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Q3 2022 ECONOMIC REPORTS

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GDP GROWTH: TRENDING IN Q3 2022

The nation's gross domestic product grew at an annual rate of 2.6% in the third quarter, a reversal from six previous months of decline. Although the Commerce Department data was better than forecast there are expectations the economy will weaken under the strain of high inflation and rising interest rates.

There were third-quarter gains in exports, consumer spending, nonresidential fixed investment and local, state and federal government spending. These increases were partly offset by declines in residential fixed investment and private inventory investment.

There were increases in exports of goods and services. Leading contributors to the increase were industrial supplies, petroleum and other nondurable goods and nonautomotive capital goods. There also was improvement in travel and business services.

Within consumer spending, health care led an increase in services that was partly offset by a decline in purchases of goods, chiefly motor vehicles and parts as well as food and beverages. Within nonresidential fixed investment, increases in equipment and intellectual property products were partly offset by a decrease in commercial development.

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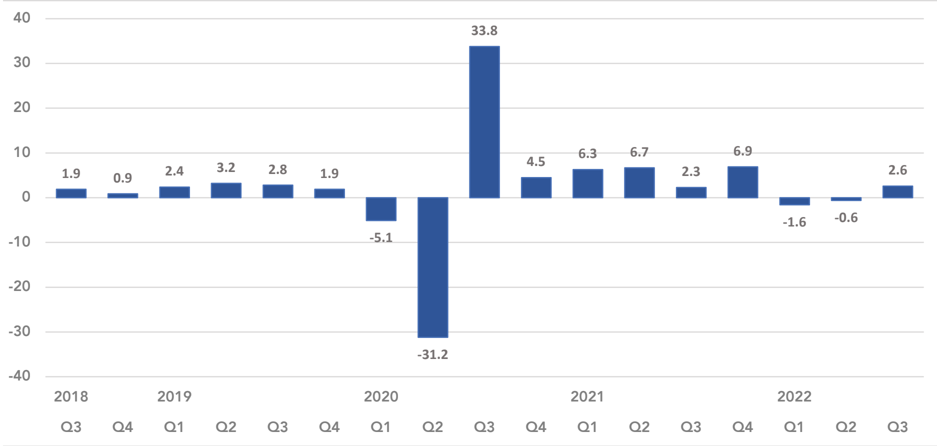
Real GDP: Percent Change from Prior Quarter

U.S. Bureau of Economic Analysis - Seasonally adjusted at annual rates



'We expect the economy to enter a mild recession in the first half of next year' – Paul Ashworth, chief North America economist at Capital Economics.

In early October, Goldman Sachs boosted its GDP growth estimate for Q3 to 1.9%. Dow Jones forecast a 2.4% gain. Many economists expect consumer and business spending will cool along with labor markets as the Federal Reserve attempts to slow inflation with higher interest rates.

"Overall, while the 2.6% rebound in the third quarter more than reversed the decline in the first half of the year, we don't expect this strength to be sustained," said Paul Ashworth, chief North America economist at Capital Economics. "Exports will soon fade and domestic demand is getting crushed under the weight of higher interest rates. We expect the economy to enter a mild recession in the first half of next year," he said.

Current dollar GDP increased 6.7% at an annual rate, or $414.8 billion, in the third quarter to a level of $25.6 trillion. In the second quarter, GDP increased 8.5%, or $508 billion. The price index for gross domestic purchases increased 4.6% in the third quarter, compared with an increase of 8.5% in the second quarter. The personal consumption expenditures index increased 4.2%, compared with an increase of 7.3%. Excluding food and energy prices, the PCE index increased 4.5%, compared with an increase of 4.7%.

Current-dollar personal income increased $291.2 billion in the third quarter, compared with an increase of $305.7 billion in the second quarter. The gain primarily reflected increases in private wages and salaries and personal income receipts on assets. Disposable personal income increased $268.3 billion, or 6%, in the third quarter, compared with an increase of $253.3 billion, or 5.7%, in the second quarter. Real disposable personal income increased 1.7%, in contrast to a Q2 decrease of 1.5%. Personal saving in Q3 was $626.1 billion, a .4% decline from Q2.

EMPLOYMENT: TRENDING IN Q3 2022

Although employment growth nearly equaled expectations in September, the jobless rate edged down despite efforts by the Federal Reserve to slow the economy. Companies filled 263,000 non-farm positions, fewer than the Dow Jones estimate of 275,000, and the nation's unemployment rate settled at 3.5%, returning to its July level.

In its September employment report, the Labor Department also said that average hourly earnings rose 0.3% on the month and increased 5% from a year ago. Leisure and hospitality led the gains with an increase of 83,0000 jobs but the sector remains 1.1 million jobs short of the level of February 2020.

Health care filled 60,000 positions. Professional and business services gained 46,000 jobs. Manufacturing added 22,000 positions. Construction was up 19,000 jobs and wholesale trade climbed by 11,000.

Among the reasons behind the missed expectations was a cut of 25,000 government jobs. Also, financial activities and transportation and warehousing posted losses of 8,000 positions.

Overall, job growth has remained relatively strong as employers face a mismatch in the labor market with 1.7 job openings per available worker. Moreover, increased hourly wages have not kept pace with the rate of inflation, which was 8.2% in September.

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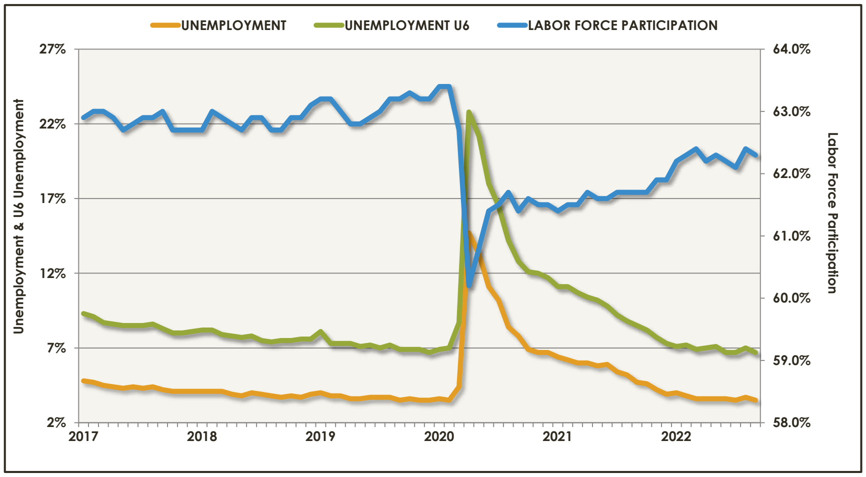
United States Unemployment



'There's a little bit of something for everyone in this report' – Liz Ann Sonders, Charles Schwab's chief investment strategist

For optimists and pessimists on the economy, Liz Ann Sonders, Charles Schwab's chief investment strategist, told CNBC, "There's a little bit of something for everyone in this report. Obviously, the market is not happy, but the market is not happy in general these days."

The labor market has been on a tear for the last two years and has recovered the more than 20 million jobs lost early in the pandemic. After several months in which employers have continued adding workers despite increasing borrowing costs, there is recent evidence that companies are slowing their pace of hiring. Total job openings declined from 11.2 million to 10.1 million in August. Walmart, Amazon and others have announced they are scaling back hiring plans and FedEx has installed a hiring freeze.

There are analysts who say certain industries may never return to pre-pandemic levels. CNN quoted Dean Baker, senior economist at the Center for Economic and Policy Research, calling last year's 562,000 average monthly job gains and this year's 420,000 average gains "unsustainable." Inasmuch as the Federal Reserve is on a mission to bring down inflation, which is running at its highest in 40 years, economists overwhelmingly believe the central bank is certain to raise interest rates another three quarters of a point at its November meeting. The Fed already has raised rates five times this year for a total of three percentage points, and Chairman Jerome Powell continues to reaffirm the Fed's commitment to raise rates as needed until inflation is under control. In its recent projections, the Fed anticipates that the unemployment rate could climb to 4.4% next year, which translates into 1.2 million lost jobs.

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MONETARY POLICY: TRENDING IN Q3 2022

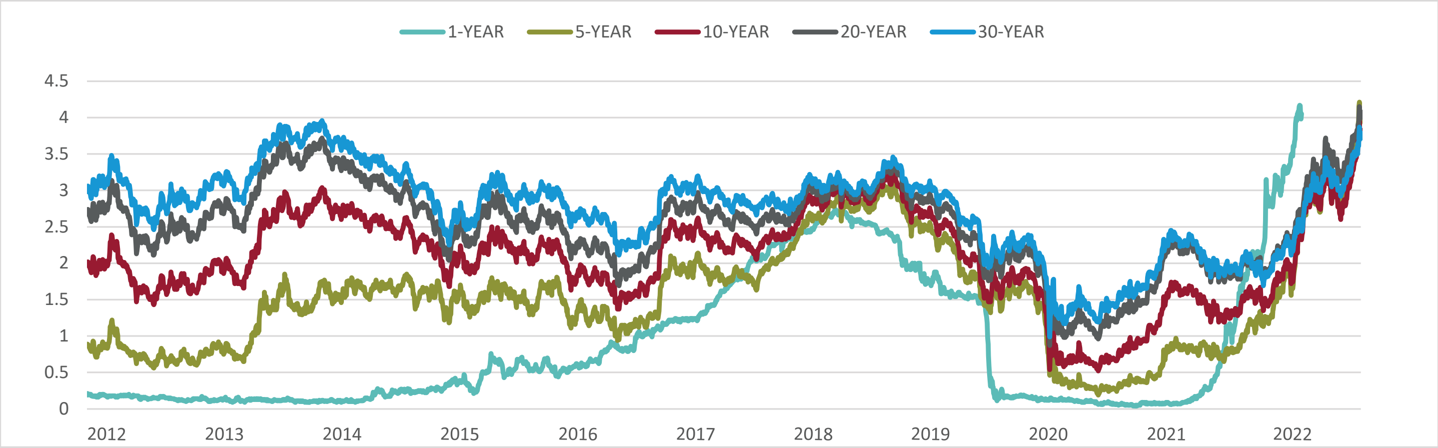
The Federal Reserve raised its federal funds rate by .75% in late September to 3.25% and sent clear signals that to fight persistently high inflation there will be one and perhaps two more rate hikes ordered by the end of the year.

The Fed's latest projections call for a 4%-4.5% interest rate target this year, rising to the 4.5%-5% range in 2023 with no rate cuts next year. The Fed reaffirmed its position that reducing inflation is more important than growth. And its continued tough stance increases the odds, in the view of the markets and many economists, of a U.S. recession next year.

"The Federal Reserve is choosing between the lesser of two evils – take a recession with a rise in unemployment today or risk having more corrosive and entrenched inflation taking root," KPMG's Diane Swonk told the Wall Street Journal.

Forecasters have increased their expectations for a downturn. The Wall Street Journal said, on average, economists in its quarterly poll predict GDP will contract .2% in the first quarter and .1% in Q2. That was a reversal from its previous quarterly poll in which mild growth was expected for the first half of 2023. The aggressive plan for increases is consistent with the decisiveness shown by the Federal

Daily Treasury Yield Curve Rates (Decade Trend)



Reserve at the outset of the pandemic. But although most economists believe any recession will be short-lived, the question remains whether the Fed and other central banks will stay the course if the downturn grows too painful.

In 1979 inflation was running at 11% and unemployment was nearly 6% when Paul Volcker became Fed chair. He ratcheted up interest rates to about 20%, causing a recession. After two years unemployment rose to 11% but the inflation rate started to fall, reaching 5% in 1982.

After the Fed's last rate hike, San Francisco Federal Reserve Bank President Mary Daly told Reuters that she was "quite comfortable" with the interest rate targets. "It's going to take restrictive policy for a duration of time to get clear and convincing evidence that inflation is getting back to 2% -- so from my mind, that's at least through next year."

The current fight against inflation is global, with central banks worldwide hiking interest rates with a "degree of synchronicity not seen over the past five decades," said the World Bank recently. On both sides of the Atlantic, unemployment is at multi-decade lows and underlying inflation is about 6% in the U.S. and globally. "The biggest risk right now is that central banks may not be able to hold their resolve…with the economy going into a recession," said Stephen Cecchetti, finance professor at Brandeis International Business School and a former Fed official. So far, no central bank of an advanced economy has cut its interest rates although some increases are smaller. Following four half-point increases, Australia's central bank eased its tightening regime with a .25% increase in October.

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GLOBAL ECONOMY: TRENDING IN Q3 2022

The global economy is encountering a number of turbulent challenges. The outlook is most affected by inflation, which is the highest in decades, and tightening financial conditions, Russia's invasion of Ukraine and the lingering Covid pandemic.

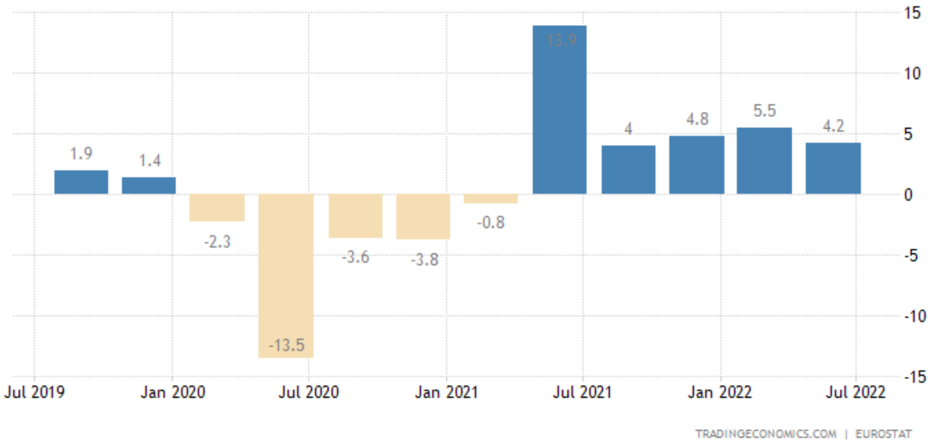
The International Monetary Fund has reduced its forecast for world economic growth this year 20 basis points to 3.2%. The IMF expects expansion of 2.7% in 2023. Global growth hit 6% in 2021.

The slower growth is being engineered by central banks and governments aiming to reduce inflation and normalize monetary policies that were disrupted by Covid. Most directly is this involves tightening the money supply, which is driving up the cost of credit.

The World Bank notes that central banks around the world reacted by hiking interest rates with a "degree of synchronicity not seen over the past five decades." The challenge is to avoid severe economic distress while raising interest rates and cutting government spending to reduce inflation, perhaps the most insidious of all economic maladies.

Global inflation will rise from 2021's 4.7% to 8.8% in 2022 before falling to 6.5% in 2023 and 4.1% in 2024, says the IMF in its updated forecast, adding that the upside inflation surprises have been most widespread among advanced economies.

European Union GDP Annual Growth Rate



Russia's invasion of Ukraine…has displaced 7.7 million Ukrainians, creating the largest refugee crisis in Europe since World War II.

Russia's invasion of Ukraine this year is causing economic tumult throughout the region and has displaced 7.7 million Ukrainians, creating the largest refugee crisis in Europe since World War II. Since Russia's unprovoked attack in February, Moscow has progressively tightened or interrupted deliveries of natural gas in its pipelines to European Union countries. This has dramatically raised the urgency of fuel supplies as Germany and other European countries stockpile gas for winter and race to expand LNG storage capacities.

In September, gas flows through Russia's Nord Stream pipelines to Germany were stopped after the pipeline was damaged by sabotage. In response, leaders of the 27-nation European bloc have been meeting to discuss buying gas together, cutting rules for sharing gas across borders if neighboring countries run short, and capping the price of Russian oil.

There are 28 liquid natural gas terminals in Europe but none in Germany. There are four terminals in France, three in Italy and one in Belgium, Holland, Poland, Portugal, Spain, Lithuania, Greece and on Malta. Many nations also are increasing gas storage capacities and loosening restrictions on coal. LNG-laden ships are waiting up to four days to unload cargoes at some Western European ports in the Mediterranean.

All available gas carriers are chartered and nearly every vessel in the global fleet of roughly 650 ships is in operation. About half the fleet is used as floating storage. In contrast to plunging ocean rates for container ships due to slowing global economic conditions, the daily freight rate to ship liquified natural gas hit a record recently at $450,000 after fluctuating between $30,000 and $300,000 prior to the invasion.

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