Regional Economic Fallout

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A Major Financial Shock

TED spread, difference between 3 mo. Euro $ and T-Bill

Gulf war
LTCM
Tech bust
Subprime financial shock

Scandals
Peso crisis
Thai Baht

Moody's Economy.com
The Job Market Is Suffering...

Change in Employment, 3 month MA

Source: BLS

...in an Increasing Number of Areas

Expansion  At Risk  Recovery  In Recession
The Economy Will Struggle, But Avoid Recession

% change year ago

Potential
Trend
Real GDP
Employment

Sources: BLS, BEA, Moody’s Economy.com

Businesses Remain Highly Profitable...

Corporate profit margin

Source: BEA
...And Highly Liquid

Ratio of Liquid Assets to Short-Term Liabilities, Nonfinancial Corporations

Source: Federal Reserve Board

Trade Swings From Negative to Positive

Trade Balance Contribution to Real GDP Growth
Exports Are Important for Coastal States

Exports of goods, % share of GSP, 06

- Low: < 5%
- Average
- High: > 8%

Source: Moody's Economy.com

Recession Risks Are Very High

Probability of recession in 6-12 months

Source: Moody's Economy.com
A Credit Crunch in Residential Mortgage Lending...

Net % of banks tightening mortgage loan standards

Sources: Senior Loan Officer Survey, Moody's Economy.com

...In These Housing Markets...

Share of securitized mortgage debt outstanding

Source: FirstAmerican LP
...Just As Mortgage Resets Hit Their Peak

Mortgage debt outstanding facing first payment reset, $ bil

Source: FirstAmerican LP

Less Housing Demand...

Home sales, mil units

Sources: Realtors, Census, Moody's Economy.com
...and More Supply...

**Foreclosures, ths**

![Graph showing foreclosures from 2000 to 2010](image)

Sources: Equifax/Moody’s Economy.com

...Means Prices and Starts Will Fall Further

**% change from peak**

- **Starts**
- **Sales**
- **Median price**

![Graph showing % change from peak for starts, sales, and median price](image)

Sources: NAR, BOC

- 80s peak to trough
- Forecasted peak to trough
- Peak to July 07, 3 mo. MA
Homebuilding Is Falling Nearly Everywhere
Permit issuance, 12-mo MA, % change year ago, June 2007

Decline: > 30%
Decline: 10% to 30%
Stable: -10% to +10%
Rise: > 10%

California, Florida, D.C. Hit Hard
Housing Related Employment Concentration, 2007q1

Source: Moody's Economy.com
Change in Mortgage Delinquency Rates
Change between 2005Q4 and 2007Q2, basis points

Sources: Equifax, Moody's Economy.com

Labor Market Exposure to Subprime Lending
Employment, NAICS 522292, % of total employment, 2006

Source: QCEW

Employment in non-depository credit intermediation, real estate lending.
% of employment > 0.4%
Negative Housing Wealth Effects Kick-In...

Core retail sales growth
3 mo. MA (R)

House price growth
6 mo. lead (L)

Sources: Realtors, Census,
Moody’s Economy.com

...As Cashing-Out Homeowners Relent...

Personal saving rate

Homeowner no HELOC
Renter
Homeowner HELOC

Source: Moody’s Economy.com
...Due to Fading Equity Withdrawal

Gross equity extraction, $ bil, Source: Moody’s Economy.com

Sales Tax States Feel the Housing Downturn

General sales taxes, date as noted
Median single-family house prices, Q1

Sources: State revenue depts.

% change year ago

South Dakota (June)
Texas (June)
Washington (Q1)
Indiana (June)
Arizona (May)
Tennessee (June)
Mississippi (June)
Hawaii (June)
Arkansas (Apr)
Nevada (May)
Florida (May)
Big-Ticket Consumer Durables Drive Sales Taxes

Light vehicle sales, % change year ago, 4 qtr MA (L)

Growth in state & local sales taxes less that of consumption, ppt difference (R)

Effective Property Tax Rates Rise

Median single-family house prices, % change year ago, 4 qtr MA (R)

State & local property taxes, share of single-family housing stock, %, (L)
FY08 Outlook for State Employment Growth

Employment, % change year ago, FY08 (ending June)

- Below average: <0.8%
- Average
- Above average: >1.4%

U.S. = 1.0%

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