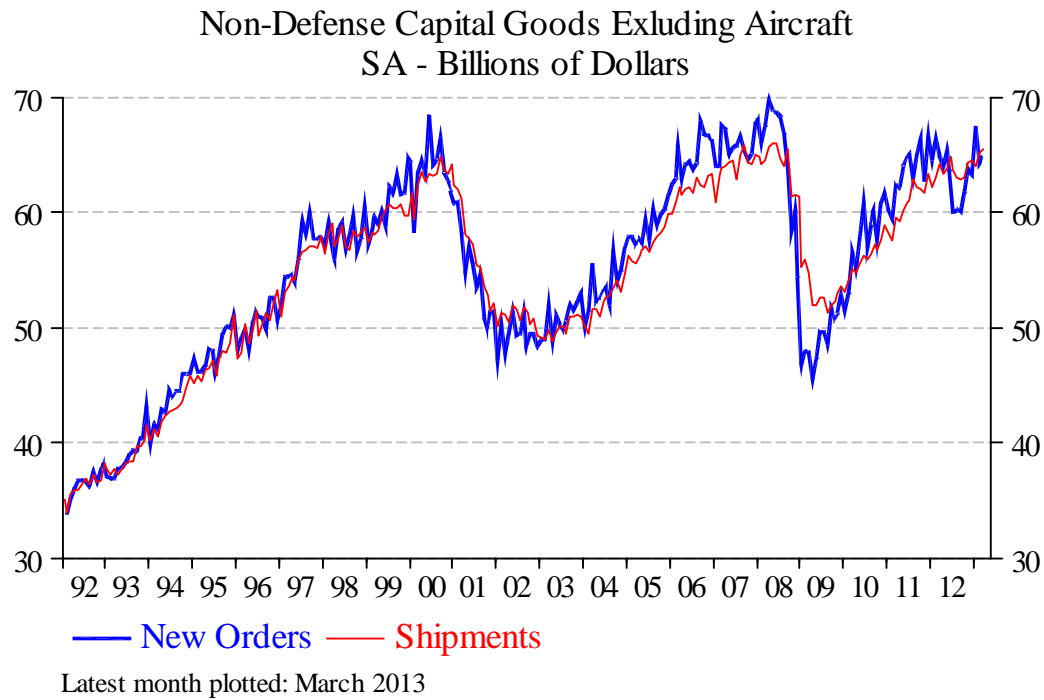
Emerging Economies are expected to continue leading the world in growth



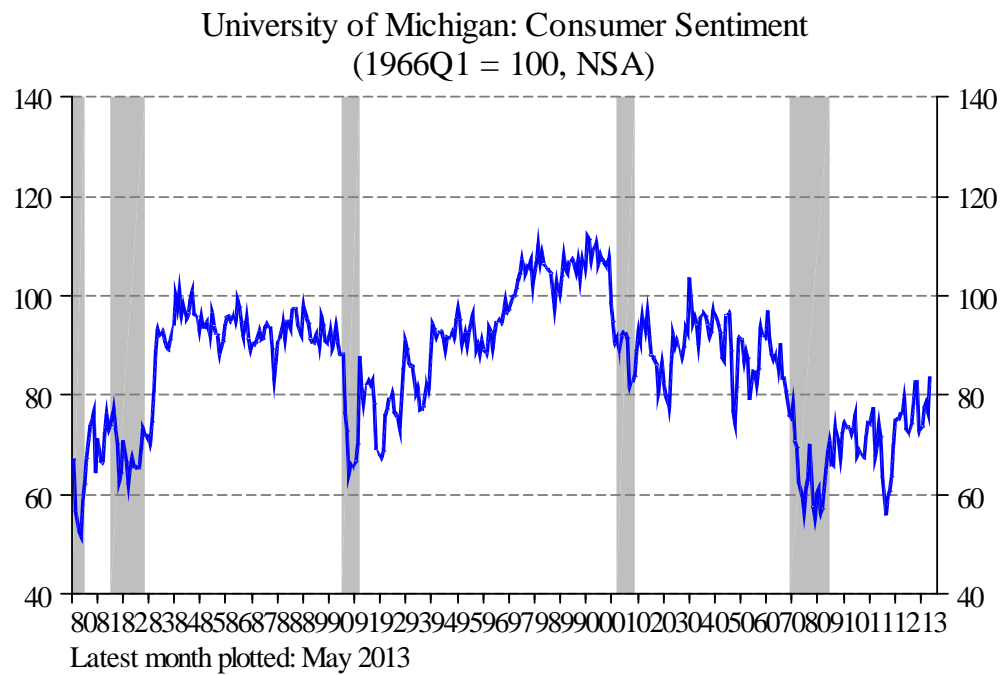
Exports forecasted to accelerate gradually with world economy



Equipment spending up after “uncertainty” headwinds slowed orders last year

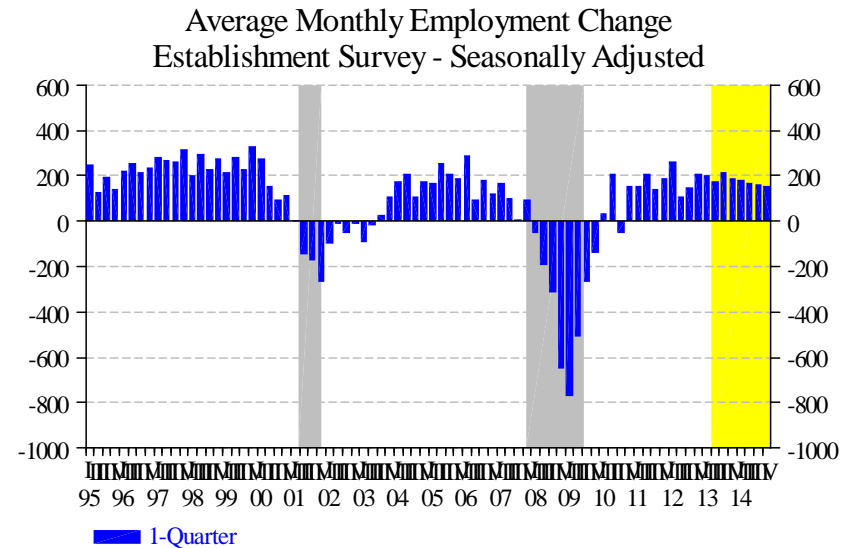


Confidence low, but not all is bad with the consumer . . .



Employment expected to gradually increase with economic growth

Despite underwhelming GDP growth, 5.637 million private sector jobs were created during recovery, raising private sector employment by 4.96% from end of recession in June 2009.



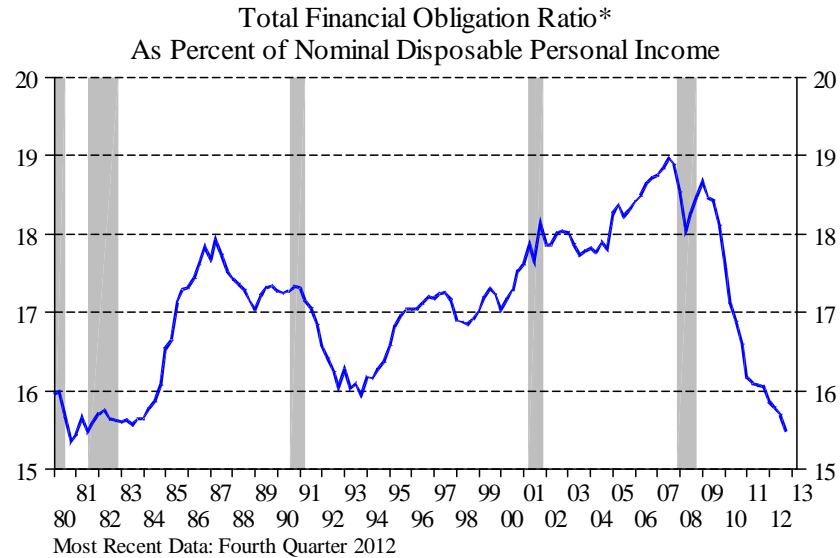
Unemployment rate is expected to decline only gradually

Given only moderate expected GDP growth and a rising labor force, payroll growth will probably not be large enough to bring down the official unemployment rate significantly through 2013. Hence, high unemployment could become a long-term problem.



Financial obligations have fallen to the lowest rate since 1981

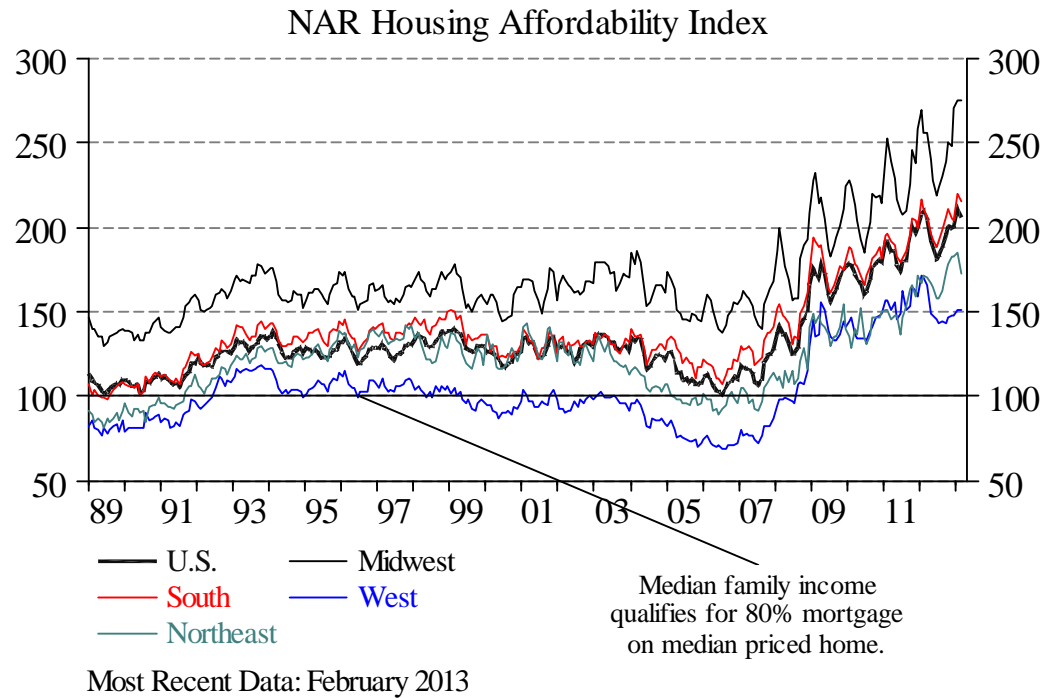
Debt levels are still near historic peaks but financial obligations have fallen to the lowest rate since Q3 1981 on historically low interest rates.



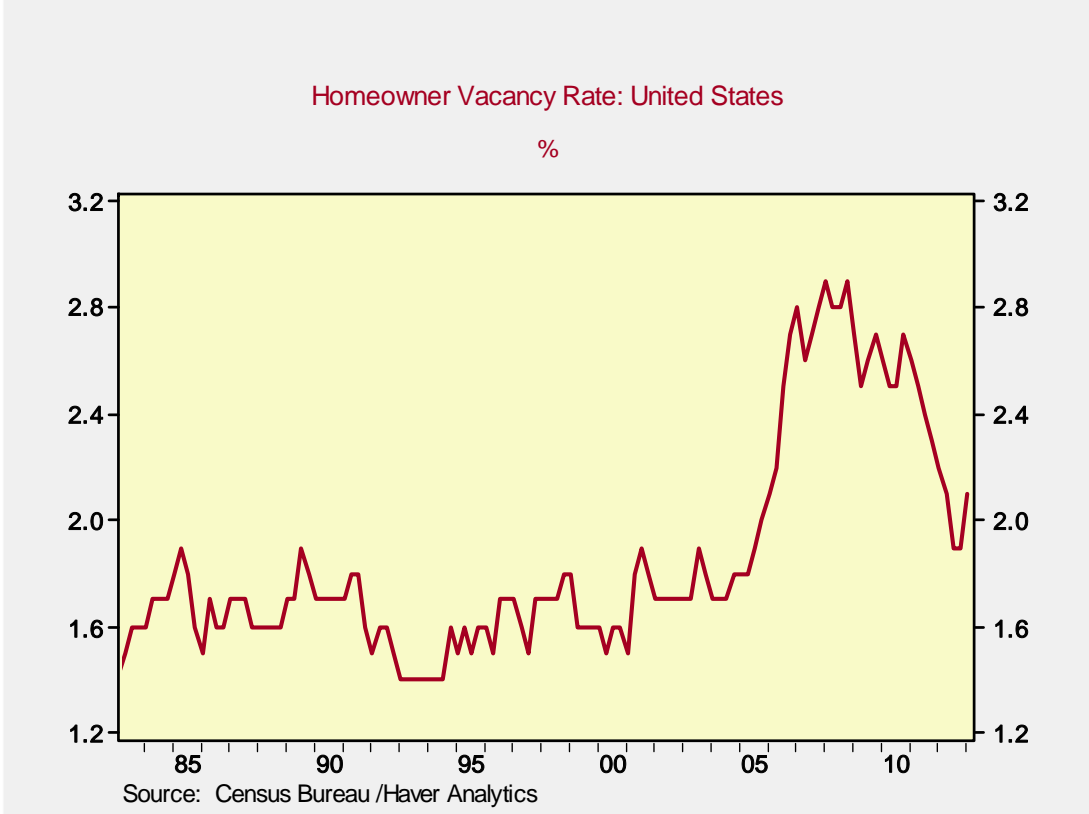
Financial Obligations Ratio (FOR) is an estimate of the ratio of financial obligations payments to disposable personal income. It's a broader measure than the debt service ratio and includes automobile lease payments, rental payments on tenant-occupied property, homeowners' insurance and property tax payments.

Housing affordability near record highs

Affordability near record heights on low mortgage rates and lower home prices.

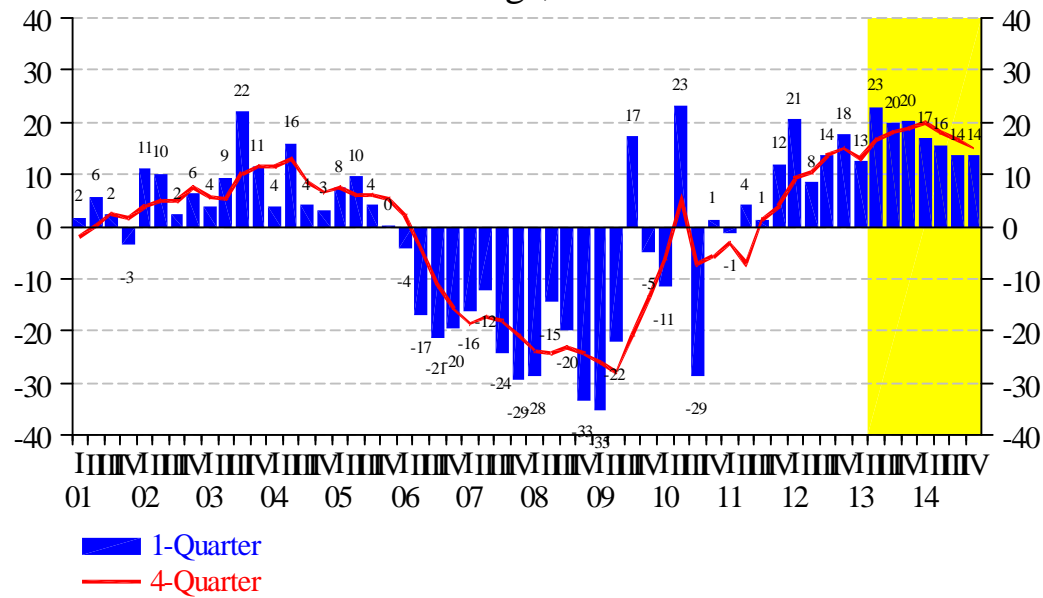


Housing vacancy rates recede, Downward trend should continue



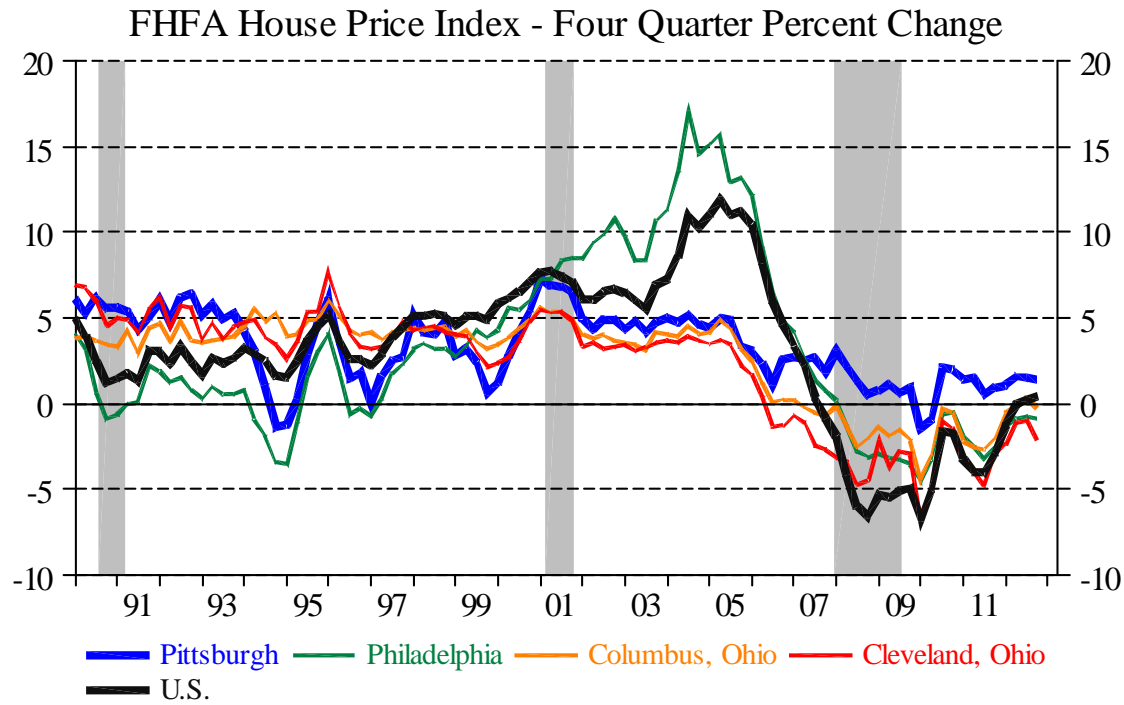
Residential investment, overall home prices and sales forecasted to rise

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

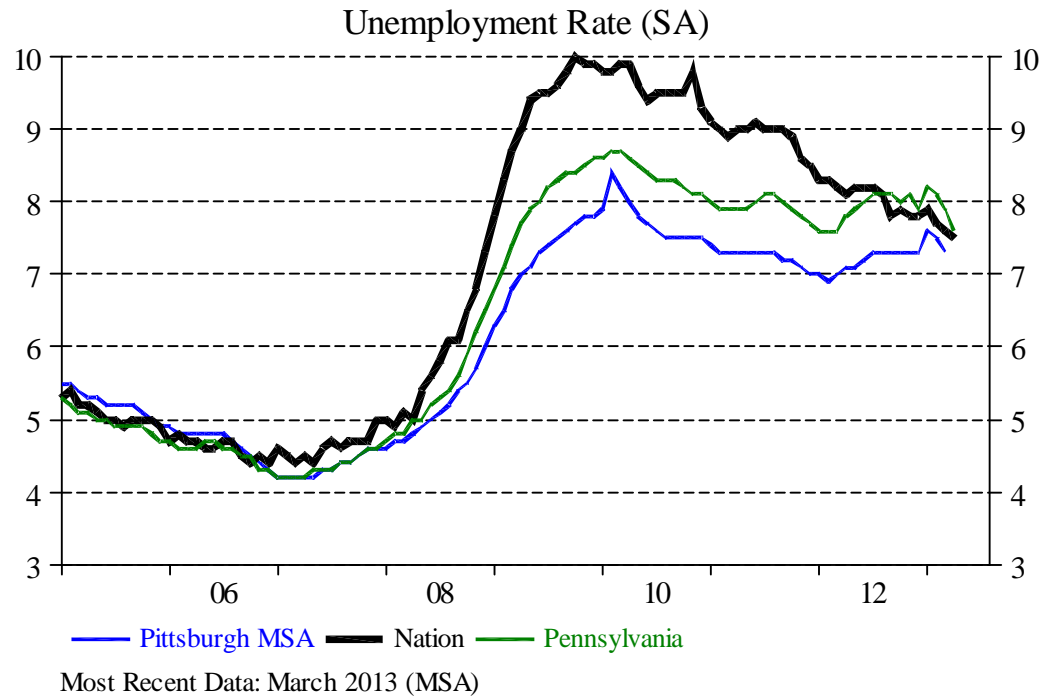


Pittsburgh Housing Prices Steady

Pittsburgh avoids the Boom/Bust of the last Decade

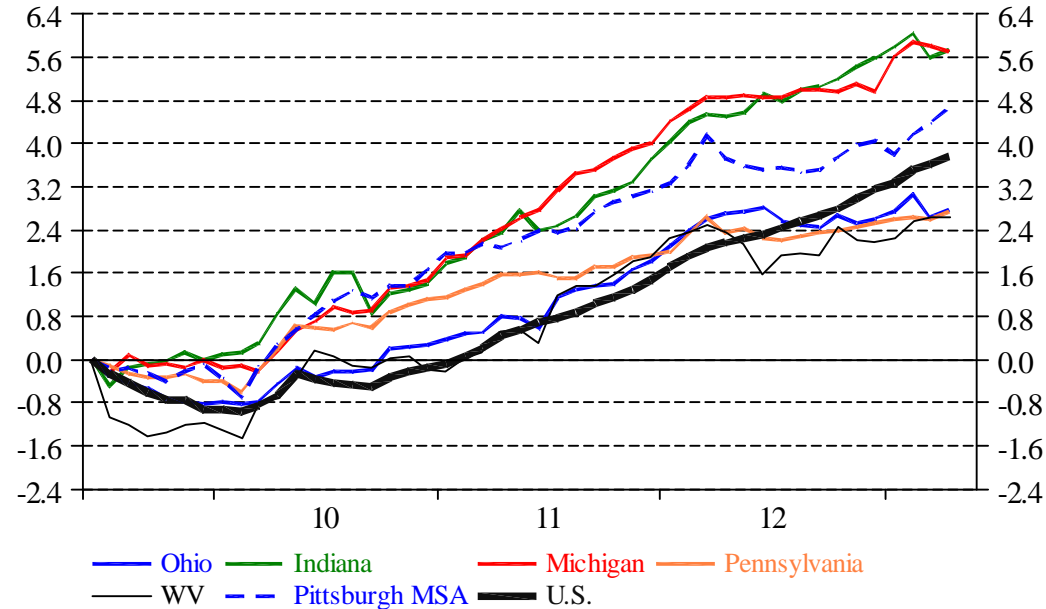


Pittsburgh and Pennsylvania unemployment rates still high



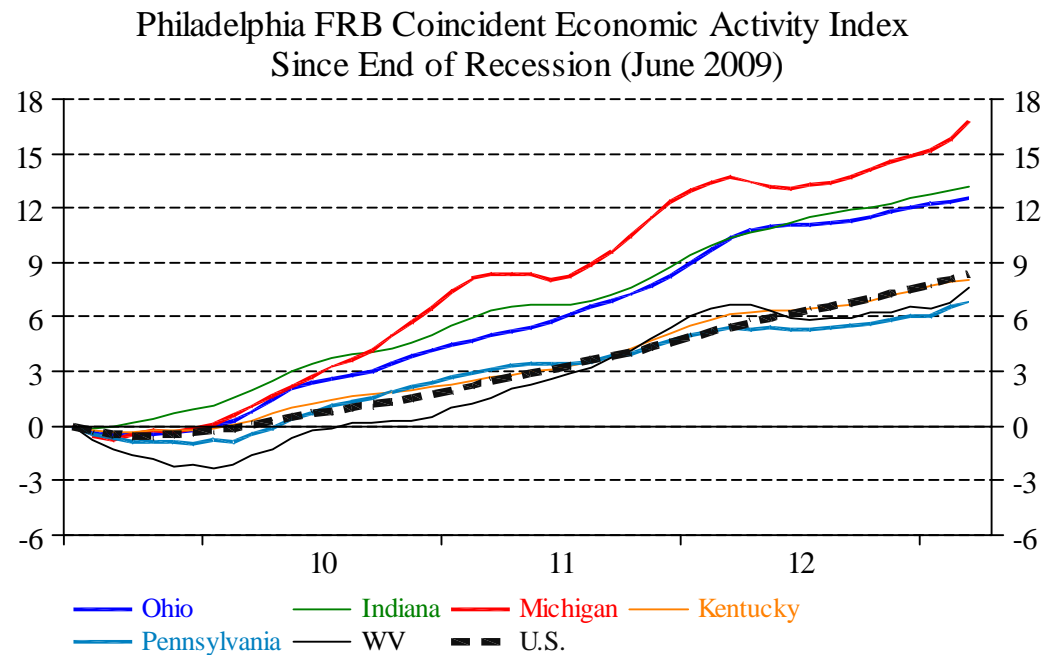
Pittsburgh MSA employment grows faster than state and nation during recovery

Percent Growth in Non-farm Payrolls since End of Recession (June 2009)



Most Recent Data: April 2013 (States) -- Seasonally Adjusted Data

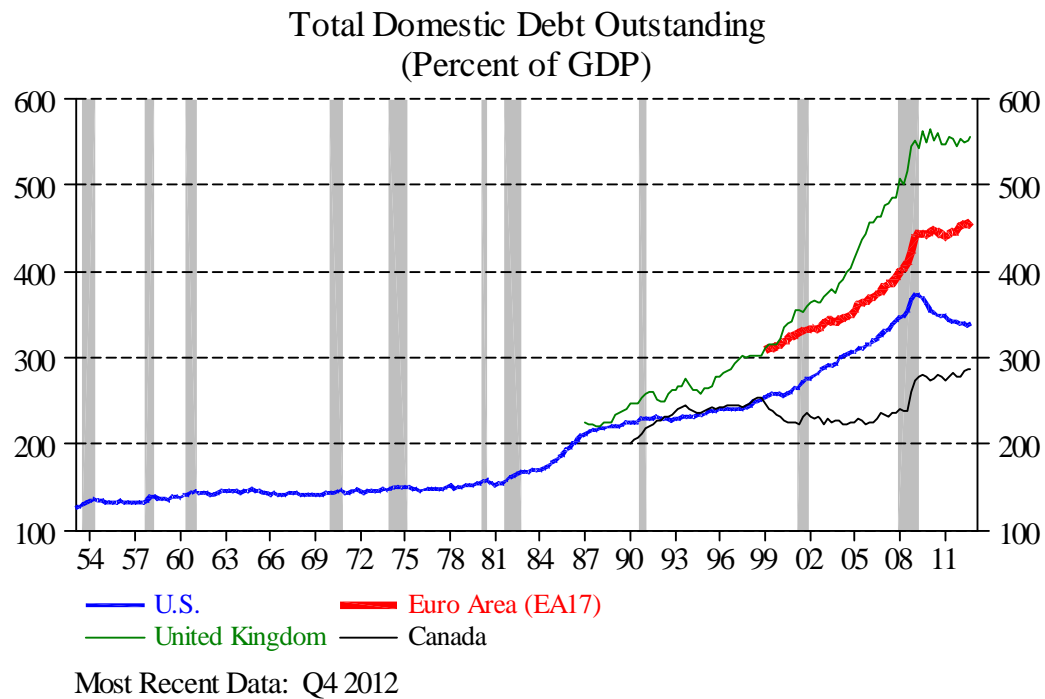
Pennsylvania has grown on par with the nation during the recovery



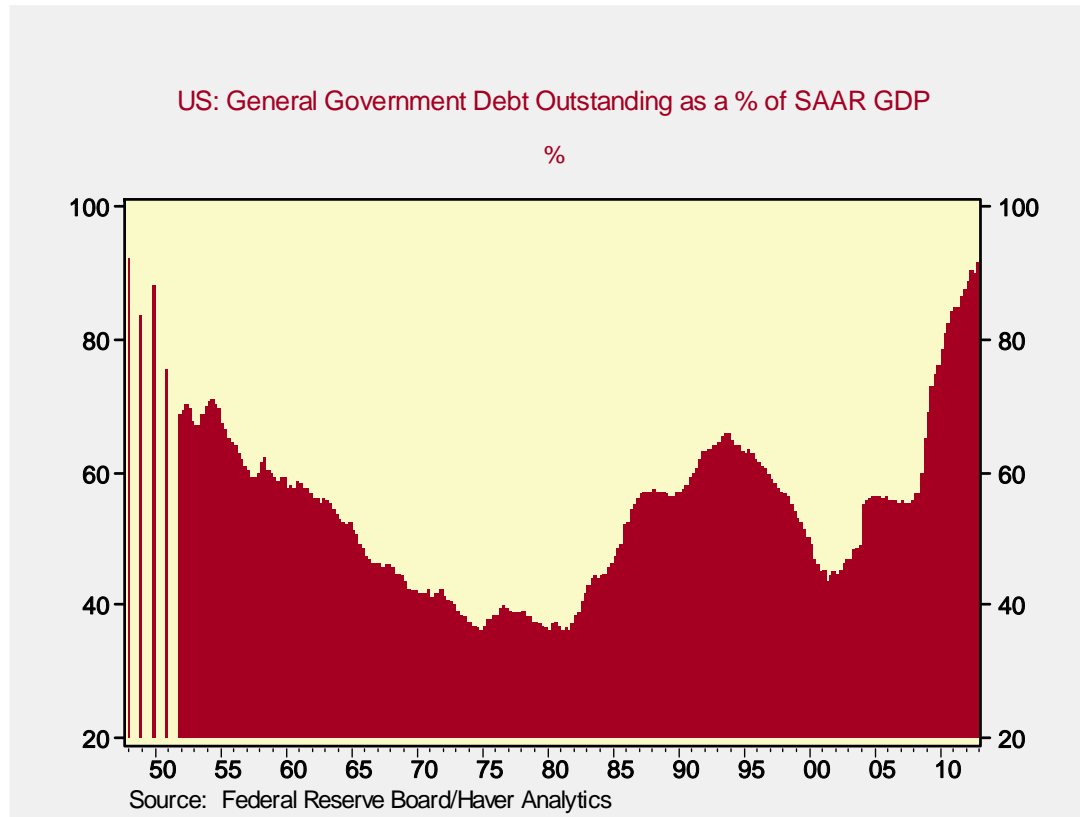
Most Recent Data: March 2013 -- Seasonally Adjusted Data

High debt levels weigh on economic growth and create long-term interest rate risks

Debt levels slow to decline relative to GDP

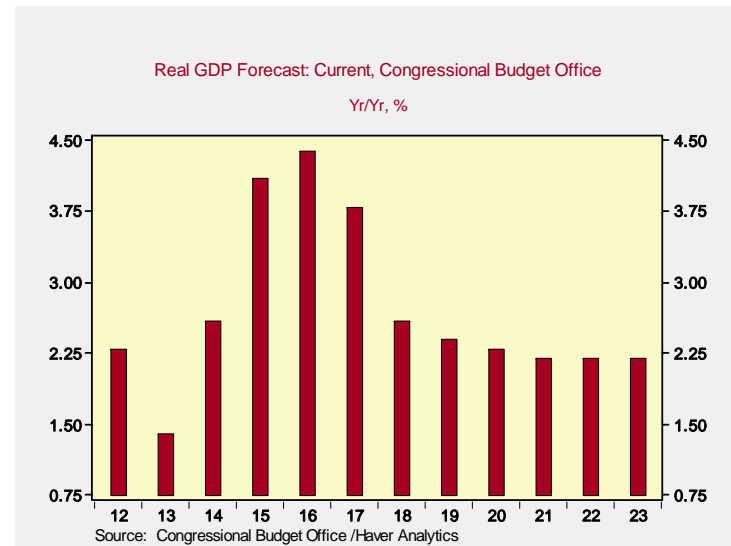
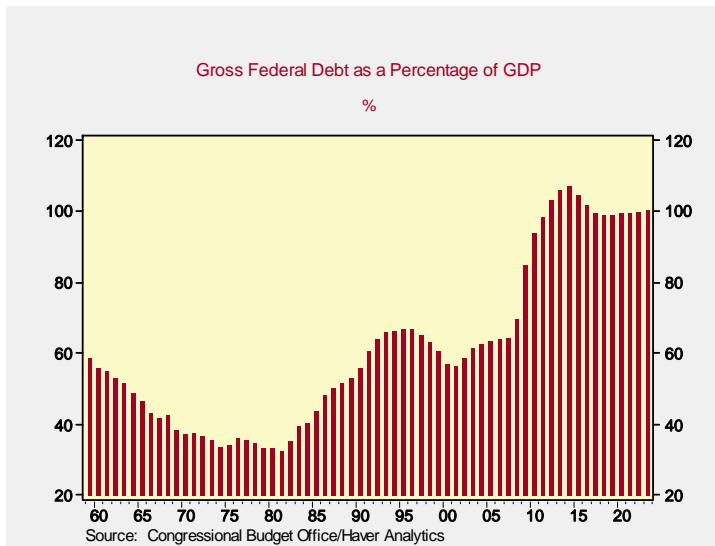


Government debt biggest contributor to overall U.S. debt since 2007

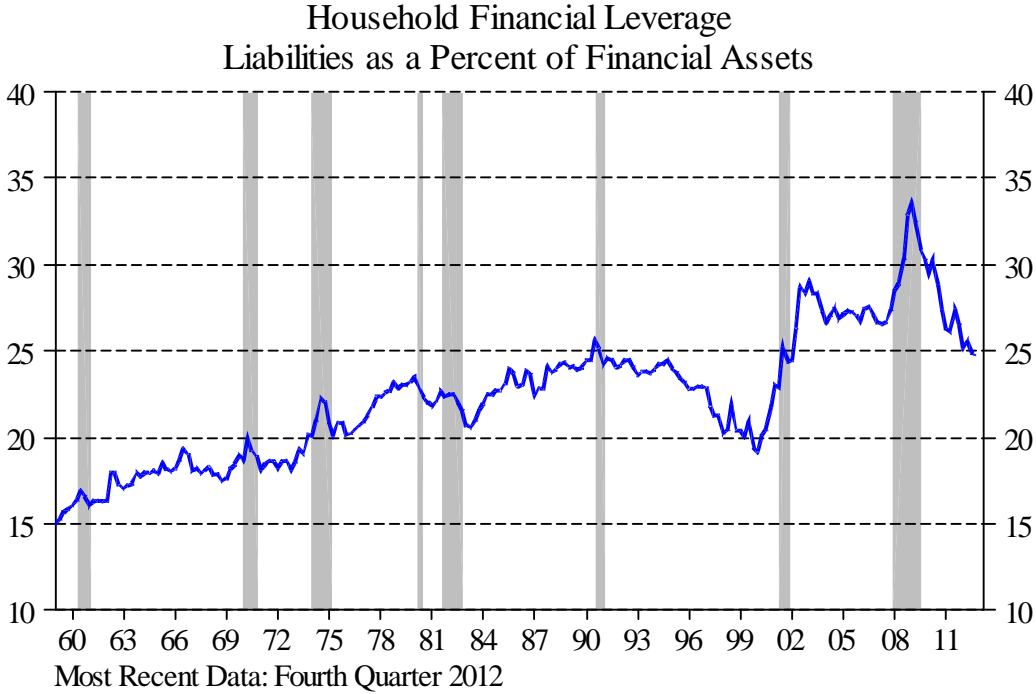


CBO projects Debt-to-GDP ratio to peak in 2014 based on their optimistic real GDP forecast

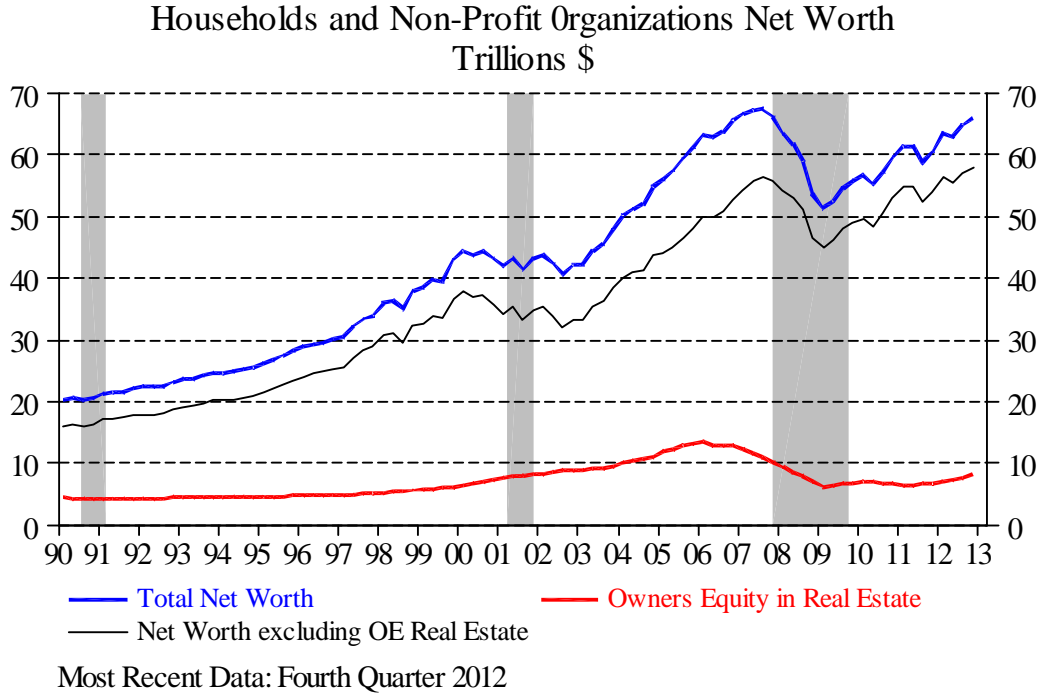
CBO Assumes No Recession through at least 2023



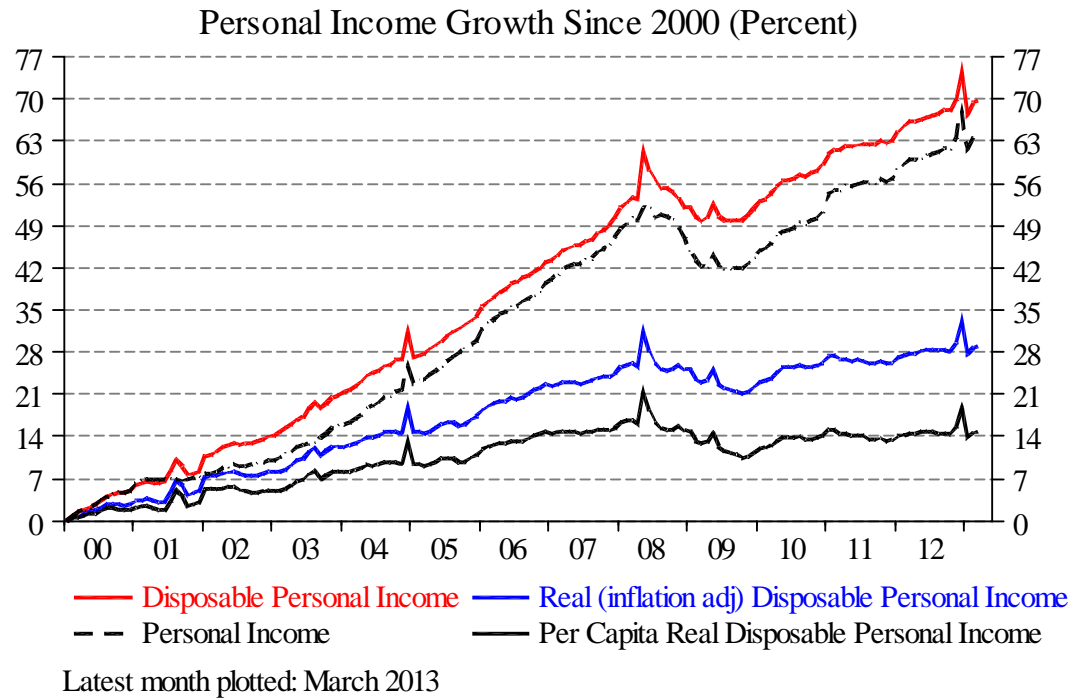
Household financial leverage has declined to lowest point in a decade



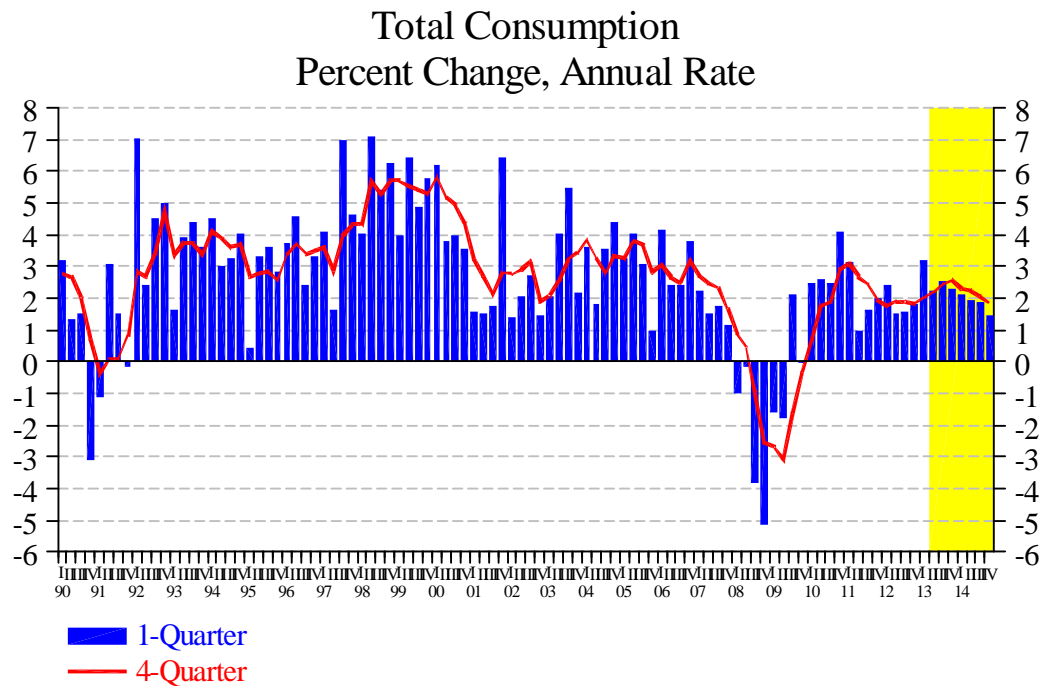
Household Wealth Rising



Personal Income vulnerable to higher taxes and inflation

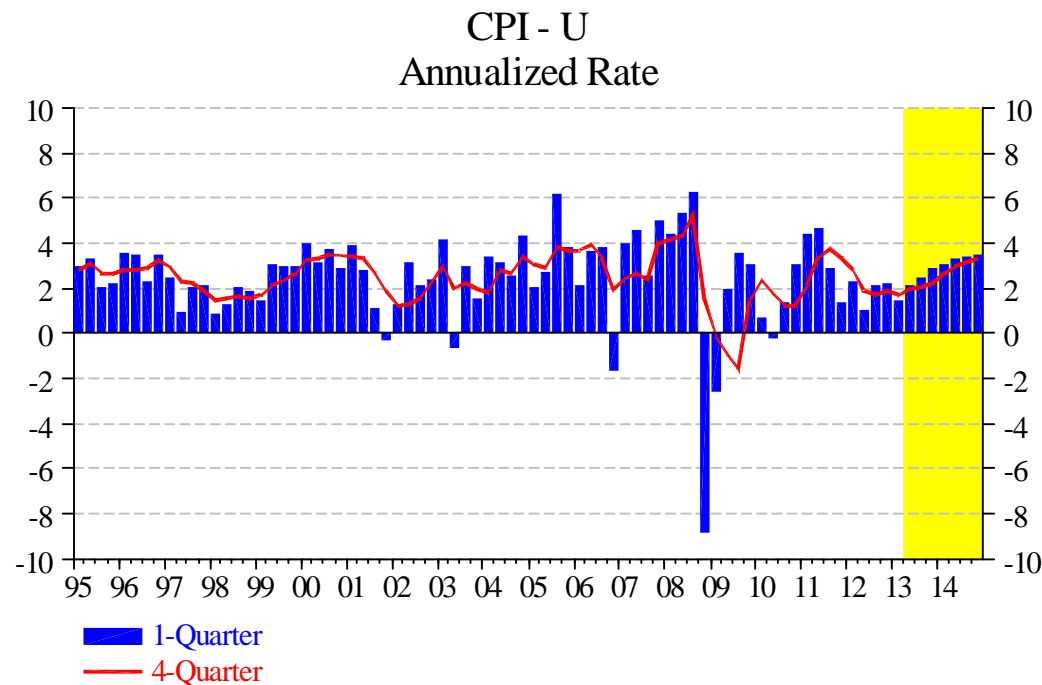


Consumer spending growth picking up, but taxes and inflation remain risks



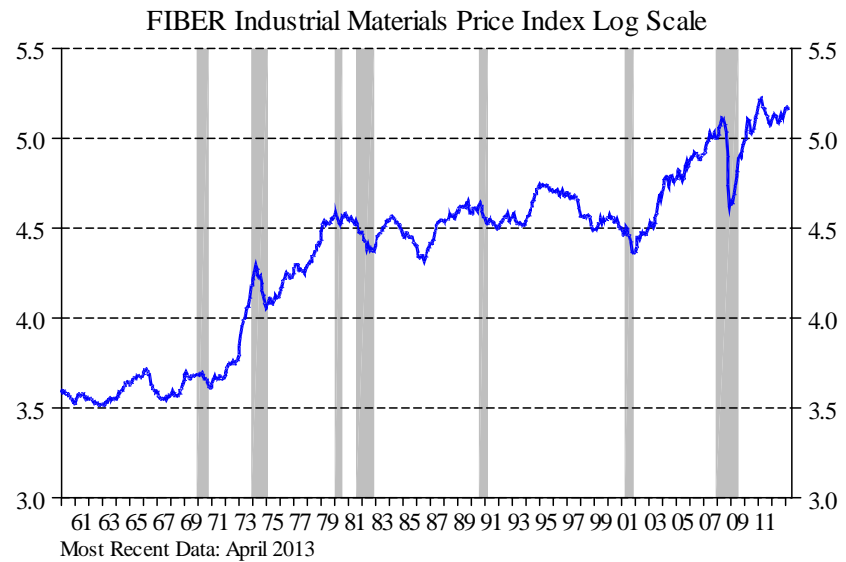
Inflation forecasted to accelerate gradually

After near-term slowdown, inflation is forecasted to accelerate. Rising commodity prices are expected to add upward pressures on producer prices and consumer prices.



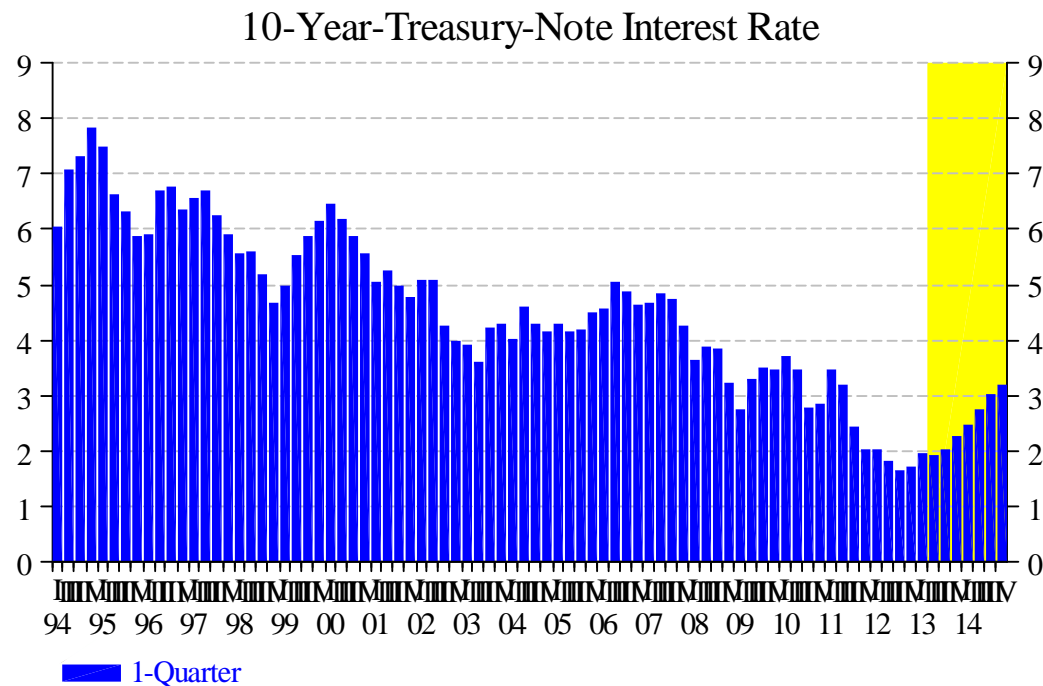
Supply constraints & high liquidity likely to keep upward inflation trend

Despite recent softness, sustained increases in the FIBER industrial materials commodity index point to rising inflationary risks over the long-term



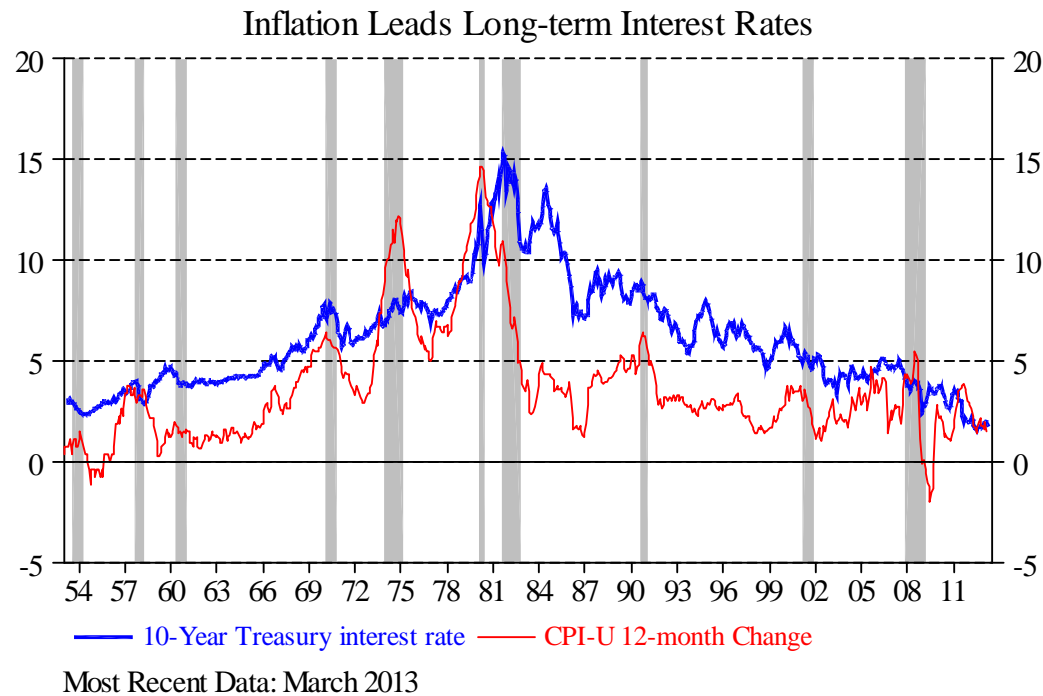
Long-term interest rates expected to rise

As fiscal and euro-zone debt crises ease, long-term interest rates expected to rise on a sustained basis to reflect higher inflation and economic growth. Rising market supply of Treasuries and less risk aversion will likely intensify upward pressures next year. Central Bank purchases a counter force.



Inflation ultimately leads interest rates

Zero real interest rates probably not sustainable in long-term




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