
The Economic Outlook

Presented by:

Mark McMullen,
Director of Government Consulting

FTA Annual Meetings
June 11, 2007

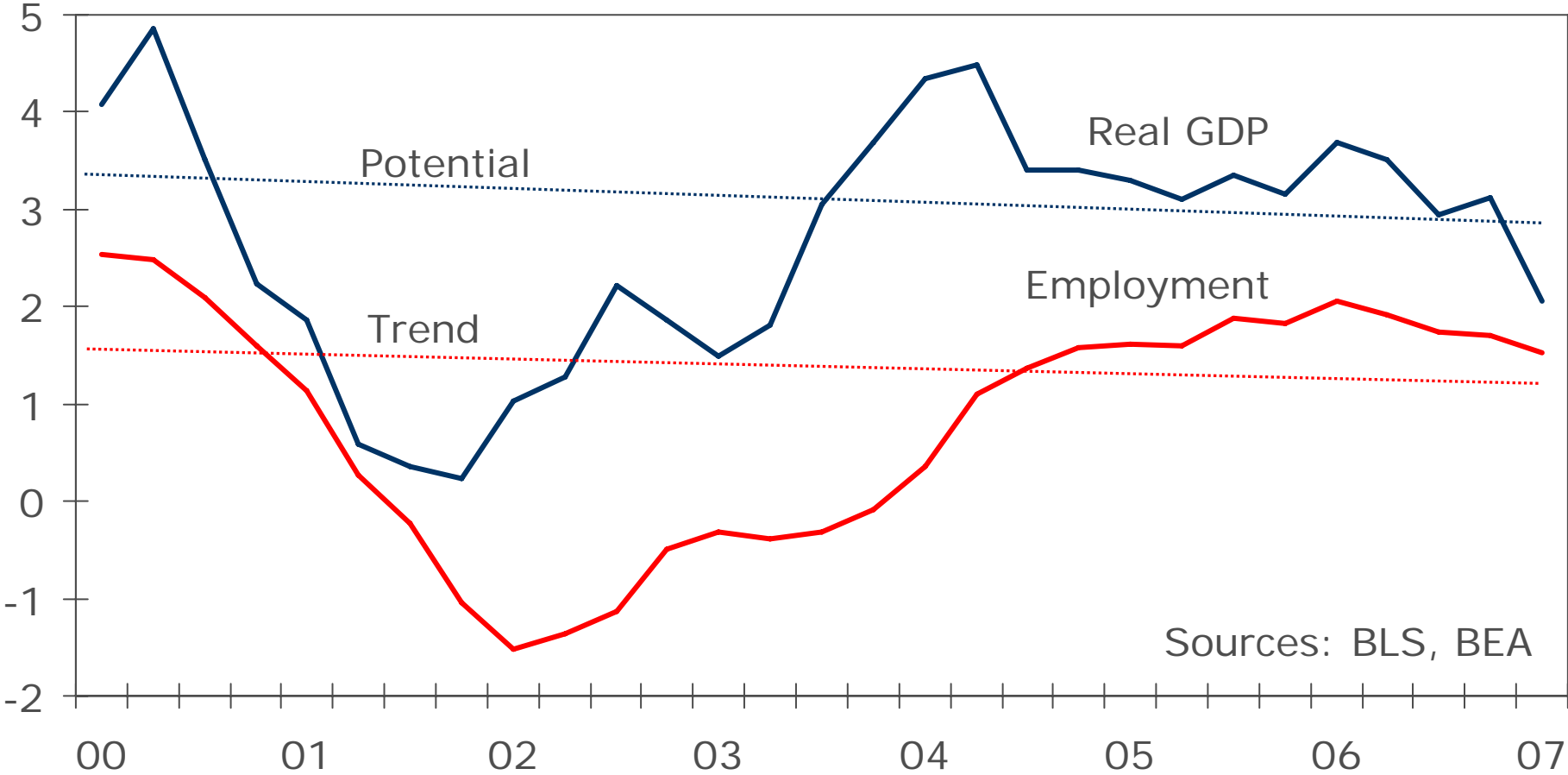
 **Moody's** | **Economy.com**



**As Expected, The
Economy Is
Slowing...**

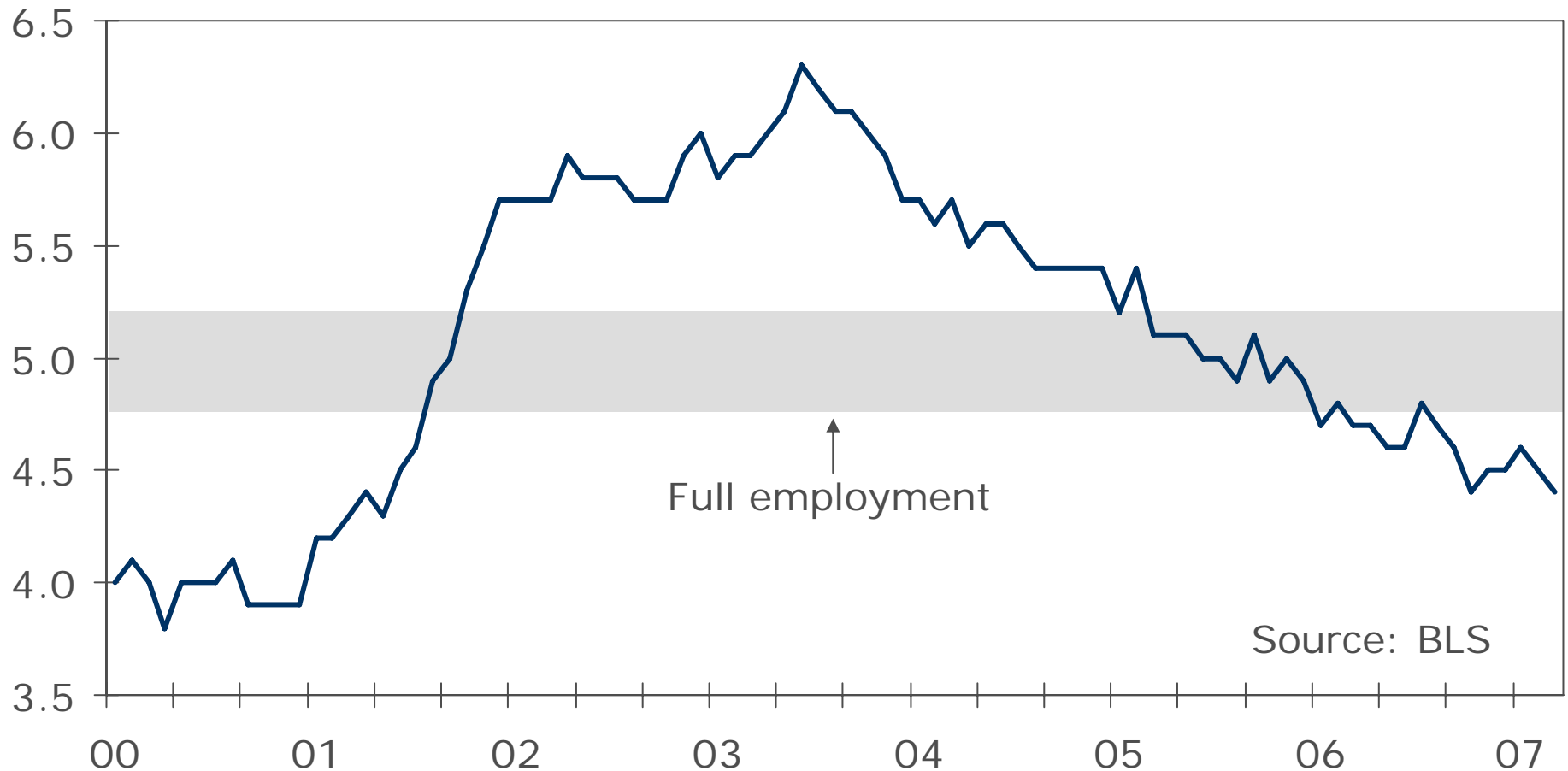
The Economy Is Growing Near Potential...

% change year ago



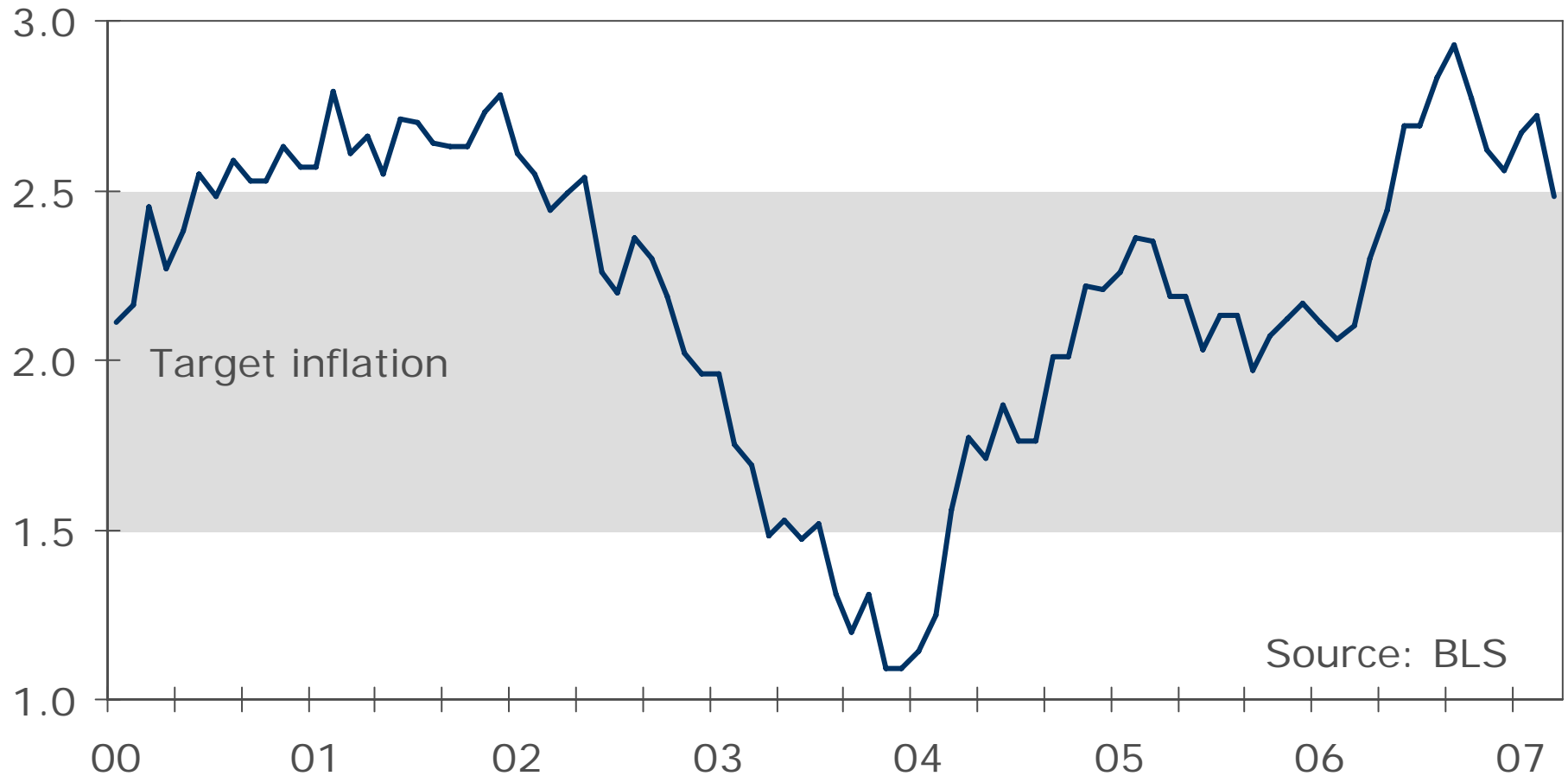
...Is Operating at (Beyond) Capacity...

Unemployment rate



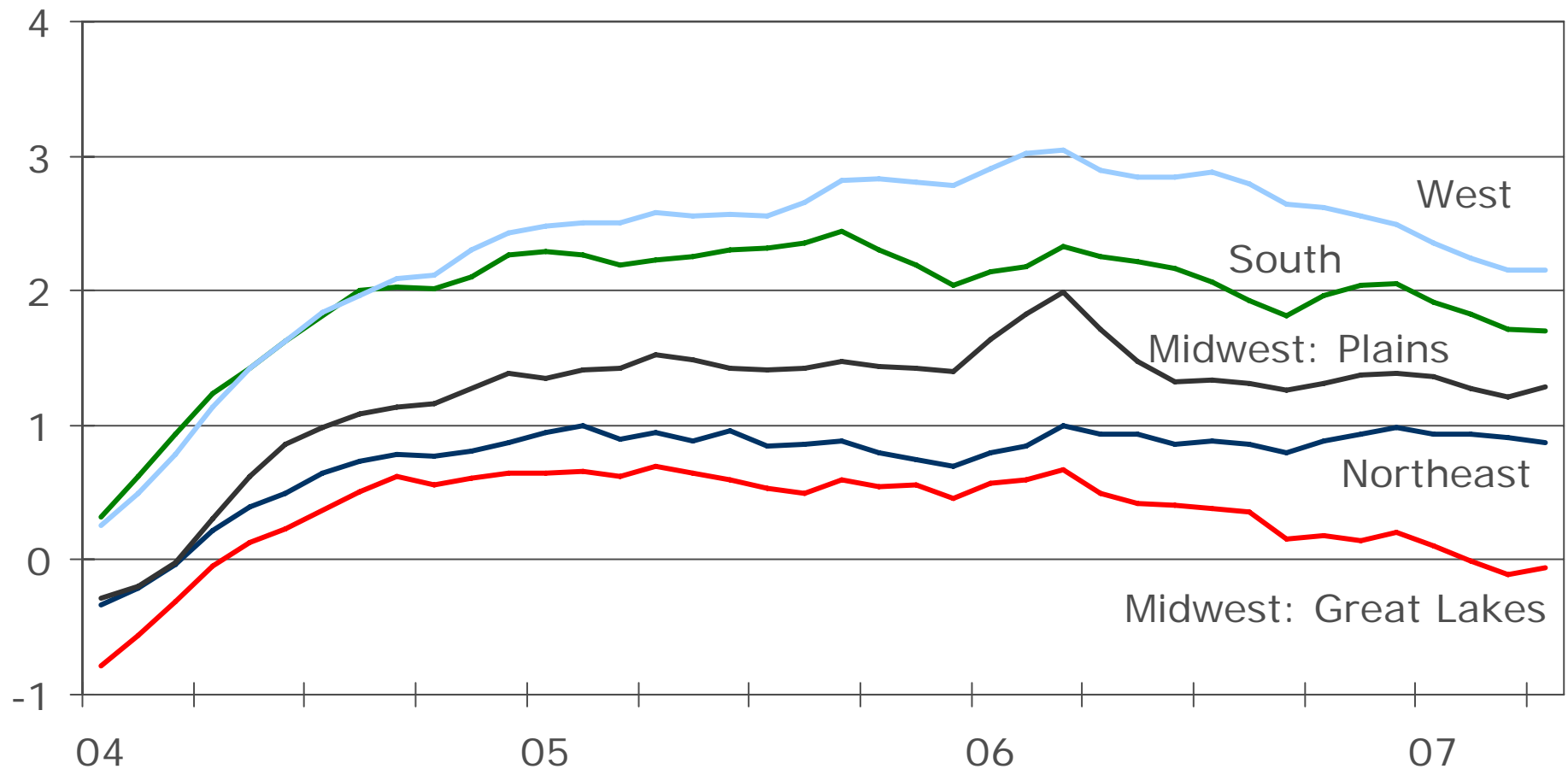
...And Inflation Is Near Target

Core CPI, % change year ago

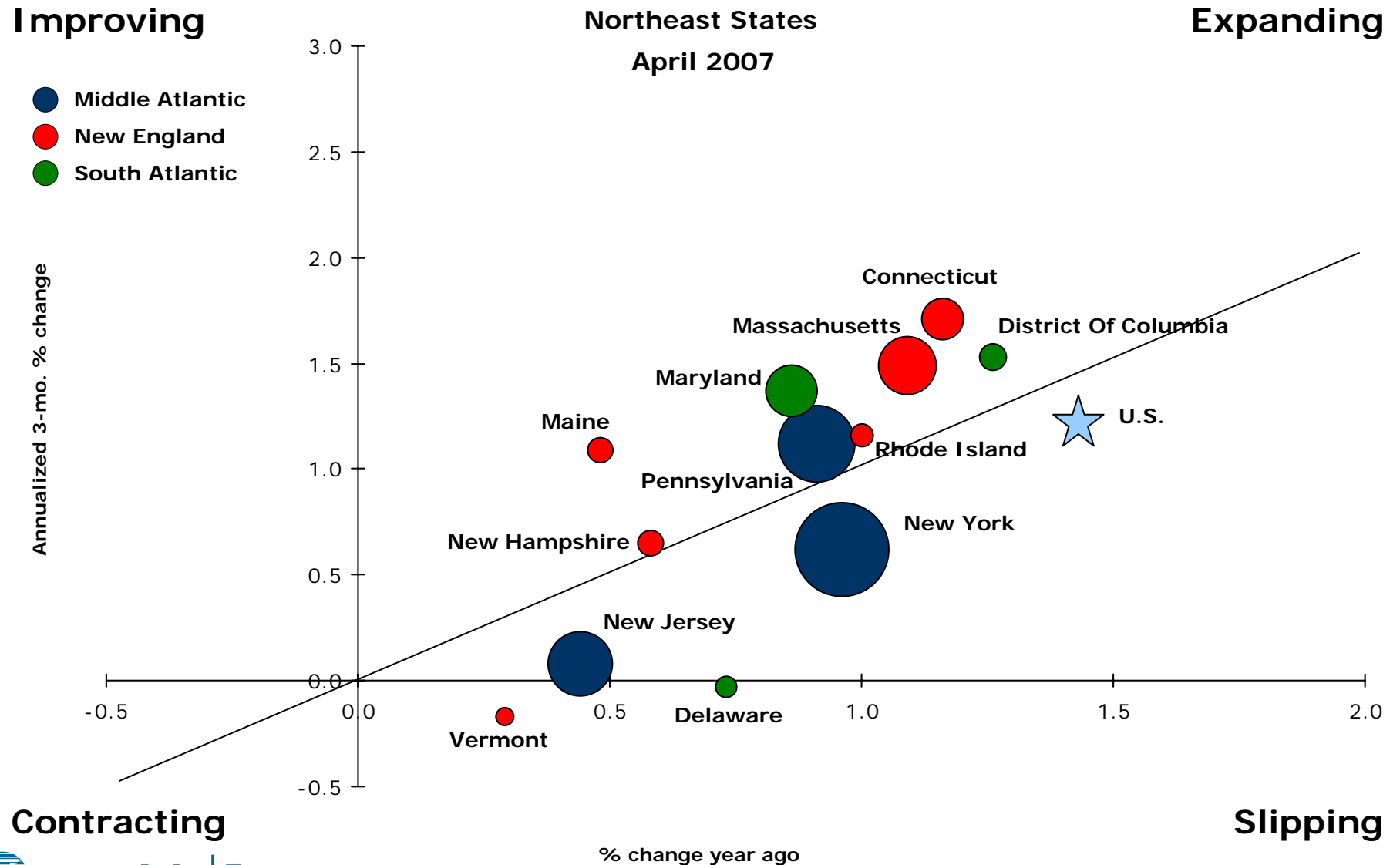


Steady Labor Markets in Plains and Northeast

Employment, 3 mo. MA, % change year ago



Northeast States—Payroll Employment One-year vs. 3-month performance (3-mo. MA)

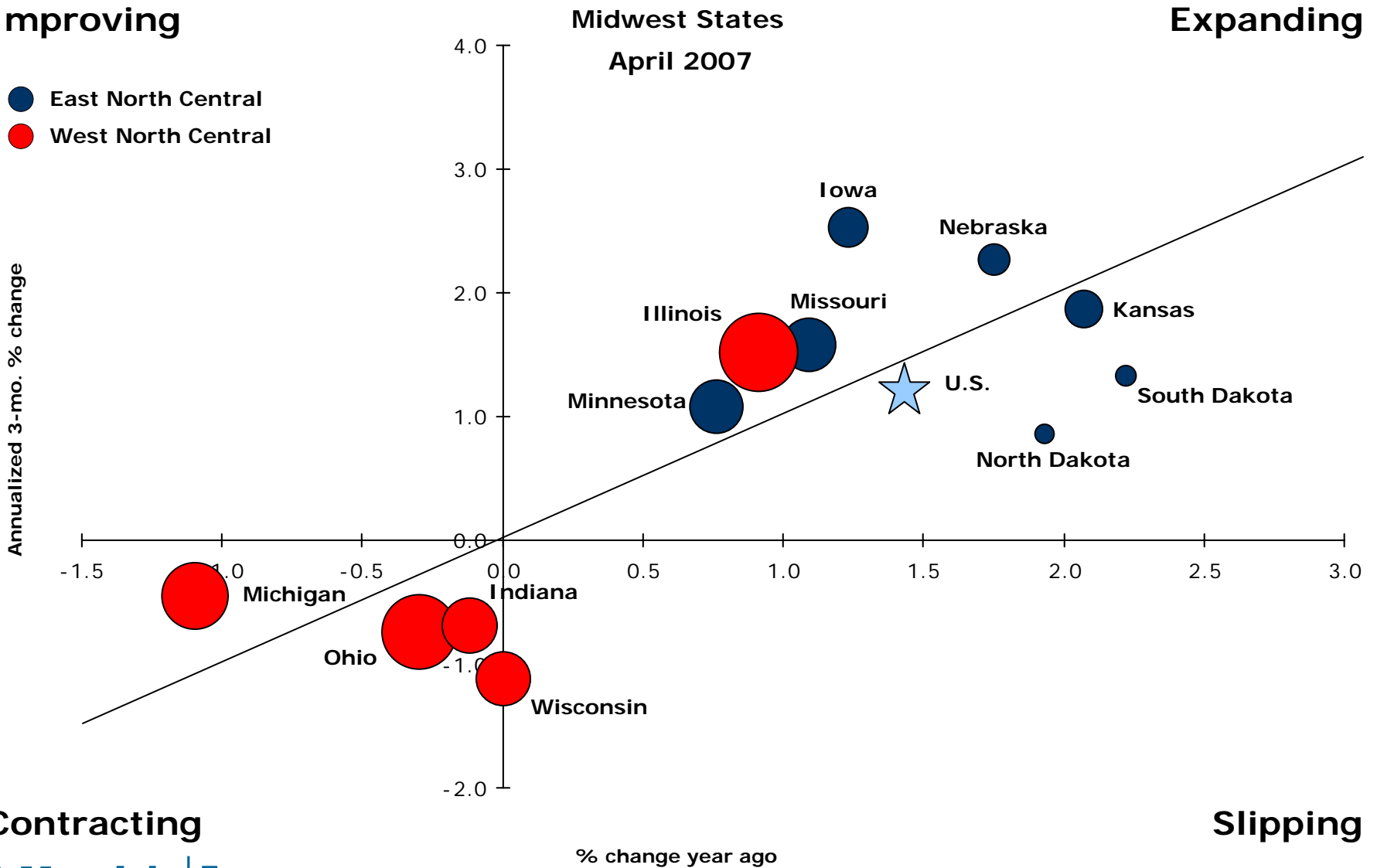


Midwest States—Payroll Employment One-year vs. 3-month performance (3-mo. MA)

Improving

Expanding

- East North Central
- West North Central



Contracting

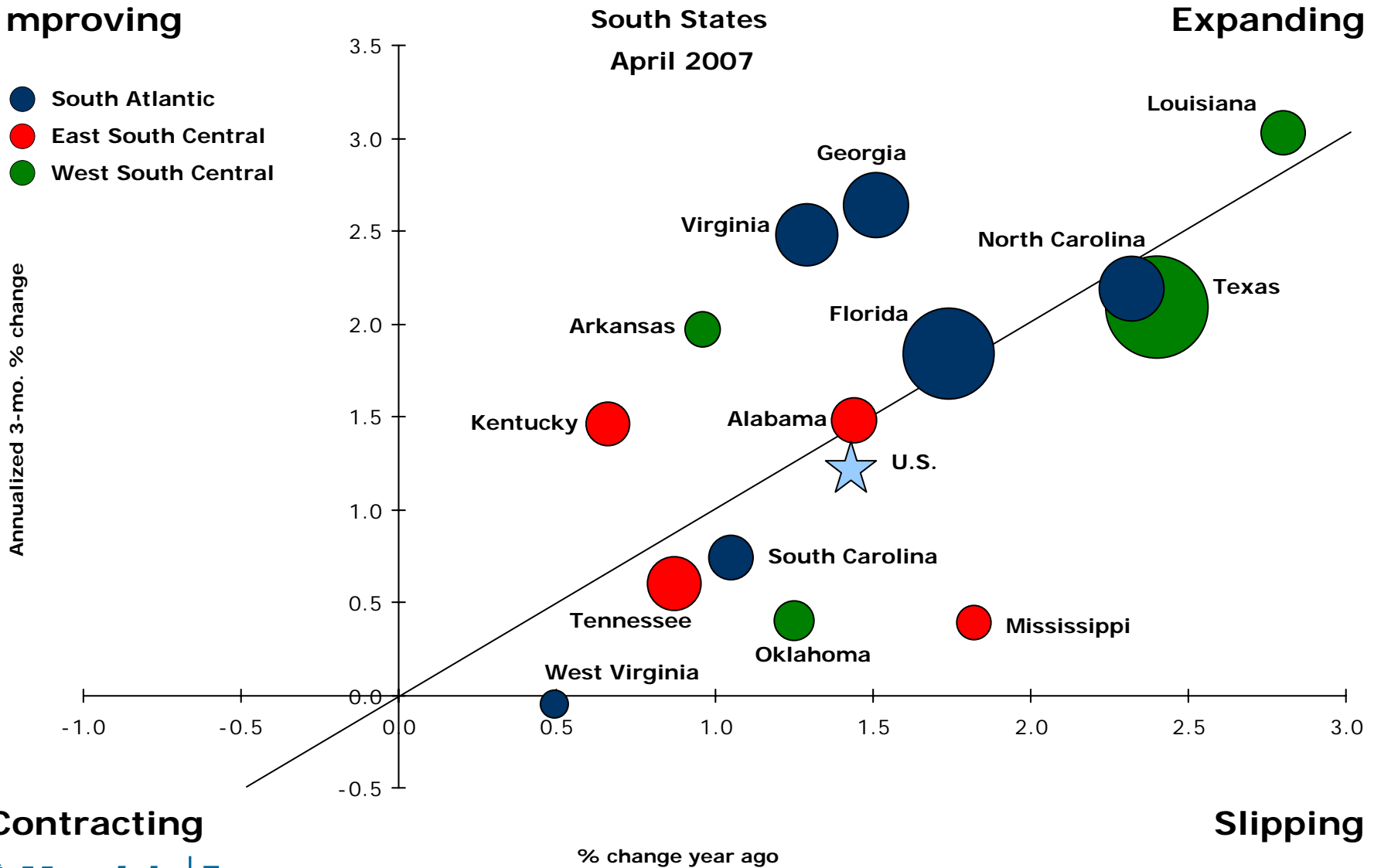
Slipping

South States—Payroll Employment

One-year vs. 3-month performance (3-mo. MA)

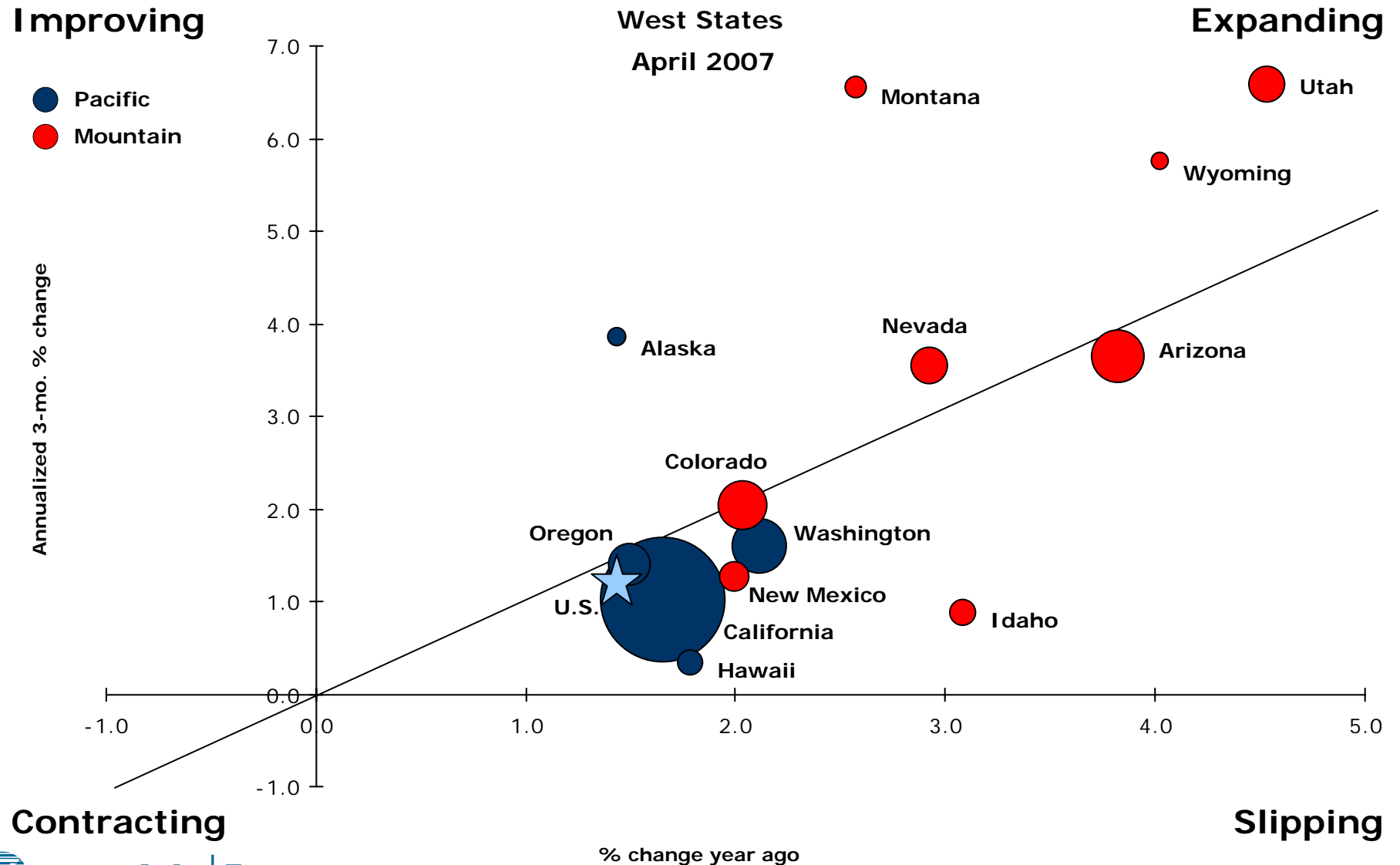
Improving

- South Atlantic
- East South Central
- West South Central



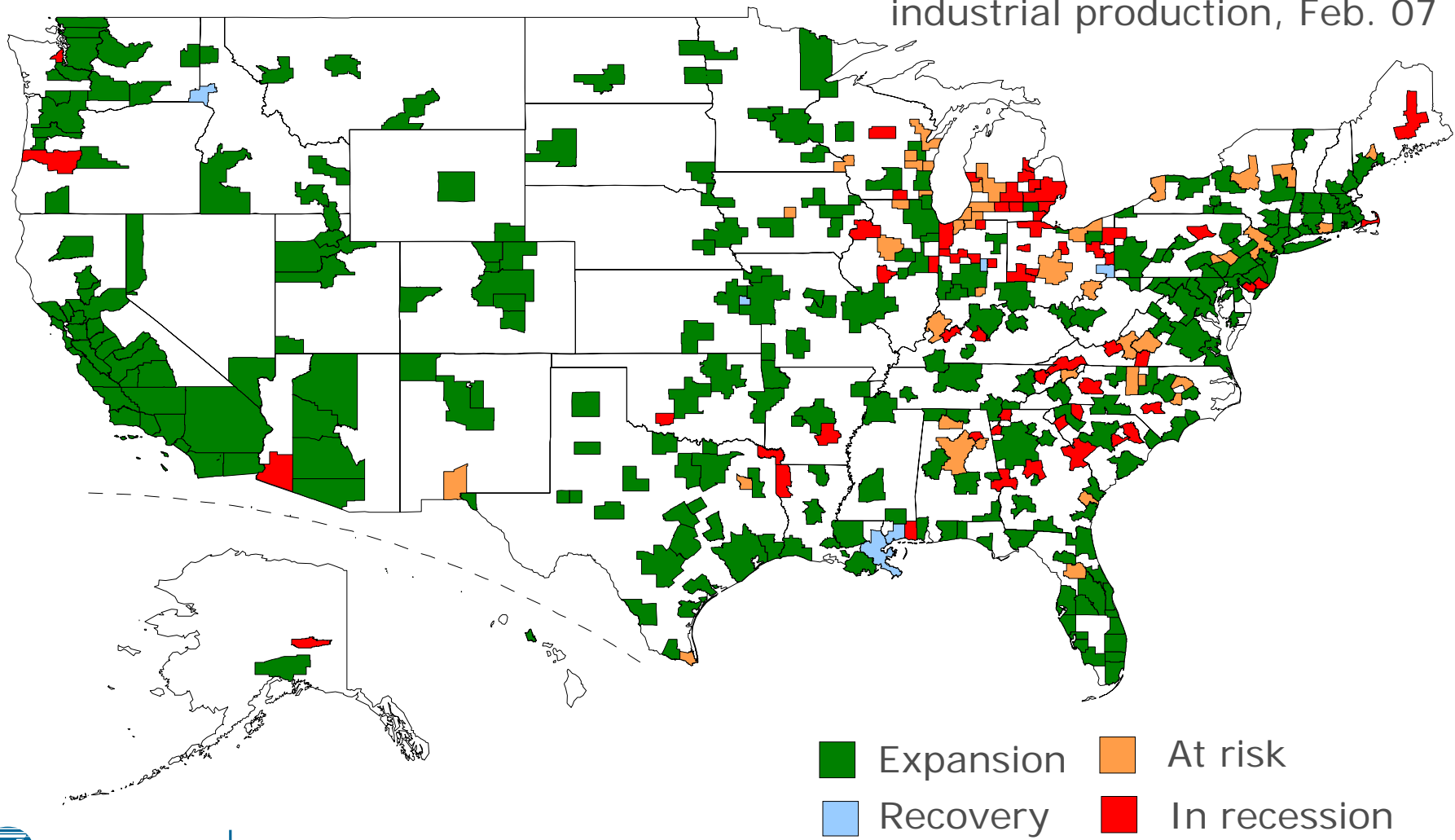
West States—Payroll Employment

One-year vs. 3-month performance (3-mo. MA)



A Few Areas See Recession-Like Conditions

Based on employment and industrial production, Feb. 07



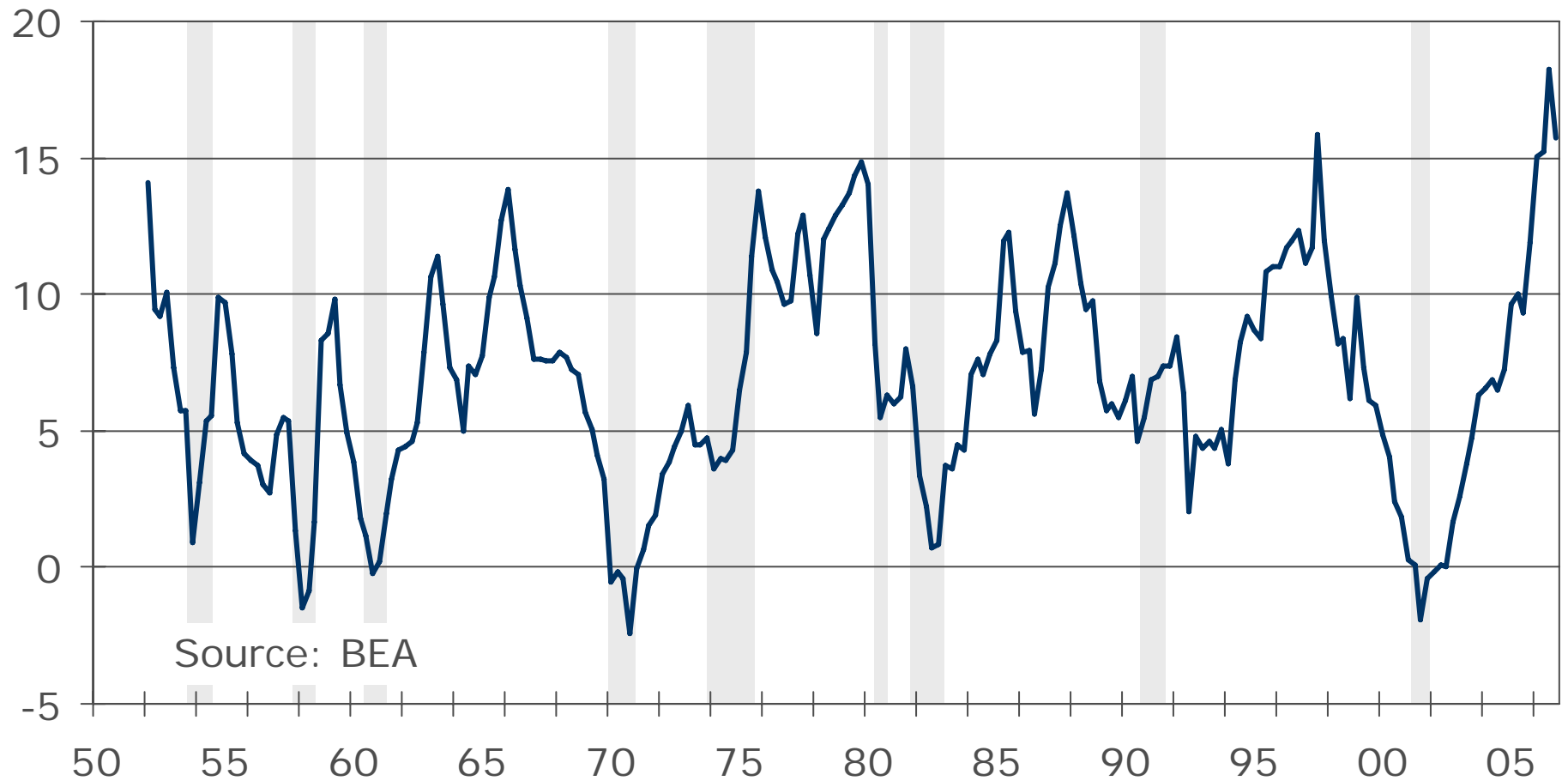


**...But Growth Will
Be Sturdy This
Year...**



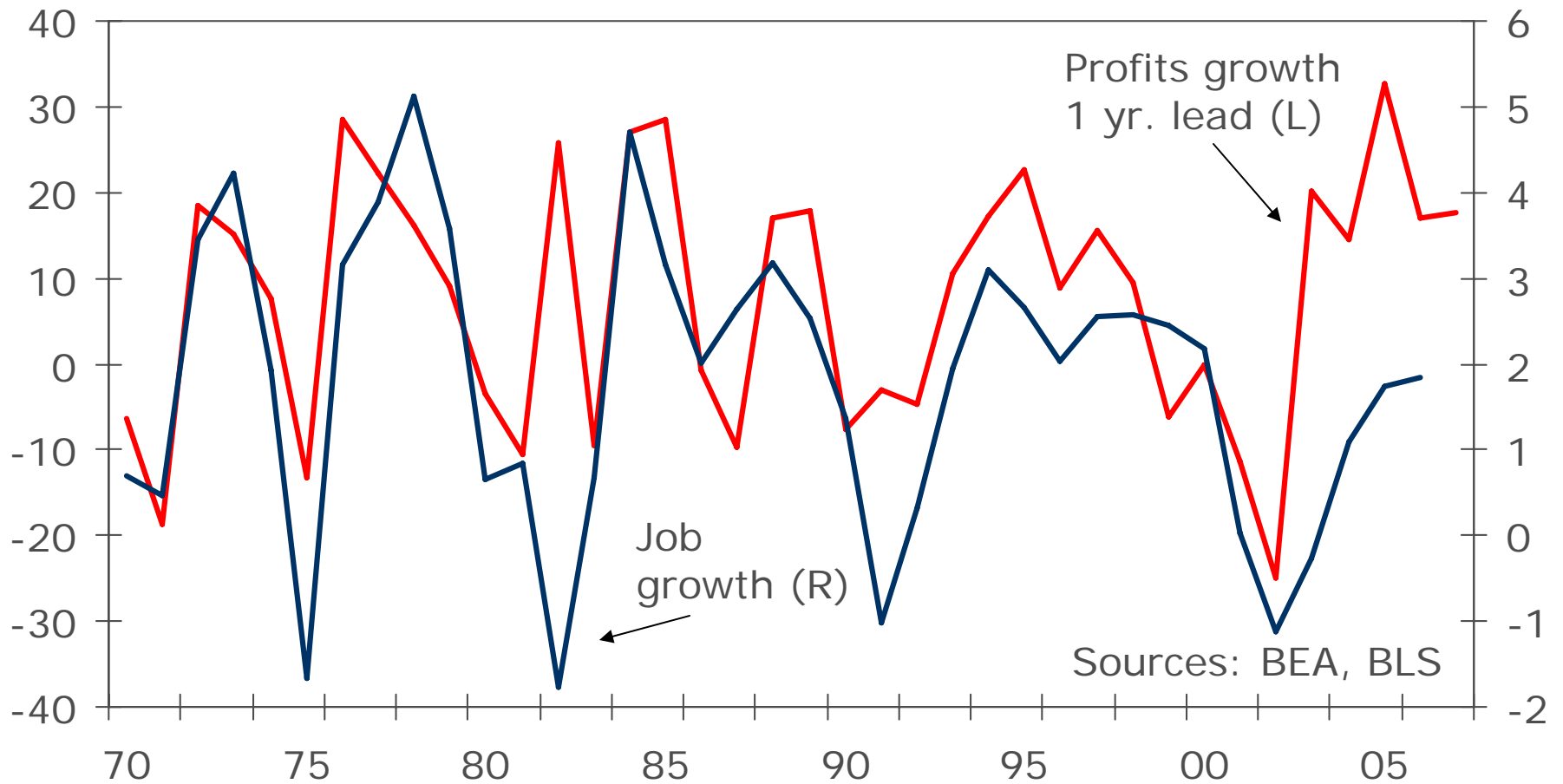
Robust Corporate Profits...

Average annual growth, 5 yr. MA

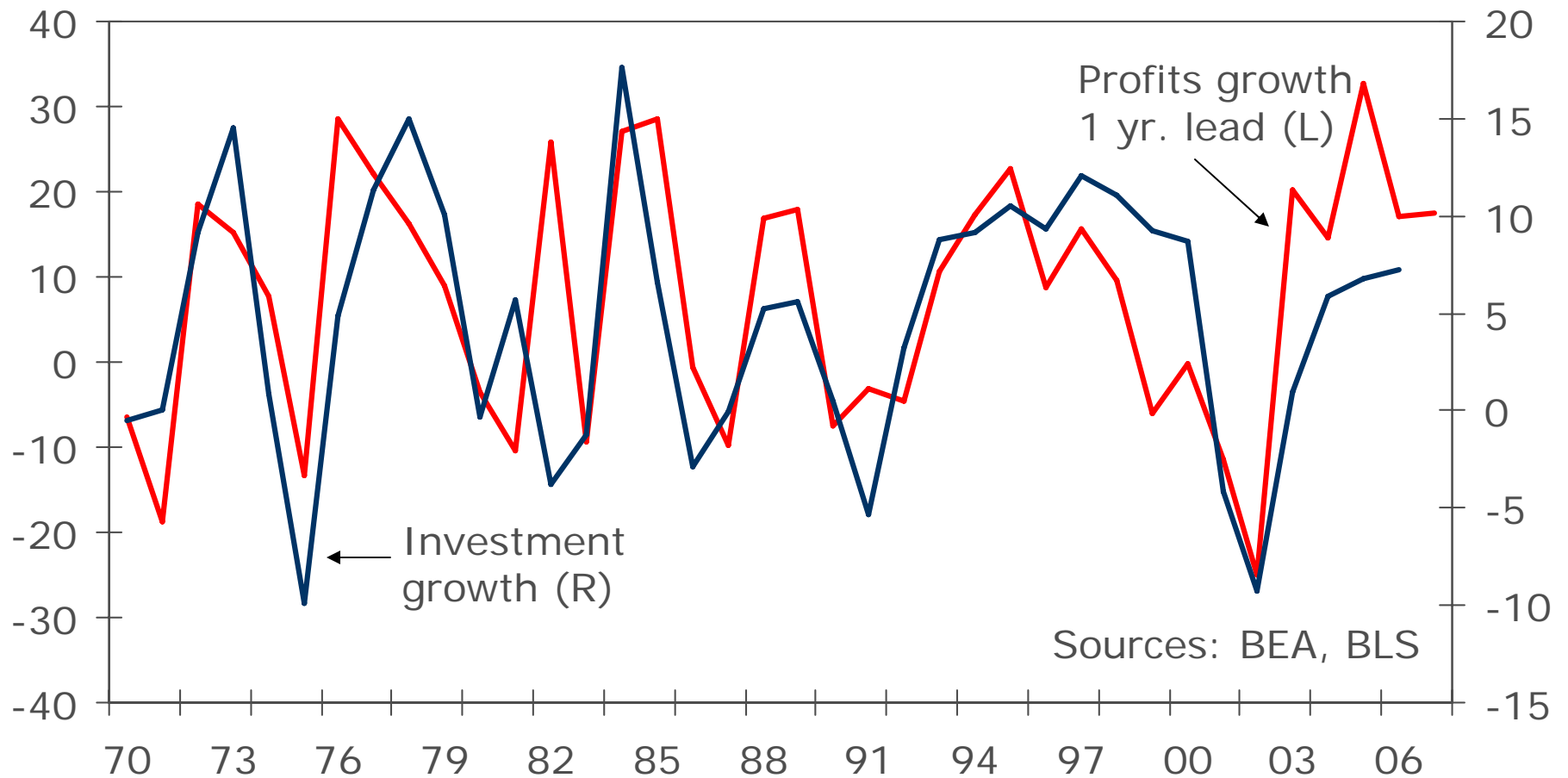


Source: BEA

...Mean More Jobs...



...And Investment



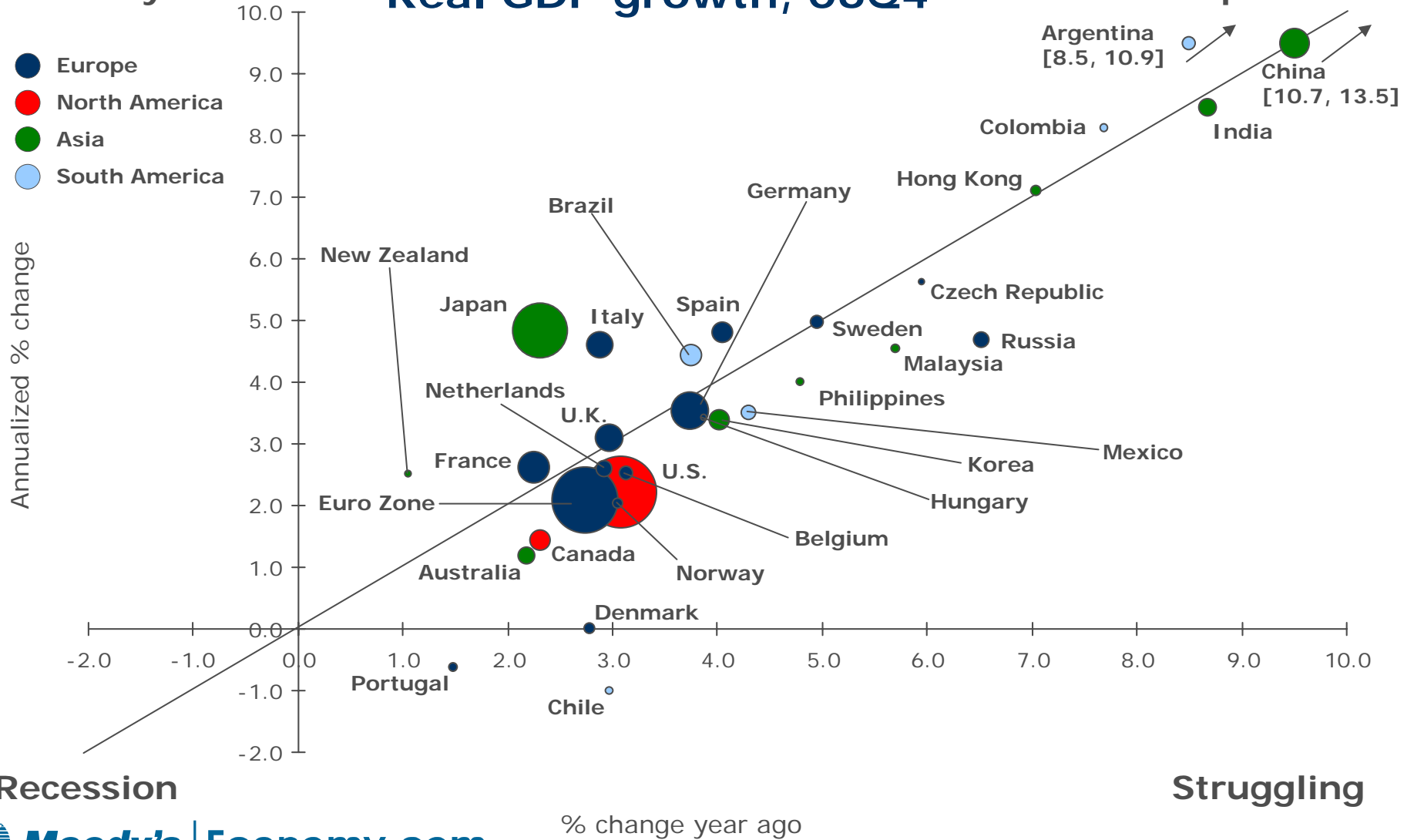
Broad-Based Global Growth...

Recovery

Real GDP growth, 06Q4

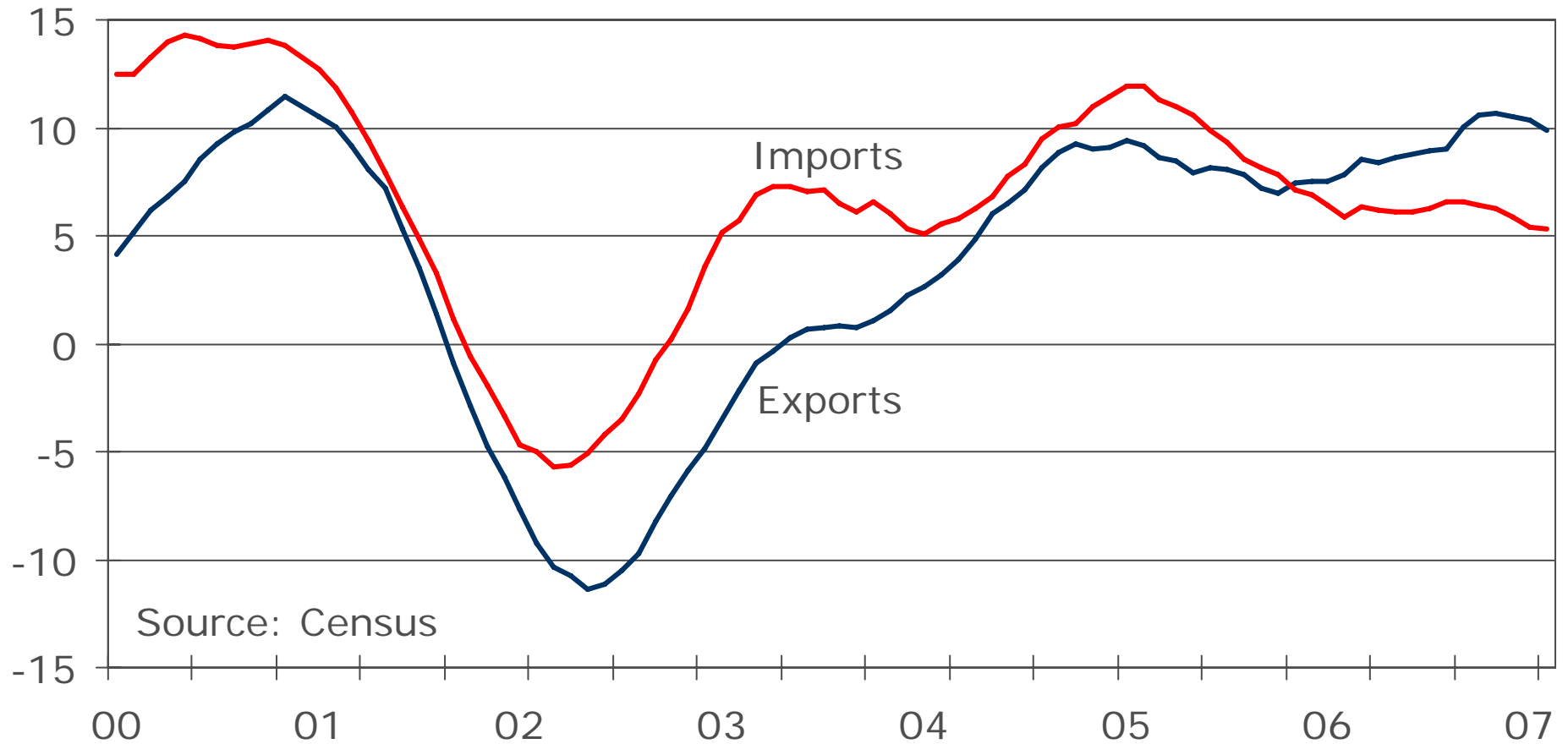
Expansion

- Europe
- North America
- Asia
- South America



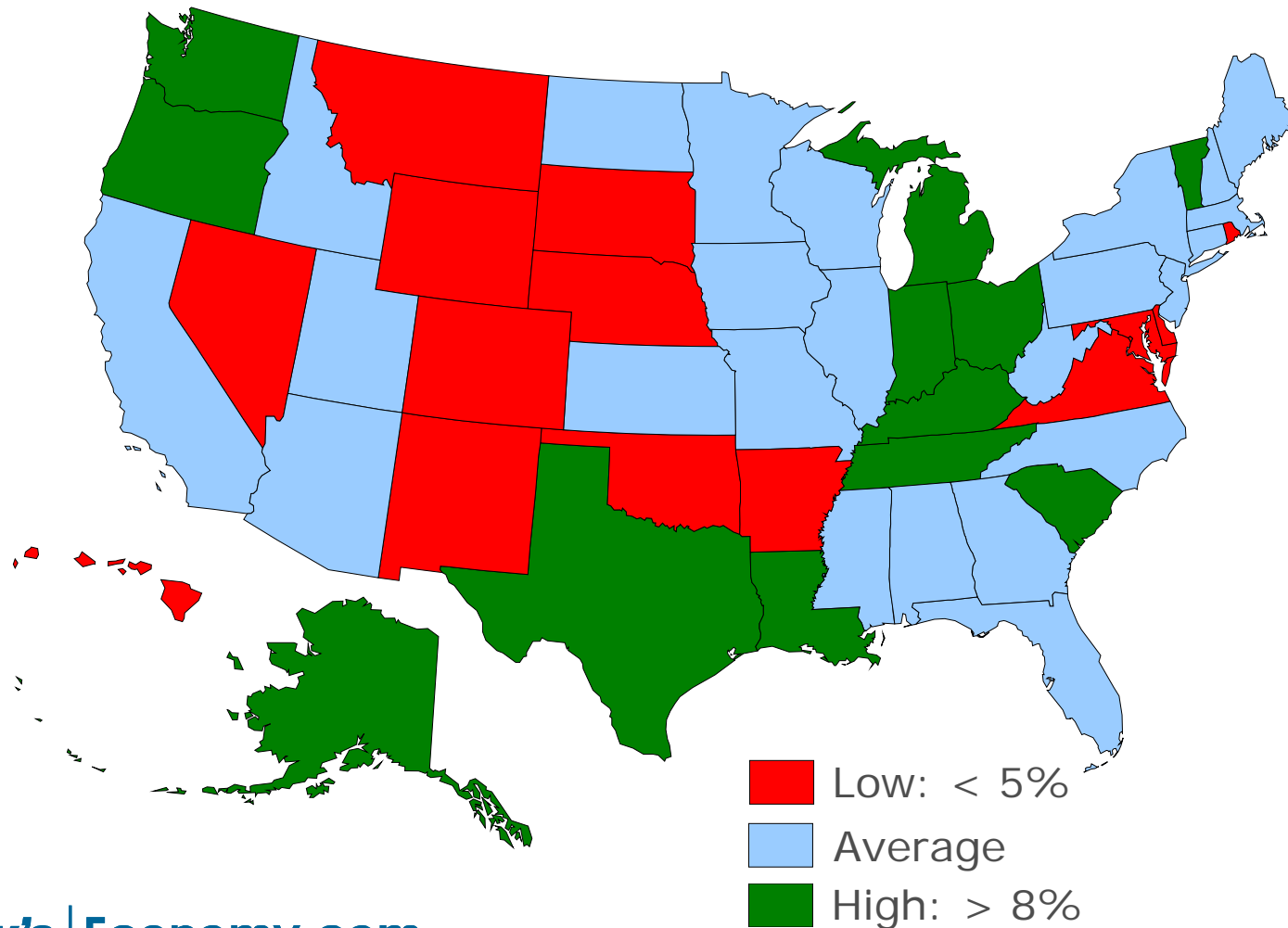
...Supports an Improving Trade Balance

% change year ago, 12 mo. MA



Exports Are Important for Coastal States

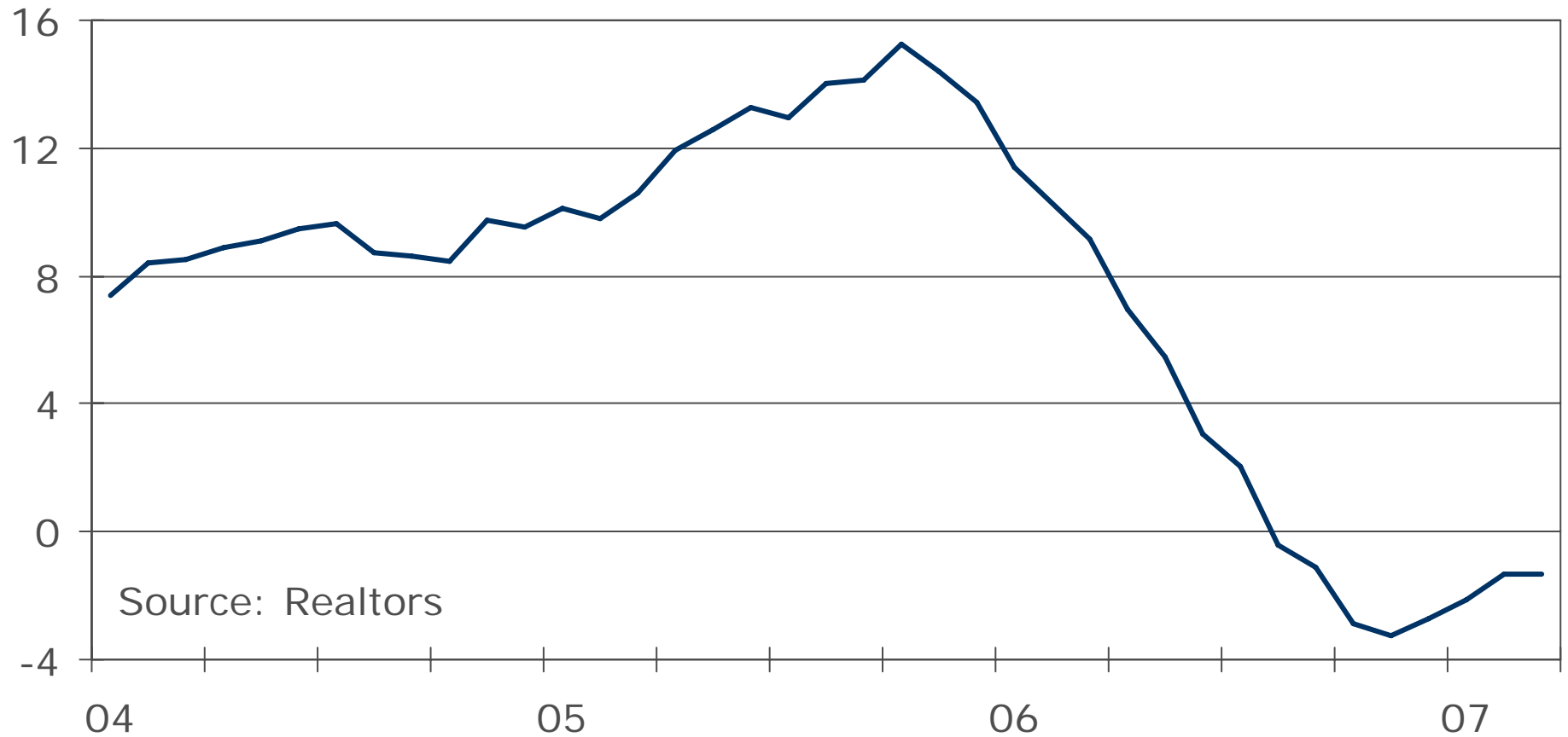
Exports of goods, % share of GSP, 05



**...The Housing
Correction Is a
Weight...**

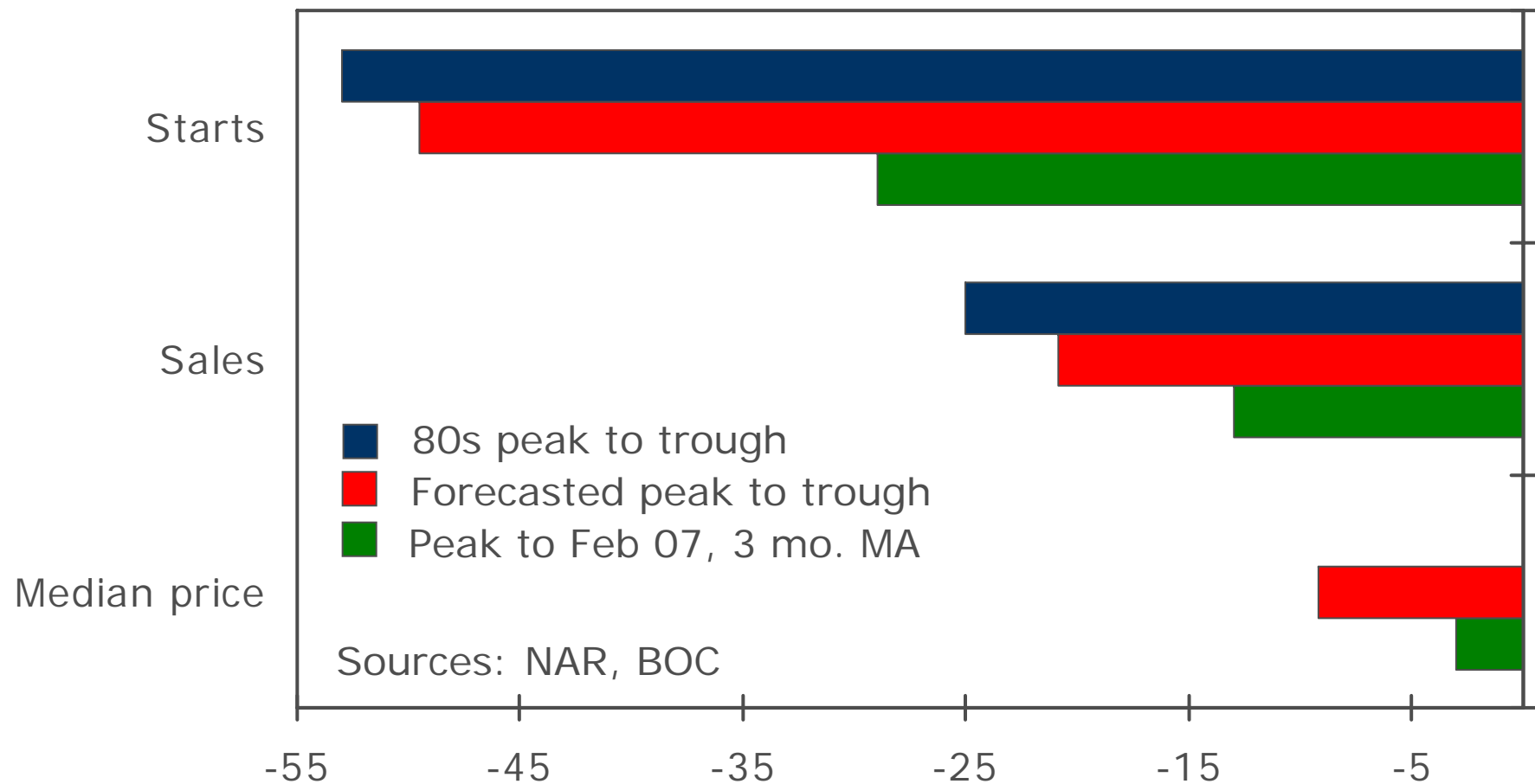
The Housing Correction Is in Full Swing...

Median existing house price, % change year ago, 3 mo. MA



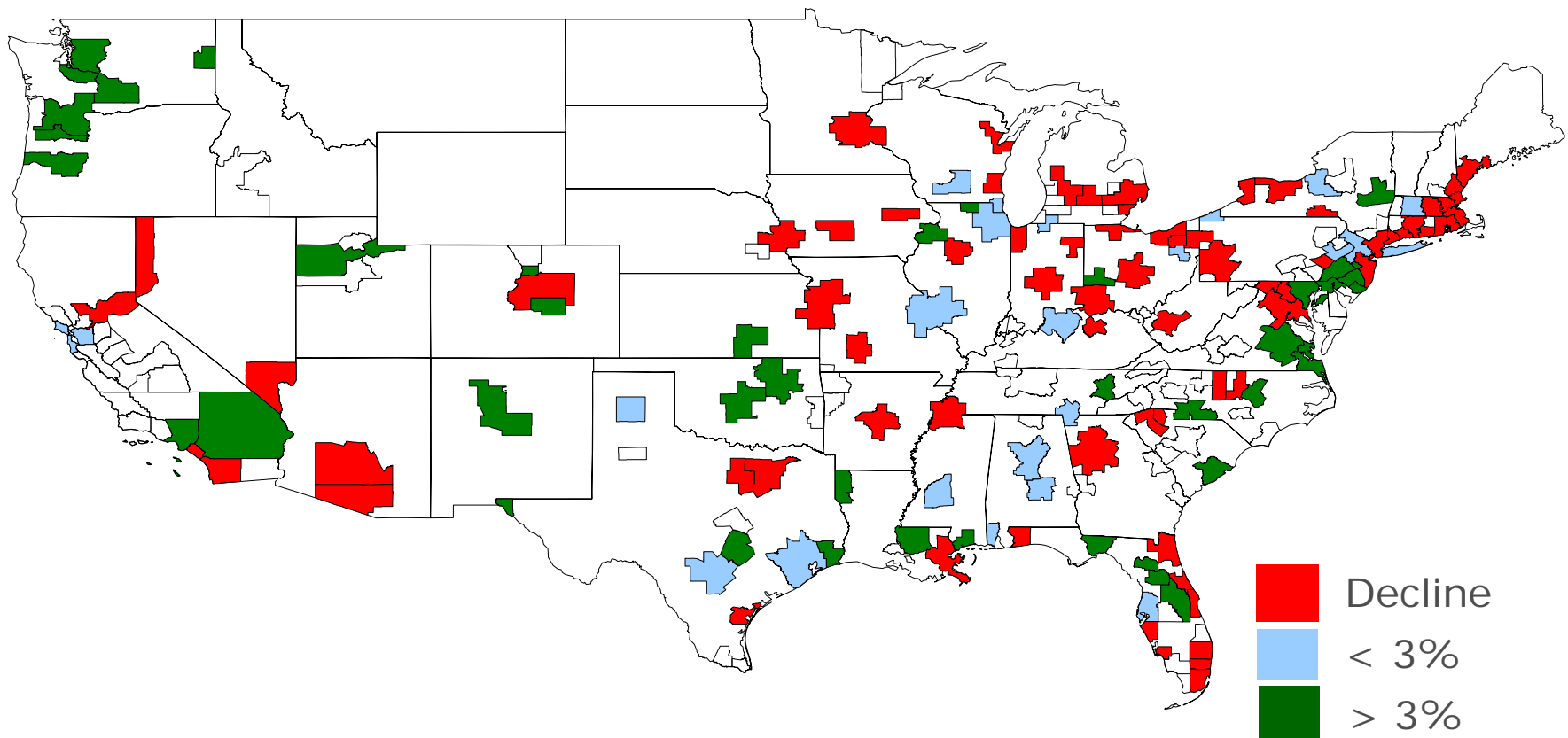
...And Has Bit More to Go

% change from peak



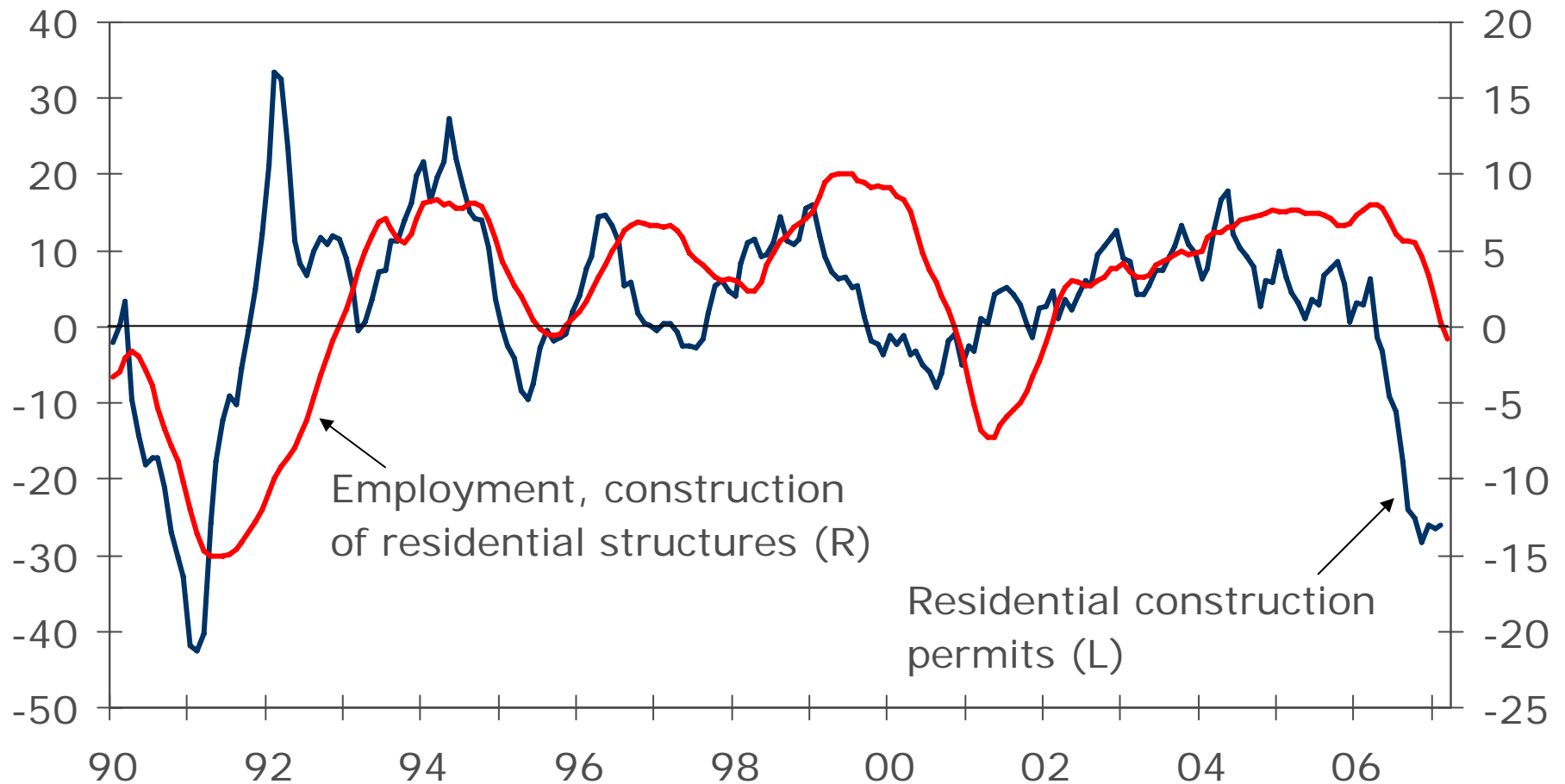
Price Declines Are Spreading

Median existing house price, % change year ago, 05Q4-06Q4



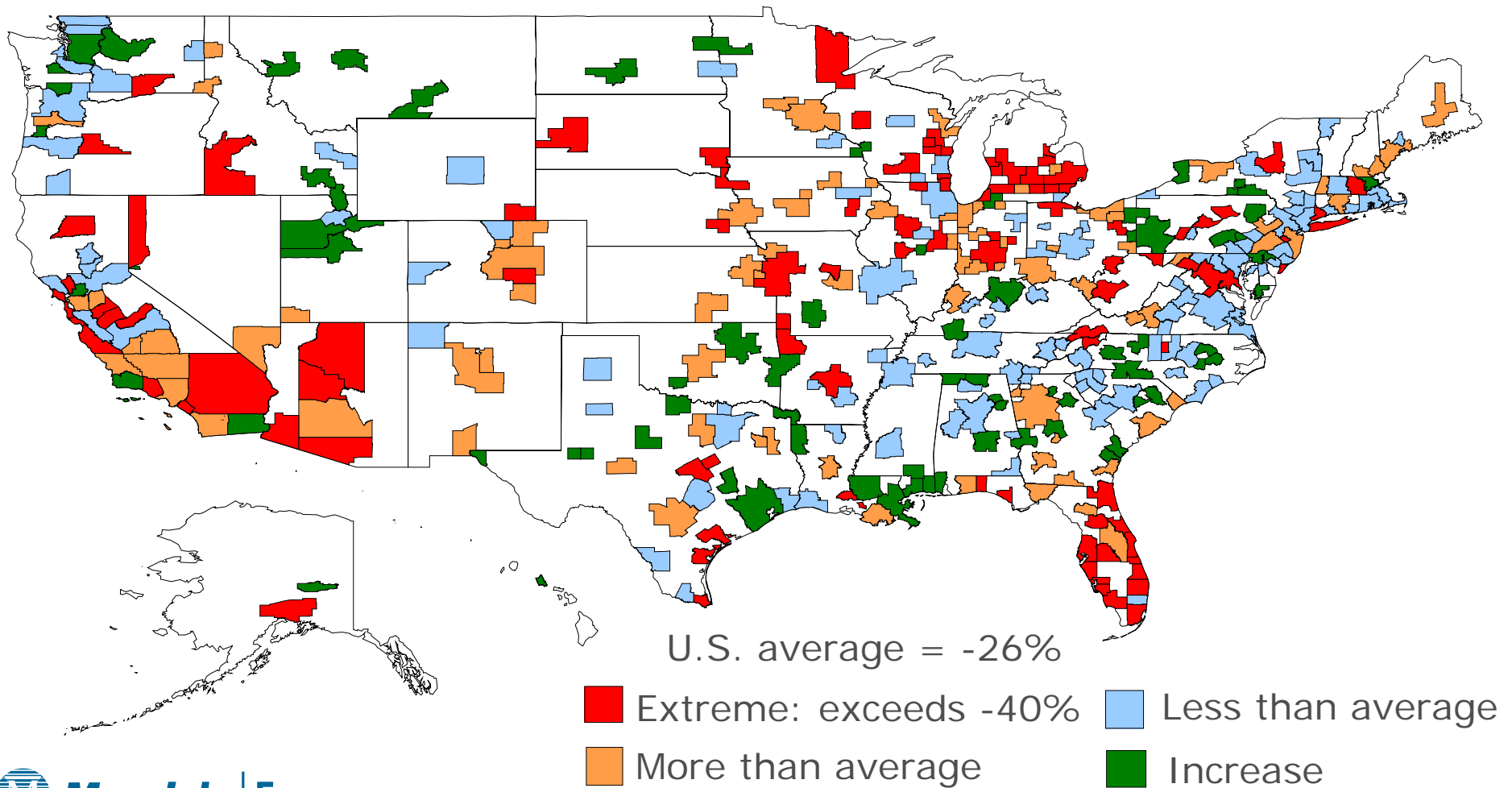
Construction Jobs Just Beginning to Fall...

% change year ago, 3 mo. MA



...In These Metro Areas

Construction permits, 3 mo. MA, % change year ago, Feb. 07



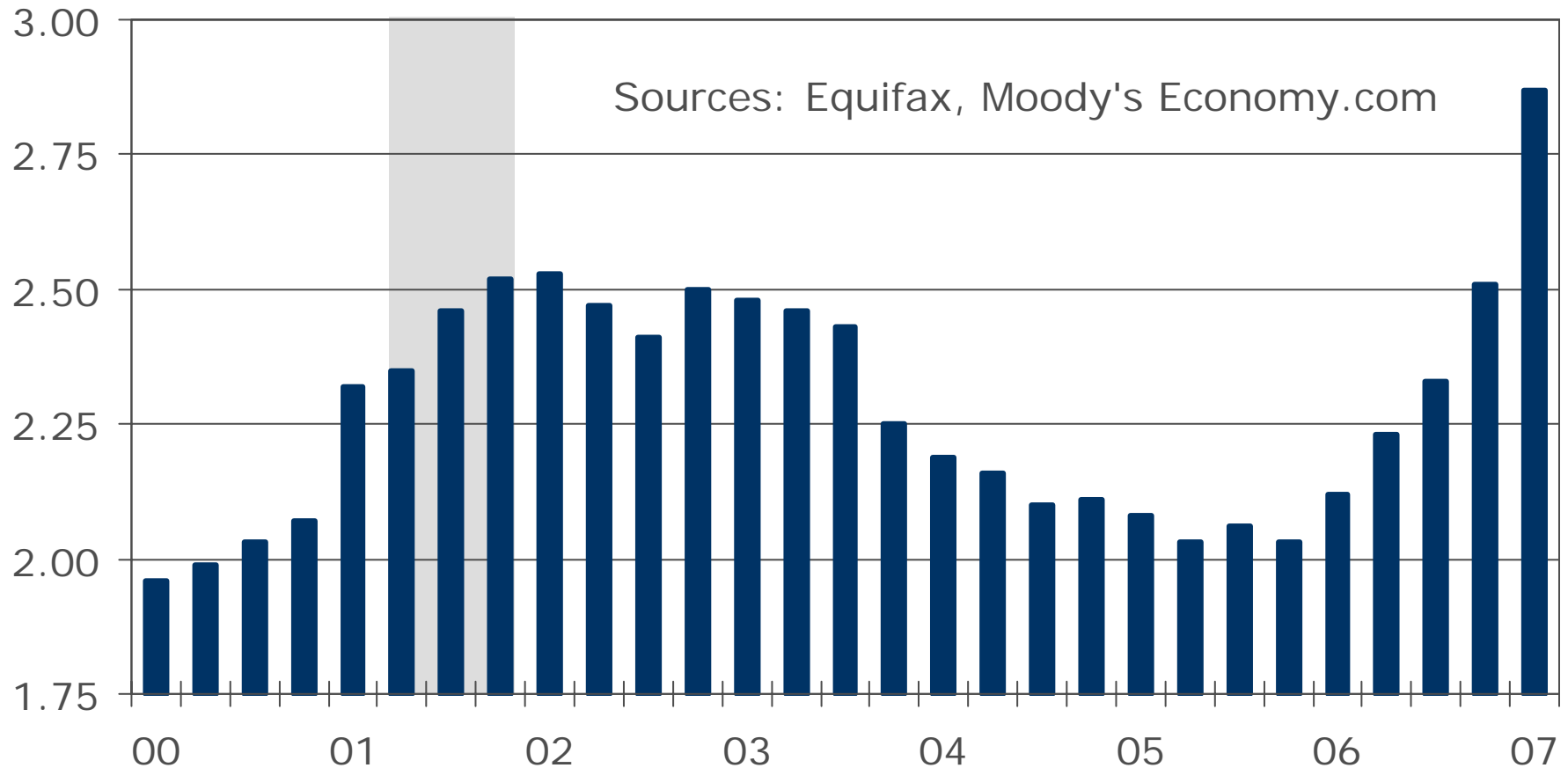


...Which Is Getting Weightier...



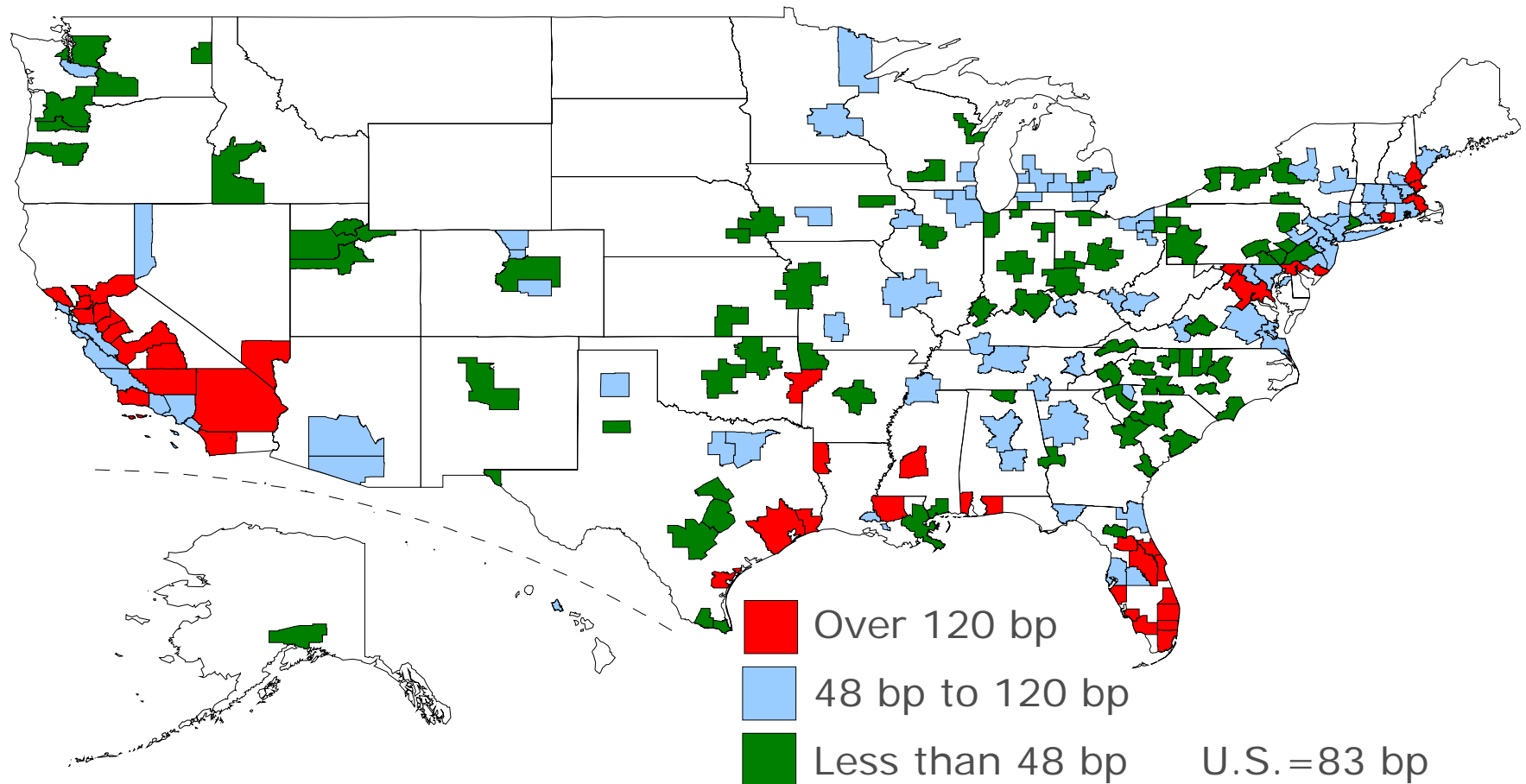
Stunning Erosion in Mortgage Quality...

Delinquency rate, % of residential mortgage debt, \$



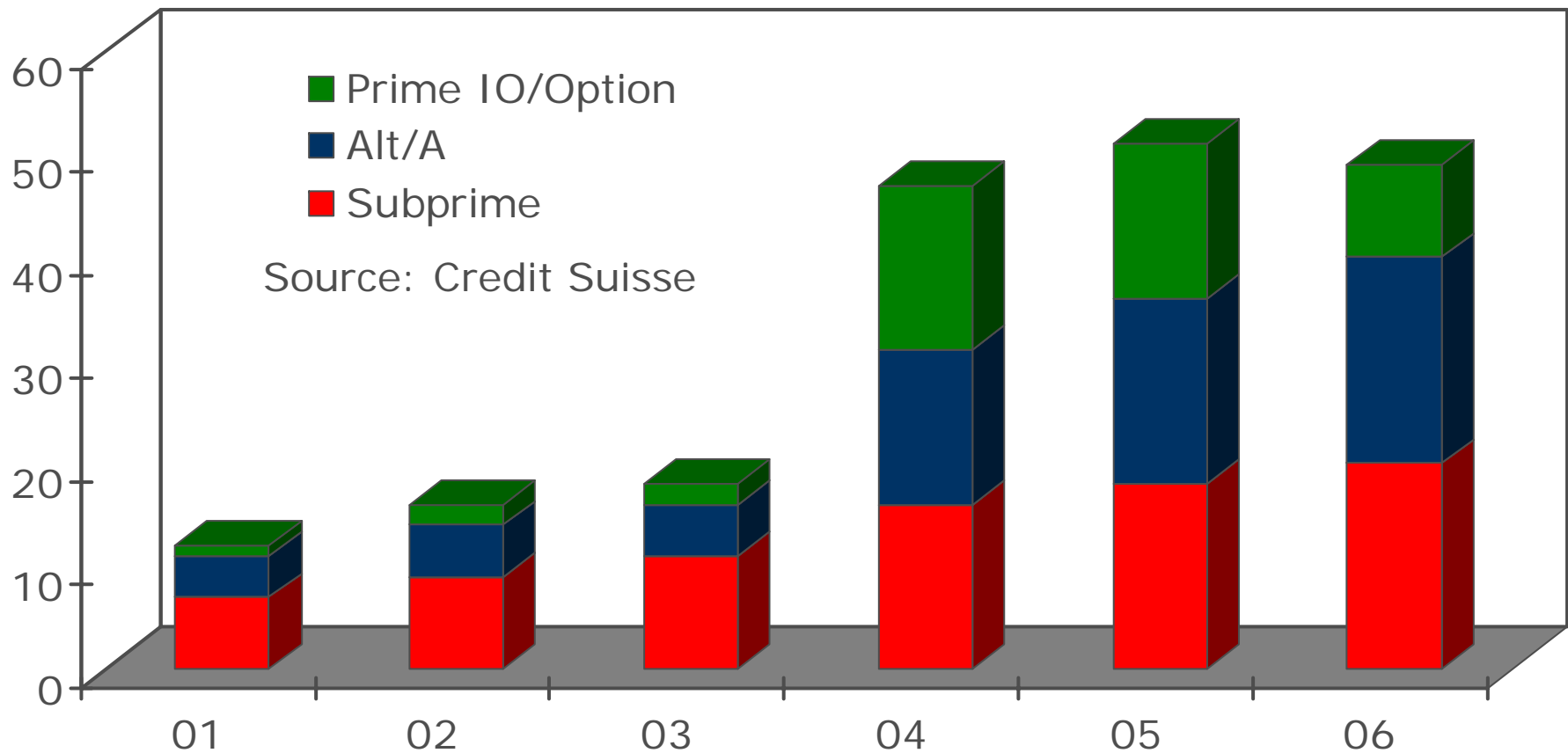
...In an Increasing Number of Areas...

Change in mortgage delinquency rate, 05Q4-07Q1



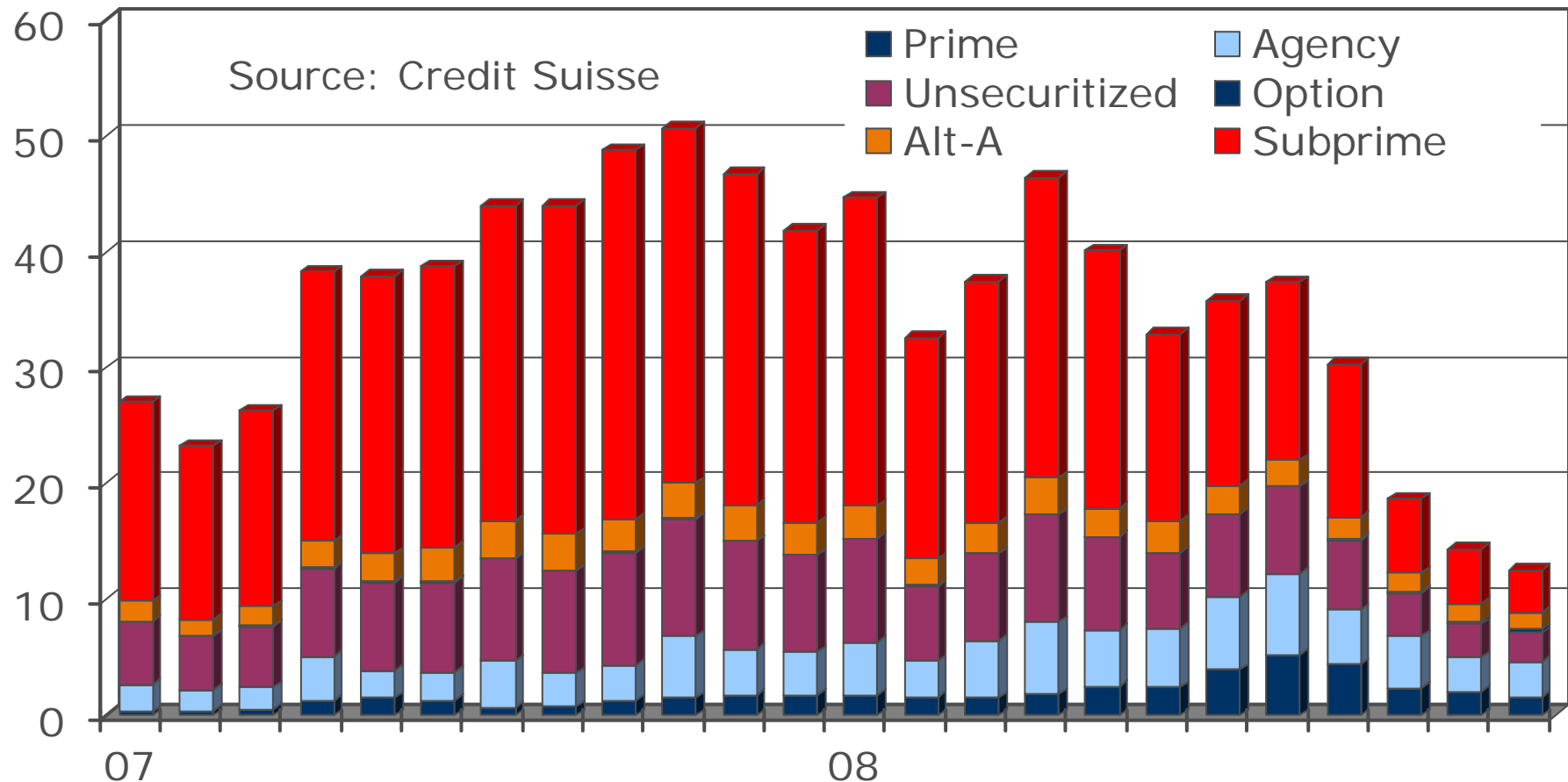
Quality Is Eroding Due to Aggressive Lending,...

Share of securitized purchase mortgage originations



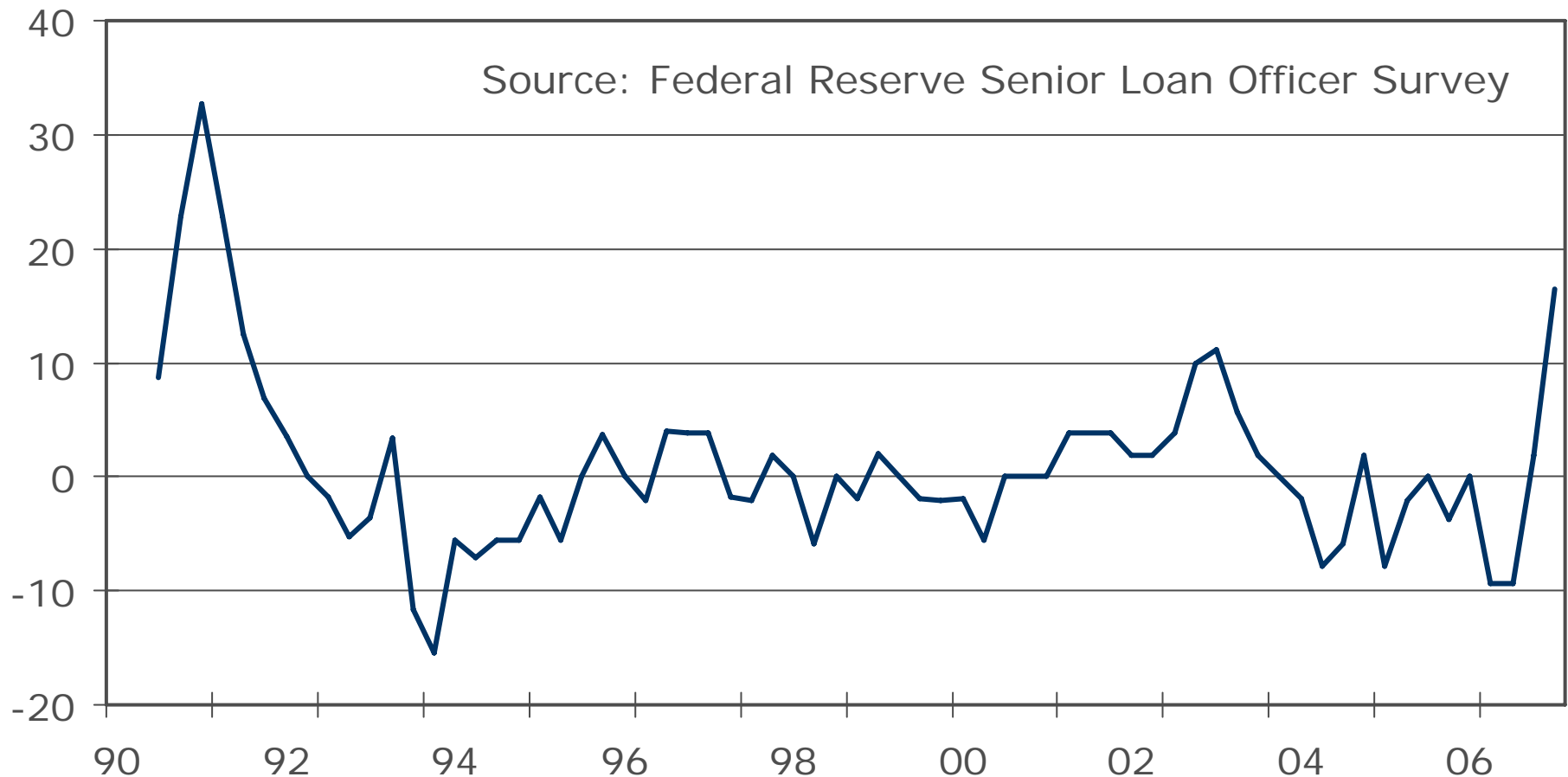
...Increased Resetting...

Mortgage debt outstanding facing first payment reset, \$ bil



...And Tighter Underwriting

Net % of banks tightening mortgage loan standards

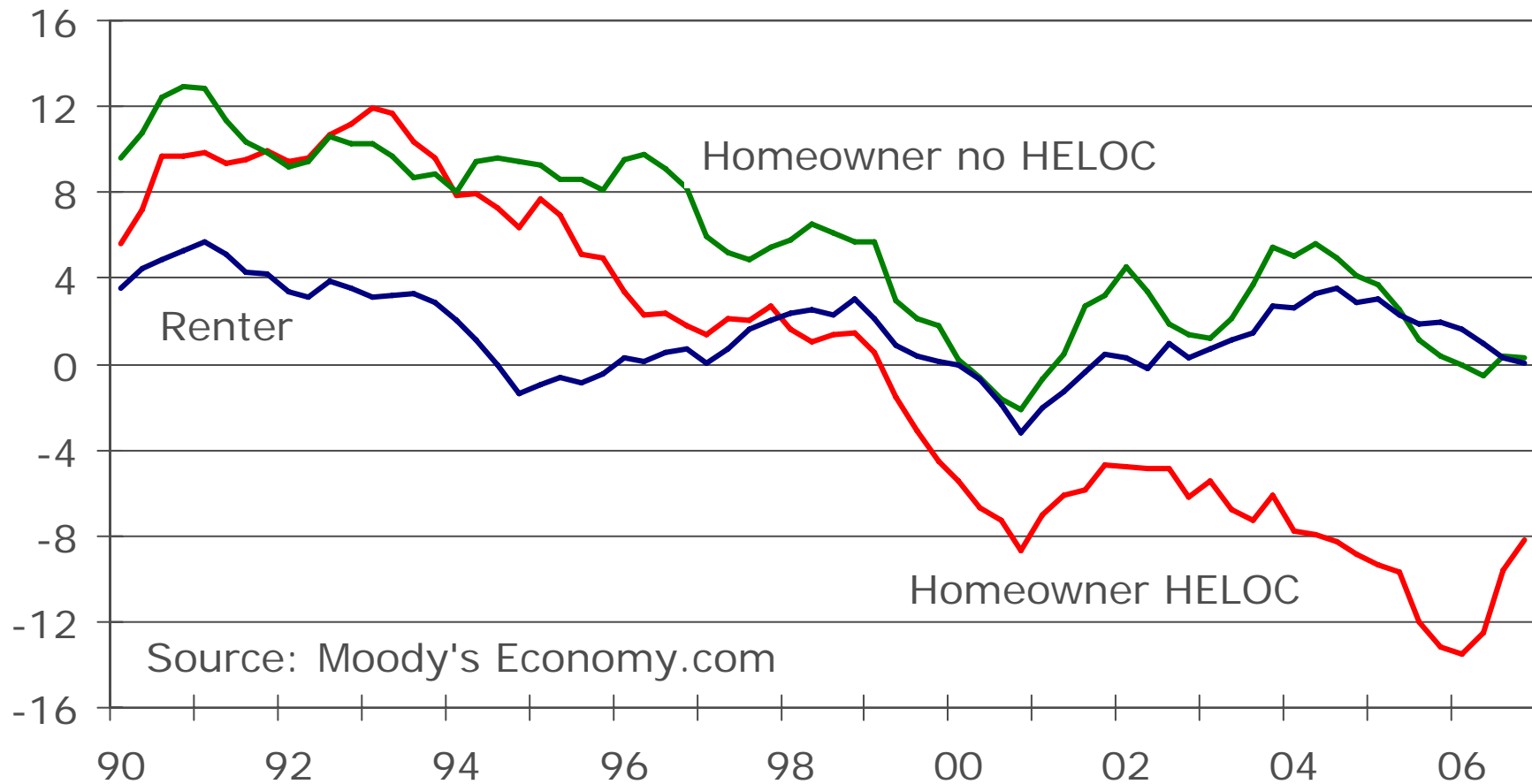




**...And Threatens
the Broader
Economy...**

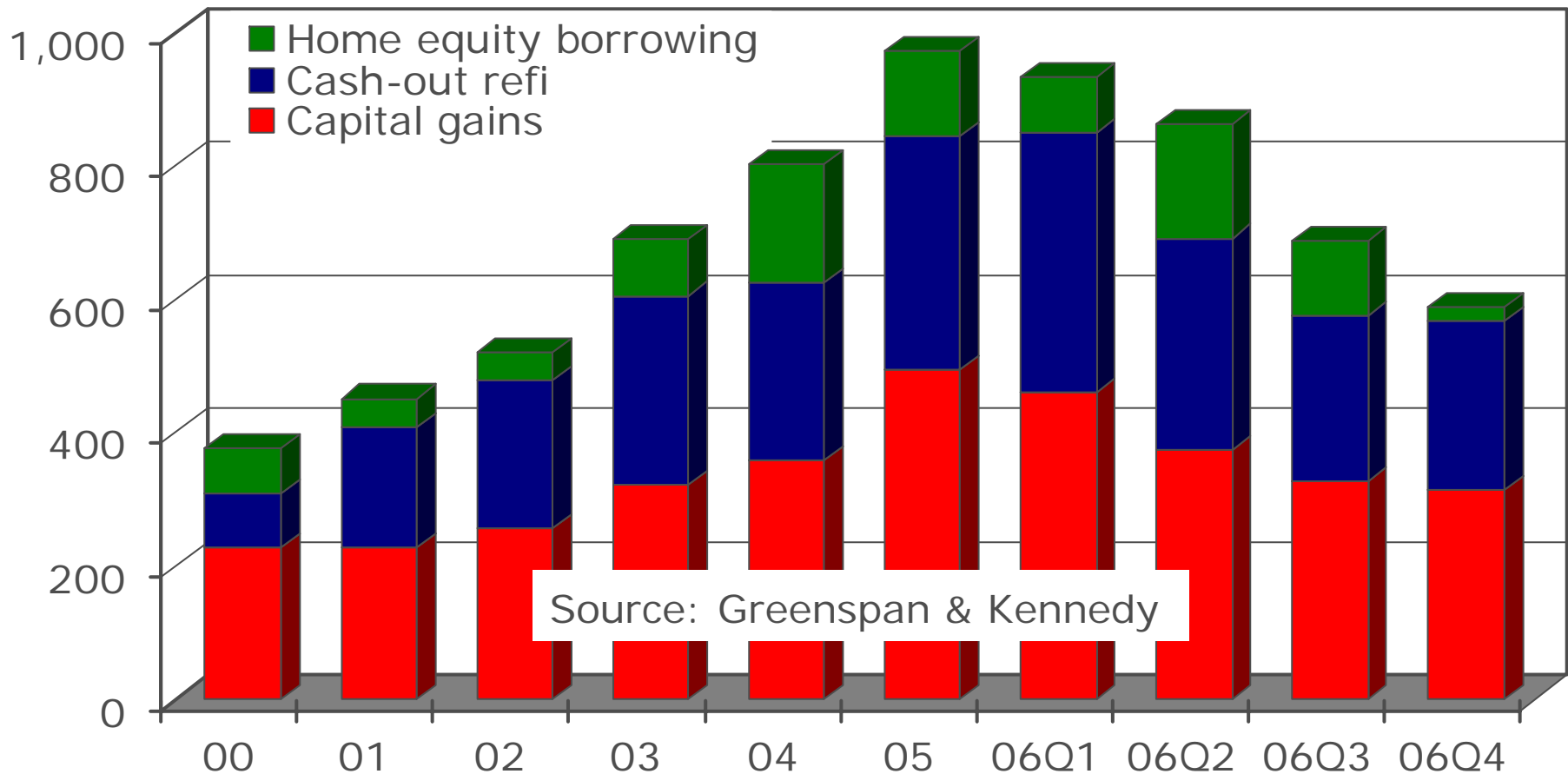
Consumers Are Likely to Relent...

Personal saving rate



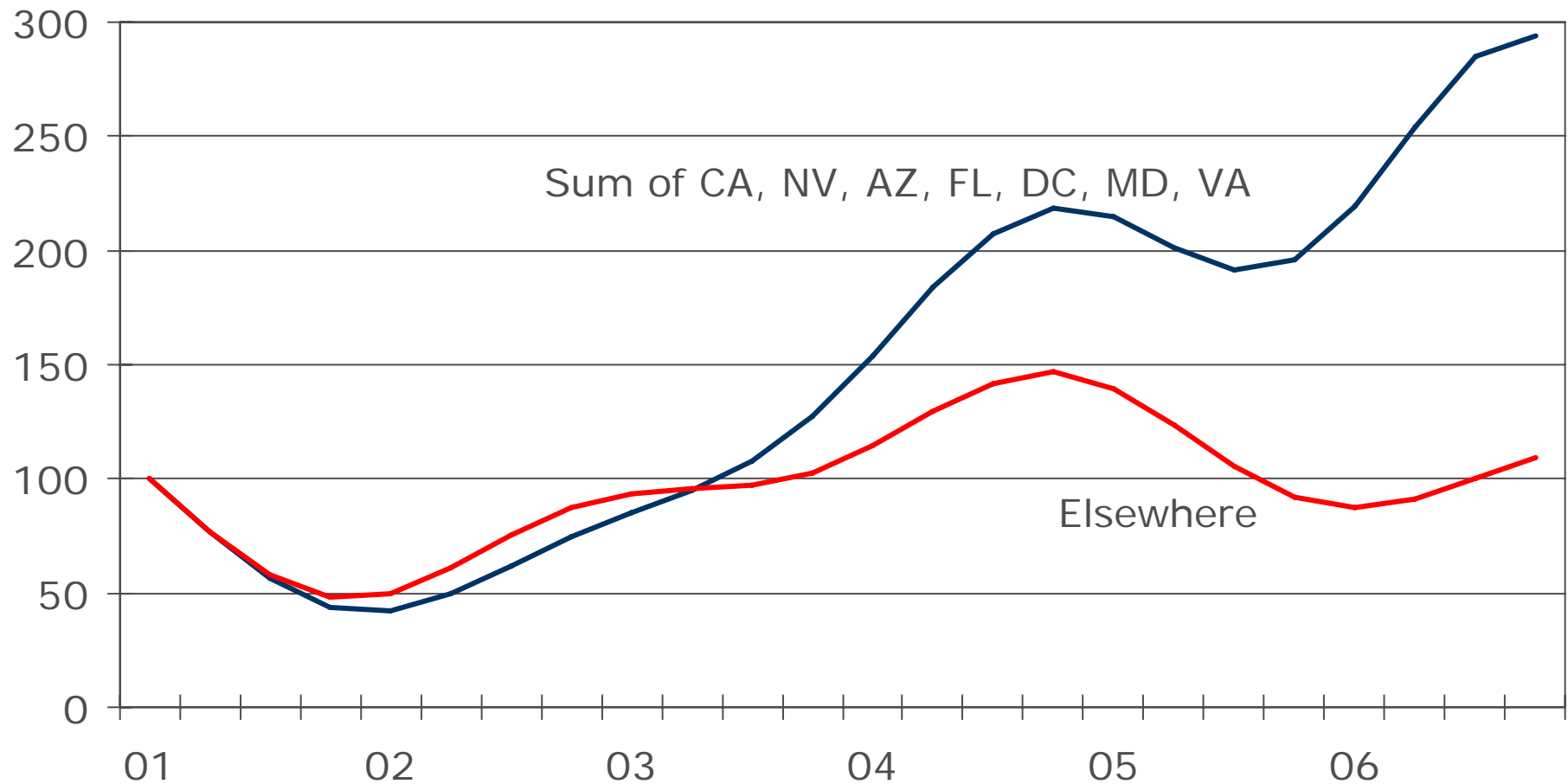
...As Mortgage Equity Withdrawal Fades

Gross equity extraction, \$ bil



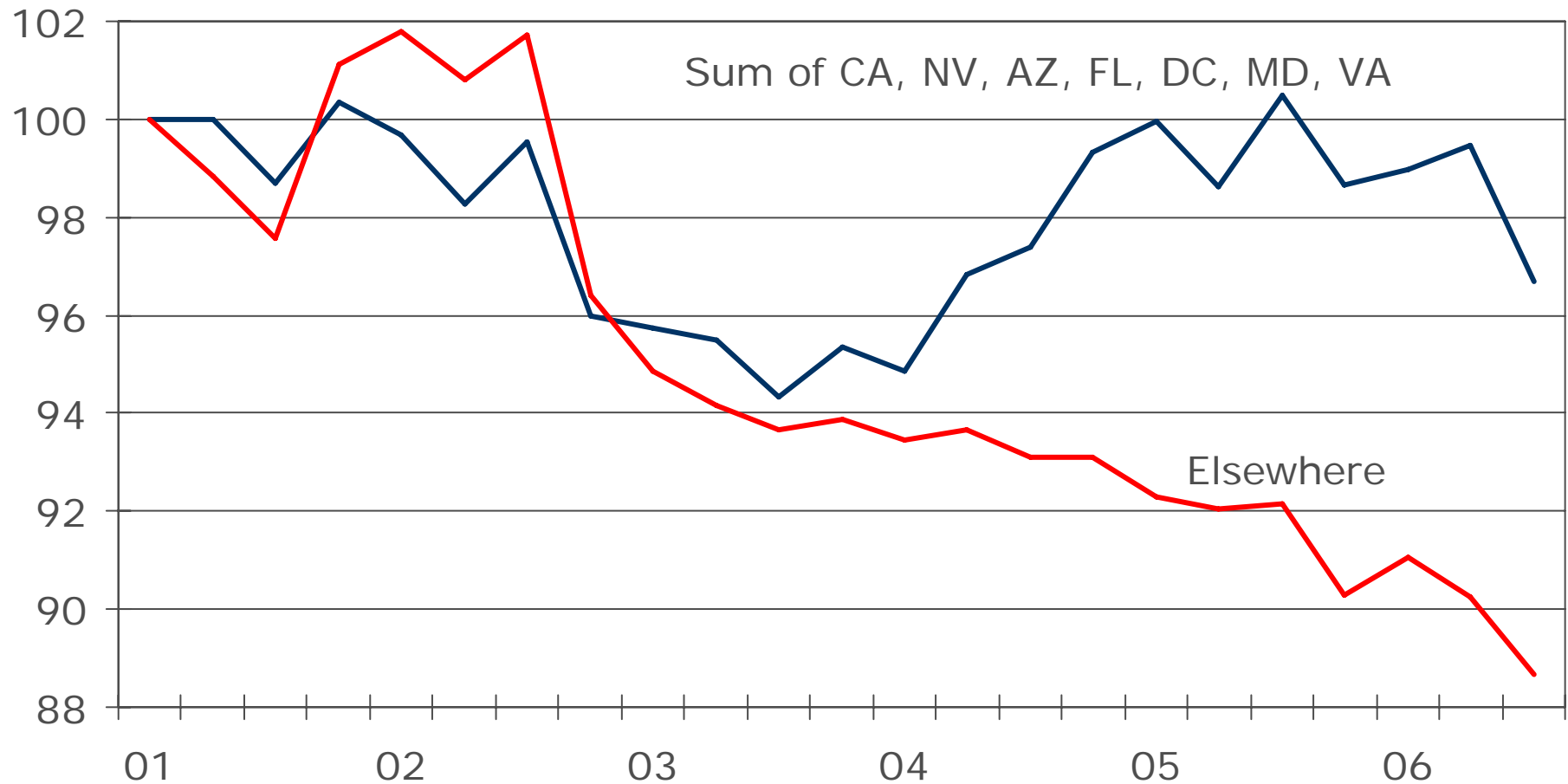
MEW Concentrated Where Property Values Rise

Mortgage equity withdrawal, index: 01Q1=100



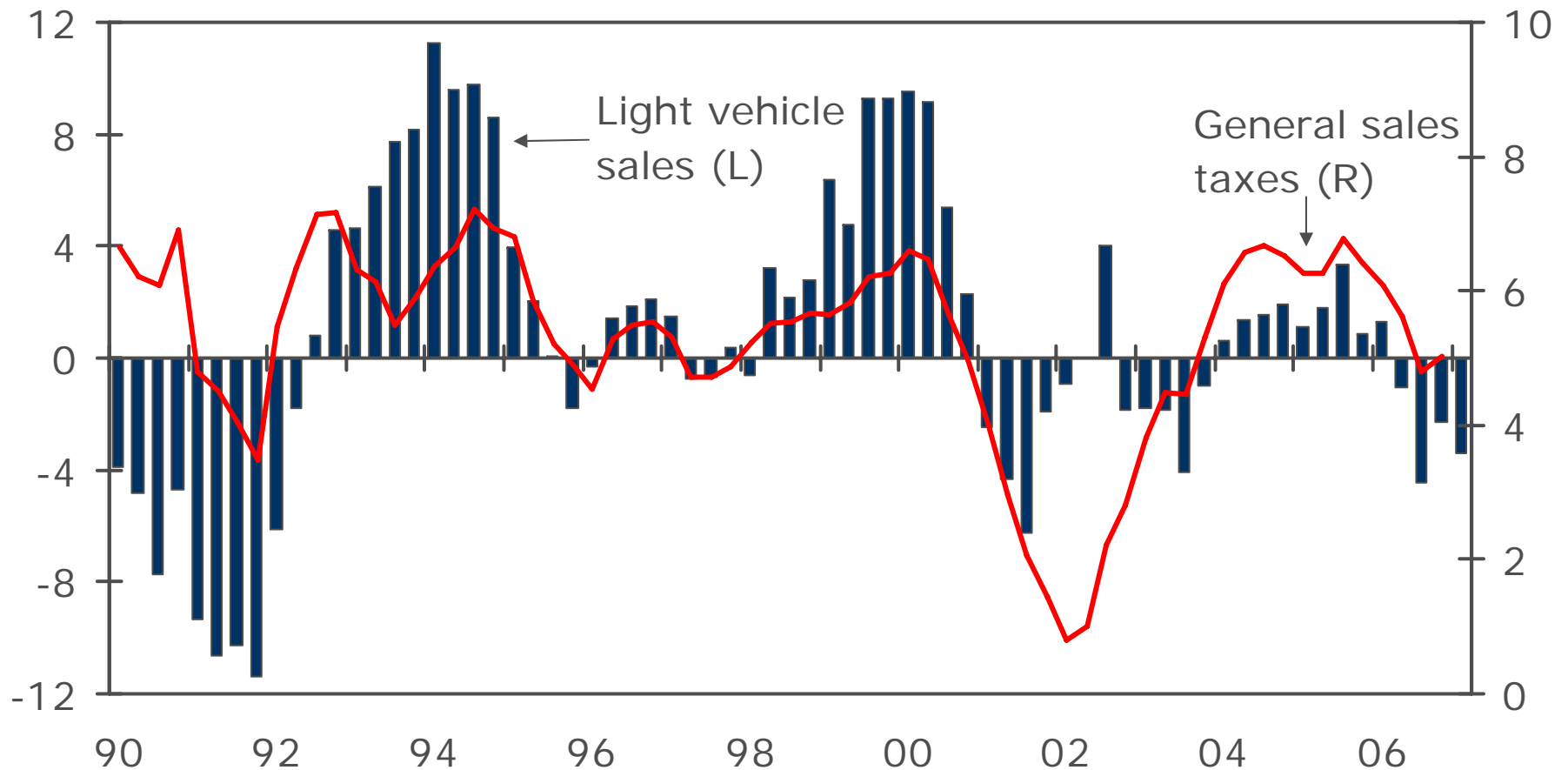
MEW Supports Consumer Durables Demand

Vehicle sales per capita, index: 01Q1=100

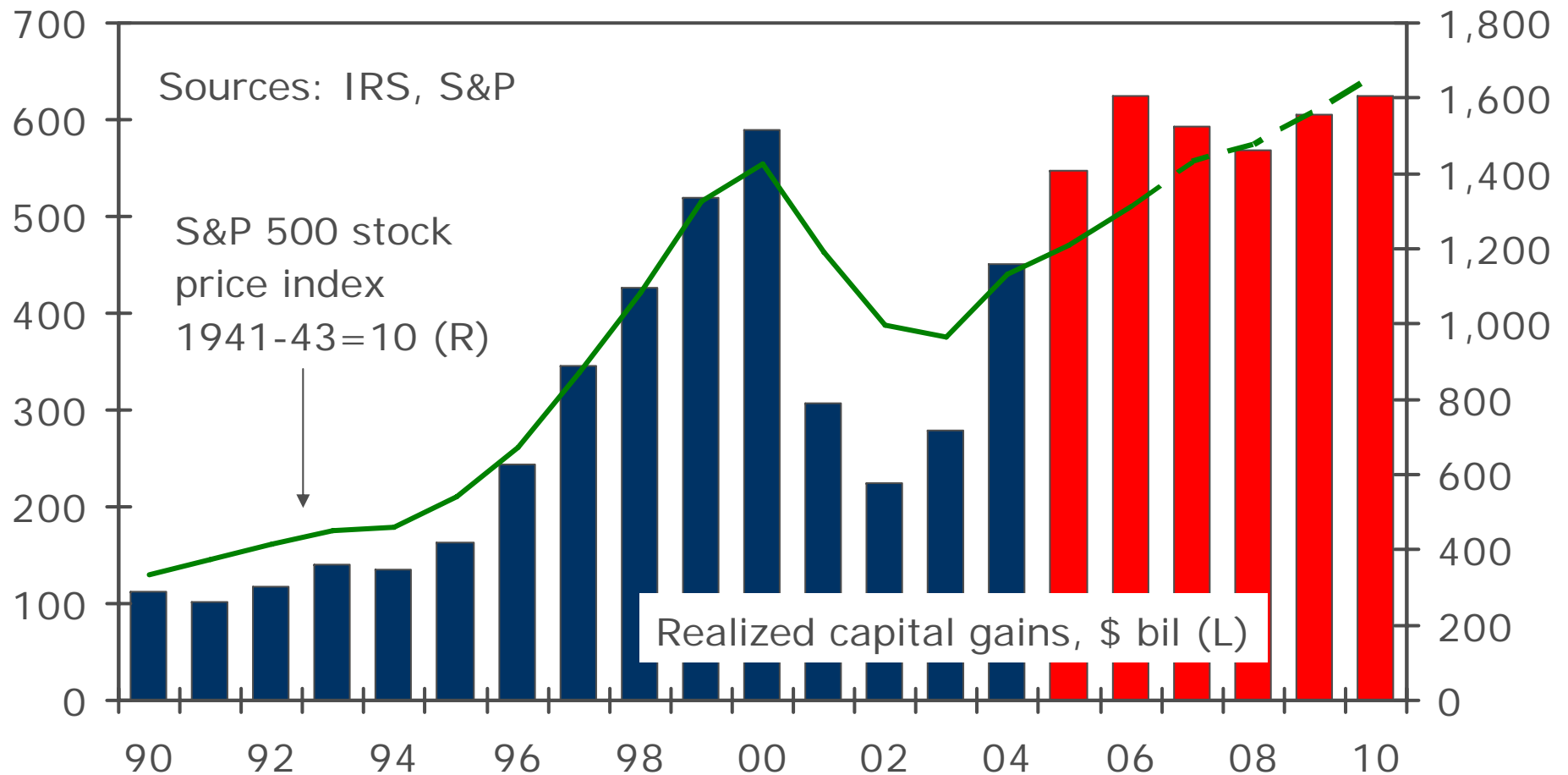


Auto Sales Greatly Influence Sales Taxes

% change year ago, 4 qtr. MA

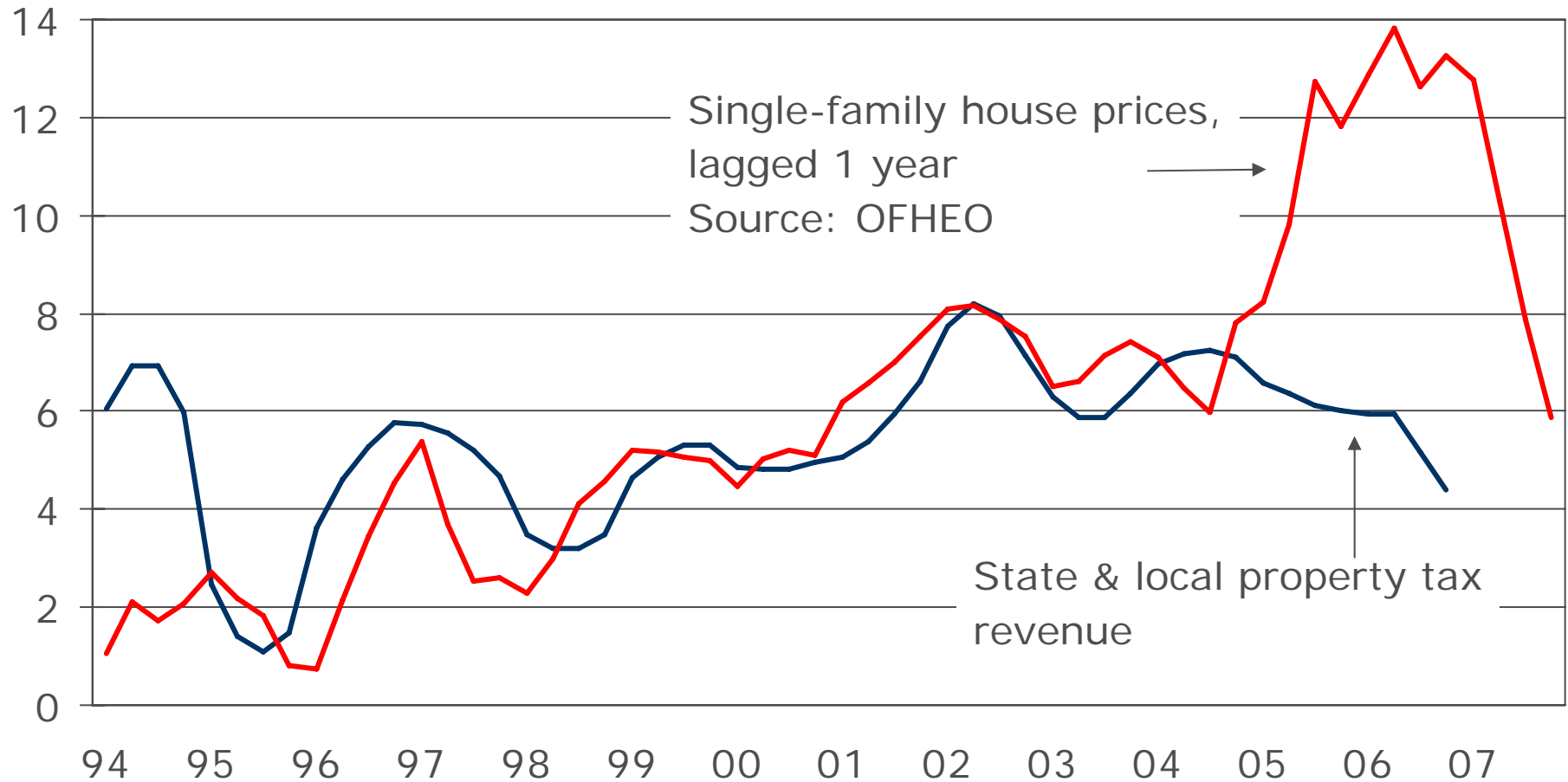


Realized Capital Gains Outstrip Stock Prices



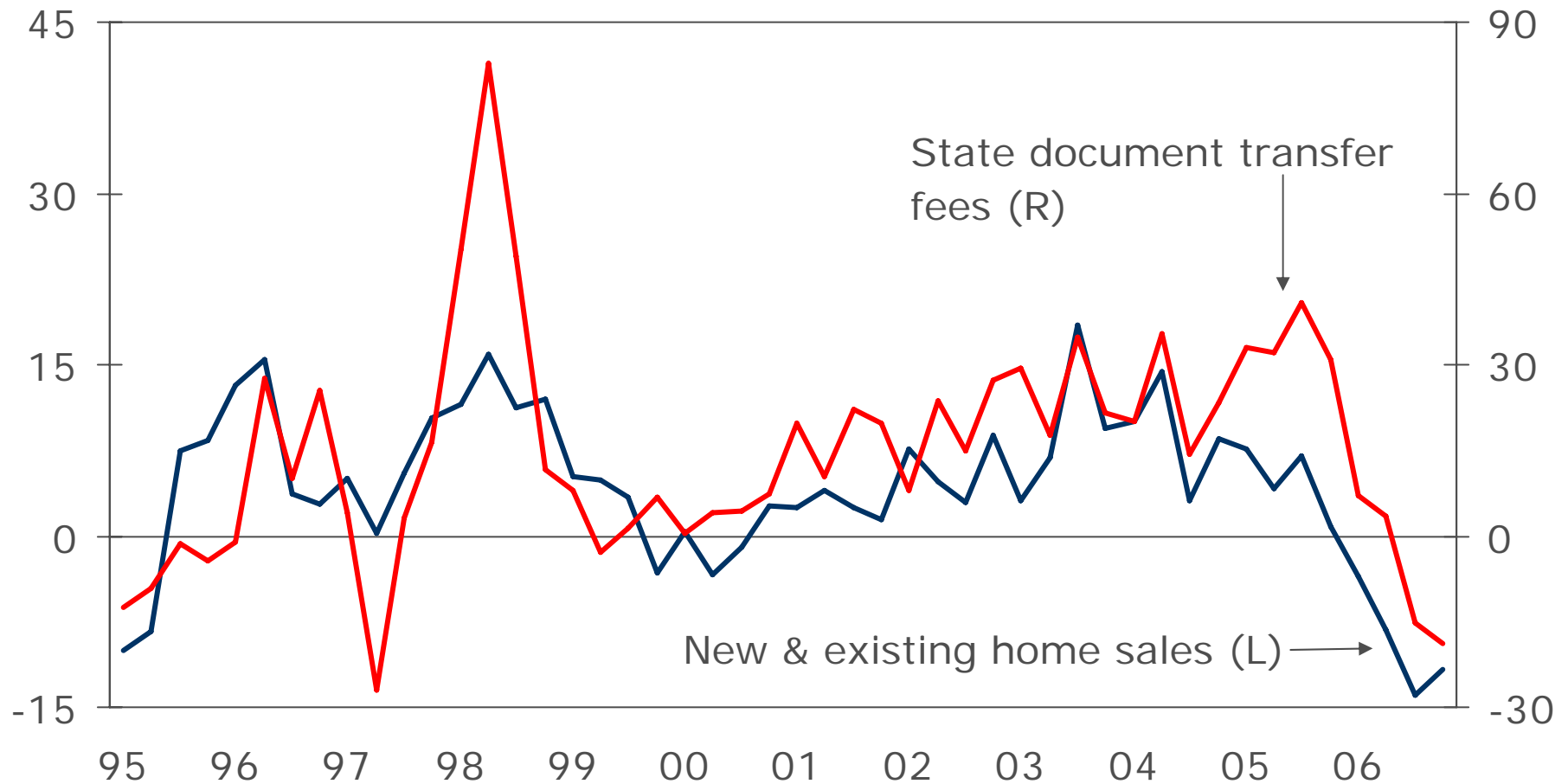
Property Taxes Do Not Face Sharp Correction...

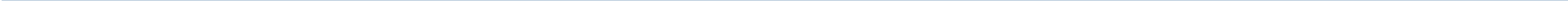
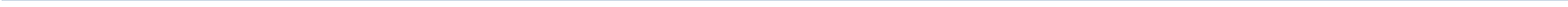
% change year ago



...but Real Estate Transfer Fees Do

% change year ago



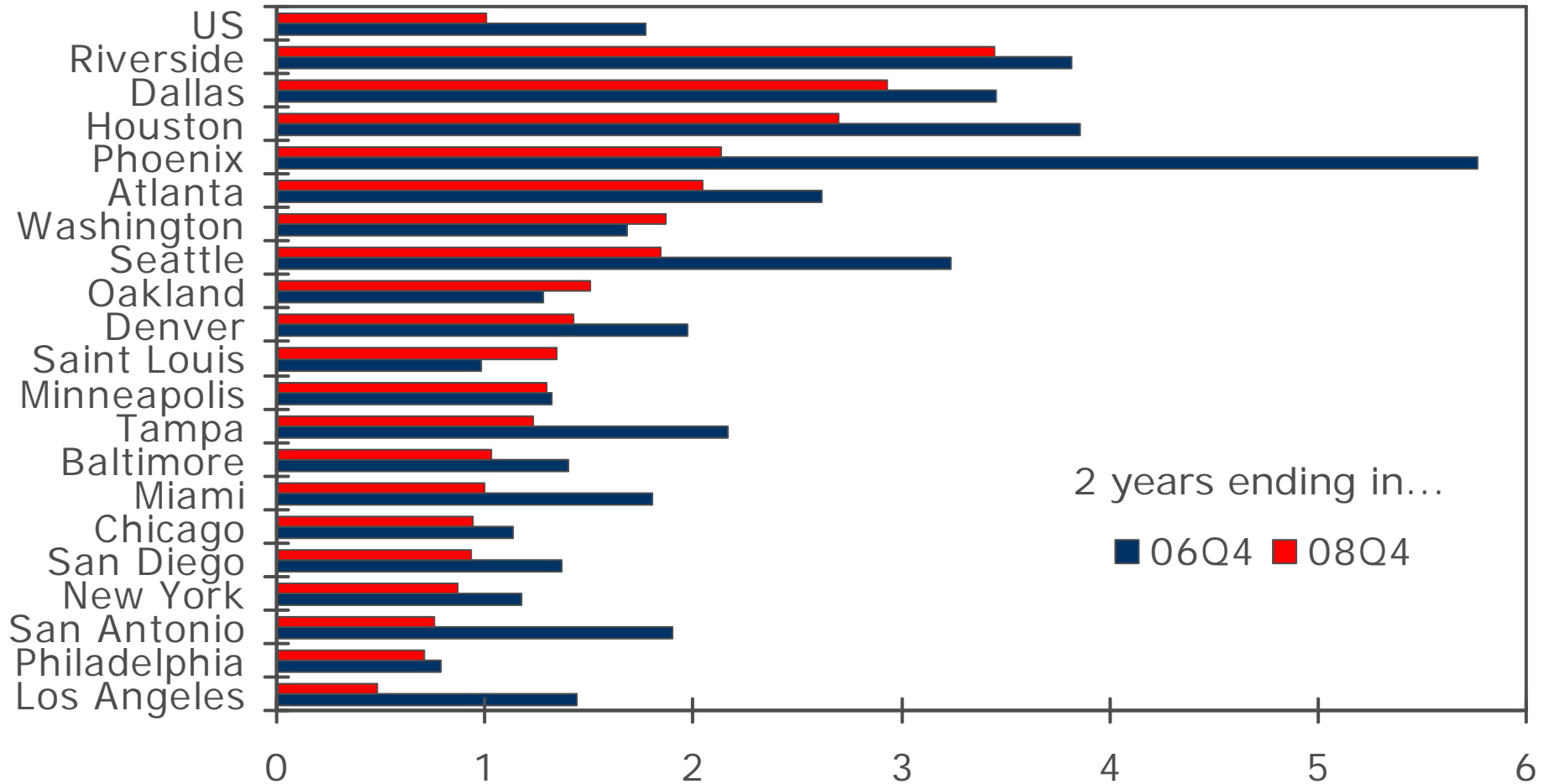


Outlook



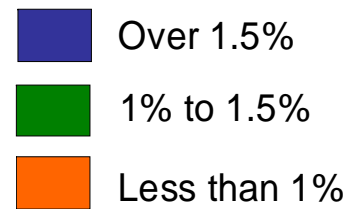
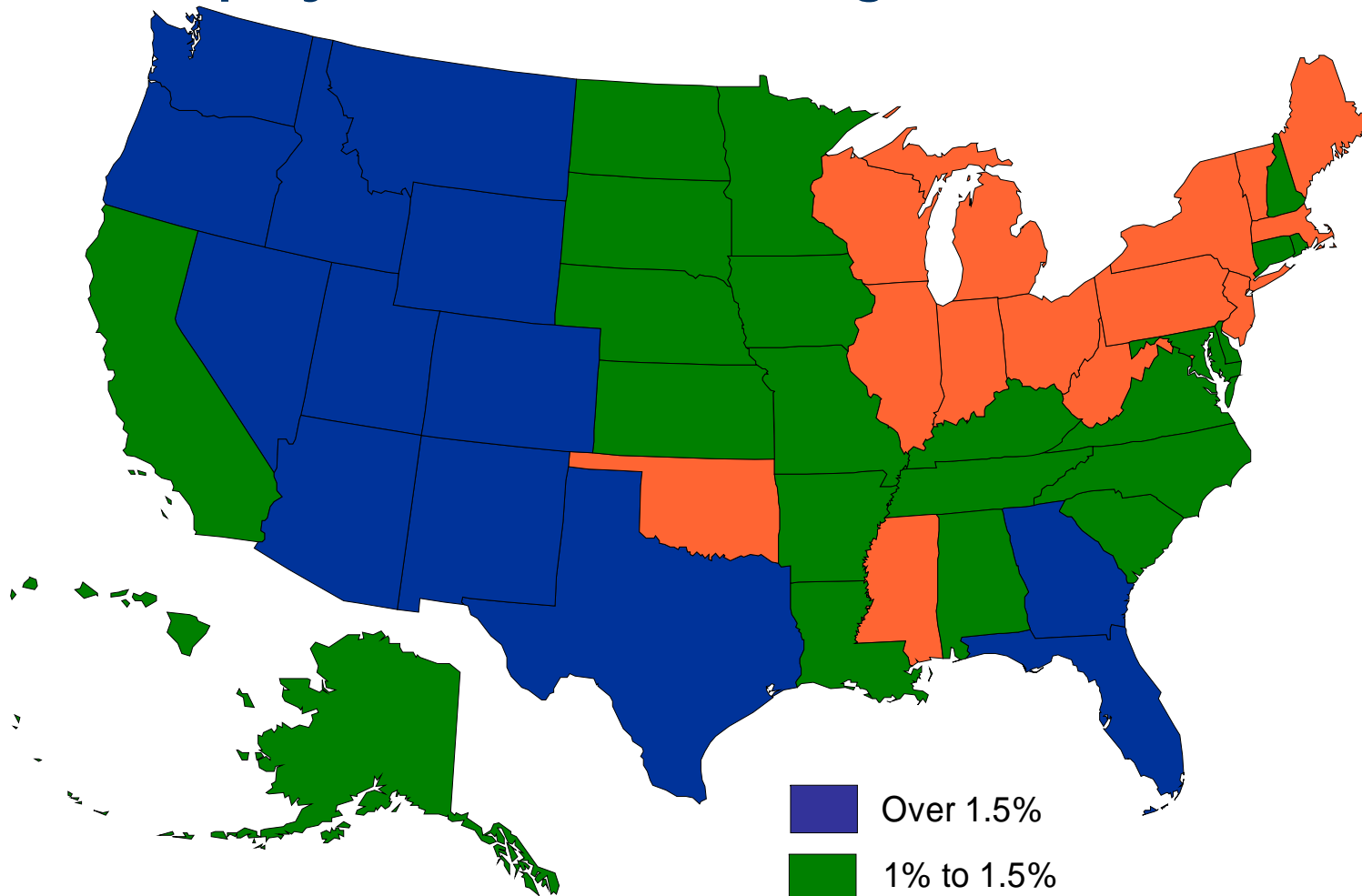
Employment Outlook: Major U.S. Metro Areas

Annualized % change



Migration Shapes State Employment Outlook

Employment, ann. % change, 2006Q4-2008Q4



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