U.S. Regional Outlook

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Widespread Pattern of Economic Expansion

Based on employment and industrial production

Data as of July 2006

Moody's Economy.com
Regional Blocks Define Employment Growth

Employment, July 2006, 3 mo. MA, % change year ago

- Slow growth <1.2%
- Moderate growth
- Rapid growth > 2.5%

West Leads Job Growth; Pace Is Faltering

Employment, % change year ago
Gap Narrows Between Regions

Employment, 6 mo. MA, monthly annualized % change

Productivity Favors the Coasts

Real gross state product per worker, 2005, % change
Housing Is on the Precipice

Sources: NAHB, Realtors, Census

Builders' index (L)

Unsold inventory, mil units (R)

Slower Home Sales Hit West

Number of single-family home sales, % change year ago

Source: Realtors
Price Appreciation Has Halted Nearly Everywhere

Median sales price, existing single-family homes

Quarterly annualized % change

Source: Realtors

Slowing House Price Appreciation

2006Q1: quarterly ann. % chg (blue); % chg year ago (red)

Ranked by difference among 100 largest MSAs

Source: OFHEO’s repeat purchase price index
Price Appreciation Concentrated on the Coasts...

Median sales price, single-family homes, % chg, 99Q4-06Q2

<table>
<thead>
<tr>
<th>Price Appreciation Range</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>120-137%</td>
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<tr>
<td>137-186%</td>
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<td>186-293%</td>
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<td>U.S. = 174%</td>
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...Generating High Debt Service Burden...

Mortgage debt service per household income, %

<table>
<thead>
<tr>
<th>Debt Service Range</th>
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<tbody>
<tr>
<td>7.3-15.0%</td>
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<tr>
<td>5.4-7.3%</td>
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<tr>
<td>2.1-5.4%</td>
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<tr>
<td>U.S. = 6.6%</td>
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</tbody>
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...and Much Equity Extraction

Ratio of equity extraction to household income, %

U.S. = 9.2

200 largest metros

Credit Risks Are Emerging

Change in mortgage delinquency rate, ppts, 05Q4 to 06Q2

U.S. = 0.10

200 largest metros

Based on $ value
Highly Overpriced Metropolitan Areas

Highly overpriced
2 SD above historic average
Based on the NAR median house price, 2006Q2
Sources: Moody’s Economy.com, NAR

Leading House Price Indicator

> 40% probability of price decline in the next 12 months
Construction Slows Most Quickly in West

Const. employment, 6 mo. MA, monthly annualized % change

Housing-Related Employment Concentrations

10% or more of employment in housing-related industries
(NAICS 238, 444, 4233, 5223, 5312, 5313, 5413, 5617)

Red: Among 50 largest metro areas
Blue: Smaller metro areas
Dependence on Property Tax Revenues

State & local property taxes, % of general fund revenues

Taxes Lag House Prices by More Than a Year

% change year ago

Single-family repeat purchase house prices, lagged 5 qtrs

State & local property tax revenue
Boom in Real Estate Transfer Fees Is Ending

% change year ago

Capital Gains Realizations Will Slow

Realized capital gains
Outlook for State Employment Growth

Two-year annualized job growth, 2006Q2 to 2008Q2

- Below average: <0.8%
- Average: U.S. = 1.0%
- Above average: >1.4%

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