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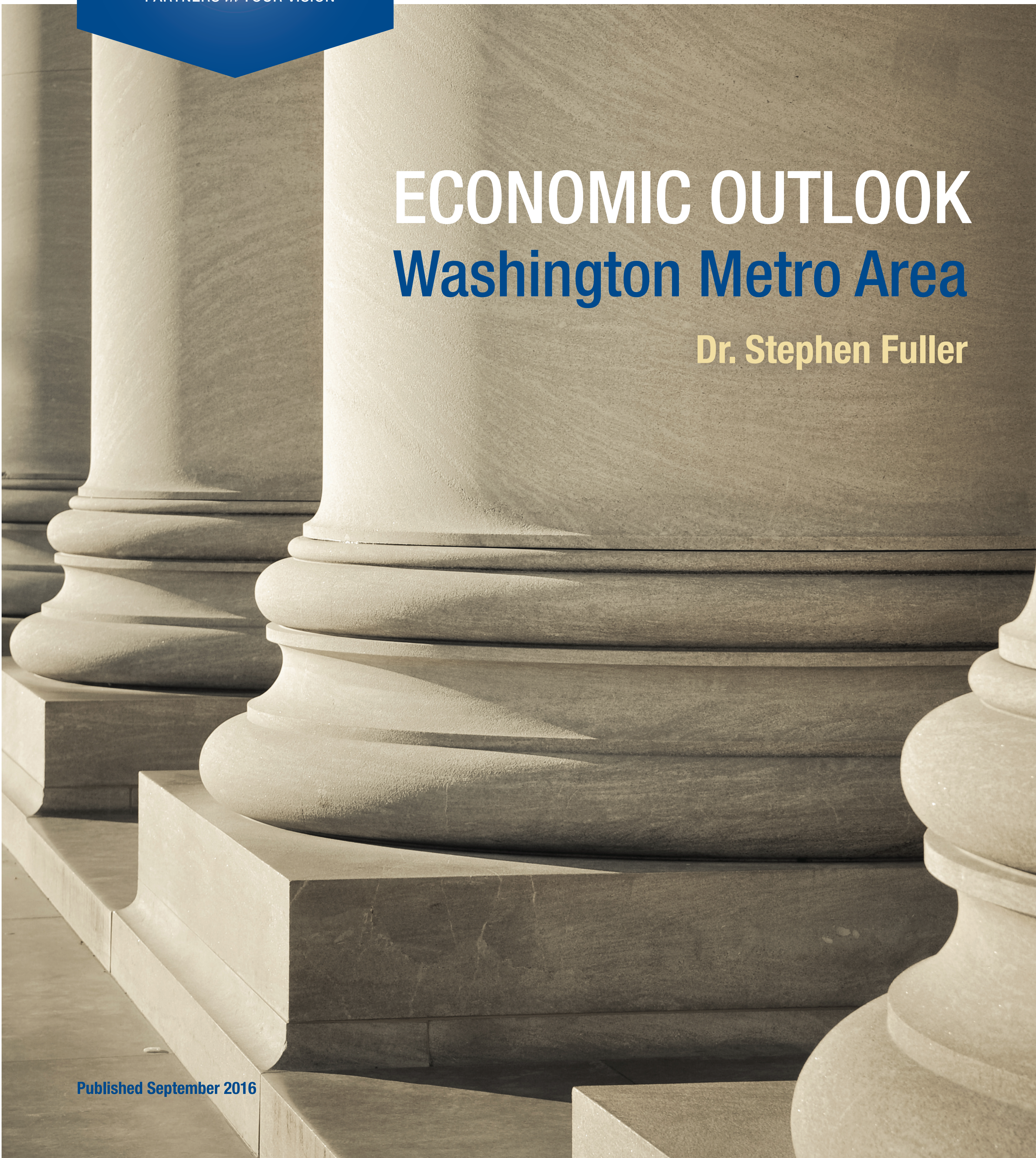

ECONOMIC OUTLOOK
Washington Metro Area

Dr. Stephen Fuller

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Capital Bank, N.A., presents this quarter's updated economic projections for the Washington, DC metropolitan area in reports prepared exclusively for our business clients by Stephen S. Fuller, PhD, noted expert in economic development, George Mason University faculty professor, and member of the Virginia Governor's Advisory Board of Economists during five different administrations.

QUARTERLY OUTLOOK FOR THE WASHINGTON METROPOLITAN AREA ECONOMY

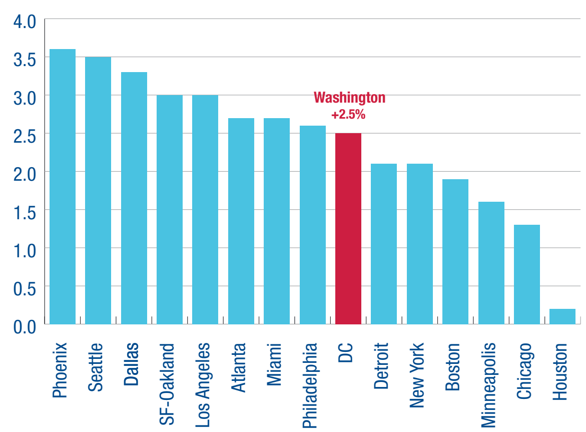
REPORT SUMMARY

Job growth in the Washington Metropolitan Area economy for the first half of 2016 was well ahead of the national rate. The strong job growth has attracted new movers to the area, and the population growth has resulted in an increase in consumer spending and strengthening the housing market. With low unemployment and greater competition for jobs, area employers are under increased pressure to find adequately skilled workers and to raise wages. The region's strong economic performance in 2016 has not felt the head winds impacting the national economy, and the long-range outlook into 2017 and 2018 remains excellent.

The Washington Area Economy Registers Strong First Half-Year Performance

The Washington region's economy continued to grow jobs over the first half of 2016, averaging an annualized 73,000 net new jobs over that period. This strong performance builds on the economy's recovery in 2015, when it generated a total of 59,400 new jobs for the full year after having added only 18,600 new jobs in all of 2014. Compared to the nation's 15 largest metropolitan areas, the Washington region ranks 6th in size; annual job growth has increased from 0.6% in 2014—the slowest among the 15 largest metropolitan areas—to 1.9% in 2015, to 2.5% in June 2016, the 9th fastest among the 15 largest metropolitan areas. The Washington region now is running well ahead of the national 1.8% rate of job growth.

15 Largest Job Markets Job Change: June 2015 – June 2016



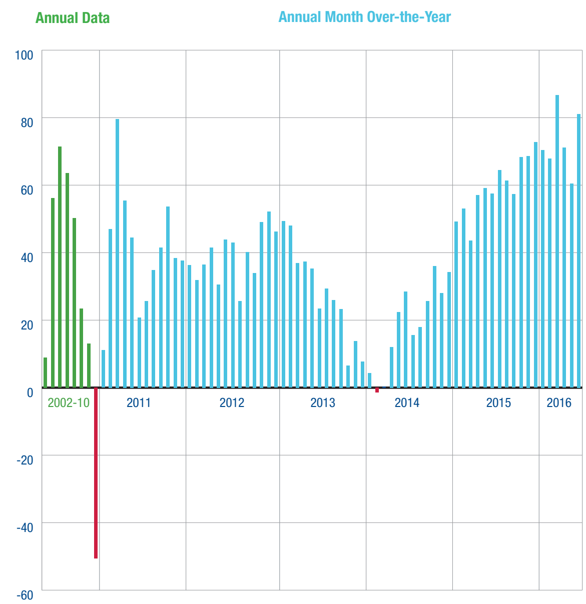
Source: Bureau of Labor Statistics (Not Seasonally Adjusted), GMU Center for Regional Analysis

Strong Job Growth Facilitates A Strong Economy

The continuing strong job growth performance of the Washington metropolitan area economy has enabled it to maintain a well-below average unemployment rate—3.9% in June compared to 4.9% for the US—while also growing its labor force. This reverses a long-term trend of decline in the number of residents entering the labor market, part of a downward trend in the overall labor force size dating from the 2008-2009 recession when increasing unemployment resulted in discouraged workers leaving the labor market.

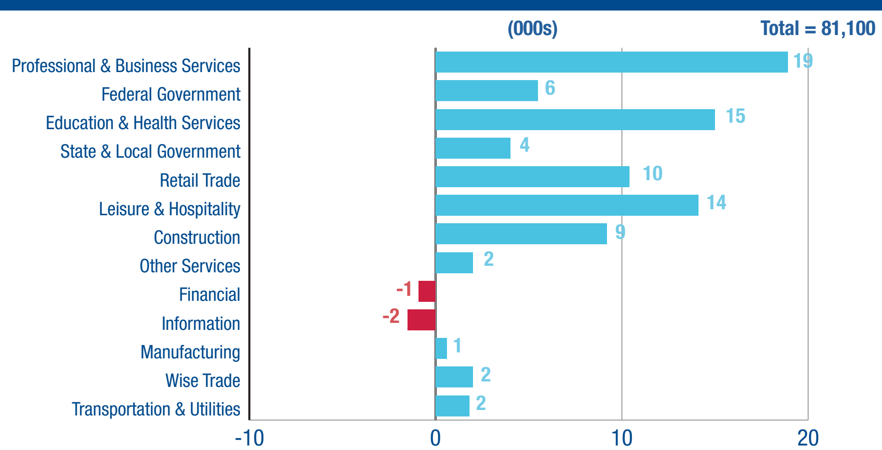
For the 12 months ending in June 2016, the Washington region added a total of 81,100 net new jobs, the second largest number for any 12-month period in the last ten years. While the magnitude of this job growth is impressive, what is more telling is the mix of these new jobs over major sectors: professional and business services, the region's largest sector with high average salaries and generating sales of goods and services in the national and global markets, added 18,900 new jobs accounting for 23% of the total net new jobs. Other important "export" sectors include the federal government and construction, adding 5,500 and 9,200 new jobs, respectively.

Annual Job Change
Washington Metropolitan Statistical Area, 2002-2016



Sources: Bureau of Labor Analysis (Not Seasonally Adjusted), GMU Center for Regional Analysis

Job Change by Sector June 2015 – June 2016
Washington Metropolitan Statistical Area



Source: Bureau of Labor Statistics (Not Seasonally Adjusted), GMU Center for Regional Analysis

Complementing those jobs were gains in jobs generally supported by local spending:

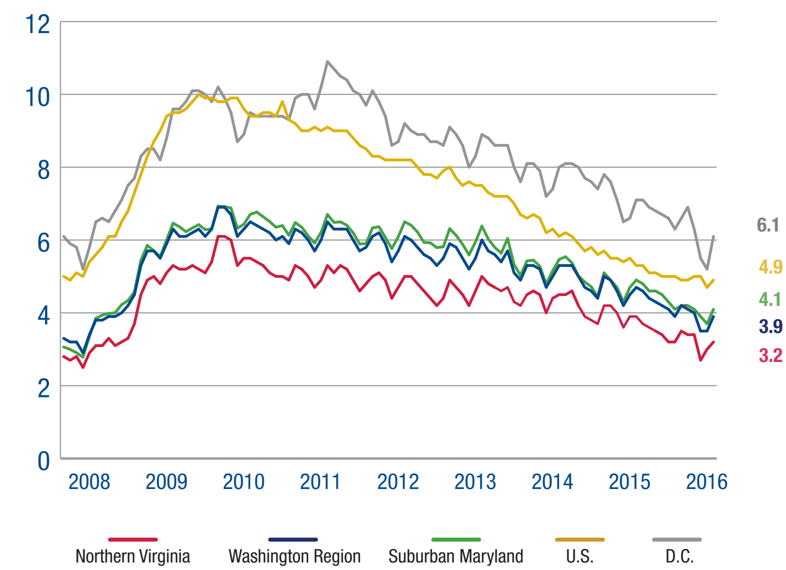
- Education (colleges and universities, training programs, and private preschool and K-12 schools) and health services, up 15,000 jobs;
- Retail trade, up 10,400 jobs; and
- Leisure and hospitality (restaurants), up 14,100 jobs.

This distribution of growth has increased the demand for a full range of job skills, which extends the benefits of the region's economic rebound to the broad base of its residents.

Employers Face Increasing Pressure to Find Skilled Employees, Raise Wages

With continuing strong job growth for a second year coupled with the region's low unemployment rate, employers will be facing increasing pressure to raise wages while continuing to face a dearth of available employees with adequate skill levels. The increasing competition in the labor market will lead to growing emphasis on the quality of workplace environment, the range of job benefits, and flexibility of work hours and workdays. While these are not entirely new requirements defining the modern labor market, the strength of the economy has put even more pressure on employers. Employers should anticipate shortages of seasonal workers for the holidays later in the year.

Unemployment Rates in the Washington Metropolitan Statistical Area by Sub-State Area, 2009–2016



Source: BLS, GMU Center for Regional Analysis (Region - Not Seasonally Adjusted, US - Seasonally Adjusted)

Population Growth Has Resulted in Increased Consumer Spending

Population growth for all of 2016 is expected to total upwards to 70,000 people or almost 30,000 households. Contributing to this are younger people moving to the region, attracted by its strong job market. The combination of increasing numbers of residents, more residents employed, and growing wages and salaries has resulted in increased consumer spending. These favorable trends are supporting growth in demand for retail and consumer services as well as supporting the region's housing market, especially rental housing as many of these new jobs are being filled by the younger new residents.

Existing Housing Market Tightens, Leaves Room for Increase in Construction

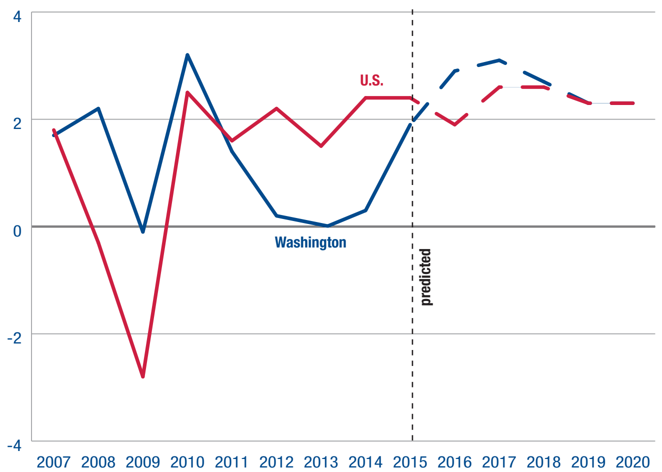
Additionally, with the continuing strong growth of professional and business service jobs, the for-sale housing market is also experiencing increased sales, resulting in decreased inventory of existing houses. June 2016 housing sales reports show the inventory of available for-sale housing to have decreased by 6.7% from June 2015, with average sales prices in June 2016 at their post-recession highest (since 2007).

- The tightening of the existing housing market is helping to boost construction of new housing; 2016 production is expected to surpass 2015 levels.

- The continuing recovery in the housing market, extending back to 2009, is now being seen in the condominium market. In June, the average price of condos sold was up 3% from June of 2015.

- New condo construction is experiencing gains, especially in sub-markets served by Metrorail with good access to urban services.

U.S. GDP and Washington Area GRP: 2007-2015-2020 (Annual % Change)



Source: IHS Economics, GMU Center for Regional Anyalysis, Forcast: April 2016

The region's strong economic performance in 2016 has not felt the head winds impacting the national economy, which has experienced slower than expected growth during the first half of the year. This was due to a combination of unfavorable global conditions (uncertainty generated by Brexit, continuing strength of the U.S. dollar weakening our position in international trade, continuing weakness in the energy sector, and global weakness resulting in lower commodity prices) that tend not to affect the performance of the Washington economy. Consequently, while the full-year forecast for the national economy has been lowered since January from 2.7% to 1.9% GDP growth, the forecast for the Washington region's economy remains at 2.9% based on the economy's performance over the first half-year.

Long-range Economic Outlook Remains Excellent

Even though the first-half year's performance has been strong, these trends could moderate in the second half of the year as a result of slower growth in the national economy and unanticipated effects stemming from an election year. However, so far through mid-2016, the Washington region's economy has performed well and the long-range outlook into 2017 and 2018 remains excellent.

ABOUT CAPITAL BANK

Capital Bank, N.A., is a leading private bank in the Washington, D.C. metropolitan area that offers a range of services encompassing cash management, commercial lending, consumer credit and residential mortgage/Veterans Administration mortgage loans. Capital Bank has been rated in the top 4% of banks in the nation by S&P Global Market Intelligence (formerly SNL Financial), for 2014 and 2015, for banks with less than $1 Billion in assets. With double-digit asset growth over the past five years, Capital Bank has more than $830 million in assets and is well positioned to fulfill its culture of collaborative partnerships and solutions for area businesses and consumers nationwide. For more information, visit *http://www.capitalbankmd.com.* Member FDIC. An Equal Housing Lender.

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