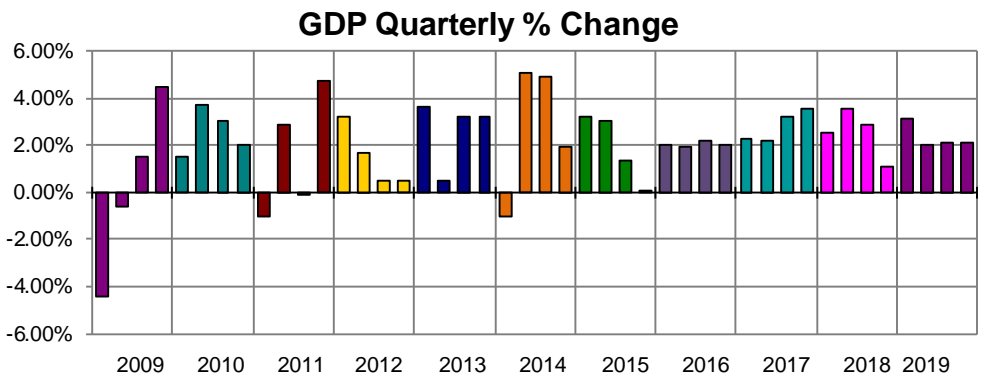


Economic Growth

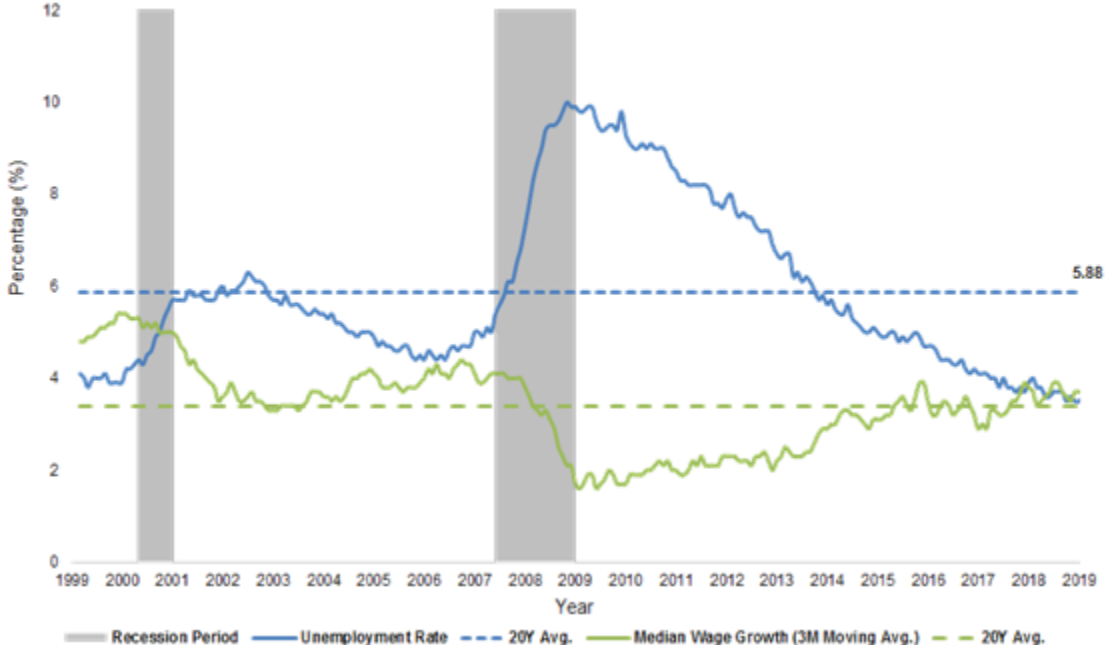
While the current U.S. economic recovery is the longest on record, economic growth has been the slowest of the past 11 recoveries. Annual GDP growth rose from 2.4% in 2017 to 2.9% in 2018. Growth remained strong at 3.1% in 1Q19 on a y-o-y basis, but slowed to 2.0% in 2Q, and 2.1% in 3Q and 4Q. Internationally, political and financial uncertainties plague the Eurozone and developed Asian markets, and most emerging markets continue to struggle.



Labor Market

While monthly payroll growth has been volatile, lay-offs and weekly jobless claims remain near multi-decade lows. In January, payrolls grew 225,000, with an employment rate of 3.6%. Average hourly earnings increased 3.1% y-o-y. The U.S. labor market remains strong with many skilled positions difficult to fill, but job growth has slowed somewhat. The labor participation rate stood at 63.4% in January and the underemployment rate at 6.9%.

U.S. U-3 Unemployment Rate vs. Median Wage Growth



SOURCE: FACTSET

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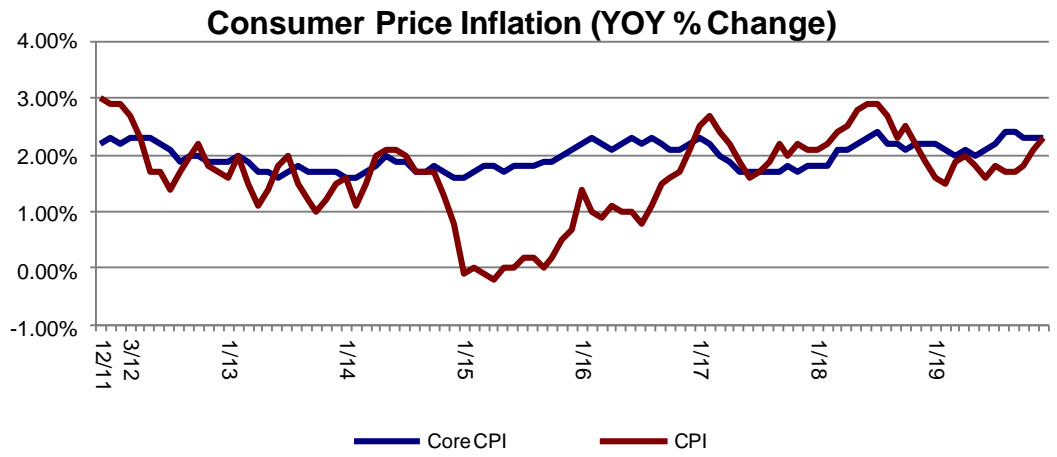
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Data updated through January 31, 2020

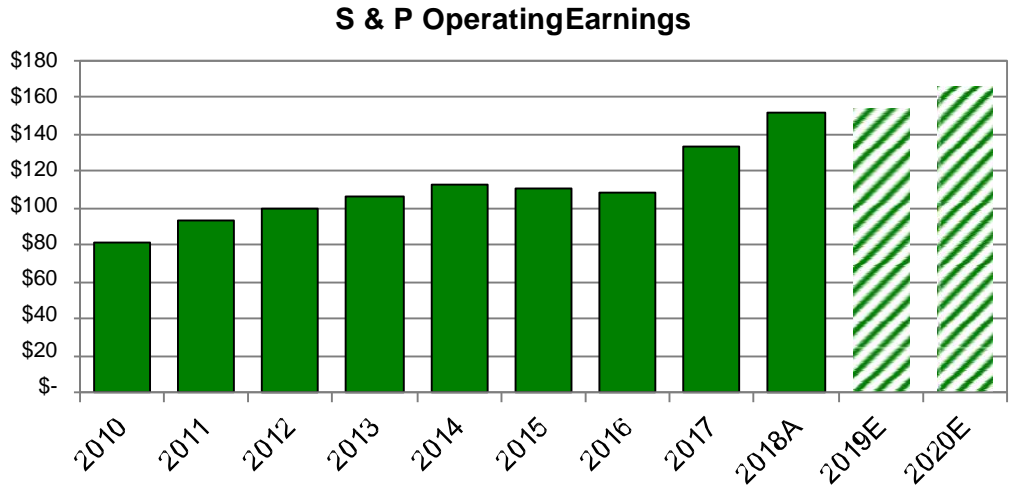
Inflation

Inflation was moderate in 2019, with December CPI up 2.3% y-o-y, and core CPI (excluding food and energy) at 2.3%. A tight labor market has pushed wage inflation higher, but it remains moderate. While personal consumption was healthy in 2019, consumer prices were well controlled. The Core PCE Deflator is only up 1.6% over the last year.



Corporate Profits

The S&P 500 posted healthy profit growth in 2018 with several quarters showing profits up over 20% y-o-y, due to tax changes and a strong economy. However, profit growth in 2019 slowed dramatically as tax benefits faded and global growth waned. Earnings growth expectations for the S&P 500 for 2020 are approximately 9%, which may prove to be overly optimistic.



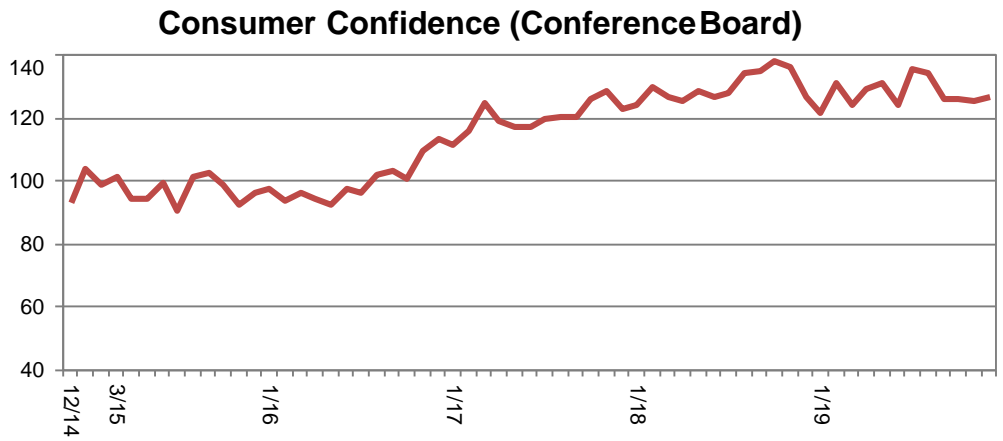
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Consumer Confidence & Spending

The Conference Board's Consumer Confidence Index jumped after the 2016 election and continued to climb to a peak of 137.5 in October 2018, but has slipped to a still strong 131.6 in January. U.S. consumer confidence and spending is supported by household income at a 20 year high and unemployment near a 50 year low.



U. S. Business Environment

After fighting the headwinds of weak global growth and a strong dollar, the U.S. manufacturing sector, and the ISM index rebounded to a 14 year high of 61.3 in August 2018, but now stands at 50.9 in January. The ISM non-manufacturing (service index) stood at 55.5 in January, down from a 13-year high of 60.8 in September 2018. The U.S. business economy definitely slowed in 2019, depressed by global economic uncertainty and trade disputes. Global manufacturing remains very weak in many regions.

Source:Factset

