The Regional Economic Outlook

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Recent Economic Performance
The Job Market Signals Recession...

Change in payroll jobs, ths

Based on employment and industrial production, July 2008

...In An Increasing Number of Areas

Expansion  At risk  Recovery  In recession
Northeast States—Payroll Employment
One-year vs. 3-month performance, 3-mo. MA

NOTE: Size reflects relative total employment.

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

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West States—Payroll Employment
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An Unprecedented Housing Downturn...

Projected peak-to-trough house price decline, U.S. = -26%

Sources: Fiserv Lending Solutions, Moody’s Economy.com, OFHEO
...Ignites a Mortgage Crisis

% of households defaulting on their first mortgage, 2008Q2

Sources: Equifax, Moody's Economy.com

Job Cuts in Financial Services Add Further Risk

Employment, financial services, % of total, 2007

Sources: Equifax, Moody's Economy.com
Growth Drivers/Upside Risks

Relief Will Come From Lower Oil Prices

Change in oil demand, mil barrels per day

Sources: EIA, Moody’s Economy.com
Exports Boost All Regions

Exports, % of gross product, 2006

Impact on State Government Finances
Resource States Boom, Housing States Crash

FY08 actual vs. projected tax revenues, % difference

More than 2%
2% to -1%
Less than -1%

U.S. average=-1.4%

Source: NASBO

A Bad Cycle for Sales Tax States

General sales taxes, % share of:

Total state & local taxes (L)
Personal consumption (R)
Not Much of a Recovery in Spending

Retail sales, % change year ago (R)
Vehicle sales, mil, SAAR (L)

Next Shoe to Drop: Personal Income Taxes

Source: NIPA

Effective state personal income tax rate:
Share of personal income, % (L)
Interest income % change year ago (R)
Capital Gains Have Been Running Hot

S&P 500 stock index 1940-42=10 (R)
Realized capital gains, $ bil (L)
Forecast

State Borrowing Costs Are Out of Line

Spread between 20-yr GO bond, 30-yr. Treasury (L)
20-yr. General obligation bond, % (R)
Outlook

Employment Outlook

Employment, 2009, % change

- Greater than 1%
- 0% to 1%
- U.S. = 0.4%

- Decline
Outlook for State Tax Revenue

General fund taxes, % change, FY09

U.S. average = -1.0%

More than 0%
-2% to 0%
Less than -2%

Moody's Economy.com