Economic Risks and Their Meaning for the Southwest

STEVE COCHRANE, MANAGING DIRECTOR
The Europeans Are All-in
Composition of the European Central Bank’s balance sheet, € bil

Sources: ECB, Moody’s Analytics
**EM Policy Makers Still Have Tools**

Monetary policy rate, %

Source: Moody’s Analytics
From Fiscal Stimulus to Fiscal Cliff

Fiscal policy contribution to real GDP growth under current law, %

Source: Moody’s Analytics
A Mountain of Distressed Property…

First mortgage loans, ths

Sources: Equifax, Moody’s Analytics
...But Investor Demand Is Strong

% over or under valued

Sources: PPR, BEA, BOC, Fiserv, Moody’s Analytics
Business Balance Sheets Are Strong

Nonfinancial corporate businesses

- Interest coverage ratio
- Quick ratio

The quick ratio is at a record high in the data back to 1950.

Sources: Federal Reserve, Moody’s Analytics
Households Rapidly Deleverage

% of disposable income

At the current rate of deleveraging and interest rates, debt service was back to early 80’s lows by summer 2012.

Sources: Federal Reserve, BEA, Moody’s Analytics
Banks Are Well Capitalized and More Profitable…

Commercial banks

Sources: FDIC, Moody’s Analytics
Housing Inventories Have Peaked…

Vacant homes for sale, for rent and held off market, ths

<table>
<thead>
<tr>
<th>Housing Supply</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Single-family</td>
<td>425,000</td>
</tr>
<tr>
<td>Multifamily</td>
<td>150,000</td>
</tr>
<tr>
<td>Manufactured Housing</td>
<td>50,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Housing Demand</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Household Formations</td>
<td>800,000</td>
</tr>
<tr>
<td>Obsolescence</td>
<td>400,000</td>
</tr>
<tr>
<td>Second Homes</td>
<td>200,000</td>
</tr>
</tbody>
</table>

Sources: Census, Moody's Analytics
Metro Areas – Business Cycle Status

Status as of July 2012

Source: Moody’s Analytics
West Is Taking the Lead…
Total employment, 3-mo MA, % change yr ago

Sources: BLS, Moody’s Analytics
... And Income Growth Strengthens in West

Wage and salary income growth, % change yr ago, 2012Q2

U.S.=3.4%

- <2.4
- 2.4 to 3.7
- >3.7

Sources: BEA, Moody’s Analytics, preliminary estimate September 2012
Joblessness Is Not Improving Anywhere

Unemployment rates, %

Sources: BLS, Moody’s Analytics
Rising Industrial Production Boosts Midwest…

Industrial production index, index: June 2009=100

Sources: Federal Reserve, BLS, Moody's Analytics
...Creating Job Growth Over Past Two Years...

Manufacturing employment, % chg yr ago, 3-mo MA

Sources: Federal Reserve, BLS, Moody's Analytics
…But Manufacturing Labor Demand May Ease

Average weekly hours worked, manufacturing, 3-mo MA

Sources: BLS, Moody’s Analytics. Regions are weighted averages of state figures.
Manufacturing Critical to Midwest Recovery

Manufacturing employment, July 2012

Sources: BLS, Moody’s Analytics
Exports Falter in the Northeast…

Exports of goods and commodities, nominal value, Jul 2008=100

Sources: Census Bureau, Moody’s Analytics
Northeast and Midwest Export to Europe

Exports to European Union, goods and commodities, % of GMP

Sources: BEA, Census Bureau, ITA, Moody’s Analytics
Payroll Employment—South MSAs

1-yr vs. 3-mo performance (3-mo. MA)

Note: Size reflects relative total employment
Payroll Employment—West MSAs

1-yr vs. 3-mo performance (3-mo. MA)

Note: Size reflects relative total employment

Improving
- Pacific
- Mountain

Expanding

Contracting

Slipping

% change yr ago
Payroll Employment—Northeast MSAs

1-yr vs. 3-mo performance (3-mo. MA)

Improving
- Middle Atlantic
- New England
- South Atlantic

Contracting

Slipping

% change yr ago

Note: Size reflects relative total employment
Payroll Employment—Midwest MSAs

1-yr vs. 3-mo performance (3-mo. MA)

Note: Size reflects relative total employment.
Hiring Rates Diverge, Falling in the Northeast…

Job hires rate, quarterly, % of nonfarm employment

Sources: BLS Job Openings and Labor Turnover Survey, Moody’s Analytics
…But Openings are Increasing in the Northeast

Job openings rate, % of nonfarm employment

Sources: BLS Job Openings and Labor Turnover Survey, Moody’s Analytics
U.S. Housing Market Has Reached Bottom

Case-Shiller® House Price Index, % change 2012Q1 to trough

Sources: Fiserv, FHFA, Moody’s Analytics, August 2012 forecast
Distress Sales Focused in Three Regions…
Count of distress sales as % of total sales, Jul 2011 to Jul 2012

Source: CoreLogic repeat-purchase sales, yearly total, Jul 2011 to Jul 2012
Pipeline Was Clogged at Start of Year...

Months’ supply of distressed homes by state, February 2012.

<table>
<thead>
<tr>
<th>State</th>
<th>Judicial</th>
<th>Non-judicial</th>
</tr>
</thead>
<tbody>
<tr>
<td>DE</td>
<td>35</td>
<td></td>
</tr>
<tr>
<td>NJ</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>IL</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>CT</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>FL</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>GA</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>NY</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>PA</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>CA</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>NV</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>MA</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>AZ</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>TX</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>U.S.</td>
<td>10.7</td>
<td></td>
</tr>
</tbody>
</table>

Sources: CoreLogic, Moody’s Analytics
...But Made Good Progress in Four Months

Months’ supply of distressed homes by state, June 2012.

Sources: CoreLogic, Moody’s Analytics
Price Growth Will Lag In South, Northeast

Case-Shiller Index, average annual growth, %, 2012Q1-2017Q1

Sources: Fiserv, Moody's Analytics
Fiscal Cliff Direct Cuts Would Hurt the South...

Projected change, federal defense and non-defense expenditures

Sources: Census Bureau, Moody’s Analytics

2013 % of gross product
- 0.15 to 0.28
- 0.28 to 0.43
- 0.43 to 0.81
- U.S.= 0.31
…But Indirect Impacts Hit Far and Wide

Total employment, % change from baseline forecast, 2014

Sources: Census Bureau, Moody’s Analytics
Employment Outlook for 2013
Total employment, 2013Q4, % change yr ago

Source: Moody's Analytics
South: Region Will Accelerate

Employment, % change yr ago

Austin  San Antonio  Dallas  Ft. Worth  Houston  Atlanta  Charlotte  Orlando  Birmingham  U.S.  Virginia Beach  Tampa  Ft. Lauderdale  Miami

Source: Moody’s Analytics
Northeast: Job Growth Will Underperform

Employment, % change yr ago

- New York
- U.S.
- Pittsburgh
- Philadelphia
- Cambridge
- Newark
- Baltimore
- Boston
- Edison NJ
- Washington
- Long Island
- Providence

Source: Moody’s Analytics
Midwest: Region Will Accelerate Again

Employment, % change yr ago

Minneapolis, U.S., Warren, Kansas City, Columbus, Indianapolis, Milwaukee, Cincinnatti, St. Louis, Cleveland, Chicago, Lake County, Detroit

Source: Moody's Analytics
West: Region Remains a Leader

Employment, % change yr ago

Source: Moody’s Analytics